CAFIID

Canada Forum for Impact Investment and Development

STATE OF THE SECTOR REPORT 2021

Canada's time to show leadership in impact investing globally

DECEMBER, 2021

"Impact investing optimizes risk, return, and impact in an exciting investment thesis that elevates social and environmental objectives alongside financial ones. It is so much more than just dollars and cents. Impact investors intentionally choose investments that put 'people and planet' first."

PAUL LAMONTAGNE AND LINDSAY WALLACE
CO-CHAIRS, ADVISORY BOARD
CAFIID STATE OF THE SECTOR REPORT 2021

ACKNOWLEDGEMENTS

Canada Forum for Impact Investment and Development (CAFIID) is a community of individuals, organizations and investors who treat positive social and environmental impact and financial return as co-existing priorities. CAFIID members have a combined track record of innovation in structuring impact investment products, delivering technical assistance, and promoting sustainable investment ecosystems in emerging markets and developing economies.

CAFIID Report Research Team

- **Susanne Courtney**, Lead Author
- **Majid Mirza**, Survey and Analysis Manager
- **Aysha Dawood**, Project Manager

Report Sponsors

As a volunteer-led organization, this Report would not have been possible without the generous financial and in-kind support of the following organizations:

The following individuals provided valuable input in creating, managing and reviewing the survey:

Advisors

- **Pedro Alguindigue**, Data visualization Consultant
- **Charles Benoit**, Manager, Impact and Climate, FinDev Canada
- **Eileen Campbell**, Survey Consultant

Research Guidance

The Research Team would like to recognize the essential contributions of each of the Advisory Board members throughout the research process. We are grateful for the leadership of the Advisory Board Co-Chairs and Stephanie Emond, Board Chair, CAFIID.

Several individuals and associations provided valuable insights and data for the survey. We thank Lauren Dobell, the Table of Impact Investment Practitioners (TIIP), Richard Mueller, Impact United, and Mary Robinson, RIA.

ACKNOWLEDGEMENTS

Design, Translation and Digital Layout

designtoast

FinDev Canada

Global Affairs Canada

Nadia Djinnit

Advisory Board

Co-Chairs

- **Paul Lamontagne**, Associate Partner, Steward Redqueen
- **Lindsay Wallace**, Director of Strategy, Limestone Analytics and Director, CAFIID

Members

- **Faheen Allibhoy**, Managing Director, Head of the J.P. Morgan Development Finance Institution
- **Louise Blais**, Ambassador, Global Affairs Canada
- **Veronica Chau**, Director, Sustainable Investment, BCG
- **Chris Clubb**, Managing Director, Convergence
- **Elissa Golberg**, Assistant Deputy Minister, Strategic Policy, Global Affairs Canada
- **Adam Jagelewski**, Managing Partner, TwinRiver Capital Group
- **Alexandre Lazarow**, Global Venture Capitalist and Author of *Out-Innovate: How Global Entrepreneurs from Delhi to Detroit Are Rewriting the Rules of Silicon Valley*
- **Dr. Dorothy Nyambi**, CEO, MEDA
- **Gerhard Pries**, CEO, Sarona Asset Management
- **Jess Tomlin**, Co-CEO, Equality Fund
- **Barbara Zvan**, CEO and President, University Pension Plan (Ontario)

Important Reader Notes

Unless otherwise noted, all currency is reported in Canadian dollars.

Impact investing refers to investments made with the intention to generate positive, measurable, social and environmental impact alongside a financial return.[1]

References to Canada and the ecosystem refer to asset owners and advisors, intermediaries, private corporations, non-profits and foundations, and professional advisory services. Also included are institutional investors, public sector actors, financial institutions, think tanks, academics, intermediaries, professional services, and organizations providing Technical Assistance.

Please refer to the Annex for Definitions and links to Resources and Organizations relevant to the Report.

[1] The commonly used GIIN definition of Impact Investing

TABLE OF CONTENTS

PREFACE

Letter from Co-chairs of the Advisory Board

Lindsay Wallace
Co-Chair, CAFIID Advisory Board

On behalf of the CAFIID Advisory Board, we are delighted to share the State of the Sector Report 2021.

The findings and recommendations in this Report highlight the importance of impact investing as a tool to leverage entrepreneurial resilience and build back better, post-pandemic, around the globe. Despite the significant challenges resulting from the global COVID-19 pandemic, this Report indicates there is much to be optimistic about impact investing, particularly in emerging markets and developing economies.

Impact investments seek to generate positive, measurable, social and environmental impact, along with a financial return. As a community, CAFIID members believe that impact investments are critical to supporting economic growth and achieving the Sustainable Development Goals (SDGs) by fostering more prosperous, inclusive selection and management of investments. While CAFIID's focus is on emerging and developing economies, we are part of a broader continuum of sustainable, responsible investing, which incorporates environmental, social, and governance factors (ESG) into the selection and management of investments. We are pleased to note that responsible investments have boomed in recent years, in Canada and abroad.

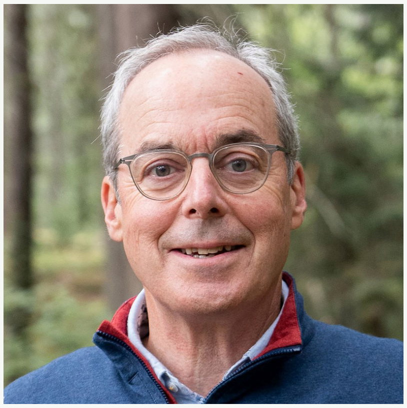
This Report confirms a 70 percent growth in Canadian impact investments to $3.5 billion since 2019. Similar to our previous 2019 report, Sub-Saharan Africa, Latin America, and the Caribbean remain the top regions for Canadian investments. Agriculture and financial services remain the top two sectors for investment while green growth, renewables, and health sector investments are increasing.

Our research also highlights some of the areas in which Canada is leading the way. For example, Canada is a world leader in gender-lens investing, which focuses on women as owners, leaders, clients and employees of businesses receiving investment. We know that when women have more resources, they invest more in their families and that investing in women accelerates progress towards the SDGs.

Almost three-quarters of survey respondents noted that they employ a gender lens to investment decisions. Canada's development finance institution (DFI), FinDev Canada, has become a leader in advancing gender-lens investing through the 2X Challenge, which saw the G7 and other DFIs mobilize more than $10 billion in investments for women-empowering businesses since 2018.

We are also pleased to see that women make up a significant proportion of those working in the impact investing sector here in Canada, which we believe will drive greater gender-lens investing into emerging markets. That said, we recognize more must be done to measure and advance diversity in terms of employment within the sector in Canada. Moving forward, CAFIID will focus more resources on understanding and promoting diversity in our sector.

As in the 2019 report, our research indicates that much of Canadian impact investment capital comes from public resources. Public and philanthropic capital is deployed to reduce risk (making the deals more attractive to institutional investors) or help companies become more sustainable, resilient, and investment-ready. The Government of Canada plays a catalytic role in funding impact investing and is a



Paul Lamontagne
Co-Chair, CAFIID Advisory Board

leading voice advocating globally for greater leveraging of public funds by other countries to attract private investment into emerging markets and developing economies. While we have seen some early interest, Canadian stakeholders can learn from other jurisdictions about how best to de-risk investments to attract institutional investors into the sector. Case studies included in the Report are intended to inspire greater engagement by Canada's large asset owners.

A growing area of importance within the sector is the role of impact measurement and new disclosure requirements for environmental reporting. While we see growing alignment with common external frameworks, particularly the SDGs, over half of respondents continue to use customized metrics. Similarly, while respondents reported a wider use of gender-lens investing, more than half of those surveyed applied customized metrics.

With growing interest in responsible and impact investing, some respondents noted concern regarding impact washing, where firms report impact but are not transparent about the methodology for measuring that impact. We hope that ongoing efforts to harmonize impact measurement and management practices and advocate for standardization, transparency, and reporting will strengthen the integrity of impact investing.

The report also notes positive movements within the Canadian social and innovative finance community. Platforms, such as the Table for Impact Investment Practitioners, reflect momentum for impact investing as a tool for transformative social and environmental investments. CAFIID looks forward to engaging with peer organizations by establishing a National Advisory Board for Impact Investing. We hope this collaboration will encourage a more conducive regulatory environment for impact investing, support standardization of impact measurement and management approaches, and educate the traditional financial community and the broader public. We are also hopeful that there will soon be accessible retail products to help more Canadians participate in impact investing in emerging markets.

This Report marks a significant step forward for CAFIID and the impact-investing sector in Canada by providing a comprehensive view of the state of the sector in 2021. However, we know there is more work to be done. We also recognize that COVID-19 has hampered progress towards the SDGs, so it is with a sense of urgency that we encourage others to work with us to help us achieve our collective climate change goals.

We would like to acknowledge our esteemed Advisory Board members who helped guide this year's State of the Sector Report. We thank them for their time and passion and recognize their critical roles in strengthening the impact-investing ecosystem in Canada and around the world.

Lindsay Wallace and Paul Lamontagne
Co-Chairs, CAFIID Advisory Board

Letter from Chair of the Board, CAFIID

Stéphanie Émond
Chair, Board of Directors
CAFIID

This is CAFIID's second landmark report on the state of Canadian Impact Investing in emerging and developing countries. While it has only been two years since the inaugural report, the sector has advanced in strides and there is much to be optimistic about. For one, despite the pandemic, the volume of Canadian investments targeting positive impacts in developing countries has grown significantly, powered by the Government of Canada's expanded development finance instruments, as well as by the continued growth of Canadian impact asset managers. In addition, the global enthusiasm for sustainable finance has highlighted the importance of preserving the integrity of impact investing, and the need for increased transparency and harmonization, as well as for additional private investments for development. All of this presents leadership opportunities for Canada, namely in gender-lens investing and impact management, and of the critical role of blended finance to catalyze private capital in developing countries.

While the report findings are encouraging, with only 8 years left to meet the Sustainable Development Goals, it has never been more urgent to scale up investments towards creating a climate resilient, gender inclusive, and economically sustainable world. We are far from the level of action and financing needed. Canada can – and must – step up its contributions to the global response required. And CAFIID is committed to being part of this, bringing the Canadian impact investing community together to:

1. Grow the ecosystem and catalyze more impact investing directed to developing economies;
2. Deepen diversity, equity and inclusion in the impact investment community and advance Canadian leadership in Gender Lens Investing; and
3. Enhance transparency and comparability in impact management to preserve and strengthen the integrity of impact investing.

When CAFIID was launched, we comprised a handful of organizations and individuals operating on the margins of the investing and development communities, convinced about the importance of private capital to address global issues,persuaded that investing to have positive social and environmental impacts could also yield good financial returns. Five years after our formalization as an association, CAFIID has grown in numbers, diversity, and strength, without losing our desire and ability to engage, collaborate and act. This is what makes us strong and what will enable us to take our sector to the next level, inspiring more investors to intentionally and measurably have positive impacts on people and the planet.

This report is the result of hundreds of hours from dozens of collaborators. On behalf of the CAFIID board, I want to extend our heartfelt gratitude to everyone who has contributed to this collaborative endeavor – in particular, our esteemed Advisory Board, the Research Team, the volunteers, the project sponsors, and all the CAFIID members who shared data, experience, and insights into their investment approaches and portfolios.

