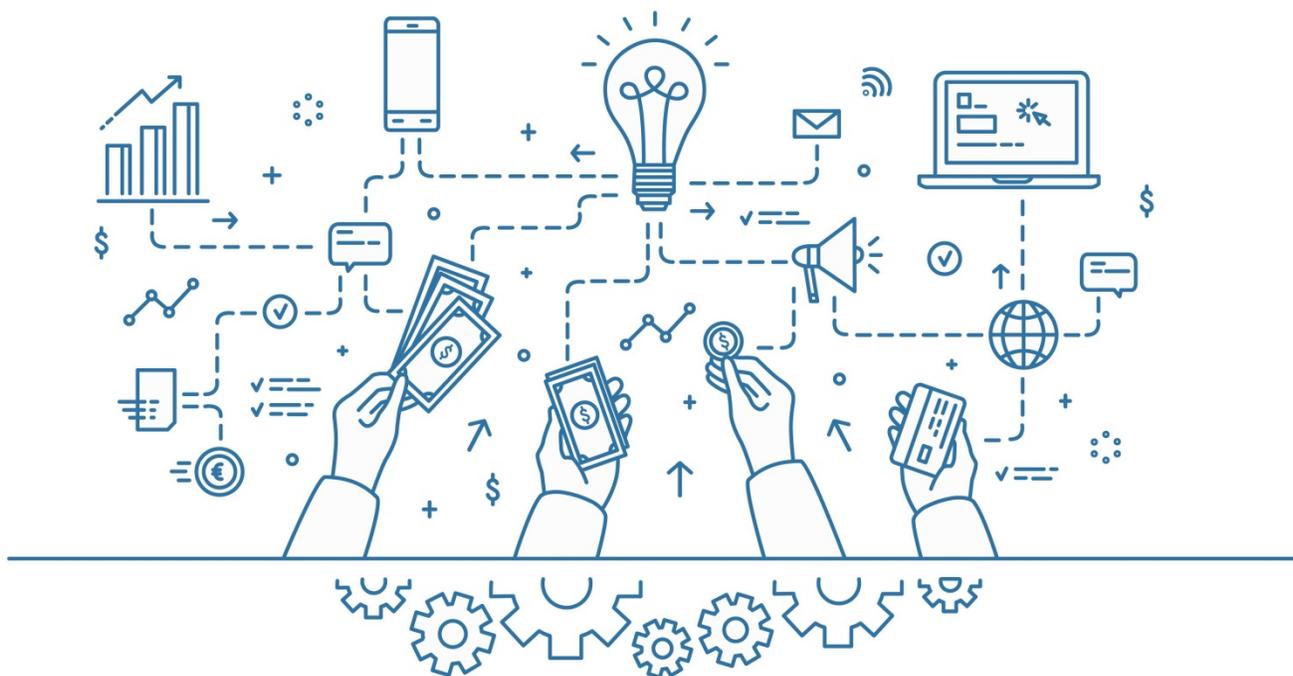


# ARE CHARITIES READY FOR SOCIAL FINANCE?

Investment Readiness in Canada's Charitable Sector



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### About Imagine Canada

Imagine Canada is a national, bilingual charitable organization whose cause is Canada's charities. Through our advocacy efforts, research and social enterprises, we help strengthen charities, nonprofits and social entrepreneurs so they can better fulfill their missions. Our vision is of a strong Canada where charities work together alongside business and government to build resilient and vibrant communities.

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## FOREWORD

There are three essential components in financial markets: the supply of capital, the demand for capital, and the intermediaries that sit between them. In order to have a well-coordinated marketplace all three sets of actors must emerge simultaneously. If any one of these three are absent, the other two components cannot function. This is as true for social finance as it is for finance generally.

In the early days of social finance growth, it was assumed that the biggest challenge charities and non-profits faced was the supply of social finance capital offered with the right terms and at the right price. Over time I came to realize that while the supply of capital to the market was a necessary condition, it was not a sufficient condition. It turns out that perhaps even more critical for a well-functioning social finance marketplace, is the demand for the capital itself.

This excellent report from Imagine Canada provides important information to anyone wanting to understand the demand (or lack thereof) for social finance capital among Canadian charitable organizations. Drawing on a large survey of over 1000 Canadian charities, it provides a comprehensive examination of the challenges, barriers, and potential opportunities that charities face when presented with social finance capital.

Eight years ago in a report, I identified many of these challenges that remain unchanged today. Imagine Canada's report continues to find that the small size of most Canadian charities; their lack of knowledge, experience, and expertise in social finance; and most tellingly their risk aversion (particularly by boards of directors) remain top challenges for the sector in demanding social finance.

But the report doesn't stop there. It offers concrete suggestions for how to overcome these barriers and enable a key component of the social finance marketplace to grow and thrive. With the federal government's Social Finance Fund coming on stream, understanding Canadian charities' demand for social finance capital is more important than ever. Our ability to address key societal challenges through social finance depends on the meaningful inclusion of charities and other mission-driven organizations in these efforts.

This report is a must read for anyone wanting to advance social finance in Canada.



Dr. Tessa Hebb  
Distinguished Research Fellow  
Carleton Centre for Community Innovation, Carleton University, Canada

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## EXECUTIVE SUMMARY

This report presents the results of a national survey of 1,018 registered charities undertaken to better understand the current state of social finance and its potential and challenges for charities.

Social finance is an investment that seeks a measurable social, cultural, and/or environmental impact as well as a financial return for the investor(s). The promise of social finance for charities is that it will provide a source of capital that could allow these organizations to maximize their impact and become more resilient in an increasingly precarious funding environment.

There is increasing interest in social finance as a means for scaling socially innovative solutions to complex and persistent social, cultural, and environmental challenges. This is reflected in the Government of Canada's \$755 million investment into the establishment of a Social Finance Fund, which is intended to provide affordable, repayable capital to "social purpose organizations" – e.g., charities, nonprofits, cooperatives, and for-profit social enterprises. One of the main challenges will be to ensure that there is sufficient uptake of the capital to be made available through this fund. Given that a lack of investment readiness among social purpose organizations is often identified as a key reason for the underutilization of social finance in other jurisdictions, this report aims to answer the question of whether Canadian charities are ready for social finance.

Key results across five themes indicate that **many charities are likely not ready for social finance**:

Theme	Key Results
<b>Awareness &amp; Opinions</b>	<p>A large number of charities have a low awareness of social finance, with 66% of respondents saying either that they had never heard of the term “social finance” prior to their participation in the survey or that they had heard of the term but are not clear on the details. Furthermore, many charities do not know what to think when presented with opinion statements about the implications of social finance for charities.</p> <p>Given that awareness of and positive opinions about social finance are significant indirect and direct drivers of likelihood to take a social finance loan, respectively, the low awareness of social finance among a majority of charities may be a substantial obstacle to charities’ readiness for social finance.</p>
<b>Barriers</b>	<p>Potential barriers to seeking a social finance loan selected by many charities concern key aspects of investment readiness, such as generating earned income (25% of respondents said their organization is not currently involved in earned income activities), the ability to pay back the loan (23% of respondents said they are uncertain about their ability to repay), and board buy-in for social finance (21% of respondents said their board would not consider or approve of a social finance loan).</p>
<b>Organizational Capacity</b>	<p>Charities tend to be more doubtful about abilities critical for social finance readiness. The following abilities were more commonly reported by respondents to be weaknesses for their organization: raise unrestricted funds when needed (41%); draw on diverse range of revenue sources (35%); collect evaluation data (35%); assess full social/environmental impact of work (32%); consistently and predictably generate an operating surplus (28%); and draw on existing assets when needed (27%).</p>
<b>Debt Experience</b>	<p>There is a statistically significant relationship between certain types of debt that charities currently hold and likelihood to take a social finance loan. Yet, almost half of charities do not currently hold any debt, and those that do are less likely to hold types of debt significantly associated with greater likelihood of taking a social finance loan – i.e., term loans (6%), trade credit from suppliers (3%), and other debt / obligation (6%).</p>
<b>Demand</b>	<p>A majority of charities are not interested in taking a social finance loan, with 56% of respondents saying their organization would be unlikely to take a loan if it were made available.</p>

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Although it appears that many charities are likely not ready for social finance, **the results also point towards a subset of charities that are likely ready or close to it: those with larger annual revenues.** The survey found that charities with larger annual revenues are more likely to:

- be aware of and hold positive opinions about social finance;
- take a social finance loan, were it made available;
- currently hold term loans, which is significantly correlated with greater awareness of social finance and greater likelihood to take a social finance loan; and;
- report stronger organizational capacity, which is significantly negatively correlated with many social finance barriers (i.e., charities with stronger capacity are less likely to say they would face barriers that charities with weaker capacity say they would face if seeking a social finance loan).

In addition to investment readiness, the design of funds and financial instruments has important implications for whether social purpose organizations will be able to access social finance. As such, this report suggests that work is still needed on both the demand side and the supply side of the social finance market to ensure the sufficient uptake of capital. The results give some indication of areas that government policymakers and social finance intermediaries can target to build investment readiness, and provides information that can help these actors to better adapt social finance to charities' needs.

Social finance will not be appropriate for every charity. But for those charities – large or small – for which it may be appropriate, they should be able to access financing that meets their needs. This will contribute to the development of a more inclusive and diverse market that addresses a wider variety of social, cultural, and environmental challenges.

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## CONTEXT

The funding landscape for charitable organizations is changing. Grants and donations are becoming less sustainable revenue sources for many charities. There is greater emphasis on contribution agreements, which tend to be short-term in nature, do not adequately cover administrative costs, and come with burdensome accountability and reporting requirements (Special Senate Committee on the Charitable Sector, 2019), and the donor base for charities is shrinking (Lasby & Barr, 2018). At the same time, there is growing demand for the services charities provide. These two facts – insufficient financial resources and greater demand – are resulting in a “social deficit,” the consequences of which are the unmet needs of Canadians and an erosion of their quality of life (Emmett, 2016). In this context, **social finance** emerges as a source of capital for charities that could allow them to diversify their revenue streams and become more resilient in an increasingly precarious environment (Hebb, 2012; Myers & Conte, 2013).

