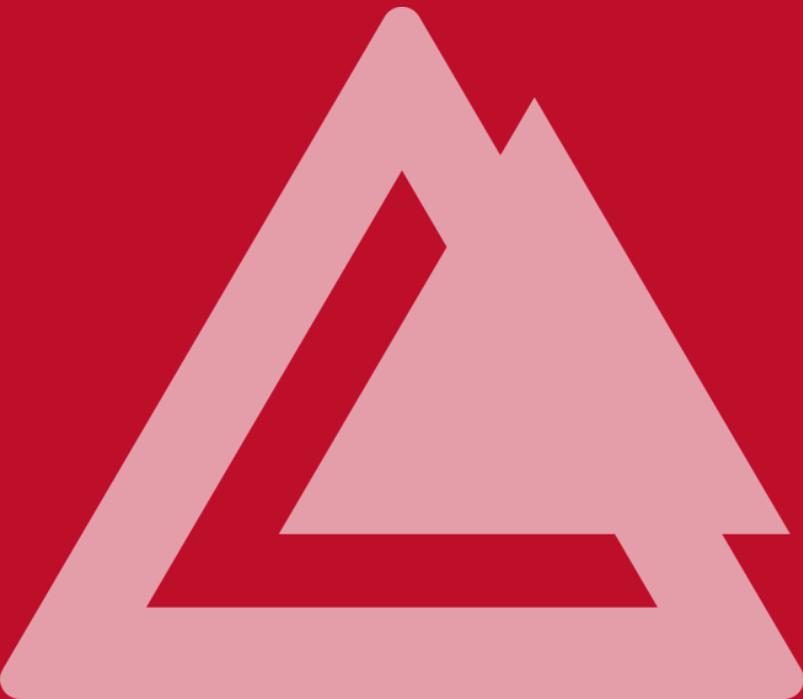


# Are Charities Ready for Social Finance?

Investment Readiness in  
Canada's Charitable Sector



# About Imagine Canada

“We’re a national, bilingual charity that works with and on behalf of Canada’s charities, nonprofits and social entrepreneurs to create an operating environment in which social good can thrive.”



# Overview

- What is social finance?
- Our research project
  - Methodology
- Survey findings
- Social finance in Canada
- What does this all mean for charities' readiness?
- What now? COVID and beyond



# What is social finance?



# What is social finance?

- Definition: Investment that seeks a measurable social, cultural, and/or environmental impact as well as financial return for the investor(s)
- Blended value is what really distinguishes it
- Is it really different from conventional financing?
  - Easier to access and manage
  - Emphasis on impact measurement



# Why social finance?

- Charities face precarious funding environment
  - Greater emphasis on contribution agreements
  - Shrinking donor base
- Source of capital for charities to diversify their revenue sources and scale impact



# Our research project



# Imagine Canada's project

- Imagine Canada is a partner in the Government of Canada's Investment Readiness Program (IRP)
- Imagine Canada project to determine readiness of charities to take on social finance investments
- Project objectives:
  - Increase awareness of social finance
  - Help SI/SF actors work more effectively with charities



# Methodology

- Online survey of charities across Canada
- 1,018 complete responses
- In-scope: registered charities with \$30K annual income and not religious congregation
- Convenience and probabilistic sample
- Responses weighted according to revenue size, sub-sector and region



# Survey findings



# Survey Findings - Categories

1. Awareness of and opinions about social finance
2. Demand for social finance
3. Barriers to seeking social finance
4. Organizational capacity for social finance
5. Current experience with debt



# 1. Awareness of and opinions about social finance

- A majority of charities have a low awareness of social finance
  - 66% have either never heard of term “social finance” or have heard it but are not clear on details
- Some charities are more likely to be aware:
  - Those with larger annual revenues
  - Those in the Grantmaking, fundraising & voluntarism sub-sector
  - Those that serve more than one province/territory