Canada can be a driving force in the global impact investing for development movement, and meaningfully contribute to building back a productive, inclusive and sustainable future. We look forward to engaging with all of you to turn this report into concrete action.

Stéphanie Émond
Chair, Board of Directors
CAFIID

Executive Summary

The 2021 Report is a compilation of survey data and interviews from Canada's impact investment community as well as outside experts active in emerging markets and developing economies. Case studies and sidebars throughout the Reports Illustrate impact investing deals and their structures.

These contributions to sustainable finance in emerging markets and developing economies have never been more urgent. The COVID-19 pandemic dramatically increased development needs, with 2020 marking the first increase in extreme global poverty (World Bank, 2020), reversing two decades of progress. The Organisation for Economic Co-operation and Development (OECD) estimates that the Sustainable Development Goal (SDG) financing gap may balloon from $2.5 trillion to $4.2 trillion, with a $700 billion year-on-year reduction of private capital inflows to countries eligible for official development assistance (ODA)[2].

Section 1 of this Report, *Sector Growth in Canada*, tracks the scale, trends and outlook for Canadian impact investing in developing countries in 2020. These investments and contributions aim to generate social, environmental, and financial returns while measuring their impact. Most investments align to one or more of the Sustainable Development Goals (SDGs). This 2021 survey builds on CAFIID's baseline 2019 Report to include both CAFIID and other Canadian, non-CAFIID investors.

[2] DFIs: the need for bold action to invest better - AADFI

In emerging markets and developing economies, Canadian impact assets under management (AUM) jumped 70 percent to $3.5 billion in 2021, up from $2.1 billion in 2019. The Government of Canada, now deploying capital to impact investments in climate risk mitigation and gender-lens investing, accounts for half of the 2021 growth. Furthermore, institutions funded by the Government of Canada are beginning to find their way. FinDev Canada, Grand Challenges Canada, the newly launched Equality Fund, and Convergence are essential players in this ecosystem.

Growth in public and private participation in impact investing in emerging markets and developing economies reflects a heightened understanding of how capital can be deployed to achieve positive social and environmental impacts – as well as financial returns. For some investors, this is not just about doing the right thing. It is also about identifying environmental and social risks--from climate impacts to labour malpractices – that can harm their company's performance or reputation.

Despite the pandemic, however, the sector is showing resilience. We are seeing more capital, more intentionality, wider adoption of impact measurement frameworks, and, notably, more players.

While Canadian impact assets under management (AUM) in emerging markets and developing economies represent a fraction of global impact investments, estimated by the IFC[3] at US$636 billion in 2020, our influence is shaping behaviours around gender-lens investing and blended finance. It is encouraging to see the sector expand with influential new investors and intermediaries such as the Equality Fund emerging. Younger players are gaining expertise, while seasoned organizations such as Dévelopment international Desjardins (DID), Sarona Asset Management, and Deetken Impact are leading the way with global co-investing networks and industry knowledge.

The Report also notes respondents' extensive global networks, suggesting that tapping into our seasoned and internationally respected advisory professionals and intermediaries is an effective gateway to onboard more Canadian capital.

Section 2 of this Report, Priming the Pump for Deal Flow, offers insights into how Canada and Canadians can mobilize additional capital to impact investing in emerging markets and developing economies. This section also highlights opportunities to engage institutional investors, needed revisions to regulatory frameworks, support for the adoption of global references on taxonomy and fiduciary duty, and the need for greater adoption of standardized measurement and reporting frameworks.

The Report concludes that mobilization of Canadian capital is on the right trajectory. More private and institutional investors are joining the impact investment movement. New players are emerging as the market matures. Intermediaries, including TwinRiver Capital, Cross-Border Impact Ventures, and seasoned advisors such as Rally Assets are launching and managing funds. Canada's most significant pension funds, including BCI, and labour-sponsored funds, such as Fondaction, are bringing new market and measurement expertise in-house.

There is momentum and a wealth of experience in Canada to grow the sector further and faster. Canada, however, continues to lag other OECD countries in capital deployed. With this Report, CAFIID is shining a light on the expertise, the leadership, the lessons, and the opportunities for Canada to grow.

Now is the time for Canada to expand investor opportunities and refresh outdated regulatory and fiduciary frameworks to mobilize institutional investors at scale, tap into retail investor interest, and encourage philanthropic and charitable organizations to participate using blended products, technical assistance, and local market knowledge and networks.

CAFIID also lays out our commitments to growing the ecosystem.

[3] Volk, Ariane, Research Analyst, International Finance Corporation, *Investing for Impact: The Global Impact Investing Market 2020*, July 2021

Despite the pandemic and the economic fall-out, Canadian Impact Investment assets under management in emerging markets and developing economies grew by more than 70 percent to $3.5 billion in 2020, up from $2.1 billion in 2019. These assets represent an impressive 18 percent of total impact assets in Canada, estimated at $20 billion[4]. This increase of impact investment dollars in developing economies reflects more investor and intermediary confidence, heightened intentionality beyond financial returns, and interest in diversifying geographic and sector portfolios.

Canada's Growing Contributions

Public Resources

By taking on risk to encourage private sector engagement, the public sector can spur innovation and additional investments. Global Affairs Canada can serve as a first-mover on opportunities seeking to create a strong demonstration effect. For example, taking a first-loss position can be an effective means to crowd in additional private capital. Guarantees and risk insurance can also promote private sector investment by reducing financial risk.

GLOBAL AFFAIRS CANADA, PRIVATE SECTOR ENGAGEMENT FOR SUSTAINABLE DEVELOPMENT, AUGUST 13, 2021

At the time of CAFIID's 2019 Report, Canada had just launched FinDev Canada, a development finance institution (DFI) with a mandate to support the growth and sustainability of businesses in developing markets. That same year, Global Affairs Canada had announced, but not yet deployed, $900 million from the International Assistance Innovation Program (IAIP). The landscape has evolved considerably since then.

- FinDev Canada has now invested its start-up capital and has received a $300 million recapitalization over three years, starting in 2023–24, from the Government of Canada. These new funds will allow FinDev Canada to build a portfolio totalling $1.4 billion. FinDev Canada is also expanding into concessional funding with 2X Canada, a $75.9 million blended finance facility that will focus on financial intermediaries. This will allow FinDev Canada to pursue riskier deals and co-invest in transactions that directly support women's economic empowerment in Latin America, the Caribbean and Sub-Saharan Africa.
- The Equality Fund is leveraging a $300 million contribution from Global Affairs Canada to build the largest self-sustaining fund for women's rights in the world into what may be one of the world's largest gender-first investment portfolios.
  Equality Fund GLI portfolio
- With financial support from the Government of Canada, Convergence is the global reference on blended finance providing research, education, deal sourcing, and collaboration.
- Global Affairs Canada is using two funds of $400 million through the International Assistance Innovation Program /IAIP and the Climate Finance Division to mobilize an expected $800 million in additional private capital.

[4] www.riacanada.ca/research/2020-canadian-ri-trends-report/ page 26t

CROSS-BORDER IMPACT VENTURES

"The health tech sector is evolving, as technology advances at a rapid pace and adoption is accelerated by innovation in the face of the global COVID-19 pandemic. However, not everyone benefits. More equitable health system access is the market failure our firm's investment approach is designed to address."

Annie Thériault and Donna Parr, Managing Partners, Cross-Border Impact Ventures

Cross-Border Impact Ventures, set to launch in Fall 2021, is one of Canada's few women-led health technology venture firms. It is partnered with Grand Challenges Canada for impact measurement and access to its global network.

A global fund, the pipeline is focused on FemTech and HealthTech. Despite its higher growth relative to the overall health sector, less than one percent of USD venture capital focuses on this sector[6]. With a blended finance structure, investors in the senior tranche of the Fund will receive a boost on venture capital IRRs[7] and 30 percent downside protection.

Private Resources

CANADA'S ECOSYSTEM IS DEEPENING AND EVOLVING

- With $171.3 billion of managed assets, British Columbia Investment Management Corporation (BCI) is Canada's eighth-largest pension fund. BCI has partnered with Dutch APG and PGGM, and Australian Super to roll out the SDI Asset Owner Platform – an artificial intelligence platform designed as a positive screen for asset owners to zero in on companies strongly aligned with the SDGs.
- Impact United, a national community of private investors working to mobilize capital for positive social, economic, and environmental impacts, launched in June 2021. Members include individuals, family offices, foundations, faith-based organizations, and other asset owners. The Table of Impact Investment Practitioners (TIIP) also launched mid-2021 working closely with Quebec-based CAP Finance. TIIP is a network of impact investing intermediaries spearheading landmark research into Canada's domestic impact investing ecosystem, including *Impatient Readiness: The State of Social Finance in Canada 2021*. The Report reviews the development of Canada's social impact investment sector and includes a database and interactive map with open-source tools for broadening and deepening understanding of the role of social finance[5] in attracting, deploying, and multiplying capital for positive change.
- Investor Leadership Network (ILN) – Created at the 2018 G-7 in Charlevoix under the leadership of *la Caisse de dépôt et placement du Québec* and Ontario Teachers' Pension Plan, and supported by the Government of Canada, the ILN is a network of 14 institutional investors working to address sustainability and long-term growth. Their initiatives include efforts to advance sustainable infrastructure, diversity in investment, and climate action. Canadian members include OMERS, CPP Investments, OpTrust and PSP.
- New players are emerging as the market matures. Intermediaries, including TwinRiver Capital, Cross-Border Impact Ventures, and seasoned advisors such as Rally Assets are launching and managing funds.
- In partnership with the Impact Management Project (IMP) and others, Rally Assets launched Impact Frontiers in Canada – an impact investor education programme for asset managers and owners looking to integrate impact into their portfolios.

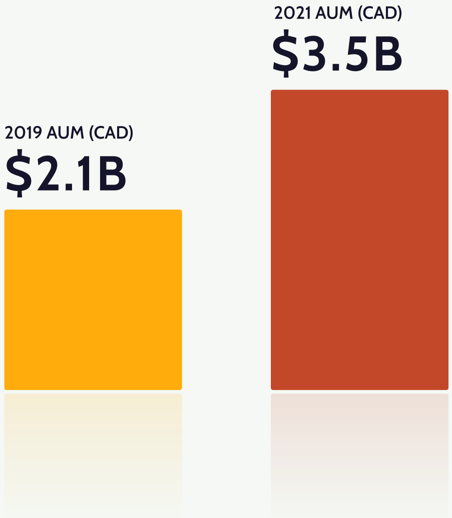
---

[5] Social finance uses standard financial tools and instruments to leverage the economic, social, and environmental value created by organizations in the non-profit and for-profit sectors or in the hybrid space between them. These organizations are usually mission-driven and seek to maximize all three forms of value. Carlton Centre for Community Innovation, Carleton University

[6] Data calculated from Clark K (Published April 3, 2019) at TechCrunch- Femtech's billion-dollar year and Mathur P. (Published July 24, 2019) at PItchbook News & Analysis: 21 charts showing current trends in US venture capital.