**What is social finance?** Social finance is an investment that seeks a measurable social, cultural, and/or environmental impact as well as a financial return for the investor(s) (Myers & Conte, 2013). It stands in contrast to grants and donations, which do not require a financial return; it also stands in contrast to traditional investments, which typically emphasize financial returns only. From the point of view of charities, social finance will closely resemble conventional debt instruments, such as repayable loans obtained from a commercial bank. However, features such as lower interest rates and more flexible repayment schedules are intended to make it easier for them and other mission-driven organizations to access and manage debt.

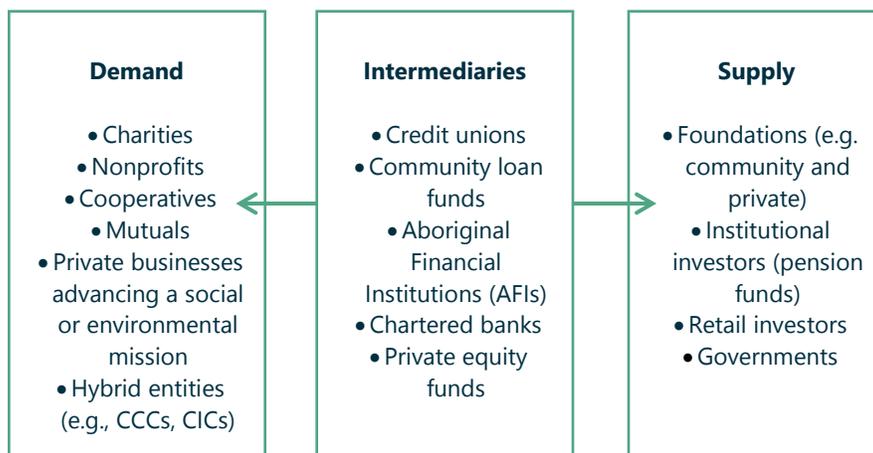
**What could social finance mean for the charitable sector?** The promise of social finance is that it will inject much-needed sustainability into the charitable sector. Many commentators have noted there is a “grants mindset” that pervades the sector (Hebb, 2012; Salway, 2017). Social finance could reduce charities’ reliance on grants by providing money that helps them to acquire new assets, maintain positive cashflow, and develop new, self-sustaining revenue streams. This can help shield charities from the volatility that comes with relying on a single source of revenue, and can give these organizations greater autonomy. A related promise is that charities will have an opportunity to grow and scale their impact, which can be difficult to do with grants and donations due to their structure (e.g., time-limited; restricted use). There are risks, however. Some charities that take on social finance may struggle to pay back investors, and this could result in financial distress, seizure and forfeiture of assets, or even organizational closure (Varga & Hayday, 2016). There is also the risk of “mission drift” if organizational resources are diverted towards the pursuit and management of social finance (Varga & Hayday, 2016).

If charities are interested in seeking social finance, many will have to think and act differently (MacKinnon & Pellerin, 2018). They will, for example, need to develop business models that allow them to deliver social, cultural, and/or environmental impacts and financial returns. Charities that have reliable revenue streams will be better positioned to pay back an investor(s), and thus will be better positioned to participate in the social finance market (Varga & Hayday, 2016). Charities will also have to become more proficient at measuring their impact and communicating it to potential investors as impact measurement is a key component of social finance (Varga & Hayday, 2016).

**Social finance in Canada.** Canada’s social finance market consists of a diverse range of organizations across three categories (Government of Canada, 2018). “Social purpose organizations”<sup>1</sup> comprise a substantial part of the “demand” side of the market – they are seeking social finance. Investors constitute the “supply” side of the market – they provide social finance. The actors that bridge the supply side and the demand side of the social finance market are called intermediaries.

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### The Social Finance Market<sup>2</sup>



Rapid and sizeable growth in the amount of capital available for social finance investments (Responsible Investment Association, 2019) indicates that social finance is not a fad; rather, it will be a consistent feature of Canada’s financing landscape.

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<sup>1</sup> This term refers to organizations with a social, cultural, and/or environmental mission – e.g., charities, nonprofits, cooperatives, and for-profit social enterprises.

<sup>2</sup> This figure is heavily influenced by the report of the Government of Canada’s Social Innovation and Social Finance Strategy Co-Creation Steering Group. It is not an exhaustive listing of the types of actors that make up the social finance market.

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In 2018, the Government of Canada announced that it would be making substantial investments into Canada's emerging social finance market with the establishment of a \$755 million Social Finance Fund (Government of Canada, 2019). One of the main challenges will be to ensure that there is sufficient uptake of the repayable capital to be made available through this fund. Some commentators have noted that a lack of capacity among social purpose organizations has been identified as a reason for the lack of uptake of social finance in other jurisdictions (Phillips & Johnson, 2018). To address this, the Government of Canada implemented a \$50 million Investment Readiness Program to help build the capacity of social purpose organizations to take on investment, thereby developing a pipeline of organizations that are ready for the Social Finance Fund and other opportunities in Canada's social finance market (Government of Canada, 2019).

**This report.** At the moment, there is a dearth of data on the ability of charities to acquire and repay social finance investments – i.e., their investment readiness. Such data can help to inform government policy and program decisions that benefit charities; it can also help charity leaders make informed decisions about whether social finance is an appropriate option for their organization, and if so, what steps they may need to take to become ready for investment. To fill this gap, Imagine Canada conducted a survey of registered charities across the country to better understand the current state of social finance and its potential and challenges for charities. This report, which presents the results of this survey, aims to answer the following question: *Are charities ready for social finance?*

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## Research Approach

The results presented in this report are based on a sample of 1,018 registered charities.

Charities were invited to participate via an online survey platform. Survey responses were collected between January 22, 2020 and March 15, 2020. This period of data collection largely precedes the outbreak of COVID-19 and its associated effects on Canada's charitable and nonprofit sector.

Registered charities with annual revenues of \$30,000 or more that were not religious congregations were considered in-scope for this survey. Responses were weighted according to revenue size, sub-sector, and region in order to account for differences between the survey sample and the population of in-scope charities. In general terms, weights tended to be higher among charities with annual revenues less than \$150,000 (32%), Grantmaking, fundraising & voluntarism (18%) and Education (11%) organizations, and charities located in Quebec (23%). Weights tended to be lower among charities with annual revenues of \$5M or more (9%), Arts, culture & recreation organizations (15%), and charities located in Ontario (33%).

Respondents were asked about their awareness of and opinions about social finance, their demand for social finance and how they would use it, barriers they might face in accessing social finance, their organizational capacity in key social finance-related domains, and their current financing needs. Survey questions specifically addressing social finance were anchored in the language of repayable loans, primarily for two reasons: a) while there are many different types of social finance, debt in the form of repayable loans is the most common form (MacKinnon & Pellerin, 2018); and b) the institutional structure of charities means that they cannot participate in equity investments because they do not have shares to sell – therefore, debt instruments are the only real option for charities.

Please refer to the Methodology section for a more detailed description of the survey methodology.

## KEY THEMES

The survey results presented in the following pages have been organized into five key themes:

<p><b>Theme 1: Awareness &amp; Opinions</b></p>	<ul style="list-style-type: none"> <li>• A majority of charities have a low awareness of social finance.</li> <li>• Many charities don't know what to think about social finance.</li> <li>• Charities generally have positive opinions about social finance.</li> <li>• Charities have a more mixed response to whether social finance will crowd out other forms of funding.</li> <li>• Larger charities are more likely to be aware of social finance and have positive opinions about it.</li> <li>• Charities that are more aware of social finance are more likely to have positive opinions about it.</li> </ul>
<p><b>Theme 2: Barriers</b></p>	<ul style="list-style-type: none"> <li>• Many barriers are financial in nature.</li> <li>• Risk-averse boards are an obstacle to social finance.</li> <li>• Nearly one quarter of charities don't know what barriers they would face.</li> <li>• Charities are interested in using social finance to raise revenue but nearly one fifth lack investment ideas to do so.</li> <li>• Greater financial uncertainty for Arts, culture &amp; recreation charities despite higher levels of earned income.</li> </ul>
<p><b>Theme 3: Organizational Capacity</b></p>	<ul style="list-style-type: none"> <li>• Charities report strong organizational capacity for social finance.</li> <li>• Charities report weaker capacity in measurement &amp; evaluation and financial domains.</li> <li>• Larger charities report stronger organizational capacity.</li> <li>• Quebec charities are more likely to report strong organizational capacity.</li> <li>• Charities with weaker organizational capacity face multiple barriers to social finance.</li> </ul>
<p><b>Theme 4: Debt Experience</b></p>	<ul style="list-style-type: none"> <li>• Half of charities currently hold debt.</li> <li>• Charities that hold debt tend to use it for operational purposes.</li> <li>• Charities tend to borrow money from banks and credit unions.</li> <li>• Most charities do not have difficulty repaying debt.</li> <li>• A majority of charities have positive opinions about their debt.</li> <li>• Charities that hold certain types of debt are more likely to be aware of social finance.</li> <li>• Charities are interested in using a social finance loan for more than operational purposes.</li> </ul>
<p><b>Theme 5: Demand</b></p>	<ul style="list-style-type: none"> <li>• A majority of charities are not likely to take a social finance loan.</li> <li>• Larger charities are more likely to take a social finance loan.</li> <li>• Opinions about social finance are a significant driver of demand.</li> <li>• Charities that hold certain types of debt are more likely to say they would take a social finance loan.</li> </ul>

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## THEME 1: AWARENESS & OPINIONS

