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An Assessment of the Impact Investing and Social Enterprise Ecosystem in Virginia

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Abstract
In a study that spanned more than four months from April through August of 2016, the Virginia Impact Investing Forum surveyed nearly 200 stakeholders and held dozens of personal interviews and focus groups with thought leaders across the state. The goal was to map Virginia's Impact Investing and Social Enterprise ecosystem and to determine the next steps necessary to the continued growth and prosperity of this emerging field. Results show that there is strong interest in seeing Impact Investing and Social Enterprise development flourish throughout Virginia, as evidenced by concerted efforts from across all three sectors to promote this ecosystem, including bi-partisan government actors, private equity firms, foundations, and entrepreneurs. One general theme that has emerged in conversations and survey responses around Impact Investing is the tension that often exists between prospective Impact Investors and Social Entrepreneurs, and while this research does not seek to solidify answers to some of the most pressing questions that create these tensions, it does make a key point: Impact Investing has the potential to be something entirely different from philanthropy and investing, something that has the power to reshape longstanding economic barriers between one's wallet and one's heart, by fueling the creative fire behind social innovation and breaking down the walls between the traditional public, nonprofit, and private sectors - And that is something worth celebrating, and worth continuing to fight for.

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Executive Summary

The following report is a culmination of more than four months of intensive research to assess the Impact Investing and Social Enterprise ecosystem in Virginia. This report is produced primarily by the Virginia Impact Investing Forum (VIIF) and its founding partners, NRV, a Richmond-based venture capital firm, and Virginia Community Capital, a statewide Community Development Financial Institution, between April 2016 and August 2016. The findings of this report are based on a combination of nearly 200 survey responses, dozens of personal interviews, and several focus group meetings representing a wide variety of key stakeholders from across Virginia. The principal objective of this research is to determine what VIIF and its affiliates can do in order to advance the Impact Investing and Social Enterprise ecosystem in Virginia.

Through both survey responses and in-person conversations, we can make a number of key inferences about the Impact Investing and Social Enterprise ecosystem in Virginia. First, the ecosystem is still relatively early on in its development, though certainly no longer in its infancy. While survey respondents and interviewees alike site a general lack of understanding of what Impact Investing is, there is a great deal of agreement among stakeholders about what it *should* be. Even more importantly, there is strong interest in seeing Impact Investing and Social Enterprise development flourish throughout Virginia, as evidenced by concerted efforts from across all three sectors to promote this ecosystem, including bi-partisan government actors, private equity firms, foundations, and entrepreneurs.

Regarding the needs identified by stakeholders for Impact Investing and Social Enterprise to flourish in Virginia, there are two more key findings in addition to the need to raise more awareness and understanding of what Impact Investing is: The development of a fund or set of funds explicitly designated for Social Enterprise development, and the continued cultivation of a shared learning community, to include various platforms for stakeholders to come together to collaborate. While VIIF is not currently in a position to become an active fund developer, it has positioned itself to be a major part of Virginia’s shared learning community around Impact Investing and Social Enterprise.

Throughout the collection of all of the survey data and the many conversations that this research has generated, there is a general sense of optimism around the future of Impact Investing in Virginia. One general theme that has emerged in conversations and survey responses around Impact Investing is the tension that often exists between prospective Impact Investors and Social Entrepreneurs, and while this research does not seek to solidify answers to some of the most pressing questions that create these tensions, it does make a key point: Impact Investing has the potential to be something entirely different from philanthropy and investing, something that has the power to reshape longstanding economic barriers between one’s wallet and one’s heart, by fueling the creative fire behind social innovation and breaking down the walls between the traditional public, nonprofit, and private sectors - And that is something worth celebrating, and worth continuing to fight for.

Introduction

Who We Are

The Virginia Impact Investing Forum (VIIF) is a network of leaders in business, government, and non-profit committed to growing Impact Investing in Virginia. The primary objective of the Forum is to provide opportunities to grow Impact Investing year over year in Virginia. Our founding partners, NRV and Virginia Community Capital, are active impact investors statewide, and our Advisory Board consists of representatives from all three sectors, including Impact Makers, the Governor's Council on Social Entrepreneurship and Impact Investing, an official from former Virginia Governor Bob McDonnell's Administration, Social Entrepreneurship at the University of Virginia, Virginia Commonwealth University, The College of William and Mary, the Virginia Community Economic Network (VCEN), the Community Foundation of Richmond, and Village Capital.