[7] IRR refers to Internal Rate of Return, a method of calculating an investment's rate of return. Internal refers to the fact that the calculation excludes external factors, such as the risk-free rate, inflation, the cost of capital, or financial risk. It is also called the discounted cash flow rate of return (DCFROR)

The Landscape in 2021



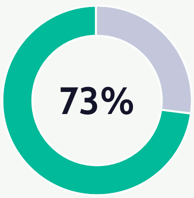
Active Canadian investors reported impact assets under management of $3.5 billion, up substantially from $2.1 billion in 2019. Half of the increase is attributed to Global Affairs Canada's $770 million Climate Finance Fund. Another $400 million in new AUM is attributed to increases by private entities and new entrants to impact investing.

Non-investing survey respondents include financial and non-financial consultancies focused on structuring and evaluating impact investments, technical assistance, partnership development, and research and public policy organizations.

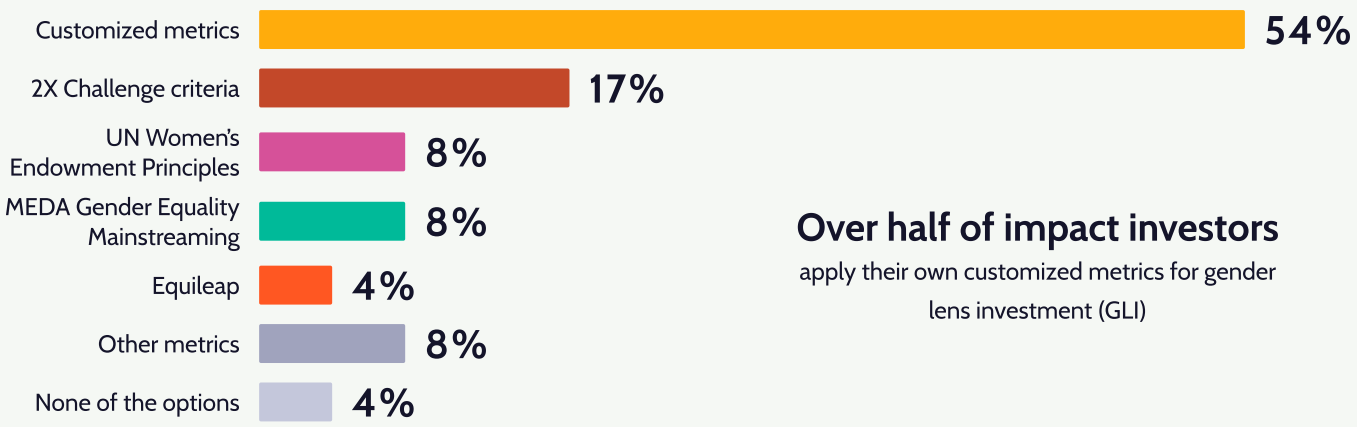
Gender Lens Investing Leadership

"A growing body of evidence suggests that identifying effective ways to support women as entrepreneurs, leaders, employees, and consumers will increase gender equity, reduce poverty, and promote more inclusive and robust economic growth. Women in the global economy today represent a growth market bigger than China and India combined."[8]

More than 70 percent of CAFIID respondents use a gender-lens investing (GLI) screen when evaluating deals, and more than half apply customized metrics for GLI. According to the GIIN 2020 Annual Impact Investor Survey, this compares favourably to global counterparts, where 56 percent of global impact investors reported using GLI screens.



Almost two thirds of impact investors employ a gender lens when evaluating deals



Over half of impact investors
apply their own customized metrics for gender lens investment (GLI)

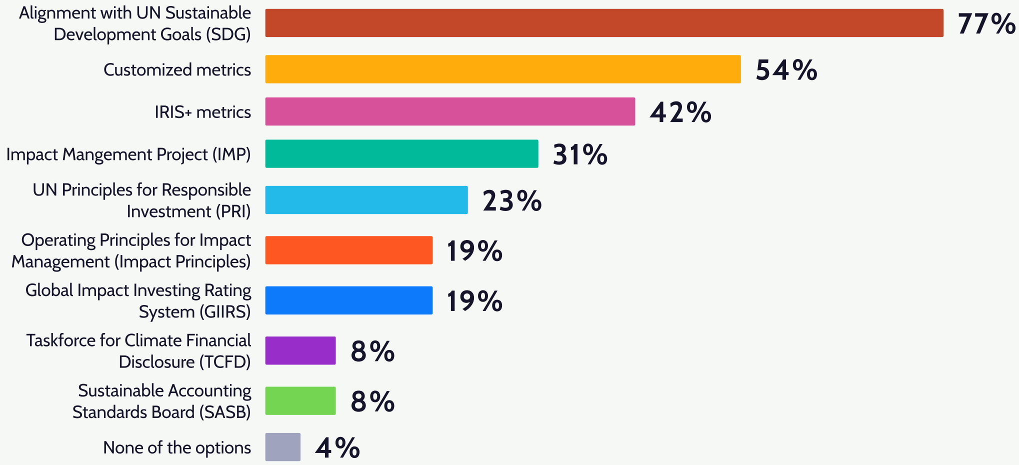
[8] 2xCollaborative

Impact Management and Measurement Frameworks

Disclosing data consistently and clearly is central to impact investing principles and investment reporting integrity. Most Canadian investors use a blend of resources to guide, manage, and report their impact. While most respondents, 77 percent, use the Sustainable Development Goals (SDGs), this is a decline from 89 percent in 2019. As of 2021, 42 percent use IRIS+[9] metrics. IMP[10] has gained significant traction with 31 percent reporting alignment, up from just four percent in 2019. Launched in 2019, five respondents use the Impact Principles[11] and, as signatories, commit to independent impact verification of their portfolios.

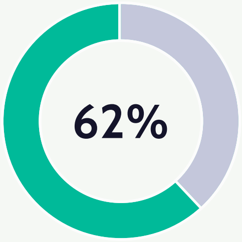
The use of customized systems by 54 percent of respondents is a sharp decline from 75 percent in 2019. Of note, these custom metrics are all either informed by, or in addition to, one or more of the external standardized systems. All respondents using customized metrics align to the SDGs. The decline in the use of customized metrics reflects the growing maturity of the sector and comfort with external standardized frameworks. This is partly linked to new requirements for environmental reporting and sector-wide progress on taxonomy, definitions, and impact-weighted accounting.

While frameworks differ, metrics and data reporting can provide investors with more options to meet their impact outcomes. However, they may also cloud data transparency and comparability across portfolios, contributing to slower sector development.



Female-Friendly Workforce[12]

Women represent 62 percent of respondent employees, compared to 47 percent[13] of women in the Canadian workforce. Women also represent 57 percent of employees of Canada's six largest banks, including 38 percent in senior management. Some of the women in leading Canadian impact investing-related organizations include Lori Kerr, Chief Executive Officer, FinDev Canada; Jess Tomlin and Jessica Houssian, Co-Chief Executive Officers, Equality Fund; Joan M. Larrea, CEO, Convergence; Dr. Dorothy Nyambi, Chief Executive Officer, MEDA; Jocelyn Mackie and Karlee Silver, Co-Chief Executive Officers at Grand Challenges Canada; and Geneviève Morin, President and CEO, Fondaction.



More than half of employees of survey respondent are women

[9] Iris+ is a free, publicly available system for streamlining data collection and reporting. It is managed by The GIIN.

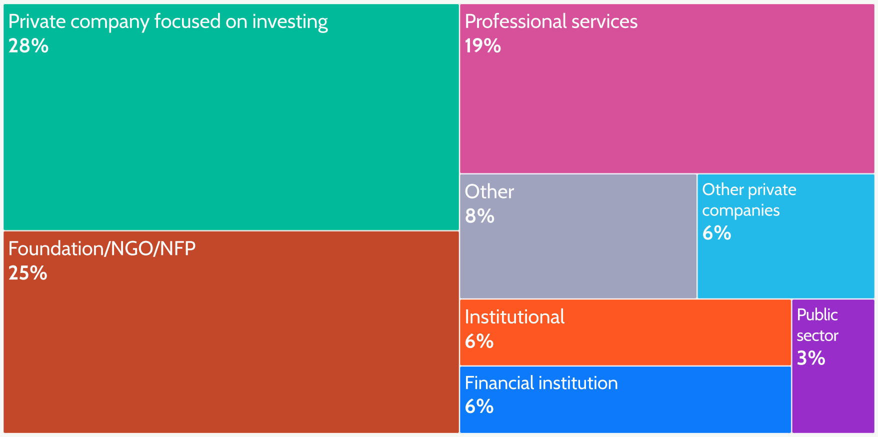
[10] The Impact Management Project (IMP) is a global forum for building global consensus on measuring, assessing, and reporting impacts by coordinating efforts to provide comprehensive standards and guidance related to impact measurement, assessment and reporting.

[11] Launched in 2019, the Operating Principles for Impact Management or "Impact Principles" are a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle. www.impactprinciples.org

[12] CAFIID will collect additional data on diversity in future CAFIID State of the Sector reports to identify and track workforce representation of Black, Indigenous and People of Color (BI&POC).

[13] Statistics Canada, "Table 14-10-0327-01: Labour Force Characteristics by Sex and Detailed Age Group, Annual," (2020).

A Diversified Ecosystem



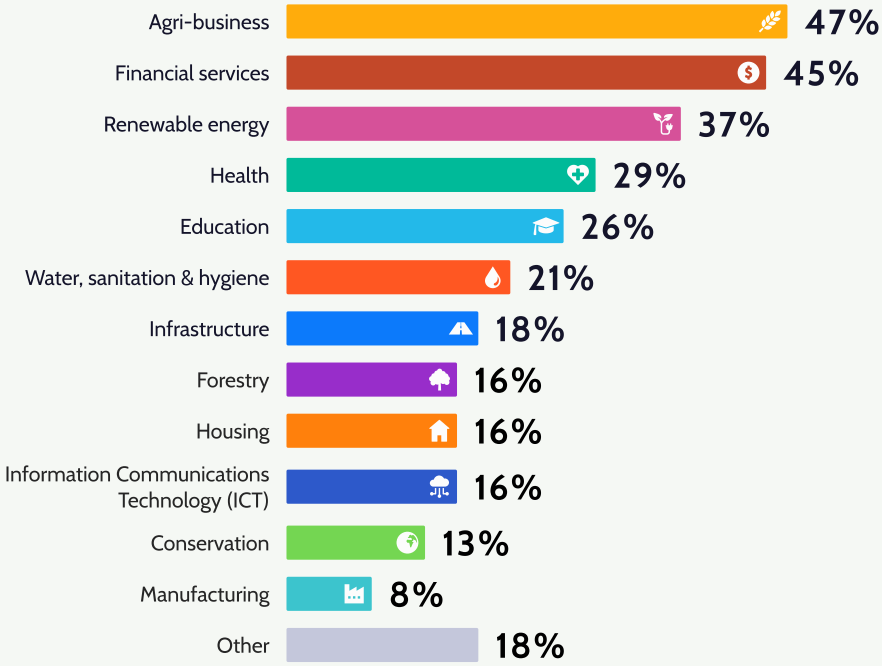
CAFIID's membership reflects a diverse group of asset owners, advisors, intermediaries and other essential individuals and organizations. Seventy percent are private corporations, non-profits and foundations, and professional advisory services. The balance includes institutional investors, public sector actors, financial institutions, think tanks, academics, intermediaries, professional services, and technical assistance organizations.

