

# Primer on Impact Investing

May 2019

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May 2019*

## What is Impact Investment?

Impact investing is broadly defined as investments made with the intention of generating positive, measurable social and environmental impacts, alongside a financial return (Global Impact Investing Network, 2018). According to a 2016 report, impact investments are made across the world, in a diverse range of sectors, using various financial instruments. Impact investors are demonstrating strong growth with assets under management growing by 18% compounded annually from 2013 to 2015 (Global Impact Investing Network, 2016). Impact investing encompasses a variety of financial instruments, this report will focus on those tied to place: place-based investments. While impact investing can be situated on the global financial markets, place-based investment is focused on enhancing economic resilience and prosperity of a community or region (Agnew, 2017).

Traditionally, governments and community organizations have tried to meet social needs through grants and donations, while capital markets are responsible for investment and economic growth (MaRs, 2018; Global Impact Investing Network, 2018). As governments and the non-profit sector struggle to meet demands, place-based impact investment aims to bridge the gap between public funding and private investment (MaRs, 2018). These investments can be used to complement mission-based grant making and work to further achieve positive social and environmental impacts.

## How Can Impact Investment be used for Rural Development?

As communities grapple with fiscal constraints and economic challenges, community foundations and other philanthropic organizations have the potential to open new forms of financing in order to leverage local capital (MaRs, 2010). Due to the proliferation of private investors and social

enterprise development, there is an increase in demand for more targeted place-based investment (Markley, n.d.). Through broadening the concept of impact, there is an opportunity to combine private capital, government resources, and philanthropic assets together to build a stronger long-term economic rural communities and regions (Agnew, 2017).

This burgeoning practice of investing capital in local activities has the potential to build local wealth and multiply the effect of philanthropic dollars (Impact Investment Guidebook for Foundations, 2017). Many foundations already have the wherewithal to participate in impact investing through their in-depth understanding of social impact and experience with mission investing (Onek, 2017). Building on this wealth of local knowledge is a key step in ensuring successful place-based investment strategies.

## Place-Based Investment in Canada

There is a need to increase the rate of business expansion and creation in many rural areas. One of the barriers to business development, specifically in rural regions, is lack of access to capital (BC Rural Centre, n.d.). Place-based investment is one mechanism that can be used to mobilize local capital.

In November 2018, the federal government announced a new Social Finance fund of \$755 million upon the August recommendation from the Social Innovation and Social Finance Strategy Co-Creation Steering Group (Community Foundations of Canada, 2018). This fund is intended to help philanthropic organizations across Canada get the necessary funds to contribute to local social innovation. Of the 191 community foundations in Canada, most are not pursuing impact investment strategies, however, a third of those without a plan in place intend to create one (Lyons & Pearson, 2017). Despite most foundations not yet pursuing impact investment strategies, there are many examples of momentum across Canada.

- In British Columbia there is a strong movement among to develop place-based investment opportunities in order to enhance community resilience. This has resulted in the formation of the BC Community Impact Investment Coalition (CIIC) (Canadian CED Network, n.d.). This coalition aims to advocate on behalf of and enable community impact investment programs to succeed within the province.
- The Ottawa Community Foundation has invested \$1 million in equity in the New Market Funds to support affordable housing, as well as a \$1 million commitment to the Community Forward Fund, in order to make loans to non-profits (Lyons & Pearson, 2017).
- The Edmonton Community Foundation has collaborated with the City of Edmonton in order to create a Social Enterprise fund, resulting in more than 40 loans in Alberta. It recently made \$10 million in financing available to support new housing, employment, and neighbourhood redevelopment in the city (Lyons & Pearson, 2017).
- The Hamilton Community Foundation has established an impact investing strategy with a goal of investing 20% of the foundation's assets (currently \$180 million) by 2020. They have begun addressing affordable housing needs and consulting other non-profits on how

best they can provide loans to meet their needs (Covington, 2016). The foundation is able to provide financing for larger projects than their grants could fulfil. As a result, the foundation now plays a larger role in planning, financing, and development of community projects (Covington, 2016).

- Nova Scotia's Community Economic Development Investment Funds (CEDIF) are the longest community investment portfolios in Canada. As a result of government tax credits, the Funds have kept \$40 million in local enterprises with over 5600 individual Nova Scotian investors (Centre for Public Impact, 2017).

While much of the documented place-based investment activity is taking place in urban areas with large foundations, there is potential for rural areas and foundations to develop their own place-based strategies.

## Challenges

- 1) Managing impact investment portfolios will require additional time and expertise, which may be prohibitive for small organizations (Impact Investment Guidebook for Foundations, 2017).
- 2) It may be difficult to find impact investments that fit within a narrowly defined geographic area or organizational mission, especially as much of the financial market is based on a global scale (Impact Investment Guidebook for Foundations, 2017).
- 3) Policy regarding community investment differs by province, making it challenging to apply a Canada-wide strategy.

It is hoped that the \$755 million Social Finance Fund (and an additional \$50 million for social purpose organizations) may play a role in addressing the challenges of adopting impact investment in rural regions (Social Development Canada, 2018). This commitment can help philanthropic organizations across Canada gain access to the social finance market and develop place-based investment strategies.

## Research Gaps

While there are a number of organizational reports and guidebooks which document impact investment and its potential uses, there is a shortage of information on the specific impacts of place-based investment.

There is little academic research documenting impact investment or place-based investment and their uses and potential uses for rural philanthropy in Canada.

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## Place-Based Endowments in the Canadian Periphery

Place-Based Endowments in the Canadian Periphery research initiatives is a multi-year research initiative examining wealth, place-based development, and investing in rural Canada. Peripheral communities are sites of wealth, fuelling the Canadian economy through natural resource industries since confederation. Although the periphery is a source of wealth, over the past thirty years this wealth has largely been redirected out of rural regions to larger urban centres. These domestic issues are exacerbated by processes of globalization, which facilitate the hyper-mobility of finance. Finance is no longer tied to place. Finance has become ‘disembedded’ with increasing interconnections and advancements in Internet technologies, leading to emerging patterns of uneven development across the Canadian periphery.

A counterbalance to these trends is the emergence of philanthropic organizations in Canada that have been exploring and implementing place-based collective endowments as a response to re-embedding finance in local areas. Under the federal *Charities Act*, philanthropic organizations (such as community foundations and trusts) can collect money to invest in place-based collective endowments. The funds collected are under the guidance of local actors, who also prioritize how to spend interest generated from the endowment. These philanthropic organizations organize around place and people’s connection to place. These organizations are starting to understand their potential impact on the local development. Yet little research has been conducted on philanthropy in rural Canada.

In light of the ‘retreat from the periphery’ and the hyper-mobility of money, this research will examine place-based collective endowments as a mechanism to facilitate revitalization in peripheral regions from theoretical, public policy, and local development perspectives.

This research initiative involves researchers at Grenfell Campus, Memorial University, Simon Fraser University, and the University of Guelph. Further information on this research initiative can be obtained at [www.ruraldev.ca/place-based-endowments-in-the-periphery/](http://www.ruraldev.ca/place-based-endowments-in-the-periphery/). The project has been financially supported by the Social Sciences and Humanities Research Council of Canada.