The following report, jointly produced by the Virginia Impact Investing Forum, NRV, Virginia Community Capital, the Governor's Council on Social Enterprise and Impact Investing, Social Entrepreneurship at the University of Virginia, and Virginia Commonwealth University, seeks to determine what VIIF and its affiliates can do in order to advance the Impact Investing and Social Enterprise ecosystem in Virginia.

A Word on Impact Investing Terminology

It is worth noting that one of the principle findings from our survey results is that there is a general lack of consensus on how to define 'Impact Investing' and, relatedly, 'Social Enterprise' - In fact, by far the most reported barrier to Impact Investing in our survey is a "Lack of understanding of what Impact Investing is." Given the relatively new nature of the field, this is not particularly surprising. Our survey follows the definition of the most recognized authority on Impact Investing, the Global Impact Investing Network (GIIN), which defines Impact Investing as "Investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return."[1] This report will delve more deeply into this terminology, but for the purposes of our survey, 'Social Enterprises' and 'Social Entrepreneurs' are also consistent with this definition.

Impact Investing - What it is, and Why it Matters

Impact Investing traces its roots back several decades to the growth of SRI funds, often referred to as Sustainable, Responsible, Investment funds or Socially Responsible Investment funds. SRI funds have existed since the 1960's, but didn't enter the mainstream until the 1980's.[2] One key difference that has emerged in recent years between SRI funds and 'Impact Investments' has to do with the latter's *intentionality* to create positive social and/or

[1] Global Impact Investing Network: https://thegiin.org/
[2] Forum for Sustainable and Responsible Investment: http://www.ussif.org/sribasics

environmental impact, compared with SRI's negative screenings.[3] In essence, while SRIs generally seek to *avoid negative impact*, Impact Investments seek to *cause positive impact*.

So why, then, does Impact Investing matter, and why has it been gaining steam in both investor and philanthropic circles? There are several important reasons. First, Impact Investments represent an ever-growing asset class, with the Forum for Sustainable and Responsible Investment's 2014 study on SIF Trends indicating that there are approximately $6.6 trillion in SRI assets in the U.S. alone, a ten-fold increase since 1995.[4] As detailed in a 2014 report by the Case Foundation, there is ample evidence that these funds perform as well or even better than the market as a whole, indicating that investors who seek market-rate returns on Impact Investments often do achieve or even surpass them.[5] As the popularity of SRI funds has increased, so too has the interest level in the more intentional Impact Investing arena.

A second key contributor to the growth of Impact Investing has to do with the changing landscape of business as we know it. As the exponential growth in SRI funds indicates, there is an ever-expanding demand for investment opportunities that do more than simply provide financial returns. Similarly, the growth of sustainable and responsible businesses globally also indicates that there is strong interest on the side of entrepreneurs to create enterprises that solve some of the world's most pressing problems; the Benefit Corporation is a prime example of this, as the number of B-certified Benefit Corporations has grown to nearly 2,000 globally since legislation first introduced them in several US states, including Virginia, in 2006.[6] On a broad scale, governments, NGOs, and private sector enterprises are collectively realizing that no one sector is going to solve the world's greatest problems on its own, and the result can be seen in the blurring of traditional sector lines through practices like Social Entrepreneurship and Impact Investing.

The Survey

The goal of the survey and this culminating report is to shed some light on who the key players are in Virginia's Impact Investing ecosystem, what these key stakeholders are collectively doing well, and what next steps can be taken in order to improve on and accelerate our efforts. Our scope is focused on all of Virginia, with survey respondents stretching throughout every corner of the state. Surveys were distributed in one of two ways: Online, through Google Forms, or in person, as a paper copy.

The survey period took place from mid-April through the end of June 2016, during which time a total of 181 survey responses were collected. The survey asks respondents to identify themselves as a member of one or more of ten stakeholder groups, which are all well-represented in the survey responses: Investor/Creditor (32 respondents), Foundation/Philanthropist (13 respondents), Financial Adviser (12 respondents), Entrepreneur/Business Professional (76 respondents), Social Entrepreneur (47 respondents),

[3] Global Impact Investing Network: https://thegiin.org/impact-investing/need-to-know/#s2
[4] Report on U.S. Sustainable, Responsible, Impact Investing Trends: http://www.ussif.org/Files/Publications/SIF_Trends_14.F.ES.pdf
[5] Short Guide to Impact Investing, the Case Foundation: http://casefoundation.org/wp-content/uploads/2014/11/ShortGuideToImpactInvesting-2014.pdf
[6] B-Lab: https://www.bcorporation.net/

Nonprofit Professional (33 respondents), Job Seeker/Student (25 respondents), Incubator/Accelerator (20 respondents), Educator/Researcher (28 respondents), and Government Official/Elected Representative (11 respondents).