Intermediaries and advisors including Rally Assets, Akipeo, E.T. Jackson & Associates, Limestone Analytics, Delphos International/FMA, Deetken Impact, and Maple Frontiers play an essential role in navigating impact opportunities in emerging markets and developing economies. They are globally networked, sometimes supporting players on both the demand and supply sides. They structure and tailor products to the appropriate risk-return profiles, coordinate co-investments to reduce risk and transaction costs, facilitate transactions, and design, manage, and measure investment impacts. Some, including Engineers Without Borders and MEDA, work with investees to prepare for commercial investments. Others focus on investor education or regulatory frameworks.

It is worth noting that small organizations dominate the sector. More than 70 percent of respondents report having 50 or fewer full-time employees (FTEs).

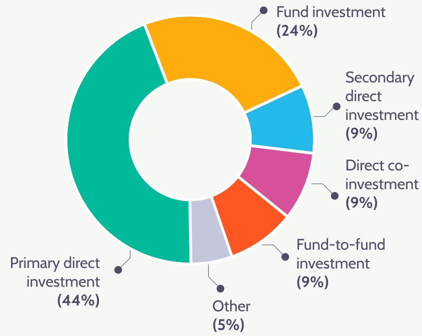
Food, Agribusiness and Financials Remain Top Investing Sectors

As in 2019, the top sectors of impact investment are food, agri-business, and financial services. Green growth[14] and renewable energy investments remain strong. Health investments are small but growing, due in part to efforts by organizations such as Grand Challenges Canada to scale up early-stage seed funding to innovative entrepreneurs.



[14] According to the OECD, *Green Growth* means fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies.

Financial Instruments



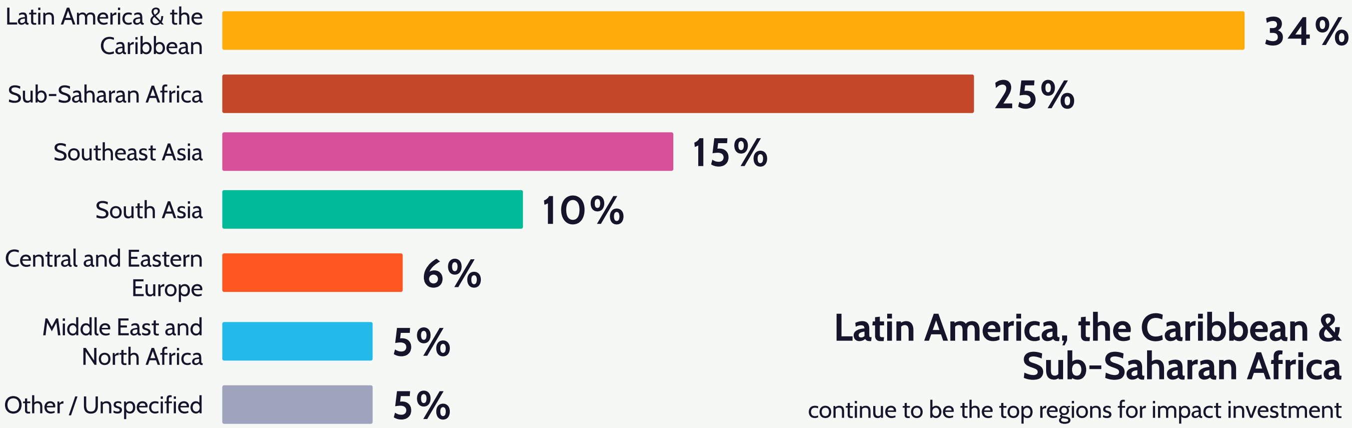
Most investment instruments are primarily direct debt and equity (44 percent) and fund investments (24 percent). Fixed income and convertible notes are also deployed less frequently.

Respondents indicated that *portfolio diversification* was the most common risk mitigation strategy, along with hedging and securitization. Currency hedging and political risk insurance are also important.

Geographic Footprint

Almost 60 percent of Canadian impact investing activity is in Sub-Saharan Africa, Latin America, and the Caribbean.

Canadian impact AUM in Southeast Asia and South Asia were 15 percent and 10 percent, respectively. Given the development needs and the economic growth potential, there is room for growth in these regions.



Latin America, the Caribbean & Sub-Saharan Africa

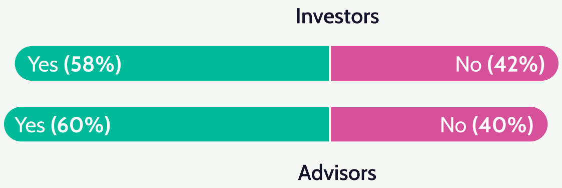
continue to be the top regions for impact investment

GLOBALLY NETWORKED/NOT SO MUCH AT HOME

Survey respondents report that only half of their investment capital is from Canadians. Given the small size of Canadian participation in impact investing in global markets, respondents have needed to establish relationships with international co-investors, intermediaries, and funders. These relationships far exceed those across Canadian organizations. More on CAFIID's network partners here.

Technical Assistance and Blending Structures Characterize Most Impact Investments

Sixty percent of impact investors use technical assistance alongside capital to scale up and prepare investees for commercial investment.



A similar percentage of impact investors and advisors work with blended instruments that leverage concessional capital to reduce risk and attract additional private and institutional investors.

Small and medium-sized enterprises (SMEs) need support, such as incubator and accelerator programs, mentorship from industry leaders and targeted government support.

Likewise, closing the infrastructure gap in emerging and developing economies requires collaboration between all financing sources – public, private, domestic, and international – on both the supply and demand side.

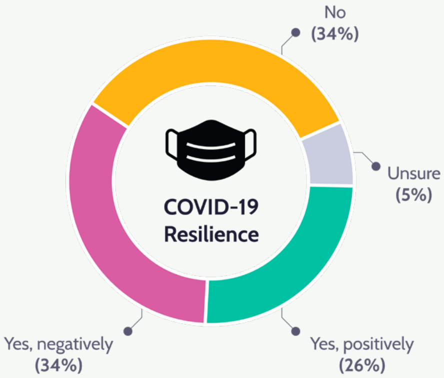
Blending structures and technical assistance provide private and institutional capital pathways to contribute to the infrastructure and SME financing gap. More on this below.

Retail Investors Still Left Out

Impact investment products that focus on developing economies are offered almost exclusively to institutional and accredited investors, with retail investors[15] left out. As noted in our 2019 report, Canada's lack of retail products is due to unresolved barriers to retail investors. Barriers include RRSP investment eligibility rules that restrict foreign holdings to securities traded on at least one of 46 exchanges considered by Finance Canada as a Designated Stock Exchange. Other barriers included limited liquidity and long hold terms (5 to 10 years) for investments.

A COVID-19 Tailwind – Portfolio Resilience

The global impact of the COVID-19 pandemic has been the defining imperative of our time. A year ago, CAFIID members braced for losses due to the pandemic and focused on providing liquidity to support existing clients.



Now, as parts of the world shift to economic recovery mode, 2020 ultimately proved to be a year of resilience for most survey respondents. Emergency liquidity facilities, patient capital, concessional finance, technical assistance, and closer collaboration among partners and co-investors were all central to protecting the resilience of investees and portfolios. Forced to shift to virtual due diligence as travel stopped, partnerships with, and reliance on, entities with local presence strengthened.

In its June 2021 Outlook, the World Bank estimated that the most tumultuous economic period in key emerging markets may have passed, with real GDP growth rates reversing to the mean. In addressing the pandemic's economic crisis, most countries implemented expansionary fiscal and monetary policies, such as extending emergency lines of credit and digitizing economic and financial transactions. For example, microfinance institutions (MFIs) in low-income countries have experienced a steady rebound in monthly lending and repayments since May 2020, with both indicators growing back at a rate nearly comparable to the initial decline in every region.[16]

---

[15] In the June 2021 Report *Expanding Access to Impact Investment*, TIIP defines retail investors as individuals with investable assets between $25,000 and $1 million. Usually, these individuals are non-accredited investors, and therefore are restricted to investments in traded securities (either directly or through funds). These investors are generally advised by financial professionals who transact investments on their behalf or manage their portfolios on a discretionary basis.

[16] Symbiotics Group 2020 Annual Report

Canada In Focus

Gender Lens Investing Leadership

"The world is changing fast, and the opportunity to translate beliefs, values and purpose in investments has never been greater. The Equality Fund believes that successful investees – public or private – look at how they treat women and non-binary people – employees, customers, and their communities at large. And we believe that we can be part of the positive market force that pushes for more of this in the investment ecosystem."

JESSICA TOMLIN, CO-CEO, EQUALITY FUND

Canada's impact investors are demonstrating leadership in propelling the gender lens investing movement in order to contribute to greater gender equality and improve the lives of women, girls and populations at risk worldwide. The 2X Challenge, launched in Canada at the 2018 G7 Charlevoix Summit and led by the G7 development finance institutions, including FinDev Canada, is mobilizing additional capital for gender lens investing.

Oversubscribed by more than double its original US$3 billion targets, the 2X Challenge set an ambitious new target to raise US$15 billion by the end of 2022.

The 2X Challenge established the 2X Criteria, which is becoming a global industry standard for gender lens investing. The 2X Criteria are now aligned with the OECD's DAC Gender Equality Policy Marker to promote further harmonization and accountability in financing for women's economic empowerment.

Building on the 2X Challenge, the 2X Collaborative was launched in July 2021 to expand gender lens investing to a broader group of commercial investors. A core partner of the 2X Collaborative is the Investors Leadership Network (ILN), 14 international institutional investors with more than $5 trillion in assets under management. Canadian members include Ontario Teachers, OMERS, CPP Investments, CDPQ, OpTrust and PSP.

Case Study: Deetken's ILU Women's Empowerment Fund (GLI and returns)

SPOTLIGHT ON A GLI PORTFOLIO

"No matter what lens you look through – ESG or DEI – there is no potential for equality without a strong focus on gender."

Alifia Doriwala, OCIO for the Equality Fund and Managing Director, RockCreek

THE EQUALITY FUND Q1/2021

Canada's Equality Fund is emerging as an important gender lens investor. While the Fund's primary investment objective is to generate sufficient returns to support grants to global feminist movements, it is investing a $300 million endowment contribution from Global Affairs Canada to build an investment portfolio that maximizes global gender impacts without trading off risk and return. Working with its fiduciary partner, Toronto Community Foundation, the goal is to mobilize co-investors in new gender-lens products across public and private markets.

Equality Fund considers asset allocations from the dimensions of impact, return, and risk. While building out exposures since December 2020, the 2021/Q1 return was more than three percent net of all fees.

Total Current Portfolio
59% global equities GLI; 33% G.L. Fixed Income at the end of Q1/2021.

The intent is to move to more investments that target maximum private equity and private debt allocations where impact outcomes can be higher.

Current asset allocations include:

1. C$25M Equality Fund RockCreek Fixed Income Strategy

(A global corporate fixed income portfolio using a 100 percent gender lens screen.)
Permissible securities are those within the Bloomberg Barclays Global Government/Credit Index and currency derivatives for hedging purposes only. No Treasury futures longer than ten years. Have created a pool of investment-grade issuers – based on Equileap Gender Data framework with an overlay of environmental metrics – companies issuing debt and able to show advancements in gender equality through the gender impact framework being used.

2. C$25M World Bank Sustainable Development Bond

Coupon 0.57% per annum, payable semi-annual
A private placement to support and create awareness regarding gender-related issues. Supporting sustainable development in International Bank for Reconstruction and Development (IBRD) member countries, financing is made solely to middle-income and credit-worthy lower-income member countries working to eliminate extreme poverty and boost shared prosperity.