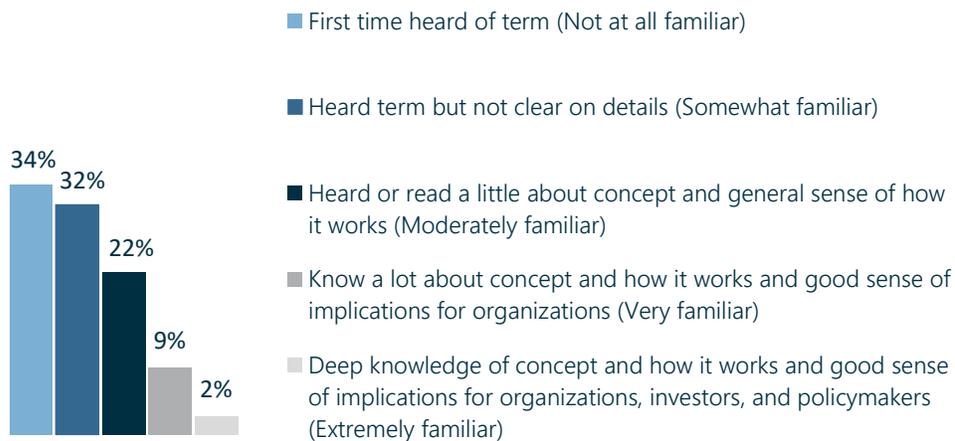
### A majority of charities have a low awareness of social finance

A reasonable proposition is that charities' level of awareness of social finance is a precursor to their participation in the social finance market: the more charities know about social finance, the more likely they may be to access social finance investments.

Survey respondents were asked how familiar they are with the general concept of social finance.

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FIGURE 1: **Social finance familiarity**



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The results indicate that a large number of charities have a low awareness of social finance, with 66% of respondents saying either that they had never heard of the term “social finance” prior to their participation in the survey or that they had heard of the term but are not clear on the details.

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## Many charities don't know what to think about social finance

Respondents were asked whether they agreed or disagreed with a series of statements about social finance. Between 26% and 35% answered "Don't know" to each statement and 22% to 30% said they neither agreed nor disagreed with each statement.

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TABLE 1: **Percentage of respondents with non-definitive opinions about social finance**

	Neither agree nor disagree	Don't know
<b>Statements about social finance</b>		
Social finance is a great idea - a win-win for investors and charities	27%	27%
Social finance is likely to significantly improve the financial sustainability of charities	25%	26%
Social finance is likely to significantly improve the social/environmental impacts of charities	24%	27%
Social finance is likely to give investors a better understanding of charities	22%	26%
Social finance is likely to crowd out other forms of funding for charities	30%	31%
It is likely that investors and charities will share the risks of social finance equally	25%	35%

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Given the low awareness of social finance, it is not surprising that charity leaders have difficulty forming definitive opinions about it: approximately 50% or more of respondents that had never heard of the term "social finance" before participating in the survey answered "Don't know" to the statements presented.

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## Charities generally have positive opinions about social finance

Respondents with definitive opinions generally held positive views of social finance.<sup>3</sup>

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FIGURE 2: **Percentage of respondents that agree or disagree with statements about social finance**



## Charities have a more mixed response to whether social finance will crowd out other forms of funding

Respondents were more split on the statement, “Social finance will likely crowd out other forms of funding for charities” (23% disagreed with this statement, while 16% agreed). This is consistent with anecdotal evidence from subject-matter experts and survey respondents that suggests there is a perception among charities that social finance will become a substitute for grants and contributions. Another related perception revealed by some respondents is that social finance may have a negative effect on philanthropy by encouraging investment over giving.

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<sup>3</sup> For most statements, a positive view of social finance means that respondents were more likely to agree with it than to disagree with it. For the statement, “Social finance is likely to crowd out other forms of funding for charities,” a positive view would be one where a respondent disagrees with the statement.

## Larger charities are more likely to be aware of social finance and have positive opinions about it

Charities with larger annual revenues are more likely to be familiar with social finance (see Table 2). This is especially the case for charities with annual revenues of \$5M or more (only 8% say they are “Not at all familiar” with social finance, compared to 45% of charities with annual revenues under \$150,000). Charities with annual revenues of \$5M or more are also significantly more likely to have positive opinions about social finance.

TABLE 2: Social finance familiarity by annual revenue size

Revenue size	Not at all familiar	Familiar				Familiar
		Somewhat	Moderately	Very	Extremely	
Under \$150K	45%	27%	20%	6%	1%	<b>55%</b>
Between \$150K and \$500K	38%	34%	19%	7%	3%	<b>62%</b>
Between \$500K and \$1.5M	28%	33%	26%	10%	3%	<b>72%</b>
Between \$1.5M and \$5M	28%	37%	20%	11%	3%	<b>72%</b>
\$5M or more	8%	31%	36%	21%	4%	<b>92%</b>

Social finance familiarity also varies significantly according to the sub-sector in which charities operate and the geographic area they serve:

Sub-sector	Geographic area served
<ul style="list-style-type: none"> <li>Grantmaking, fundraising &amp; voluntarism organizations are significantly more likely to be familiar with social finance (82%), while charities that operate in the Arts, culture &amp; recreation sub-sector are less likely to be familiar (54%).</li> <li>Reported familiarity for charities that operate in the Education sub-sector is 71%, while charities that operate in the Health and Social service sub-sectors reported 61% and 59% respectively.</li> </ul>	<ul style="list-style-type: none"> <li>Familiarity with social finance tends to be lower among charities that service smaller geographic areas, with reported familiarity lowest among those charities servicing a neighbourhood, city, town, or rural municipality (60%).</li> <li>Charities that service more than one province or territory are significantly more likely to be familiar with social finance (88%).</li> </ul>

## Charities that are more aware of social finance are more likely to have positive opinions about it

There is a statistically significant relationship between social finance familiarity and opinions about social finance. As seen in Table 3, the percentage of respondents that agree with each statement about social finance generally increases with the level of social finance familiarity.

TABLE 3: **Agreement with statements about social finance by social finance familiarity**<sup>4</sup>

	Win-win for investors & charities	Will significantly improve financial sustainability	Will improve social / environmental impacts	Will give investors a better understanding of charities	Likely to crowd out other forms of funding	Investors and charities will share risks equally
<b>Social finance familiarity</b>						
Not at all familiar	15%	15%	16%	23%	8%	5%
Somewhat familiar	37%	31%	35%	44%	22%	18%
Moderately familiar	58%	44%	51%	61%	41%	32%
Very familiar	65%	64%	76%	66%	35%	51%
Extremely familiar	65%	69%	68%	67%	45%	52%

<sup>4</sup> The percentages presented for "Likely to crowd out other forms of funding" represent those respondents that disagreed with this statement (e.g., 8% of respondents that are Not at all familiar with social finance disagreed with the statement).

## THEME 2: BARRIERS

### Many barriers are financial in nature

Survey respondents were asked to select barriers that their organization would encounter if they were to seek a social finance loan.

FIGURE 3: Potential barriers to seeking a social finance loan



Three of the five most commonly selected potential barriers are financial in nature: not currently involved in earned income activities (25%); uncertainty about ability to repay a loan (23%); and lack of assets for loan security (19%). These three phenomena are especially important for charities' readiness for social finance, which depends in large part on having assets that can be used as collateral to access debt investments and having reliable revenue streams that can be used to pay back investors.

The barrier “lack of assets for loan security” selected by 19% of respondents suggests that unsecured loans may be a more flexible financing solution for many charities.

Charities that rely on earned income are significantly less likely to say that uncertainty about ability to repay a loan would be a barrier (14%)	Charities from British Columbia are significantly more likely to say that lack of assets for loan security would be a barrier (29%), while charities from Atlantic provinces are less likely (8%)	Charities from Atlantic provinces are significantly less likely to say that the financial costs are too high (7%)	Charities with annual revenues under \$150,000 are significantly more likely to say that uncertainty around organizational finances is a barrier (18%), while charities with annual revenues of \$5M or more are less likely (4%)
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**Risk-averse boards are an obstacle to social finance**

More than a fifth of respondents said that a barrier to seeking a social finance loan was that their “Board would not consider / approve it.” This is consistent with the relevant literature and with subject-matter experts that have singled out the risk-aversion of charity boards as a major obstacle to charities taking on debt, whether through social finance or more conventional avenues (Hebb, 2012; Salway, 2017). The risks that come with taking on debt can discourage boards, which must be fiscally responsible and attentive to the organization’s mission. In many cases, the concerns of boards are legitimate. Yet, this default tendency can result in missed opportunities for enhancing financial sustainability and organizational impact.

Charities from the Prairies and charities relying on mixed revenue sources are significantly more likely to say that their board would be a barrier (30% and 28%, respectively)

**Nearly one quarter of charities don’t know what barriers they would face**

A notable finding is that 23% of respondents said they didn’t know what barriers their organization would encounter if it were to seek a social finance loan. Given the low awareness of social finance, this is not surprising.

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## Charities are interested in using social finance to raise revenue but nearly one fifth lack investment ideas to do so

- Charities from Quebec are significantly less likely to say that “No viable investment idea to reduce costs” is a barrier (6%).
- Charities from the Education sub-sector and charities that rely on earned income are significantly less likely to say that “No viable investment idea to generate revenue” is a barrier (8% and 10%, respectively)

Charities could use a social finance loan as a capital investment to increase revenues (e.g., increasing earned income). This indeed is one of the more common responses for how charities would use a social finance loan, with 27% of respondents saying they would use a loan to develop or enhance revenue streams. Yet, one of the more common barriers to seeking a social finance loan is “no viable investment idea to generate revenue,” selected by 17% of respondents.