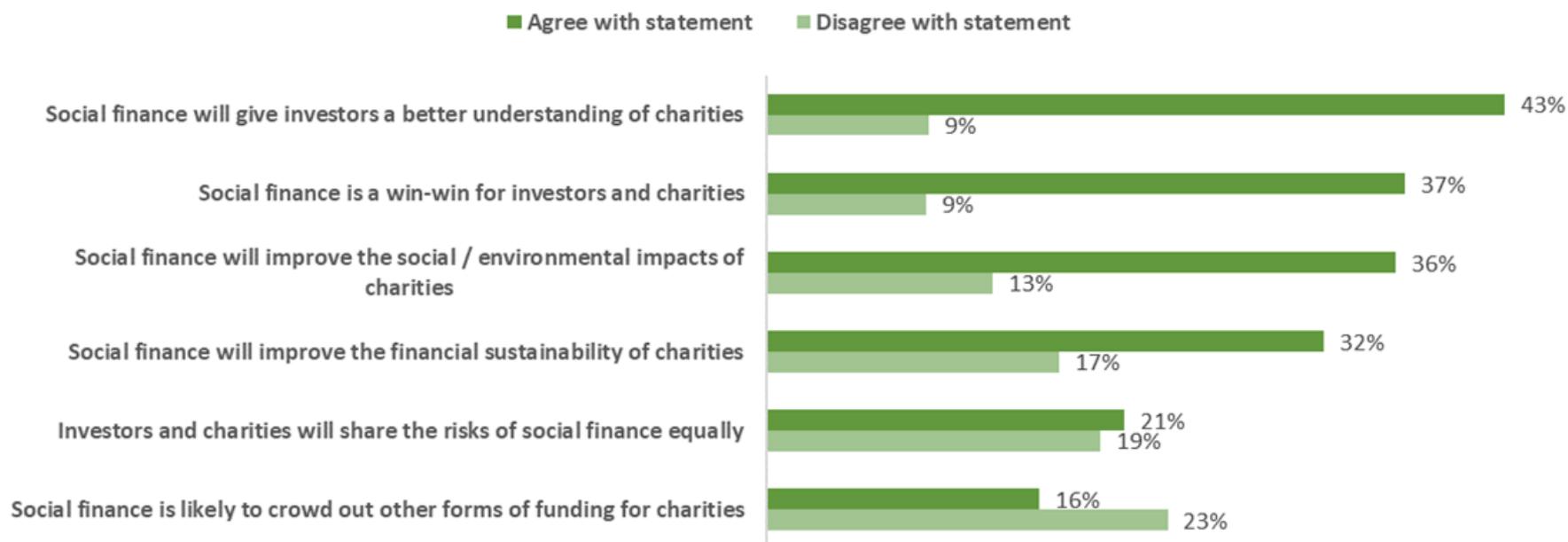


# 1. Awareness of and opinions about social finance

- Charities generally hold positive views of social finance



# 1. Awareness of and opinions about social finance



# 1. Awareness of and opinions about social finance

- Charities generally hold positive views of social finance
- Responses more mixed to whether...
  - Investors and charities will share risks equally
  - Social finance will likely crowd out other forms of funding
    - Concern that it will be substitute for Gs & Cs
    - Negative effect on philanthropy



# 1. Awareness of and opinions about social finance

- Many charities don't know what to think about social finance
  - 26% to 35% answered "Don't know" to each statement; 22% to 30% said they "Neither agreed nor disagreed"
- There is indeed a significant relationship between awareness and opinions:
  - Charities that are more aware of social finance are significantly more likely to hold positive opinions about social finance



## 2. Demand for social finance

- Do charities even want social finance?
- Asked whether their organization would be likely to take a repayable loan made available through social finance:
  - 56% of charities say they are unlikely to take a social finance loan; 19% say they are likely
- Larger charities more likely to say they would take a social finance loan