3. RBC Structured Notes – Equity

i. C$65M RBC Delta Equity One Note
ii. C$20M RBC Fixed Yield Note
Index: SolactiveEquileap Global ex-APAC Gender Equality Index 100 Index NTR

4. Equality Fund RockCreek Private Debt Strategy — In progress

C$25-30M (Open to outside investors)
A custom gender-lens investment portfolio financing underserved owners and markets including a) female-led or governed businesses; b) operating companies serving markets making a positive contribution to women; c) businesses promoting job growth in underserved areas. Typical enterprise size of $25-250M, based in North America.

Target Gross IRR: 10-12%; Target Gross Multiple 1.2-1.4x

Blended Finance: Mobilizing Private and Institutional Capital

"COVID-19 has increased the annual SDG investment gap in developing economies to $3.2 trillion or higher annually. The international development community increasingly identifies blended finance solutions as key to narrowing this financing gap. Blended finance creates market-equivalent investments that meet the investment criteria and interests of institutional investors. GAC's Innovative Finance Program and new Private Sector Engagement Strategy are important developments for Canada's contributions to mobilizing bigger pools of capital."

CHRIS CLUBB, MANAGING DIRECTOR, CONVERGENCE

A majority of our 2021 survey respondents reported a blend of public and private capital in deals.

Based in Canada, Convergence is a global, member-based network of investors and sponsors focused on scaling blended finance. Convergence provides intelligence on blended finance data and deal flow along with research and case studies and learning and capacity building. To accelerate the market, Convergence also provides grants for designing blended finance deals. Blended finance-structured deals use catalytic or concessional capital[17] to attract private sector and institutional investors to investments otherwise deemed too risky.

According to a February 2021 Convergence Data Brief on Blended Finance and Institutional Investors, transactions backed by institutional capital tend to fall within larger size brackets than the overall market. Forty-two percent of all institutional-backed transactions have been over US$100 million in size (compared to 37 percent of total transactions). The median size of institutional-backed transactions is $80 million, compared to $52.6 million for the overall market.

An example of blended finance at work is Climate Investor One (CI1) (See FinDev Canada Case Study on CI1). Designed to help developing countries build climate-resilient economies, CI1 launched with USD 30 million from the Dutch Ministry of Foreign Affairs, the E.U., the Nordic Development Fund, and the United States Agency for International Development (USAID). CI1 closed in June 2019 with USD 850 million total – the balance on commercial terms from 12 other institutions.

CI1 has a unique stacked structure, tailored to finance each stage in the project's life cycle: the Development Fund, the Construction Equity Fund and the Refinancing Fund. The Development Fund provides concessionary capital for early-stage due diligence support and technical assistance to advance projects to construction financing. The Construction Equity Fund cuts out complex negotiations with multiple providers by financing for a large part of construction costs with equity, removing the need for more costly debt finance. The Refinancing Fund is a pooled operational debt facility for institutional investors.

Case Study: DID Entrepreneur Financial Centre of Tunisia

Case Study: FinDev Canada and Climate Investor One

Case Study: Fondaction & Urapi

[17] Catalytic or concessional capital refers to debt, equity, guarantees, and other investments that accept disproportionate risk and/or a concessionary return relative to a conventional investment in order to generate positive impact and enable third-party investments that would otherwise not be possible. This sometimes includes philanthropic capital as reimbursable or non-reimbursable grants.

CAFIID's Global Networks

When asked to identify their top 5 impact co-investors, partners, and clients, CAFIID's survey respondents reported more than 51 international organizations and only 11 in Canada. Given the smaller size of the Canadian market, CAFIID members have built global networks for deal sourcing, co-investing, and finding catalytic capital. These international partners represent the top global players and include bilateral development finance institutions (DFIs), multilateral development banks (MDBs), governments, foundations, institutional investors and individuals.

Given the risk profile of many developing economies, public capital can help de-risk otherwise cautious asset owners' returns. With the Government of Canada's capabilities to deploy concessional capital only *recently* established, Canadian impact investors have built strong relationships with capital providers outside the country – both commercial and concessionary. Leading co-investors and partners are American foundations, family offices, DFIs in Europe and the U.S. and foreign governments.

CAFIID members are well-placed to lead the way for new asset owners through their global networks, lending support to new entrants for capital-raising and deal-sourcing, structuring portfolios, and securing partnerships. As Canada's development finance investors gain expertise and build trust, they will also mobilize additional private Canadian capital.

AUSTRALIA'S EMERGING MARKETS INVESTMENT FUND

In July 2020, Australia's Department of Foreign Affairs and Trade selected a Canadian consortium, led by Sarona Asset Management, to manage an emerging markets impact investing Fund focused on Southeast Asia and the Pacific Islands. The consortium, which includes MEDA and Volta Capital, delivers technical assistance to SMEs and SME funds and manages funds focused on early-stage growth and financial institutions that support SMEs through lending platforms.

To scale our impact and mobilize additional capital, we must strengthen confidence and expertise in impact investing in developing economies across Canadian asset owners and managers, intermediaries, foundations, and family offices. Section 2 focuses on insights pertinent to all relevant and influencing organizations that contribute to building the sector in Canada.

Mobilizing Institutional Investors

Canada has room to grow in developing products that mobilize Canadian institutional investments at scale. Nevertheless, FinDev Canada and Global Affairs Canada are positioned to use blended finance to unlock the increasing interest of institutional investors in emerging and developing economies and the SDGs.

Canada's institutional investors, particularly pension funds, have trailed their European and American counterparts in allocating assets to emerging and developing economies. Pension funds invest pension payments from policyholders to pay for future retirement benefits. This fiduciary responsibility means pension funds face stringent restrictions on riskier asset classes. Pension fund representatives cite an inadequate understanding of emerging and developing economies and associated risk profiles, limiting their participation in impact investments in these markets. This is beginning to change as major pension funds, such as BCI and labour-sponsored funds including Fondaction, bring expertise in-house.

According to Barbara Zvan, President and Chief Executive Officer, University Pension Plan (Ontario), there are several critical gaps to address to attract pension fund participation:

- The need for better asset class data relating to ESG activity and impacts, particularly beyond private assets and green bonds;
- the need for more innovative and blended products to allow Canada's institutional investors to test and grow their expertise in emerging and developing economies at an acceptable level of risk; and
- the need for education to drive change and dispel the misconception that impact investing is concessionary.

However, better asset class data is becoming available as ESG and impact standards mature and taxonomies are updated. Establishing co-investing relationships between Canada's development finance leaders, including FinDev Canada, and institutional investors, will allay the misperceptions.

Canada's publicly funded organizations are beginning to leverage public funds in blended finance transactions. These deals play an enabling role by introducing pension funds to new asset classes and markets while minimizing their risk exposure.

Furthermore, as in other OECD DAC countries, Canadian embassies and high commissions have the potential to deploy resources, networks, and expertise in developing markets, to support and mobilize capital from institutional investors.

For example, Denmark's SDG Fund provides a best practice model for blended finance. The Fund came about after a decade of incremental relationship building. Managed by Denmark's development finance institution, IFU, pension fund investors in the SDG Fund receive a preferential return of up to six percent per annum without exposing public money to disproportionate downside losses. The Fund had an initial capitalization of USD 800 million that expanded with capital from Denmark's leading pension funds, including PensionDanmark, Pensionskassernes Administration (PKA), and Pædagogernes Pension (PBU). More on SDG Fund.

USAID's approach to Women's World Banking Capital Partners Fund II (WWBCPII)[18], a wholly-owned subsidiary of WWB Asset Management, offers additional insights into creative structuring by government development agencies of blended finance products. WWB Capital Partners Fund II, a US$ 100 million blended finance fund investing in women's access to financial services, has a layered capital structure blending first-loss equity, equity-participating debt, and technical assistance grants to attract commercial capital at scale.

[18] Sarona advised MEDA (both CAFIID members) in a $1million investment in WWBCPII.

Like Global Affairs Canada, USAID cannot act as a traditional investor in that it cannot hold equity and typically does not deploy debt. USAID INVEST, therefore, designed the Agency's first subcontract-based, first-loss investment approach – a USD 500,000 catalytic contribution to WWBCPII. USAID INVEST then structured a deliverables-based contract in which the deliverable is the Fund's successful capital raise. By supporting the Fund, USAID mitigated risk for commercial investors, incentivizing them to invest. Additionally, establishing the contract allowed WWB Asset Management to inform potential investors of USAID's commitment, thereby enhancing the appeal of the investment by way of the USAID stamp of approval.

PARTNERING WITH PENSION FUNDS – DENMARK'S SDG FUND

By minimizing risk through a preferred return and with a 40+ year impact investing track record in developing economies, IFU, Denmark's development finance institution, built relationships with the country's capital-rich pension funds over time. These relationships set the stage for the launch of the Danish SDG Investment Fund. Founded in 2018 by six Danish pension funds and IFU, it is an excellent model of government-backed blended finance to attract institutional investors to SDG investments, using a preferred return.

Managed by IFU, the pension fund partners nominate three outside members to the Investment Committee, thus ensuring continuity should the political landscape evolve. The Committee can approve deals up to USD20M. Larger deals are approved by the CEOs of the pension funds. Investments in equity or mezzanine financing are primarily in renewable energy, infrastructure, water, food, and agribusiness. Various Danish companies provide technical assistance.

The total capital commitment is about $1 billion with $600 million from Danish pension funds and private investors, $400 million from IFU, $20 million from the official development assistance (ODA) budget, and a $60 million loan guarantee from the Danish government. About half of the funds had been invested by mid-2021.

Set up as a capital fund, the expected IRR is 10–12 percent per annum with a preferred return schedule. All parties receive distributions until invested amounts are returned. Institutional investors receive a preferential upside of up to six percent. All investors then benefit from a catch-up period until all parties have received 12 percent per annum. The investment period is four years with the possibility of a 2-year extension before investments will be sold.

Founded in 1967 with a mandate to invest in developing economies alongside Danish companies, IFU has successfully tapped into pension funds' interest in emerging market exposure and public pressure for ESG-related investments. Relationships between IFU and the pension funds began in 2012 with a micro-finance fund created with Danish nurses and kindergarten teachers' pension funds. In 2014, as a precursor to the SDG Fund, IFU launched the Danish Climate Investment Fund, a public-private partnership with 60 percent Danish pension funds and 40 percent from IFU/Danish government.

Sourcing deals is a challenge for all DFIs as bankable projects are harder to find and manage without a local presence. IFU leans on its offices in Shanghai, Singapore, Delhi, Nairobi, Kyiv, Brazil, and Hanoi for local market intelligence. These offices also provide a trusted lens on the markets for pension fund co-investors.

Harmonizing Impact Management Practices[19]

"Standards are the backbone to improving impact management practices and will lead to better measurement and disclosure of data on performance. Combined with external verification and assurance, they will help guarantee that impact asset managers walk the talk."

STEPHANIE EMOND, CHIEF IMPACT OFFICER, FINDEV CANADA

The increased interest in ESG and impact investing is a positive trend. However, encouraging more private and institutional investors to contribute to the SDGs and the Paris Agreement requires common frameworks that include a robust set of standards and assurance processes to enable asset owners to understand and compare impact management performance.