## Greater financial uncertainty for Arts, culture & recreation charities despite higher levels of earned income

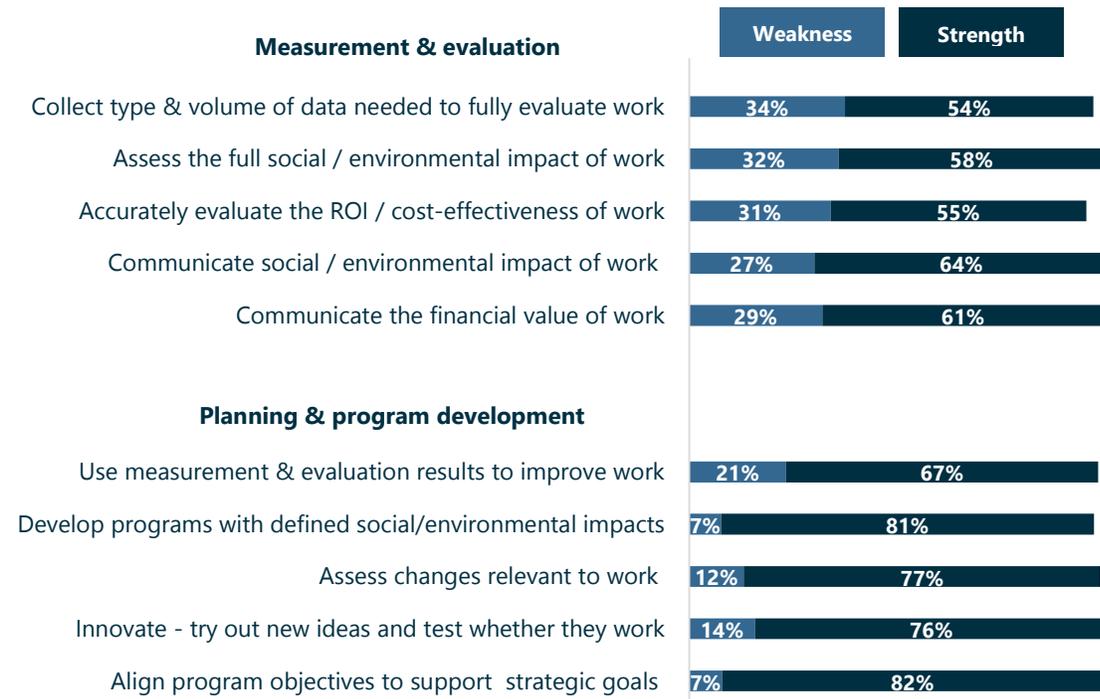
Charities that operate in the Arts, culture & recreation sub-sector are significantly less likely to say that “not currently involved in earned income activities” would be a barrier to seeking a social finance loan (11%). This is not surprising, given that these types of charities are noticeably more likely to generate earned income (Lasby, 2013). Yet, these charities are significantly more likely to say that “uncertainty about ability to repay” and “uncertainty around organizational finances” are barriers (36% and 19%, respectively). One possible inference could be that their earned income activities may be sufficient to cover their costs but do not generate enough of a surplus to feel confident in taking a loan.

## THEME 3: ORGANIZATIONAL CAPACITY

### Charities report strong organizational capacity for social finance

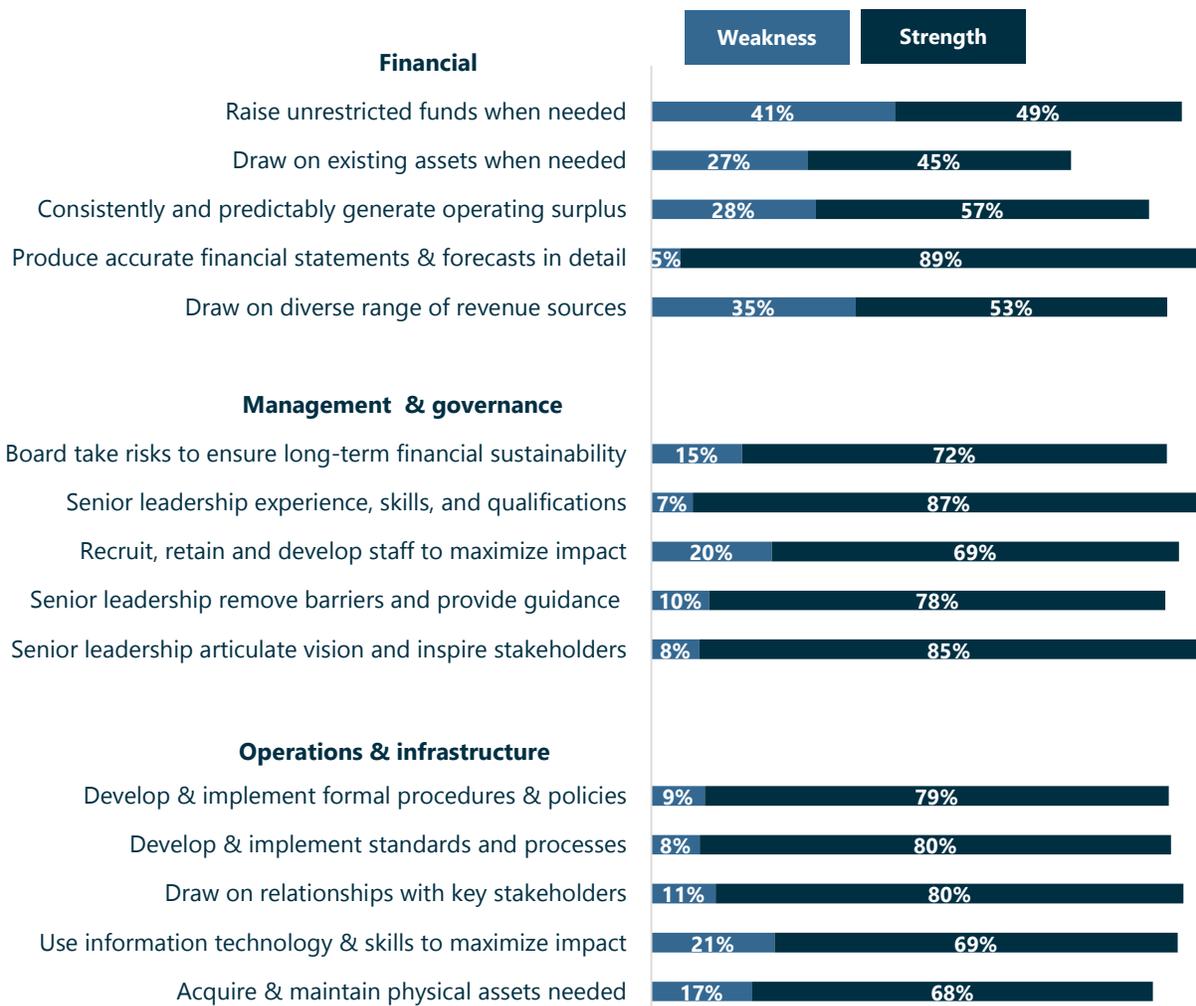
Survey respondents were asked a series of questions about their organizational abilities across five domains related to readiness for social finance investments: measurement & evaluation; planning & program development; financial; management & governance; and operations & infrastructure. Respondents rated each organizational ability as to whether it is a weakness or a strength for their organization. The results show that the overwhelming majority of respondents, generally speaking, rated each ability as a strength rather than a weakness.<sup>5</sup>

FIGURE 4: **Organizational capacity for social finance**



<sup>5</sup> Roughly one in ten respondents took a neutral position on organizational abilities across all five capacity domains. One exception is the ability to draw on existing assets when needed, where more than one in four (29%) rated it as neither a strength nor a weakness.

FIGURE 4: **Organizational capacity for social finance** (continued)



Since survey questions about abilities were couched in the language of “organizational capacity” and not “investment readiness,” it cannot be said that a majority of charities perceive themselves to be investment ready. However, it can be said that a majority of charities perceive themselves to be strong in abilities that contribute to an organization’s investment readiness. This finding appears to be at odds with subject-matter experts who suggested that many charities are likely not investment ready. This suggests that there may be a discrepancy in terms of how charities would view their investment readiness and how other actors in the social finance market view charities’ investment readiness.

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## Charities report weaker capacity in measurement & evaluation and financial domains

While there may be questions as to whether respondents overestimated their capacity, the relative distribution of responses in terms of which organizational abilities and which capacity domains are reported as strengths is less surprising. Charities expressed more doubts about their capacity in the measurement & evaluation and financial domains compared to the other domains.<sup>6</sup>

The relative weakness of measurement & evaluation abilities is consistent with the literature. Impact measurement has been noted as a considerable barrier to charities' participation in the social finance market (Phillips & Johnson, 2018). A 2018 survey of registered charities across Canada demonstrated that charities are less likely to evaluate their impact or return on investment compared to outputs, outcomes, and quality (Lasby, 2019). Results from the present survey show that 34% of respondents rated their ability to collect evaluation data as a weakness, and 32% rated their ability to assess the social/environmental impact of their work as a weakness – both of these abilities fall in the top five most reported weaknesses.

Charities that operate in the Arts, culture, & recreation sub-sector are significantly less likely to rate all measurement & evaluation abilities (with the exception of communicating social impact) as strengths.

The relative weakness of financial abilities makes sense given the precarious funding environment that charities find themselves in. In particular, 41% of respondents rated their ability to raise unrestricted funds when needed as a weakness, and 35% rated their ability to draw on a diverse range of revenue sources as a weakness.

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<sup>6</sup> An exception is "Produce accurate financial statements & forecasts in detail," which is the top rated organizational ability at 89%.