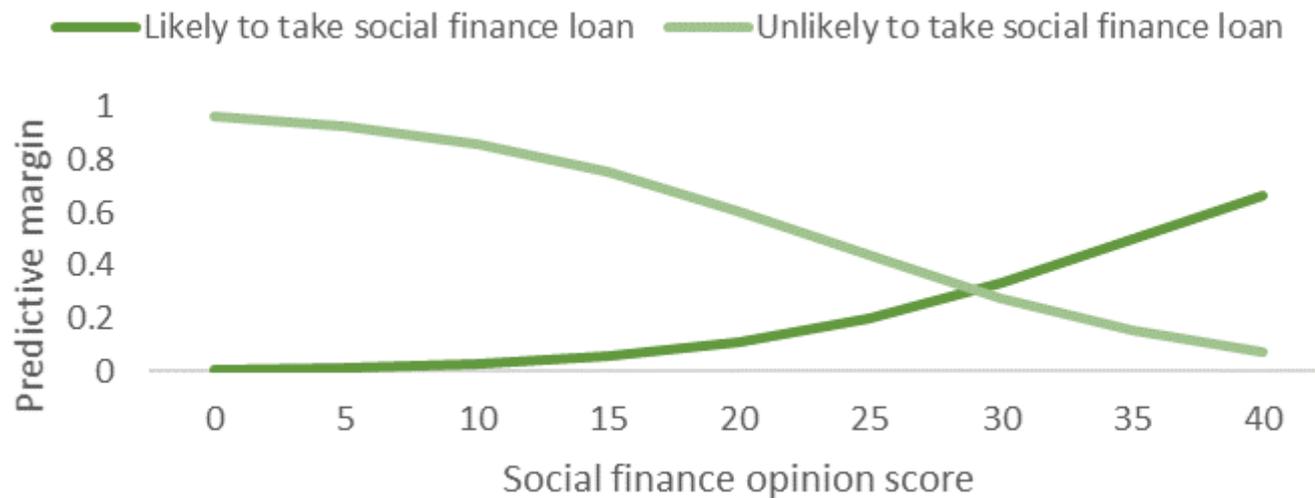


## 2. Demand for social finance

- Charities that are more aware of social finance are more likely to say they would take a social finance loan
- This is the case, until....opinions about social finance are added to the analysis!
- Now it is opinions that are significantly associated with demand for social finance loan:
  - Charities that hold positive opinions about social finance are more likely to say they would take a social finance loan