Online survey respondents are then led through twelve additional single or multiple choice questions regarding the Impact Investing ecosystem as well as five open-ended questions. Respondents who answered the survey in paper form rather than online are given a shortened version that includes nine single or multiple choice questions and one open-ended question.

In addition to providing an aggregate overview of the survey responses, this research also seeks to provide further insights by reviewing survey responses by individual stakeholder groups, as well as relevant combinations of stakeholder groups, with four particular groupings: Private Sector, made up of entrepreneurs/business professionals, Social Entrepreneurs, and investors/creditors; Entrepreneurs, made up of entrepreneurs/business professionals and Social Entrepreneurs; Public Sector, made up of educators/researchers, non-profit professionals, philanthropists/foundations, and government employees/elected officials; and Social Innovators, made up of Social Entrepreneurs, non-profit professionals, and philanthropists/foundations. For these groupings, it is important to note that individuals are categorized based on the first response given to the stakeholder identification question (e.g., if an individual reports the s/he is both an entrepreneur/business professional and an educator/researcher, s/he is categorized as an entrepreneur/business professional, and not as an educator/researcher). Despite this limitation, this research is still able to glean some insights through this additional data, and all aggregate-level data remains completely unaffected.

Survey Results

In spite of the evolving interest in Impact Investing in Virginia and beyond, the Impact Investing Ecosystem in Virginia is still relatively new, with myriad perspectives on everything from how to define Impact Investing to what its primary objectives should be. Furthermore, there are a variety of organizations statewide that incorporate some facets of Impact Investing into the work that they do, with significant overlap in what role these organizations play in the broader ecosystem. There are several key findings in the survey results, which are detailed below.

Barriers to Impact Investing

In response to the question of what the biggest barrier to Impact Investing is in Virginia, survey respondents overwhelmingly indicate that a general lack of understanding of what Impact Investing is poses the largest barrier, with 66 percent of respondents citing this, including 84 percent of Social Entrepreneurs, 75 percent of foundations, and 74 percent of investors/creditors. Additionally, 49 percent of respondents indicate that a lack of coordination between stakeholders is a major barrier, with another 45 percent each citing a lack of metrics to define social and environmental impact, and a lack of accelerators and incubators.

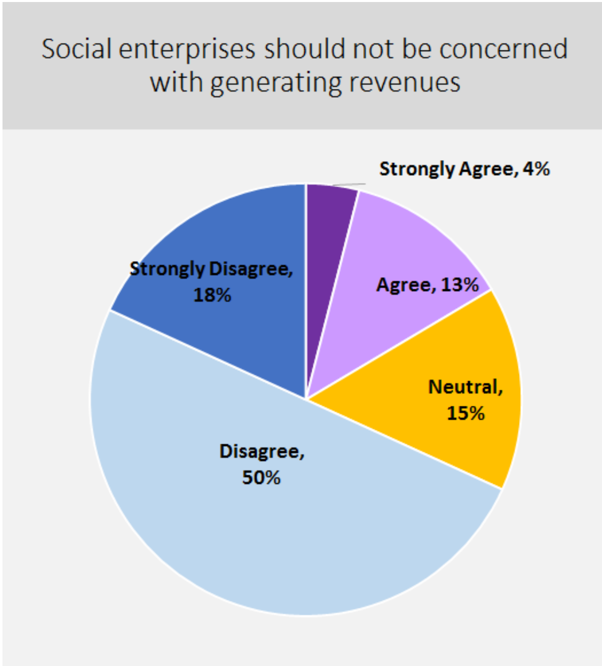
Among our stakeholder 'groupings', at the high end 83 percent of 'Social Innovators' feel that a lack of understanding of what Impact Investing is poses the main barrier, while at the low end 60 percent our ‘Entrepreneur’ group feels that the lack of understanding was the biggest barrier. Clearly, the major finding here is that Impact Investing is still a relatively new term and will need to be clearly defined moving forward.