Reported capacity in the financial domain varies significantly according to a charity's revenue source, the sub-sector in which they operate, and the geographic area they serve:

<b>Revenue Source</b>	<b>Sub-sector</b>	
<ul style="list-style-type: none"><li>Charities that rely on earned income are significantly more likely to report their ability to draw on existing assets when needed (59%) and to produce accurate financial statements and forecasts (91%) as strengths.</li><li>Charities that rely on government sources of revenue are significantly less likely to report their ability to raise unrestricted funds (41%) as a strength and are significantly more likely to report their ability to consistently and predictably generate an operating surplus (61%) as a strength.</li></ul>	<ul style="list-style-type: none"><li>Charities that operate in the Health sub-sector are significantly less likely to report their ability to raise unrestricted funds (48%) as a strength.</li><li>Charities that operate in the Education sub-sector are significantly less likely to report their ability to consistently and predictably generate an operating surplus (46%) as a strength.</li></ul>	
	<th data-bbox="717 932 1206 1050"><b>Geographic area served</b></th>	<b>Geographic area served</b>
	<ul style="list-style-type: none"><li>Charities that provide services nationally are significantly less likely to report all financial abilities as strengths.</li></ul>	

### Larger charities report stronger organizational capacity

Organizational capacity varies significantly according to a variety of factors, with the size of charities' annual revenues being the most marked. Across all five capacity domains, charities with greater annual revenues are more likely to report their capacity as strong compared to charities with smaller annual revenues.

## Quebec charities are more likely to report strong organizational capacity

Charities located in Quebec are significantly more likely to report a variety of abilities as strengths:

### Quebec charities more likely to report the following measurement & evaluation abilities as strengths:

- Collect the type and volume of data needed to fully evaluate work (60%)
- Accurately assess the full social and/or environmental impact of work (70%)

### Quebec charities more likely to report the following financial abilities as strengths:

- Consistently and predictably generate an operating surplus (70%)
  - Draw on a diverse range of revenue sources, such that periodic shortfalls in a given area don't have a major impact on the organization as a whole (59%)

### Quebec charities more likely to report the following planning & program development abilities as strengths:

- Use measurement and evaluation results to improve the effectiveness and impact of work (75%)
- Develop programs / activities with defined social and/or environmental impacts (88%)
- Accurately assess changes relevant to work (87%)
  - Innovate - to try out new ideas or approaches and rigorously test whether they work (80%)

### Quebec charities more likely to report the following operations & infrastructure abilities as strengths:

- Develop and implement standards and processes to ensure the quality and consistency of outcomes (83%)
- Draw on relationships with key stakeholders (e.g., funders, those served, other organizations, etc.) to make work more effective (83%)
- Use information technology (hardware / software) and related technical expertise to maximize impact (79%)

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## Charities with weaker organizational capacity face multiple barriers to social finance

Charities with weaker capacity in each of the five capacity domains are significantly more likely to say they would face a variety of barriers to seeking a social finance loan.

Charities with weaker capacity in **measurement & evaluation** are more likely than charities with stronger capacity in this domain to say they would face the following barriers to accessing a social finance loan:

- Uncertainty around organizational finances
- Uncertainty about ability to repay loan
  - Lack of staff/volunteers with right skills/experience
  - Stakeholders would not support it
- Current investment ideas do not generate enough revenue
  - Unable to put value on work
  - Unable to measure impact of work

Charities with weaker capacity in **planning & program development** are more likely than charities with stronger capacity in this domain to say they would face the following barriers to accessing a social finance loan:

- Board would not consider/approve it
  - No viable investment idea to generate revenue

Charities with weaker capacity in **financial** are more likely than charities with stronger capacity in this domain to say they would face the following barriers to accessing a social finance loan:

- Uncertainty around organizational finances
- Uncertainty about ability to repay loan
- Not currently involved in earned income activities
  - No viable investment idea to generate revenue

Charities with weaker capacity in **operations & infrastructure** are more likely than charities with stronger capacity in this domain to say they would face the following barriers to accessing a social finance loan:

- Lack of assets for loan security

Charities with weaker capacity in **management & governance** are more likely than charities with stronger capacity in this domain to say they would face the following barriers to accessing a social finance loan:

- Lack of assets for loan security
- Not currently involved in earned income activities
- Board would not consider/approve it
- Lack of staff/volunteers with right skills/experience
- Stakeholders would not support it
  - Current government rules for business activities by charities are too restrictive/unclear

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## THEME 4: DEBT EXPERIENCE

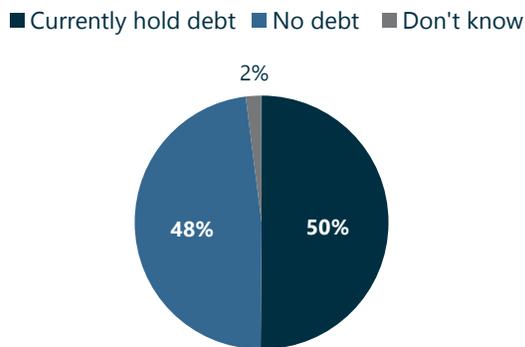
### Half of charities currently hold debt

An examination of charities' experience with debt provides a better understanding of their financing needs and may also provide clues as to their future behaviour. This information can also assist other actors in the social finance market (e.g., social finance intermediaries, government policymakers) that wish to engage charities more effectively.

Survey respondents were asked whether they currently hold any type of debt or financial obligation. The results show that 50% of charities currently hold debt.

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FIGURE 5: **Percentage of respondents that currently hold debt**



Charities that operate in the Grantmaking, fundraising, & voluntarism sub-sector are significantly less likely to currently hold debt (34% hold debt), while charities that operate in Other sub-sector are significantly more likely to currently hold debt (59% hold debt). Charities located in Quebec are significantly less likely to hold debt (43% hold debt)

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## Charities that hold debt tend to use it for operational purposes

Charities that hold debt hold several different types of debt. The most common types are related to day-to-day operations: 38% of respondents have organizational credit cards, 22% have a building lease, 18% have a material or equipment lease, and 13% have organizational line(s) of credit.

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FIGURE 6: **Currently held types of debt**



Respondents that currently hold debt were asked the purposes they acquired it for.

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FIGURE 7: **Reasons for acquiring currently held debt**



The results indicate that charities are indeed using debt primarily for operational purposes. For example, 25% of charities use debt to finance day-to-day operations and 15% use it to improve existing programs and services.

Notably, 28% of respondents indicated they had acquired some type of debt or financial obligation for a purpose(s) not listed in the available response options. The overwhelming majority of these responses indicate that debt is used for operational purposes: many respondents reported they had acquired debt to make purchases (e.g., office supplies/equipment) or pay expenses on a daily or monthly basis, often noting the ease with which debt had enabled them to do so.

The types of debt that charities hold and how they use it varies significantly by the size of charities' annual revenue and by their primary revenue source:

Revenue Size	Revenue Sources
<ul style="list-style-type: none"> <li>Charities with larger annual revenues are significantly more likely to hold most of the debt types listed (with the exception of trade credit from suppliers and other debt/obligation) and to use their debt for working capital, to acquire new assets, or to upgrade existing assets.</li> <li>Charities with annual revenues of \$5M or more are significantly more likely to use their debt to acquire new property, land, or equipment (41%), for working capital (34%), and to upgrade/retrofit existing property, land, or equipment (31%).</li> </ul>	<ul style="list-style-type: none"> <li>Charities that depend on earned income and government revenue are significantly more likely to hold organizational lines of credit (20% and 19%, respectively) and term loans (9% and 9%, respectively), while charities that depend on mixed revenue are significantly more likely to hold organizational credit cards (52%).</li> <li>Charities that depend primarily on earned income are significantly more likely to use currently held debt to upgrade/retrofit existing property, land, or equipment (28%) and to improve existing programs or services (26%).</li> <li>Charities that rely on gifts and donations are significantly less likely to use debt for acquiring new property, land, or equipment (16%). Charities that rely on government revenue are significantly more likely to use their debt to develop new programs and/or services (15%), while charities that depend on mixed revenues are significantly less likely (7%).</li> </ul>

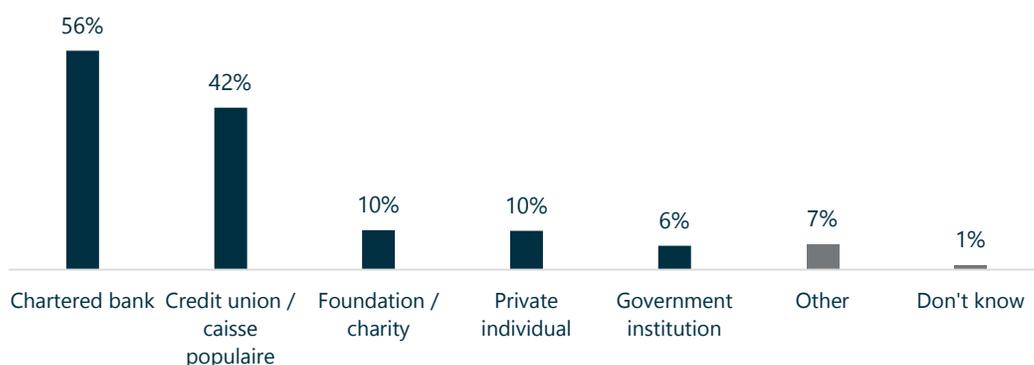
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## Charities tend to borrow money from banks and credit unions

Respondents that currently hold debt were asked where they had acquired it from. The two most common types of debt providers for charities are chartered banks (56%) and credit unions / Caisses populaires<sup>7</sup> (42%). Foundations / charities and private individuals each account for 10%, with government institutions (e.g., Business Development Bank of Canada, Export Development Canada) accounting for 6% of respondents.