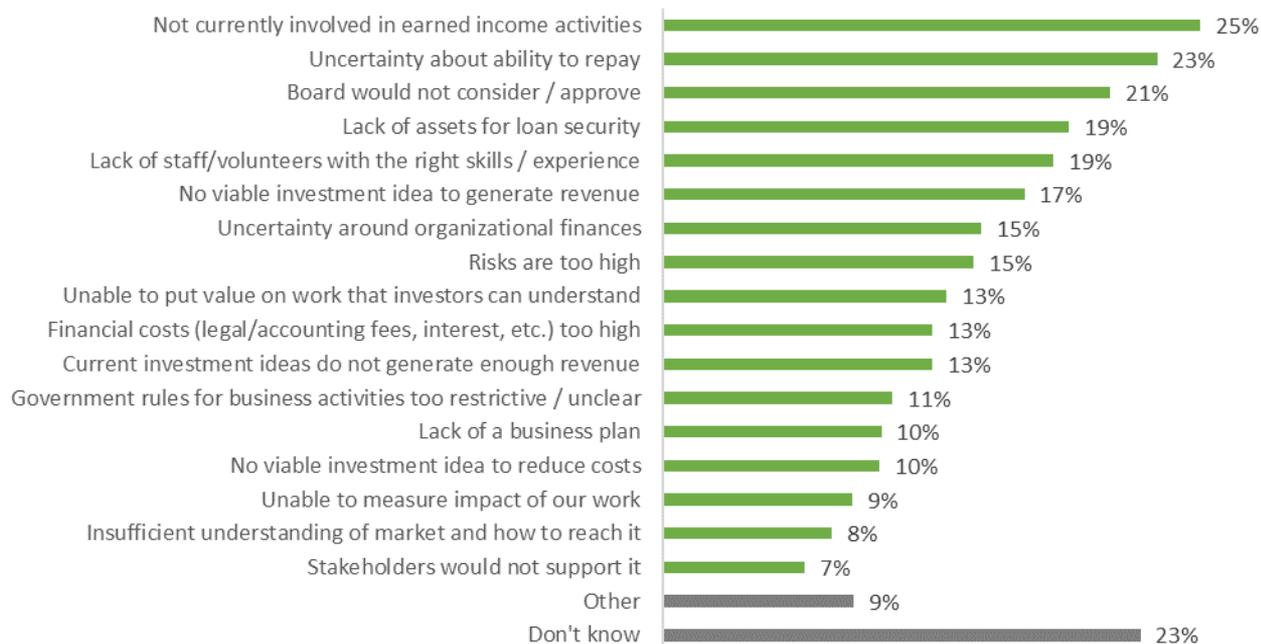
## 2. Demand for social finance



## 2. Demand for social finance



# 3. Barriers to seeking social finance



### 3. Barriers to seeking social finance

- Many most commonly selected barriers are financial in nature, and are critical for social finance readiness
  - Not generating earned income (25%)
  - Uncertainty about ability to repay (23%)
  - Lack of assets for loan security (19%)
- Low awareness likely culprit for many organizations not knowing what barriers they would face (23%)
- Risk-averse charity boards a notable barrier (23%)



## 4. Organizational capacity for social finance

- Five areas of organizational capacity linked to readiness for social finance:
  - Measurement & evaluation
    - Ability to collect, evaluate, and communicate impact
  - Planning & program development
    - Ability to develop and improve programs/activities that have impact and fit within organization's strategic framework
  - Financial
    - Ability to raise revenues and draw on existing assets to access and repay investments



## 4. Organizational capacity for social finance

- Five areas of organizational capacity linked to readiness for social finance:
  - Management & governance
    - Ability for board and senior leaders to take informed risks and manage staff effectively towards impact
  - Operations & infrastructure
    - Ability to draw on organizational processes, policies and procedures, as well as relationships, technical expertise, and physical assets, to carry out work effectively



## 4. Organizational capacity for social finance

- Charities report strong organizational capacity
  - Charities report weaker capacity in measurement & evaluation and financial domains
    - Ability to collect evaluation data (34%) and ability to assess social/environmental impact (32%) as weaknesses
    - Ability to raise unrestricted funds when needed (41%) and ability to draw on diverse range of revenue sources (35%) as weaknesses
- Larger charities report stronger organizational capacity