These standards are important for organizations looking to raise impact capital and scale social impact. Continued efforts are needed to increase the adoption of standardized frameworks and support investors in addressing the issues related to disclosure and materiality.

In the absence of standardization and regulation, impact disclosure can be open to interpretation. The Report identifies impact washing as a significant concern to Canadian survey respondents. Furthermore, it is crucial to address the materiality of impact. In the data collection phase, investors have a significant number of deals with a large capital footprint that can be challenging to aggregate. The main concern in the analysis phase is understanding good data and benchmarking it against acceptable standards nationally and globally.

Emerging frameworks for impact investors include the Operating Principles for Impact Management and OECD-UNDP Impact Standards for Financing Sustainable Development and harmonized measurement metrics such as the Joint Impact Indicators, a subset of HIPSO and IRIS metrics, aligned with the 2X Criteria.

[19] Further Reading: Part 3 Harmonisation of Impact Management and Reporting (pg 80); Attridge, S. (ed.) (2021) 'The catalytic effects of DFI investment: gender equality, climate action, and the harmonization of impact standards: an essay series'. London: ODI

Updating Taxonomy and Fiduciary Duty

"For a long time, environmental, social, and to a lesser degree, governance factors were not considered material by many investors. With more information and knowledge on ESG factors and scientific data on climate change, our understanding of the materiality, or the impact on a company or project's financial performance, has expanded. It is becoming harder to demonstrate that ESG and climate will not impact a company…With these new factors and the language coming with them, the financial sector needs to develop and adopt standard tools such as a taxonomy."

ROSALIE VENDETTE, EXPERT IN SUSTAINABLE FINANCE, PRINCIPLE, DECODE ESG

Taxonomy

As noted, while Canadian asset owners, managers, and financial intermediaries are increasingly embracing responsible investing, impact investing remains misunderstood as 'concessionary' capital.

Definitions and terminologies in impact investing or development finance often lack clarity and are compounded by different views on impact and additionality. As organizations progress on taxonomy (definitions of data points for ESG materiality and impact-weighted accounting), financial integration and reporting of ESG materiality will become widespread, creating opportunities to expand investor understanding of and appetite for impact investing in emerging and developing economies.

Relevant classification and assessment schemes for investments and economic activities include non-financial reporting frameworks like the Value Reporting Foundation[20] and the GRI (Global Reporting Initiative).

The Value Reporting Foundation provides a suite of resources to help businesses and investors develop a shared understanding of enterprise value – how it is created, preserved and eroded. The suite of resources include: The Integrated Thinking Principles, for board and management planning and decision making; The Integrated Reporting Framework for comprehensive corporate reporting; and the SASB Standards, to inform disclosure.

The Global Reporting Initiative (GRI) is an independent international organization that develops standards for reporting on impact.

The Partnership for Carbon Accounting Financials (PCF) is also emerging as a global standard to calculate and disclose the GHG emissions of loans and investments.

Fiduciary Duty

As noted in the 2019 Report and mentioned briefly in Mobilizing Institutional Investors, there is a need for urgent and concerted action to clarify fiduciary duty if we are to mobilize to capital from Canada's institutional investors, intermediaries, and private foundations endowments to impact investments in developing economies.

While small steps have been taken, including recent changes to the *Canada Business Corporations Act* (CBSA), more work is to be done to update the concept of fiduciary duty to include stakeholders alongside shareholders. The world's leading proponent of responsible investing, PRI[21], in their Fiduciary Duty in the 21st Century report, concluded that failing to consider long-term investment value drivers in investment practice, including ESG issues, is a *failure* of fiduciary duty.

[20] In June 2021 SASB merged with the International Integrated Reporting Framework (IIRF) to create the Value Reporting Foundation (VRF). For more on the VRF, see the link in the Annex.

[21] Further Reading: See the chapter Jurisdiction Report on Canada (p.224) in PRI's A Legal Framework for Impact

EWB VENTURES

"Many sub-Saharan economies are on the verge of a dramatic transformation, with small and growing businesses exploring increasingly progressive means to kick-start significant growth across multiple sectors including smallholder agriculture, water and sanitation services, communications technology, and more. These businesses can blossom to serve millions. Their innovations can lift the collective prospects of large communities. Ventures can eliminate hunger; they can increase health education, housing infrastructure, employment opportunities, community safety, and access to basic financing. They simply need the right support. By investing capital, support and expertise, we improve the way these innovative small and growing businesses operate to help eradicate poverty and inequity."

Engineers Without Borders

Philanthropic Capital

More work must be done to encourage Canadian foundations and family offices to support impact investing. Philanthropic capital can act as a catalyst for blended finance transactions and an incubator for many impact investments. Many ventures need concessional funding (pure or reimbursable grants) to develop and refine solid business plans before moving to commercial capital raising. If philanthropic capital is repayable, it can draw from commercial capital raised.

Through their deep knowledge and extensive networks in developing economies, Canada's international non-governmental organizations (INGOs) can also play a crucial role in the early-stage development of impact investees, as we have seen with Grand Challenges Canada.

However, Canada Revenue Agency's current regulations are not conducive to programme-related investing by foundations and INGOs, such as Engineers Without Borders and MEDA, in impact investing transactions abroad. Efforts to reform the *Income Tax Act* (such as Bill S-222, the Effective and Accountable Charities Act) to enable charities to establish equal partnerships with non-charities while still ensuring accountability and transparency are important and should be continued.

Case Study: MEDA – Trading Up – Debt & Equity investments + TA

Case Study: EWB Numida Technologies, Uganda – convertible debt&T.A.

Retail Investors

Access to impact investing products abroad for Canadian retail investors continues to lag other OECD countries. As reported in our 2019 Landscape Report, registered investment eligibility rules remain a barrier to retail investor participation in CAFIID-member funds. Addressing barriers for retail investors remains a critical issue to be addressed in Canada.

CONCLUSION

The 2021 State of the Sector Report confirms that Canada's impact investing ecosystem is growing. From advisors to asset owners to intermediaries, the global networks reflect the expertise and influence of Canadian investors and organizations investing for impact in emerging markets and developing economies. While there is much to celebrate, more work can be done to mobilize additional Canadian capital and contributions to global impact investing. As a national, member-driven organization, CAFIID has embraced this challenge and is committed to advancing impact investing in emerging markets and developing economies under three themes:

1. CATALYZE IMPACT INVESTING IN DEVELOPING ECONOMIES BY GROWING THE ECOSYSTEM.

CAFIID commits to:

a. Raise awareness and promote best practice examples of impact investing and blended finance in emerging markets and developing economies through outreach and engagement with the wider impact investment community.

b. Encourage innovation and partnerships amongst Canadian players to help to deepen networks.

c. In partnership with other umbrella organizations, establish a National Advisory Board for Impact Investing for Canada to identify and address structural issues.

2. ADVANCE CANADIAN LEADERSHIP IN GENDER LENS INVESTING AND DEEPEN DIVERSITY, EQUITY AND INCLUSION IN THE IMPACT INVESTMENT COMMUNITY.

CAFIID commits to:

a. Share best practices on Gender Lens Investing through the CAFIID Community of Practice and other external forums.

b. Encourage greater diversity and inclusion in the impact investment community in Canada, starting with better data and information.

3. PRESERVE AND STRENGTHEN THE INTEGRITY OF IMPACT INVESTING THROUGH ENHANCED TRANSPARENCY AND COMPARABILITY IN IMPACT MEASUREMENT.

CAFIID commits to:

a. Encourage members to be transparent in their impact measurement methodologies and to become signatories to the **Impact Principles**.

b. Share best practices in impact measurement and management amongst CAFIID members.

c. Work in partnership with other Canadian and global organizations to advance best practices in impact management and measurement.

Methodology

Section 1: Sector Growth 2021 analyzes data collected from an online survey conducted in March/April 2021 with CAFIID members and non-CAFIID impact investors.

Section 1: Canada in Focus and Section 2: Priming the Pump for Deal Flow insights are drawn from the survey, desk research, interviews, and consultations with key stakeholders in Canada and abroad.

Section 1: Sector Growth in Canada 2021

INCLUSION CRITERIA

CAFIID's surveys are member-driven and, therefore, include a variety of organizations, including asset managers, foundations, fund managers, government-backed institutions and departments, academics, impact investors, non-profits, government entities, and independent consultants. The survey, sent to all CAFIID members and selected non-members active in impact investing in developing countries, was administered via an online data collection tool, AYTM. Several respondents completed the survey manually, and the SotS Research Team entered that data. Only Canadian domiciled organizations were included. Some organizations that completed the survey did not meet the inclusion criteria.

The Global Impact Investing Network (GIIN) definition for impact investments[22] was used for data comparability with similar global surveys. Financial instruments were screened for compliance with the GIIN definition of impact investing. Grants and charitable giving were not counted in the investment data reported. Assets under management were further screened to exclude capital invested in developed markets.

DATA COLLECTION, CLEANING AND ACCURACY

The data was visualized using the AYTM Market Research tool and M.S. Excel software. Anomalies were identified manually by project team researchers. Where possible errors, omissions, or inconsistencies were identified, the respondents were contacted for validation clarifications, and the data was corrected.

ORGANIZATION TYPES

This is CAFIID's second survey. Our 2019 survey had 30 respondents, of whom 18 were active impact investors. Of those 18, eight were repeat respondents in 2021.

Of surveys submitted, 38 were accepted as per the validation criteria. Of the 38 validated respondents, 24 are impact investors with active AUM in developing economies, 10 are service providers, and the remaining four are academics, public policymakers, and individuals.

---

[22] The GIIN defines impact investments as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. https://thegiin.org/assets/Core%20Characteristics_webfile.pdf

Section 2: Priming the Pump for Deal Flow

Section 2: Priming the Pump for Deal Flow offers insights based on findings and sector priorities confirmed through interviews, desk research, and consultation with the Report's Advisory Board and approximately 30 outside experts and stakeholders identified below:

The author thanks the many experts consulted who generously gave time and shared insights. These people include:

- **Faheen Allibhoy**, Managing Director, Head of the JP Morgan Development Finance Institution
- **Veronica Chau**, Director, Sustainable Investment, BCG
- **Chris Clubb**, Managing Director, Convergence
- **Jennifer Coulson**, Senior Managing Director ESG, BCI
- **Philippe Crête**, Principal Advisor, Alternative Investments,Fondaction
- **Narinder Dhami**, Managing Partner, Marigold Capital
- **Lauren Dobell**, Executive Director, Table for Impact Investing Practitioners (TIIP)
- **Stéphanie Émond**, VP Operations and Chief Impact Officer, FinDev Canada
- **Bonnie Foley-Wong**, former Head of Investment Strategy, Equality Fund
- **Torben Huss**, CEO, Investment Fund for Developing Countries (IFU), Denmark
- **Adam Jagelewski**, Managing Partner, TwinRiver Capital Group
- **Javed Khan**, President and CEO, Maple Frontiers Advisory
- **Paulo Martelli**, Chief Investment Officer, FinDev Canada
- **Boris Martin**, CEO, Engineers Without Borders (EWB)
- **Olivia Mooney**, Head of U.K. Policy, Principles for Responsible Investment (PRI)
- **Richard Mueller**, Senior Advisor and Peer Leader, Impact United
- **Mary Robinson**, Director, Research & Membership, RIA
- **Andrew Smith**, Director General, International Assistance Policy at Global Affairs Canada | Affaires mondiales Canada
- **Sue Szabo**, Director General, Innovative and Climate Finance at Global Affairs Canada | Affaires mondiales Canada
- **Annie Theriault**, Managing Partner, Cross-Border Impact Ventures
- **Rosalie Vendette**, Experte en finance durable at Décode ESG / Decode ESG
- **Barbara Zvan**, CEO & President, University Pension Plan (Ontario)