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FIGURE 8: Debt providers for charities



There are distinct differences in the types of charities that are likely to borrow from a chartered bank compared to a credit union / Caisse populaire:

- Charities with larger annual revenues are more likely to acquire debt from chartered banks, while charities with smaller annual revenues are more likely to acquire debt from credit unions / Caisses populaires. This is especially true for charities with annual revenues of \$5M or more – these charities are significantly more likely to borrow from a bank (80%) and significantly less likely to borrow from a credit union (22%).
- Charities located in Ontario are significantly more likely to acquire debt from chartered banks (77%) and less likely to acquire it from credit unions / Caisses populaires (16%), while the reverse is true for charities located in Quebec and British Columbia. This pattern is likely due to supply – credit unions / Caisses populaires are more common in Quebec and British Columbia.
- Charities that service larger geographic areas, with the exception of those charities that provide services internationally, are more likely to acquire debt from a chartered bank, generally speaking. Charities that service smaller geographic areas are more likely to acquire debt from credit unions / Caisses populaires.

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<sup>7</sup> A credit union is a type of financial cooperative that provides traditional banking services. It is created, owned and operated by its participants. Members pool their money in order to provide loans, deposit accounts and other financial products and services to each other. Caisses populaires are the francophone equivalent to credit unions, and are mostly found in Quebec.

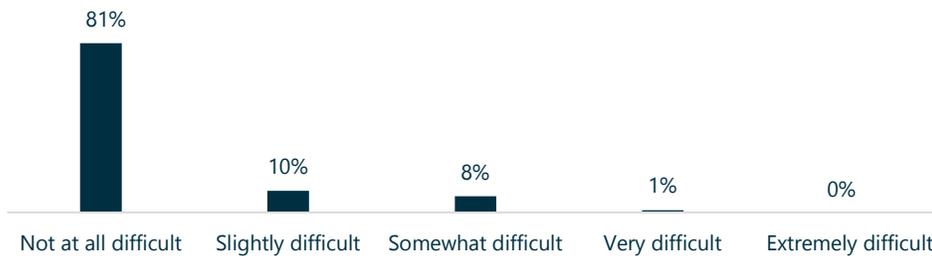
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## Most charities do not have difficulty repaying debt

The vast majority of respondents that currently hold some type of debt indicated that they would not have difficulty repaying that debt, with 81% of respondents saying that it would not be difficult at all for their organization to repay.

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FIGURE 9: **Difficulty repaying currently held debt**



## A majority of charities have positive opinions about their debt

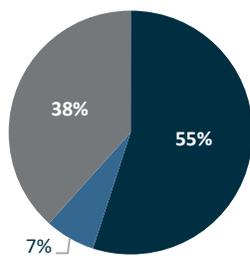
Respondents that currently hold some type of debt generally have positive opinions about the contributions of that debt to their organization's financial sustainability and its impact.

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FIGURE 10: **Opinions about contribution of currently held debt to financial sustainability and impact**

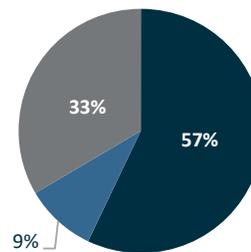
Debt has improved (or will improve) organization's financial sustainability

■ Agree ■ Disagree ■ Neither



Debt allows (or will allow) organization to have greater impact

■ Agree ■ Disagree ■ Neither



## Charities that hold certain types of debt are more likely to be aware of social finance

Charities that hold term loans and trade credit from suppliers<sup>8</sup> are significantly more likely to be aware of social finance than those that do not hold these types of debt. Charities that reported holding some other debt or financial obligation<sup>9</sup> are also significantly more likely to be familiar with social finance.

TABLE 4: **Social financial familiarity by types of currently held debt – term loan(s), trade credit from suppliers, and other debt / obligation**

	Not at all familiar	Familiar				Familiar
		Somewhat	Moderately	Very	Extremely	
<b>Term loan(s)</b>						
No	36%	32%	22%	8%	2%	<b>64%</b>
Yes	13%	27%	32%	23%	6%	<b>87%</b>
<b>Trade credit from suppliers</b>						
No	35%	32%	22%	9%	2%	<b>65%</b>
Yes	16%	25%	35%	16%	8%	<b>84%</b>
<b>Other debt / obligation</b>						
No	35%	32%	22%	9%	2%	<b>65%</b>
Yes	27%	21%	28%	17%	8%	<b>73%</b>

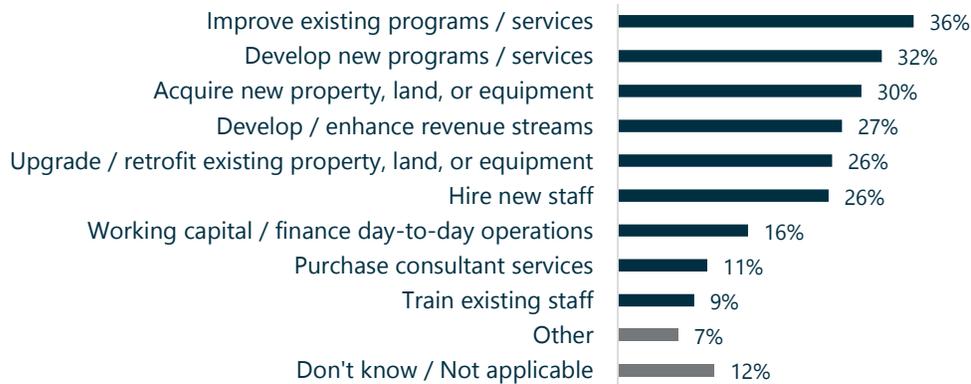
<sup>8</sup> Trade credit from suppliers is credit extended by suppliers who let customers buy immediately and pay later.

<sup>9</sup> Other debt or financial obligation includes a wide variety of responses from 65 survey respondents. These other debts include, but are not limited to, the following: bonds; insurance requirements; promissory notes; mortgage accounts; mortgages; leases.

## Charities are interested in using a social finance loan for more than operational purposes

Survey respondents were asked how they would use a social finance loan.

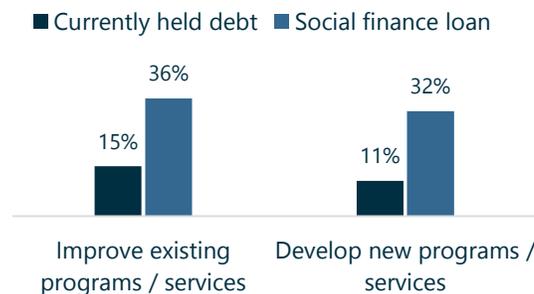
FIGURE 11: Proposed uses of a social finance loan



The patterning of responses suggests that charities are currently using debt financing in ways that are quite different from how they say they would use a social finance loan.

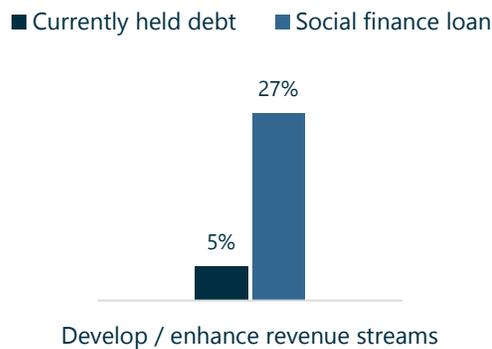
With regard to programs and services, charities are almost three times more likely to say they would use a social finance loan to develop new programs and services and almost two and a half times more likely to say they would use a social finance loan to expand or improve existing programs and services, compared to uses of currently held debt (see Figure 12). One interpretation of this finding is that a large number of charities are interested in social finance as a means for facilitating their growth through expanded operations.

FIGURE 12: Uses of currently held debt compared to proposed uses of social finance loan – programs / services



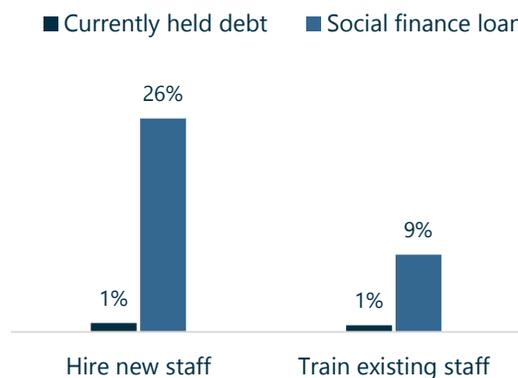
Charities are five and a half times more likely to say they would use a social finance loan to develop or enhance revenue streams, compared to uses of currently held debt (see Figure 13).

**FIGURE 13: Uses of currently held debt compared to proposed uses of social finance loan – developing / enhancing revenue streams**



Respondents that currently hold debt rarely acquire it for the purposes of improving their human capital, either by hiring new staff (1%) or training existing staff (1%). However, respondents' suggested uses for a social finance loan provide a stark comparison: charities are more than 24 times more likely to say they would use a social finance loan to hire new staff, and almost 12 times more likely to say they would use a social finance loan to train existing staff (see Figure 14).

**FIGURE 14: Uses of currently held debt compared to proposed uses of social finance loan – human capital**



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## THEME 5: DEMAND

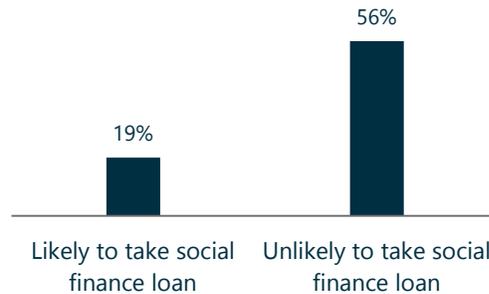
### A majority of charities are not likely to take a social finance loan

The supply of capital available for social finance investments is growing (Responsible Investment Association, 2019), but there is presently limited data available on the demand for social finance in Canada.

Survey respondents were asked how likely their organization would be to take a repayable loan made available through social finance. The results show that there is not much appetite for social finance loans among charities.

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FIGURE 15: **Likelihood to take social finance loan**



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Nearly three-fifths of respondents who said they were unlikely to take a social finance loan said they would be “Very unlikely,” and nearly three-fifths of respondents who said they were likely to take a social finance loan said they would be “Somewhat likely.”