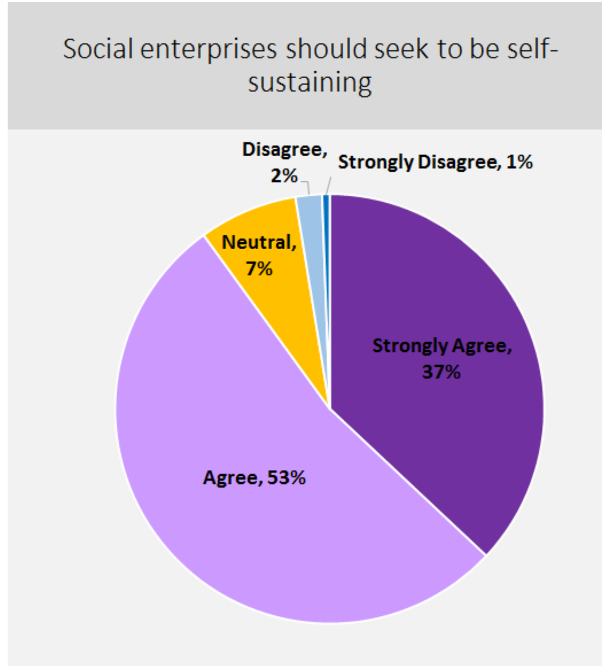
Defining Impact Investing

Considering that the largest barrier to Impact Investing is a general lack of understanding of what it is, the next key insight from the survey helps to shed light on what survey respondents believe Impact Investing *should* be. There is a surprisingly great deal of agreement among survey respondents about whether a Social Enterprise (defined as an enterprise with the intention to generate measurable social and environmental impact alongside a financial return) should focus on financial value, social/environmental value, or both. Overall, approximately 64 percent of respondents feel that financial, social, and environmental value should be valued equally, with 19 percent indicating that social/environmental value should be most valued and nearly 17 percent feeling that financial value is most important. Among key stakeholder groups, government officials are the most likely to reply that they should all be valued equally, while nonprofit professionals are the most likely to prioritize social/environmental value and investors are the most likely to prioritize financial value.

Our stakeholder groupings provide further insight into where some disagreement occurs between stakeholders, and where some key agreement also exists. Overall, the ‘Private Sector’ and ‘Entrepreneur’ groupings overwhelmingly feel that financial, social, and environmental impact should be valued equally. Meanwhile, the ‘Public Sector’ and ‘Social Innovator’ groupings are much more divided: Despite a slim majority of each grouping believing that all three factors should be valued equally, roughly one third of dissidents in the ‘Public Sector’ and ‘Social Innovator’ grouping feel that social/environmental value is most important to a successful Social Enterprise. These results are consistent with some of the tensions that are natural to occur between Impact Investors and Social Entrepreneurs, such as the debate over whether Impact Investments should target a market rate of return or whether a lower rate of return is acceptable, and the demand among Social Entrepreneurs for ‘patient capital’. In spite of this, it is also important and encouraging to note the general agreement between each of the four groupings that financial value should not be prioritized over social/environmental value in Impact Investments.

Further questions about the goals of a Social Enterprise reveal more of the same general agreement across the board: When respondents are asked whether they believe that the focus on the creation of economic value (i.e., profit) negatively affects the potential for social and/or environmental value creation within an organization, 68 percent respond that it does not, while only about 16 percent indicate that it does. Conversely, when asked whether becoming a fully self-sustaining organization through the creation of economic value (i.e., profit) is an important component of a Social Enterprise, more than 90 percent of respondents agree or strongly agree that it is, and fewer than 3 percent believe that it is not. Clearly, there is agreement among survey respondents that a Social Enterprise is not the same thing as a nonprofit organization, in that there is a need for at least some degree of financial self-reliance, and also that it is not the same thing as a traditional business, in that it should focus explicitly and intentionally on producing social and/or environmental benefit.