Abbreviations and Definitions

Accredited investor	An accredited investor is an individual, entity, or financial institution with a special financial status that enables them to invest in certain opportunities that are not legally available to ordinary investors.
AUM	Assets under management (AUM) is the market value of investments that someone manages on behalf of clients.
BCI	British Columbia Investment Management Corporation
Blended finance	Blended finance uses catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the Sustainable Development Goals (SDGs).
CAFIID	Canada Forum for Impact Investment and Development
Catalytic or concessional capital	Debt, equity, guarantees, and other investments that accept disproportionate risk and/or a concessionary return relative to a conventional investment to generate positive impact and enable third-party investments that would otherwise not be possible. This sometimes includes philanthropic capital as reimbursable or non-reimbursable grants.
CBSA	Canada Business Corporations Act
Currency hedging	A financial mechanism to reduce the risk of exchange rate fluctuations changing the value of an investment.
DFI	Development Finance Institution
Developing Economies	Refers to both emerging and frontier markets – An emerging market is a country in the process of rapid growth and development with lower per capita incomes and less mature capital markets than developed countries. A frontier market is a subset of the emerging market category, one with little market liquidity, marginally developed capital markets, and lower per capita incomes vis à vis the more developed emerging markets like Brazil and China.
Emergency liquidity facilities	A mechanism provided by the central bank to financial market participants in cases where the private market is stressed due to a financial crisis.
FMO	Dutch Entrepreneurial Development Bank
FTE	Full time employee
GAC	Global Affairs Canada
GIIN	Global Impact Investing Network (thegiin.org)
GLI	Gender Lens Investing
IFC	International Finance Corporation
ILN	Investor Leadership Network
Impact assets	Refers to financial assets that are invested to achieve a positive financial and environmental, social or governance return.

Impact Principles	The Impact Principles are a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment life cycle. The Impact Principles are scalable and relevant to all types of impact investors and sizes of investment portfolios, asset types, sectors, and geographies.
Impact washing	The practice of labeling traditional investments as impact investments or overstating the impact of certain investments to make the investment more attractive.
INGO	International non-governmental organization (INGO)
Intermediaries	A financial intermediary is an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment bank, mutual fund, or pension fund.
IRR	The internal rate of return (IRR) is a metric used in financial analysis to estimate the profitability of potential investments.
IRIS	Impact Reporting and Investment Standards
Institutional investors	An umbrella term for larger-scale investments by professional portfolio and fund managers who might manage a mutual fund or pension fund.
MDB	Multilateral development bank
Mezzanine financing	A hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default, generally, after venture capital companies and other senior lenders are paid.
MFI	Micro-finance institution
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OECD/DAC	OECD Development Assistance Committee is a forum of many of the largest providers of aid.
Patient capital	Patient capital is another name for long term capital. With patient capital, the investor is willing to make a financial investment in a business with no expectation of turning a quick profit. Instead, the investor is willing to forgo an immediate return in anticipation of more substantial returns down the road or greater impact.
PRI	Principles for Responsible Investing
Responsible investing	Is a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.
Retail investor	An investor that buys and sells securities in small quantities on behalf of individual clients.
SDGs	United Nations Sustainable Development Goals
Securitization	The conversion of an asset, especially a loan, into marketable securities, typically for the purpose of raising cash by selling them to other investors.
SME	Small and medium enterprise
Technical assistance	Support and training provided to intermediaries, investees or their end clients such as the owners of small firms to help them improve their operations and impact.
USAID	United States Agency for International Development

Resources, Key Organizations and Further Reading

IMPACT MANAGEMENT AND MEASUREMENT FRAMEWORKS

2X Criteria

DAC Gender Equality Policy Marker

Equileap Gender Data framework

Global Reporting Initiative

Impact Management Project (IMP)

Impact Principles

Impact Weighted Accounts Project, Harvard Business School

IRIS +

OECD-UNDP Impact Standards for Financing Sustainable Development

Principles for Responsible Investing (PRI)

Solactive Equileap Global ex-APAC Gender Equality Index 100 Index NTR

GLOBAL CORPORATE REPORTING STANDARDS

International Financial Reporting Standards Foundation (IFRS)

International Integrated Reporting Framework (IIRF) & Sustainability Accounting Standards Board (SASB)

International Sustainability Standards Board (ISSB)
On 3 November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board–the International Sustainability Standards Board (ISSB) - to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

Value Reporting Foundation
(founded in 2021 in a merger of SASB and IIRF)

FURTHER READING

2020 Annual Impact Investor Survey. GIIN, June 2020.

2020 Canadian RI Trends Report. RIA, November 2020

Blended Finance & Institutional Investors. Convergence, February 2021.

Canadian Impact Investing in Emerging and Frontier Markets. CAFIID, 2019

The catalytic effects of DFI investment: gender equality, climate action, and the harmonization of impact standards: an essay series. Part 3 Harmonisation of Impact Management and Reporting (pg 80); Attridge, S. (ed.) (2021).

Developing Finance Definitions and Taxonomies. OECD, October 6, 2020

Expanding Access to Impact Investment. New Market Funds, Government of Canada, June 2021.

Fiduciary Duty in the 21st Century. Principles for Responsible Investing (PRI).
This PRI report clarifies investor obligations and duties (known in common law markets as fiduciary duties) in relation to the integration of environmental, social and governance (ESG) issues in investment practice and decision making.

Global Economic Prospects. World Bank, June 2021.

How can grant funding be used to support blended finance initiatives? Guarantco, June 2021.

A Legal Framework for Impact Jurisdiction Report on Canada (p.224). Principles for Responsible Investing (PRI), 2021.

Private Sector Engagement for Sustainable Development. Global Affairs Canada, August 2021.
Describes an approach to broaden and deepen Global Affairs Canada's engagement with the private sector in Canada and overseas through international assistance policy and programs.

Three takeaways from OECD's Private Finance for Sustainable Development Week. Convergence Blog, February 6, 2020.
The role of pension funds in financing sustainable development.

Updated estimates of the impact of COVID-19 on global poverty: Looking back at 2020 and the outlook for 2021 World Bank Blogs, January 2021.

ESG Investing: Practices, Progress and Challenges, Boffo, R., and R. Patalano (2020), OECD Paris,

CASE STUDIES

CASE STUDY

Deetken Impact: Advancing gender equality in Latin America and the Caribbean

Name of Organization:
Deetken Impact

Name of Project:
Ilu Women's Empowerment Fund & T.A. Program

Investment or Technical Assistance (T.A.):
Debt and Technical Assistance

Region:
Latin America & the Caribbean

Sectors:
SME Financing, Women entrepreneurship, healthcare, renewable energy, education, and affordable housing

Key Impact Focus & Measurement Frameworks:
Gender scorecard and four gender lenses: women in leadership, value chain equity and advocacy, products and services that benefit women and girls, and workplace equity

Deetken Impact manages the Ilu Women's Empowerment Fund to advance gender equality in Latin America and the Caribbean. Ilu's gender lens investing strategy focuses on integrating gender-based factors into investment decisions through four gender lenses. To complement this strategy, Deetken and its partner Pro Mujer launched a program with the support of USAID to advance gender-smart business practices in the region through three main components: incremental capital, technical assistance, and knowledge dissemination. Key to this program is supporting companies in the fund's portfolio with customized technical assistance to improve their business while advancing gender equality in their communities.

A RUN-OF-RIVER HYDRO PROJECT IN HONDURAS IS EXPLORING THE INTERSECTION OF GENDER AND RENEWABLE ENERGY

Renewable energy projects can impact communities through sustainable social and environmental initiatives. By introducing gender-sensitive practices, not only internally, but in how they engage with the community, they can amplify the positive impacts on women while strengthening relations to ensure operational success.

SOLUTIONS FOR FEMALE ENTREPRENEURS IN PANAMA

Women face unique challenges in their entrepreneurial journey. The financial institution is developing a holistic solution to address these challenges by designing a financial product and non-financial services based on gender-centric market research and a design thinking approach.

CASE STUDY

Deal or T.A. Program Size ($):
US$35M Investment Fund and US$1.3M in T.A.

Instruments Used:
Senior & Subordinated Debt

Investment product type/offering:
Offered to: Accredited investors, family offices, foundations and institutional investors

Expected IRR and Impact:
6% expected annual return on L.P. Units.

Impacts generated to date include:
- 590,725 people have accessed financial inclusion solutions (81% are female)
- 243,837 people have received health services in the past 12 months
- 273,737 people have received financial or literacy training in the last 12 months
- 2,349 full-time jobs for women
- Enough renewable energy is generated to power 111,018 households per year

Investment/T.A. Program Dates and Term:
Life of the Fund: 2016–2026
T.A. Program: January 2021 to June 2022

CASE STUDY

Développement international Desjardins (DID) Putting blended finance at the service of micro and small entrepreneurs

Name of Organization:
Développement international Desjardins (DID)

Name of Project:
Entrepreneur Financial Center (EFC) of Tunisia

Type of Investment + Grant Funding:
C$3.2 million (equity and short-term debt); $6.0 million (technical assistance))

Country and Region:
Tunisia (the Middle East & North Africa)

Sector/s:
Financial services / MSME finance

Key Impact Focus and Primary Metrics:
- 237 employees (48% women)
- 7 300 client entrepreneurs (21% women)
- CAD33 million loan portfolio (74.4 million Tunisian dinars)
- Average outstanding loan: $6,012
- 50% female board representation

"Having access to financial services is gratifying for a woman entrepreneur as she feels she has support and guidance through the various stages of her business's evolution."

HOUDA BOUAFIA, EFC CLIENT ENTREPRENEUR

According to the World Bank, more than half the businesses in Tunisia have insufficient access to financial services, which motivated Développement international Desjardins (DID) to set up an Entrepreneur Financial Centre (EFC) in the country.

For the past 50 years, Développement international Desjardins (DID) has worked to boost the economic autonomy of disadvantaged populations living in developing and emerging countriesthrough technical assistance and impact investment aimed at promoting financial inclusion and education.

CASE STUDY

One of five Entrepreneur Financial Centers (EFC) set up by DID as an investor and operator, EFC Tunisia is a compelling example of the power of blended finance. The EFCs target improved access to secure and affordablee financial services for entrepreneurs operating micro and small enterprises, supporting job creation and poverty reduction. A $2.5 million CAD (equity) and $0.7 million debt commitment from DID and $6 million CAD from Global Affairs Canada (GAC) for technical assistance offered an exceptional leverage effect that allowed EFC to raise an additional $32 million from other public and private investors and lenders. The wide-ranging technical assistance funded by GAC and provided by DID included the onsite deployment of three full-time managers, developing and carrying out different training programs, risk management, governance, credit processes, internal policies and I.T. system implementation.