## Larger charities are more likely to take a social finance loan

Charities with larger annual revenues are significantly more likely to say they would take a social finance loan. This is especially the case for charities with annual revenues of \$5M or more. It is important to note the percentage of respondents in each category that said they were “Neutral” as to whether their organization would take a social finance loan, ranging from 22% to 32%.

TABLE 5: Likelihood to take social finance loan by annual revenue size

Revenue size	Likelihood to take social finance loan		
	Likely	Neutral	Unlikely
Under \$150K	17%	22%	60%
Between \$150K and \$500K	20%	28%	52%
Between \$500K and \$1.5M	21%	32%	47%
Between \$1.5M and \$5M	24%	28%	48%
\$5M or more	39%	30%	31%

## Opinions about social finance are a significant driver of demand

Earlier it was suggested that charities’ level of awareness of social finance may be a precursor to their participation in the social finance market (see page 9). This is supported by the survey results, which show that there is a statistically significant relationship between social finance familiarity and likelihood to take a social finance loan. As familiarity with social finance increases, so too does reported likelihood to take a social finance loan, generally speaking.

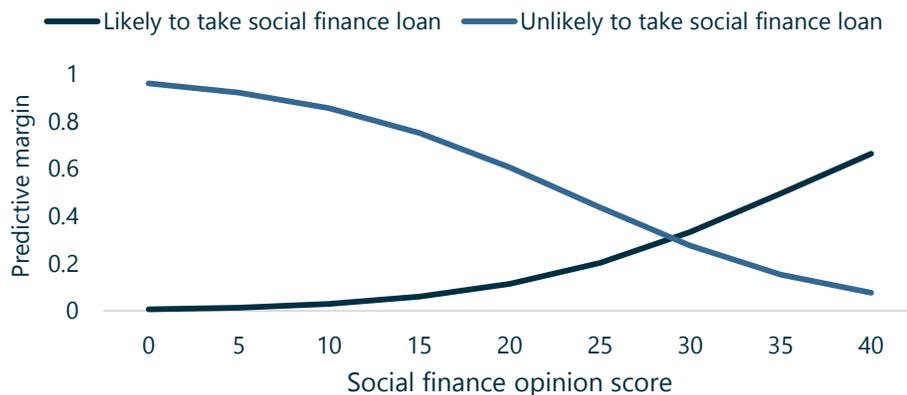
TABLE 6: Likelihood to take social finance loan by social finance familiarity

Social finance familiarity	Likelihood to take social finance loan		
	Likely	Neutral	Unlikely
Not at all familiar	14%	26%	60%
Somewhat familiar	19%	32%	49%
Moderately familiar	28%	23%	49%
Very familiar	36%	31%	33%
Extremely familiar	31%	25%	44%

The relationship between social finance familiarity and likelihood to take a social finance loan is no longer significant, however, when opinions about social finance are added to the analysis. At this point, a statistically significant relationship emerges between opinions about social finance and likelihood to take a social finance loan. It is important to note that although awareness is not a direct driver of demand for social finance, it may be an indirect driver through its effect on opinions about social finance – charities with greater awareness of social finance are more likely to hold positive opinions about social finance (see page 13).

Generally speaking, charities that hold positive opinions about social finance are significantly more likely to say they would take a social finance loan, were it made available. This relationship is illustrated in Figure 16. Responses to statements about social finance were combined into an overall score, with higher scores representing more positive opinions about social finance and lower scores representing less positive opinions. As scores increase, the probability that respondents would say that they would be likely to take a social finance loan increases while the probability that respondents would say that they would be unlikely to take a social finance loan decreases.

**FIGURE 16: Predicted likelihood to take social finance loan by social finance opinion scores**



## Charities that hold certain types of debt are more likely to say they would take a social finance loan

Charities that hold either term loans, trade credit from suppliers, or some other debt or financial obligation are significantly more likely to say they would take a social finance loan. It is worth noting that none of the other debt types (e.g., organizational credit cards; leases; organizational lines of credit) are significantly correlated with the likelihood of taking a social finance loan.

**TABLE 7: Likelihood to take social finance loan by types of currently held debt – term loan(s), trade credit from suppliers, and other debt / obligation**

	Likelihood to take social finance loan		
	Likely	Neutral	Unlikely
<b>Term loan(s)</b>			
No	19%	28%	54%
Yes	72%	18%	10%
<b>Trade credit from suppliers</b>			
No	21%	27%	52%
Yes	53%	21%	26%
<b>Other debt / obligation</b>			
No	20%	27%	52%
Yes	45%	29%	27%

Given that the survey question asked respondents how likely their organization would be to take a repayable loan and given that the relationship is strongest for those charities that hold term loans, one possible inference from these findings is that charities that have experience with one type of debt may be more favourable to acquiring the same type (or a similar type) of debt in the future. If this is the case, developing financial products similar to the ones that charities currently consume (e.g., credit cards, leases, lines of credit) could encourage greater uptake.

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## CONCLUSION

**Investment readiness in Canada's charitable sector.** The concept of investment readiness is generally understood to refer to key characteristics or attributes of an investee that allow them to attract and repay an investment (Gregory et al., 2012). But what exactly are these key characteristics or attributes?

A narrow formulation of the concept focuses on the skills required to take on investment, such as the ability to measure impact or the ability to develop financial forecasts. A broad formulation of the concept shifts the focus beyond just skills, and may include other phenomena such as awareness or attitudes about investment.

Based on the survey results, **are charities ready for social finance?**

If a narrow formulation is adopted, it might be possible to conclude that a majority of charities are investment ready. A large number of charities rated abilities across five capacity domains linked to investment readiness as strengths rather than weaknesses. Yet, charities do tend to be more doubtful about abilities critical for attracting and repaying investment, such as the ability to raise revenues. Therefore, even adopting a narrow formulation of the concept, it is uncertain whether the charitable sector as a whole is investment ready.

This report adopts a broad formulation of investment readiness. While possessing the skills required to take on investment is important, the results of this survey show that awareness of and opinions about social finance are significant indirect and direct drivers of demand for a social finance loan, respectively. The results also highlight the critical role of experience with certain types of debt in driving demand – e.g., charities that currently hold term loans are more likely to say they would take a repayable loan made available through social finance. Given the importance of these phenomena, it is worth factoring them into judgments about the investment readiness of charities.

Applying a broad formulation, the results indicate that **many charities are likely not investment ready.**

## Reasons why many charities are likely not ready for social finance

- A large number of charities have a low awareness of social finance, with 66% of respondents saying either that they had never heard of the term “social finance” prior to their participation in the survey or that they had heard of the term but are not clear on the details.
- Many charities do not know what to think when presented with opinion statements about the implications of social finance for charities.
- A majority of charities are not interested in taking a social finance loan, with 56% of respondents saying their organization would be unlikely to take a loan if it were made available.
  - Charities tend to be more doubtful about abilities critical for social finance readiness. The following abilities were more commonly reported by respondents to be weaknesses for their organization: raise unrestricted funds when needed (41%); draw on diverse range of revenue sources (35%); collect evaluation data (35%); assess full social/environmental impact of work (32%); consistently and predictably generate an operating surplus (28%); and draw on existing assets when needed (27%).
- Potential barriers to seeking a social finance loan selected by many charities concern key aspects of investment readiness, such as generating earned income (25% of respondents said their organization is not currently involved in earned income activities), the ability to pay back the loan (23% of respondents said they are uncertain about their ability to repay), and board buy-in for social finance (21% of respondents said their board would not consider or approve of a social finance loan).
- Almost half of charities do not currently hold any debt, and those that do are less likely to hold types of debt significantly associated with greater likelihood of taking a social finance loan – i.e., term loans (6%), trade credit from suppliers (3%), and other debt / obligation (6%).

Although it appears that many charities are not investment ready, **the results also point towards a subset of charities that are likely ready or close to it: those with larger annual revenues.** The survey found that charities with larger annual revenues are more likely to:

- be aware of and hold positive opinions about social finance;
- take a social finance loan, were it made available;
- currently hold term loans, which is significantly correlated with greater awareness of social finance and greater likelihood to take a social finance loan; and
- report stronger organizational capacity, which is significantly negatively correlated with many social finance barriers (i.e., charities with stronger capacity are less likely to say they would face barriers that charities with weaker capacity say they would face if seeking a social finance loan).

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There is an important caveat to note about the conclusions drawn here. In determining whether charities are investment ready, it is prudent to ask, “ready for what?” It is difficult to make determinations about the investment readiness of charities, particularly at the organizational level, in the absence of considerations about the type of financial instrument that is being pursued or the social finance investors that are involved. For example, a charitable organization may be deemed investment ready by one social finance investor but not by another. Therefore, determinations of an organization’s investment readiness are case-specific. Despite these limitations, the survey results presented in this report give reason for skepticism about the current investment readiness of Canada’s charitable sector.

**What do these results mean for the development of Canada’s social finance market?** The Government of Canada’s commitment to social innovation and social finance acknowledges the contributions that charities and other social purpose organizations make towards addressing persistent and complex social, cultural, and environmental challenges (Government of Canada, 2018). Therefore, it is crucial that these organizations have access to the resources they need to develop and scale innovative programs and services.

Although social finance is regarded as a tool for increasing access to capital for many social purpose organizations, the underutilization of social finance in other jurisdictions (Litchfield, 2019) raises serious questions. On the demand side, a lack of investment readiness among social purpose organizations is often identified as a key reason for insufficient uptake (Cabinet Office, 2011; Gregory et al., 2012); the argument here is that the lack of readiness results in a pipeline of investable projects or organizations that is not capable of meeting the supply of capital that exists. On the supply side, social finance funds and financial instruments that cater to the needs of investors more than the needs of social purpose organizations has been identified as a key reason for insufficient uptake (Mendell et al., 2018); the argument here is that if more funds and instruments were designed to meet the concrete needs of social purpose organizations, there would be greater uptake.