Overall, given these collective results, it is possible to construct a definition of Impact Investing and, relatedly, Social Enterprise, upon which the vast majority of our survey respondents would agree: "Impact Investing is an investment made into a Social Enterprise that prioritizes social/environmental impact at least as much as, and perhaps even more than, financial returns, while doing so in a financially self-sustaining way by generating revenues that exceed expenses." In fact, this definition is consistent with that of the Global Impact Investing Network's working definition as well: "Investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return."[7] Given the indication by survey respondents that a lack of understanding of what Impact Investing is poses the largest barrier to the Impact Investing ecosystem in Virginia, the high degree of agreement on what Impact Investing and Social Enterprises are, and what they are not, is somewhat surprising, yet is perhaps the most crucial finding of this analysis.

A Social Enterprise Fund

When asked explicitly to indicate what services would be most helpful in promoting Impact Investing and Social Enterprise development in Virginia, more than 60 percent of respondents cite the creation of a fund dedicated to making Impact Investments in Social Enterprises, the highest percentage of any option. Similarly, more than 47 percent of respondents indicate that more opportunities to pitch to potential investors would also be helpful. In contrast, many of the individual and group interviews and conversations with VIIF stakeholders center more on the importance of education and mentorship. Conversations with representatives from two enterprise accelerators with built-in or linked funding mechanisms, for

[7] Global Impact Investing Network: https://thegiin.org/

instance, indicate that participants in their programs generally do not cite funding as the major takeaway from the experience, but rather point to the educational and mentorship components as the most valuable parts of the experience. Interestingly, self-identified investors/creditors are more likely than any other individual stakeholder group to indicate interest in seeing a dedicated Social Enterprise fund, or set of funds, created.

In a related finding, more than 46 percent of respondents also indicate a need for a vetting process to determine what qualifies as a Social Enterprise worthy of receiving an Impact Investment; this is also consistent with the GIIN's definition of Impact Investing including *'measurable* social and environmental impact', and may also contribute to the general lack of understanding of what Impact Investing is. There are a number of such vetting metrics already in existence, including the B-Lab's B Impact Assessment[8] and GIIN's IRIS metrics[9], which are both based on the Global Impact Investing Rating System (GIIRS)[10]. While these metric systems are the gold standard for rating the social and environmental impact of Social Enterprises and Impact Investments, they are at times cumbersome and don't always apply perfectly to every Social Enterprise, as discovered through multiple conversations with founders of Virginia-based Social Enterprises who have been through the B Impact Assessment. As a result, there is some resistance to their adoption from several key stakeholder groups. Despite this resistance, our survey and interview analysis indicates that there is a need for a generally accepted vetting process among several key stakeholders; foundations, for example, need to be able to prove that Program-Related Investments (PRIs), are being properly utilized, which is difficult to do without widely accepted metrics in place.

A Shared Learning Community

Another major need survey respondents identify can be summarized as the need for a shared learning community, where various stakeholders in the Impact Investing and Social Enterprise ecosystem can come together to collaborate, share ideas, and organize themselves. Beyond the desire for a Social Enterprise fund and the related desire for a vetting process, other key resources desired by survey respondents include: Regular networking events (57 percent), a directory of stakeholder organizations statewide (56 percent), advocacy on behalf of a shared policy agenda (39 percent), conference-style seminars and workshops (35 percent), a jobs/internships board (35 percent), a regular newsletter (30 percent), and Ted Talk style talks on industry trends (30 percent).

While many of these resources are already offered by various organizations across the state (the Virginia Community Economic Network and ConnectVA.org, for instance, have an expansive stakeholder directory and, in ConnectVA's case, a jobs board), getting the word out about these resources and coordinating efforts around them can be challenging. At this time, the most crucial elements to promoting the Impact Investing and Social Enterprise ecosystem appear to be continuing to convene key stakeholders together and provide them with tools for effective collaboration, and educating the general public on what Impact Investing is and what its potential impact on Virginia can be.

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[8] B Impact Assessment: http://bimpactassessment.net/
[9] IRIS Metrics: https://iris.thegiin.org/metrics
[10] B Analytics: http://b-analytics.net/giirs-ratings

Next Steps

Educate the Public

The survey results show loud and clear that the biggest step to be taken in the coming months will be to continue to educate the general public as well as key stakeholder groups across the state on what Impact Investing and Social Enterprise are, and what they mean for our state. The good news is that, based on our survey responses, there is already a great deal of agreement on how to define these terms. Delving deeper into the terminology by establishing a measurable baseline for what constitutes a Social Enterprise worthy of Impact Investing is also a key consideration, particularly for key stakeholders such as foundations which need to show that they are being good stewards of their resources.