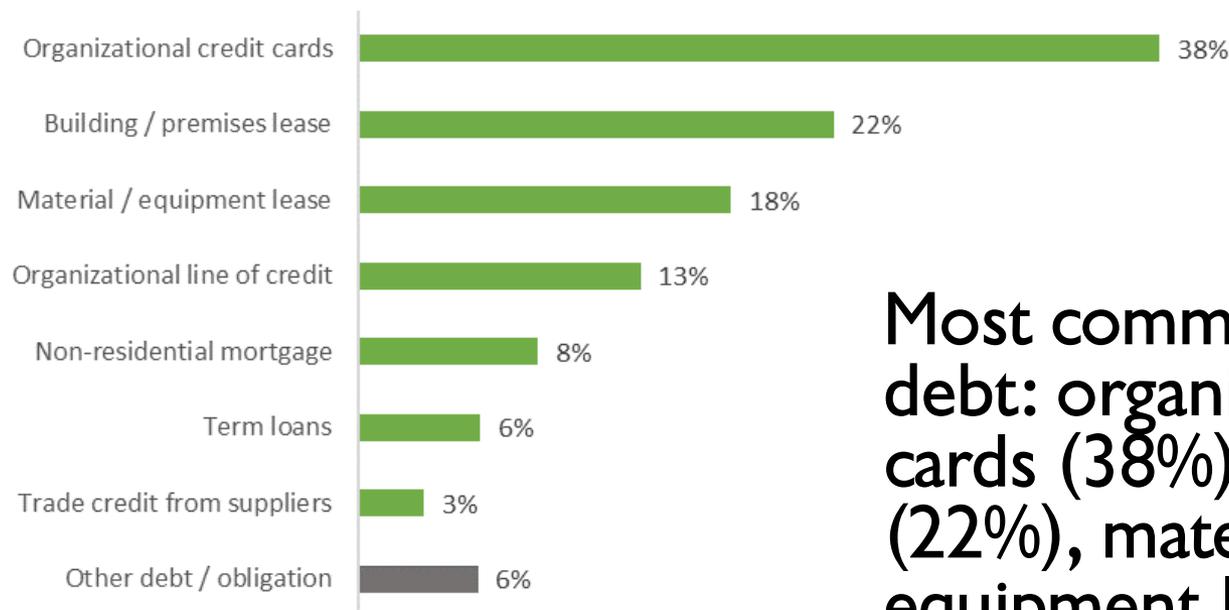


## 5. Current experience with debt

- Rationale: current experience might tell us about future behaviour
- 50% of charities currently hold some type of debt, while 48% do not
- Larger charities more likely to currently hold debt