Each of these explanations has merit – work is needed on both the demand side and the supply side of the social finance market to ensure the sufficient uptake of capital. The survey results in this report give some indication of areas that government policymakers and social finance intermediaries can target to build investment readiness, and provides information that can help these actors to better adapt social finance to charities’ needs.

## Considerations for building readiness and adapting supply

**Building readiness.** Given the scale of the issue, and its implications for demand, **awareness of social finance** may be a particularly effective intervention point for building readiness. Interventions designed to enhance understanding of social finance (e.g., how it can help charities pursue mission; where and how to access it; how to use it) could be targeted to those charities that are less likely to be aware of social finance: charities with smaller annual revenues; charities that operate in the Arts, culture & recreation sub-sector; and charities that service smaller geographic areas.

A quarter of survey respondents selected “Not currently involved in earned income activities” as a barrier to their organization seeking a social finance loan. Given the central importance of **earned income** for charities’ ability to access social finance, an effective intervention point may be the provision of advice (e.g., legal; business) to charities around how they could develop this revenue stream.

Nearly one fifth of respondents said that “Lack of staff/volunteers with the right skills/experience” would be a barrier to their organization seeking a social finance loan, and one fifth of respondents rated the ability to “recruit, retain and develop staff with the experience, skills and qualifications the organization needs in order to maximize its impact” as a weakness for their organization. These results, among others, suggest that **human capital** may be another effective intervention point for building readiness among charitable organizations. As for specific skill sets that may need to be developed, measurement and evaluation skills require attention.

**Adapting supply.** Charities currently hold a variety of debt types for a variety of uses (and the variety of uses is even greater when asking survey respondents how they would use a social finance loan). This may suggest that offering charities a wide range of financial instruments may be more effective for meeting the multiplicity of financing needs that exist in the sector. Additionally, the results suggest that the terms of financing should be flexible. A sizeable percentage of charities are uncertain about their finances, uncertain about their ability to repay a loan, and lack assets for collateral. Based on these results, patient capital may be more appealing to charities considering repayable finance. Where funds exist that meet the needs of charities in these ways, they should be scaled up.

Social finance will not be appropriate for every charity. But for those charities – large or small – for which it may be appropriate, they should be able to access financing that meets their needs. This will contribute to the development of a more inclusive and diverse market that addresses a wider variety of social, cultural, and environmental challenges.

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## METHODOLOGY

**Summary.** The survey was conducted between January 22 and March 15, 2020. Survey invitations were sent to 5,192 charities from across Canada. Potential respondents received an invitation e-mail directing them to an interactive survey website where they could complete the survey. Periodic reminders spaced roughly two weeks apart were sent during the survey period to help increase the response rate. We received 1,018 complete responses. Once e-mails that are known not to have reached the intended respondent are taken into account, the net response rate was 21.3%.

**Respondents.** The vast majority of survey respondents (79.5%) were the principal leaders of their organization - Presidents, CEOs, Board Chairs, etc. The remaining fifth of survey respondents were drawn from among senior staff or volunteers, typically occupying positions reporting directly to the principal leader - Vice-presidents, Board Treasurers, Chief Operating Officers, directors, etc.

**Sample.** Registered charities with annual revenues of \$30,000 or more that were not religious congregations were considered in-scope for this survey. The contact sample was drawn from two main sources. The largest component (58.7% of total) was a convenience sample drawn from the memberships of Imagine Canada and a number of other national umbrella organizations. The remainder (41.3%) was randomly drawn from the population of in-scope Canadian charities.

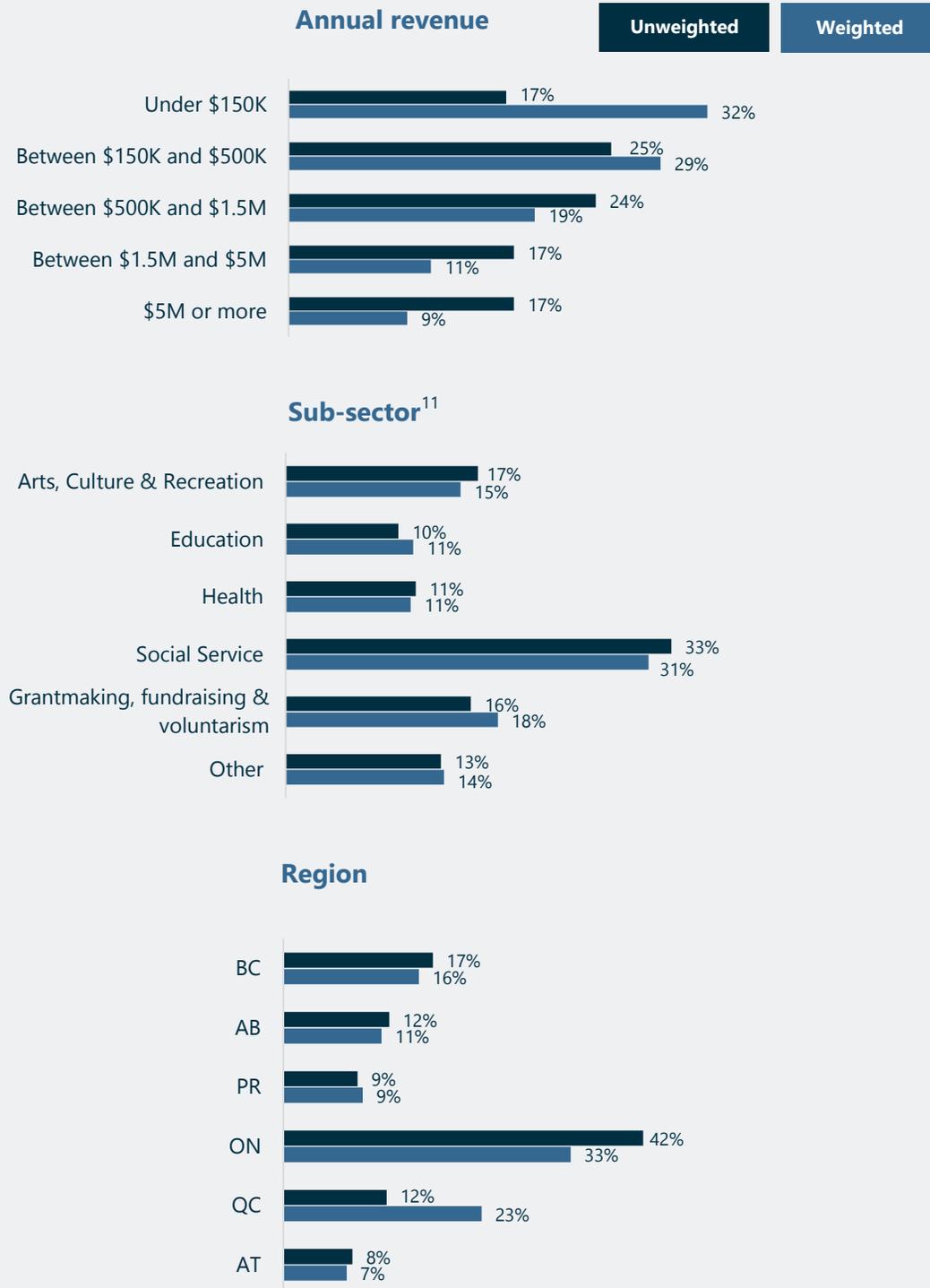
**Response rates.** Response was higher among the convenience sample (22.0%) and lower among the probabilistic sample (16.1%). Response rates also varied somewhat according to organizational characteristics. They were lower among charities with annual revenues less than \$500,000, charities working in the area of Education, and charities in Quebec. They were higher amongst charities with annual revenues of \$5M or more, charities working in the areas of Arts, culture & recreation and Social services, and charities located in Alberta and the Prairies.

**Weighting strategy.** Responses were weighted according to revenue size, organization type and region in order to account for differences between the survey sample and the population of in-scope charities and for differences in response rate. Population counts were based on the 2017 distribution of registered charities.<sup>10</sup> In general terms, weights tended to be higher among charities with annual revenues less than \$150,000, Grantmaking, fundraising & voluntarism and Education organizations, and charities located in Quebec. They tended to be lower among larger charities, Arts, culture & recreation organizations, and charities located in Ontario.

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<sup>10</sup> At the time of analysis, T3010 filing for 2018 was not sufficiently complete to use as the basis for population counts.

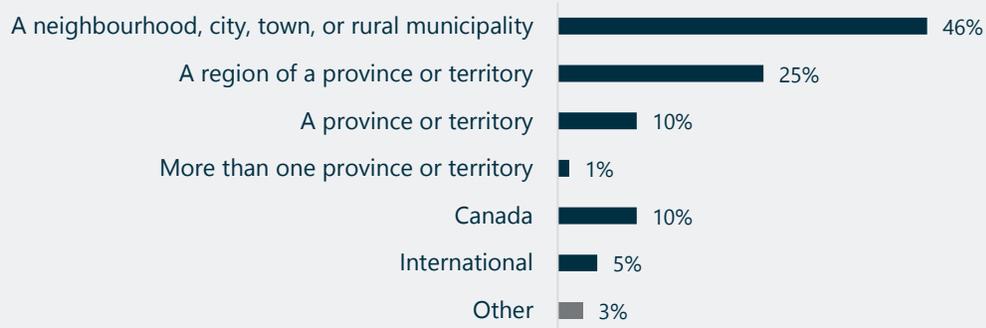
## UNWEIGHTED AND WEIGHTED DISTRIBUTION OF SURVEY RESPONDENTS BY KEY VARIABLES



<sup>11</sup> "Other" sub-sector category includes organizations working in the areas of Environment, Development & housing, Law, Advocacy & politics, and International development & relief.

## OTHER ORGANIZATIONAL DETAILS

### Geographic area primarily served (weighted)



### Populations served (weighted)