Cultivate a Shared Learning Community

This goal goes hand-in-hand with educating the public by engaging and convening key stakeholders and providing the resources and tools necessary to facilitate collaboration across stakeholder groups. Many such resources and tools already exist, but more coordination would be beneficial. For key stakeholder groups like potential Social Entrepreneurs and investors interested in Impact Investing, having regular and ongoing conversations, which are currently sometimes lacking, will go a long way towards developing an understanding between these two groups of what each other are looking for.

Consider Developing a Fund or Set of Funds Dedicated to Social Enterprise Development

Whether this be a separate fund altogether or a new designation within already existing funds, setting a guidepost for what constitutes a Social Enterprise, and then designating funds specifically for such enterprises will go a long way towards bringing more Social Entrepreneurs into the limelight. To do so will require an agreement on what the basic minimum qualifications for a Social Enterprise are - These need not be overly complicated nor inflexible, but should have broad agreement from the community. For instance, successfully earning B-corporation status may be one way to establish this baseline; alternatively, a representative of an area foundation suggested as a basic starting point that any Social Enterprise receiving funds from a foundation could commit some percentage of their profits (say, 5 percent) to setting up a directed fund through the granting foundation.

Conclusion

Before concluding, it is worth delving a step deeper into the tension that can sometimes arise between prospective Impact Investors and Social Entrepreneurs: In particular, Social Entrepreneurs have a tendency to prefer ‘patient capital’ versus traditional venture funding, and may desire to own their enterprises over the course of their lifetimes rather than selling in five to ten years. In contrast, investors, both individual and institutional, have a tendency to separate their philanthropic endeavors and their investment portfolio, focusing the former on social and environmental returns while reserving the latter for profit-driven motives. While neither this research paper nor the groups that sponsor it take a firm stance on the question of whether an Impact Investment should earn at or below a market rate of return, this research does suggest that key stakeholders consider this: What makes Impact Investing so exciting, so fresh, and so broadly appealing is the very fact that it is different from both traditional investing and traditional philanthropy - What makes Impact Investing a potentially disruptive economic force is that it draws strength from both sides and allows individuals and institutions the flexibility to consider something altogether new: An investment in a self-sustaining organization that seeks to solve a social problem in a manner that allows for scalability and flexibility that the nonprofit sector simply does not allow, and that the private sector generally does not prioritize. In short, it allows, and indeed helps to create and nourish, a rapidly expanding breed of innovators who refuse to be bound by the rigid lines of the traditional public, nonprofit, and private sector institution - This research therefore begs the question: Is the debate over whether market rate financial returns are necessary to Impact Investing missing the point by asking the wrong question entirely? What if instead of asking how Impact Investing fits into the existing economic and social framework, we collectively ask ourselves how it can reshape and ultimately improve that very framework? To be sure, the latter question invites more curiosity, more creativity, and more innovation - And that is the very essence of what this movement and its many stakeholders stand for.

The Impact Investing and Social Enterprise ecosystem in Virginia is still early on in its development, but there are very strong reasons to feel encouraged about its potential for growth in the coming months and years. A strong stakeholder community, consisting of government representatives from both Republican and Democratic administrations, socially motivated entrepreneurs and investors/creditors, increasingly progressive foundations, various incubators and accelerators, institutions of higher education, and a host of other organizations and individuals, provides ample reason to feel optimistic for the future.

This is not to say that Virginia doesn't face challenges in reaching our collective potential in this field, but in a rapidly changing world it is clear that we have no intention of being left behind. It is up to the various stakeholders throughout the state to come together and continue to push for a more coordinated effort around Impact Investing and Social Enterprise development - Together, we can meet that challenge head on, and help Virginia reach its creative potential.

Further Reading/Resources

- A Short Guide to Impact Investing - The Case Foundation: http://casefoundation.org/wp-content/uploads/2014/11/ShortGuideToImpactInvesting-2014.pdf
- VIIF Website: http://www.VAImpactInvestingForum.com/

A Note from the Author

Grady Hart, the Founding Director of the Virginia Impact Investing Forum and primary author of this report, works at Virginia Commonwealth University in the Division of Community Engagement and serves on the Advisory Board of the Virginia Impact Investing Forum. He welcomes feedback and invitations for further collaboration, and is best contacted via email at Hartgw@VCU.edu.