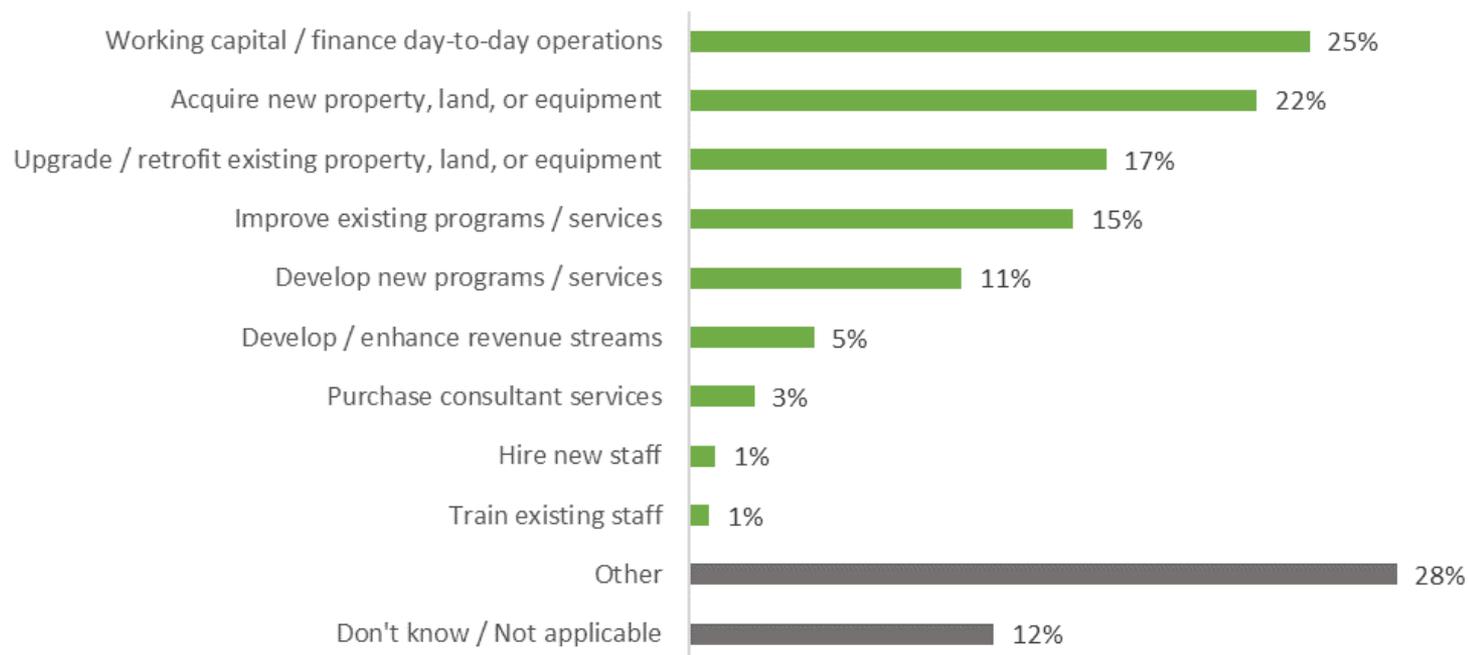


## 5. Current experience with debt



Most common types of debt: organizational credit cards (38%), building lease (22%), material or equipment lease (18%), organizational line(s) of credit (13%)

## 5. Current experience with debt



**Tend to use  
debt for  
operational  
purposes**

## 5. Current experience with debt

- Reasons for acquiring social finance loan differ from how charities currently use their debt
  - Compared to how charities currently use their debt, charities are...
    - **3x** more likely to say they would use social finance loan to develop new programs / services
    - **5.5x** more likely to say they would use social finance loan to develop or enhance revenue streams
    - **24x** more likely to say they would use social finance loan to hire new staff



## 5. Current experience with debt

- There is a statistically significant relationship between certain types of debt and likelihood to take a social finance loan
  - Charities that hold term loans, trade credit from suppliers, or some other debt/obligation are more likely to say they would take a social finance loan
- None of other debt types significantly associated with demand for social finance loan



## 5. Current experience with debt

Possible inference: Charities that have experience with one type of debt may be more favourable to acquiring same type of debt in future



# Social finance in Canada



# Social finance in Canada



Source: Myers & Conte (2013), adapted from MaRS Centre for Impact Investing 2010 resource, "Your Guide to Social Finance."

# Social finance in Canada

- Canada's social finance market is growing
  - AUM totalling \$14.75B in 2018, up from \$8.15B report two years prior (RIA)
- Significant federal government investment in catalyzing social finance market: Social Finance Fund and Investment Readiness Program



# Social finance in Canada

- The Social Finance Fund
  - \$755 million investment by Government of Canada
  - Recommendation from SI/SF Co-Creation Steering Group
    - Social purpose organizations face challenges in accessing capital
  - Providing affordable, repayable capital to social purpose organizations to scale innovative solutions to solve societal issues



# Social finance in Canada

- Challenge:
  - Growing supply to capital. Will social purpose organizations be able to access it?
  - Key learning from UK – lack of readiness a major obstacle to growth of social finance market



What does this all  
mean for charities'  
readiness?



# So...are charities ready for social finance?

- Definition of investment readiness
  - Ability to attract and repay an investment
- What key characteristics or attributes constitute investment readiness?
  - Can be tricky to pin down



# Many charities are not ready for social finance

- Why?
  - Large number of charities not aware of social finance
  - Many charities don't know what to think about it
  - Majority of charities not interested in taking social finance loan
  - Doubtful about abilities important for readiness
  - Report barriers that are critical for accessing investment
  - Type of debt associated with greater demand not commonly held



# Larger charities are more likely to be ready

- Why? Larger charities are more likely to...
  - Be aware of social finance
  - Hold positive opinions about social finance
  - Take a social finance loan
  - Currently hold debt
  - Report stronger organizational capacity



# What Now? COVID and Beyond



# What now?

- More work needed to build demand for social finance among charities
- Impact of COVID-19 on readiness
  - Are charities less investment ready?



Thank you for  
listening!



# Questions?

- Contact Adam Jog  
([ajog@imaginecanada.ca](mailto:ajog@imaginecanada.ca))
- Sign-up to receive report:  
<https://imaginecanada.ca/en/360/new-report-social-finance-readiness-canadas-charitable-sector>
- Sign-up to receive our Early Alert newsletter:  
[www.imaginecanada.ca/early-alert](http://www.imaginecanada.ca/early-alert)