Set up in 2015, EFC Tunisia is now entirely managed by a local team. Commitments to gender equality and environmental risk management are spelled outembedded in written policies and strategies. The organization even also conducted climate vulnerability analysis of its loan portfolio and put together developed an innovative strategy to support female entrepreneurship, including a mentoring program and leadership training. The EFC also integrated digital services combining artificial intelligence and credit scoring. In January 2021, the EFC established the DAAM foundation to cover the needs of entrepreneurs,, particularly women.

Open to accredited and institutional investors and managed by DID, EFC is a joint investment between DID capital and the Desjardins Fund for Inclusive Finance (DFIF). DID was involved in attracting debt investors into the EFC.

Deal and T.A. Program Size ($):
- Debt: $0.7 million
- Equity: $2.5 million
- TA: $6 million

Instrument/s Used:
Equity and short-term debt + TA

Expected IRR:
10% expected IRR

Investment Term:
Exit in 2024 in line with the life of the FDFI fund

CASE STUDY

Engineers Without Borders Canada (EWB) and Numida Technologies

Name of Organization:
Engineers Without Borders Canada (EWB)

Name of Project:
Numida Technologies

Type of Investment and Technical Assistance (T.A.):
Convertible debt and in-kind T.A.

City, Country:
Kampala, Uganda

Sector/s:
FinTech, Micro-Finance Institution (MFI)

Measurement Framework and Primary Metrics:
Bespoke metrics based on Theory of Change:
Gender disaggregated new customers, repeat customers, size of loans, repayment rate.

Numida is a digital microfinance institution based in Kampala, Uganda. EWB was their first institutional investor and delivered venture co-building support consisting of 12 full-time support staff embedded within their management team since 2016 for an average of 12 months at a time.

Numida started with a bold ambition to unlock capital in Uganda for micro and small businesses that are financially excluded. It designed a mobile application that allows small business owners to keep digital records of their transactions. Through the app, Numida provides immediate, unsecured working capital and growth capital loans.

Since 2017, they have disbursed about $3.6 million in unsecured credit to 4,800 businesses. Their client base is 33 percent female, with an average loan size of less than $200.

The pandemic lockdown hurt Numida's clients, but given their digital platform, Numida was able to get real-time feedback from shop owners' experiences. They extended loan repayment schedules at no penalty to users in lockstep with government lockdowns and designed a back-to-business package for when lockdowns were lifted. Numida acted with integrity, courage and commitment to impact – putting their clients' welfare first – when other MFIs focused on collecting repayments.

Numida earned strong customer appreciation in 2020 and has shown significant growth since. In early 2021 they succeeded in closing a US$2.3M seed round led by MFS Africa.

CASE STUDY

Deal or T.A. Program Size ($) T.A. + seed capital at a cost:
~US$190,000 total

Instrument Used:
Convertible debt, in-kind T.A.

Expected IRR and Impact:

- Expected IRR: ~65%
- Current impact: ~2,500 current small business owners, ~30% women, accessing unsecured business loans and digital business performance tracking
- Achieved product-market fit means the existence of a new inclusive mobile banking product in the Ugandan market

Investment/T.A. Program Date:
Started in 2015

CASE STUDY

FinDev Canada and Climate Investor One (CI1): Financing renewable energy projects from development to operations

Name of Organizations:
FinDev Canada and Climate Fund Managers

Fund Manager:
Climate Fund Managers, a Netherlands-based joint venture between FMO and Sanlam InfraWorks, part of the Sanlam group of South Africa.

Donors:
European Union, the Green Climate Fund, USAID via Powerafrica, the Nordic Development Fund and the Dutch government

Investors:
FinDev Canada, FMO, NWB Bank, MJ Pensjon, Atradius, African Development Bank, NDF, AEGON, Atradius, Swedfund, Triodos Bank,

Name of Project:
Climate Investor One

Investment (Debt/Equity) or Technical Assistance (T.A.):
Fund Equity Investment and T.A.

Region:
The fund is incorporated in The Netherlands. Up to twenty projects across Africa, Asia and Latin America.

Sector:
Renewable Energy

Key Impact Focus:
Climate Change Mitigation

Climate Investor One (CI1) is a blended finance investment facility that aims to bring more renewable energy capacity to developing markets responsibly and inclusively by facilitating early-stage development, construction financing, and refinancing of renewable energy projects across Africa, Asia, and Latin America.

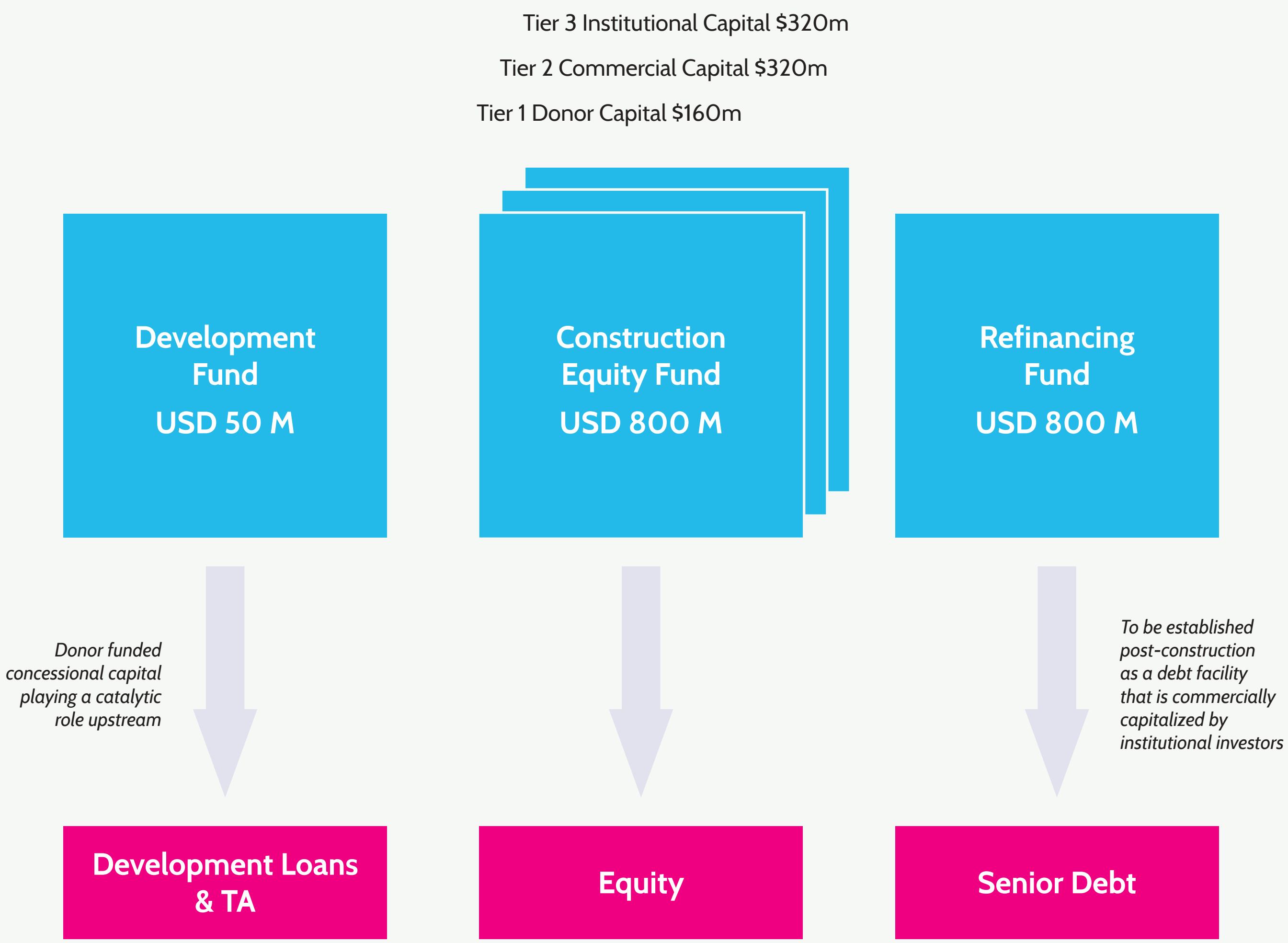
CI1 will finance up to twenty 20 onshore wind, solar, and run-of-river (hydroelectric) projects, typically ranging from 25 to 100 MW. Up to ten 10 percent of investments could be directed towards geothermal, energy from waste, or biomass projects.

A first-of-its-kind structure, CI1 comprises three distinct but interlinked funds: 1) the Development Fund (US$50 million); 2) the Construction Equity Fund (US$800 million); and 3) the Refinancing Fund (US$800 million), each tailored to finance a stage in the renewable energy.

The US$50 million Development Fund is capitalized by donors to provide concessional loans and technical assistance for project preparation. The USS800 million Construction Equity Fund is a vehicle with three tranches of capital: Tier 1 capitalized by donors provides first loss protection, Tier 2 comprises commercial capital from DFIs and banks. Tier 3 is capitalized by institutional investors on fully commercial terms. Finally, the Refinancing Fund will be established post-construction as a commercial debt facility capitalized by institutional investors.

This unique structure enables CI1 to bring renewable energy projects from the development stage through construction and operations and mobilize funders from development organizations to commercial investors by offering a variety of risk and return options.

CI1 combines donor funding for the development stage of projects with DFI investments, export credit agency guarantees and private-sector capital for the construction and refinancing stages.



Deal or T.A. Program Size ($):
US$1.6 billion Investment Funds and US$50 million in development loans and T.A. grants

Instrument Used:
Equity, debt, guarantees and development loans and T.A. grants

Investment product type/offering:
Equity and senior debt offered to DFIs and institutional investors

Expected/Actual IRR or Expected/Actual Impact:
N/A

Investment/T.A. Program Date and Term:
Life of the Fund: 2019–2029

CASE STUDY

MEDA and Trading Up

Name of Organizations:
Mennonite Economic Development Associates (MEDA), Global Affairs Canada (GAC), Sarona Asset Management (Sarona), and The University of Waterloo (U.W.)

Name of Project:
Trading Up

Type of Investment and Technical Assistance (T.A.):
Investment (Debt and Equity) and T.A.

Region:
OECD-DAC ODA eligible countries: least-developed, low income and lower-middle-income countries (e.g. Ghana and Kenya)

Sector/s:
Retail and trade; food and beverage; agricultural production and processing; services; and manufacturing.

Key Impact Focus and Primary Metrics:
Capital raised; number of SMEs financed; jobs created; jobs supported; number of smallholder farmers' economic well-being.

Small- and Medium-Enterprises (SMEs) play a significant role in advancing trade, boosting economic growth and reducing poverty. Trade finance, also known as working capital or short-term financing, is the foundation and for many SMEs and enables SMEs to:

- Buy needed materials to fulfill orders
- Finance unpaid accounts receivable that can leave small companies hamstrung
- Smooth cash flows and;
- Pay employees and suppliers faster

According to research commissioned by Trading Up, global unmet global demand for SME trade finance totals $150 billion in developing markets, with $37 billion in low-income and least developed countries.

Trading Up uses Investment, Technical Assistance (TA) and Research to improve household economic well-being for women and men employees and smallholder farmers (SHFs) through by advancing supporting trade and economic growth of SMEs across Africa, Asia, and Latin America.

The Project is a blended finance partnership initiative implemented by MEDA, with contributions from Global Affairs Canada (GAC), and in partnership with Sarona Asset Management (Sarona) and The University of Waterloo (U.W.).

MEDA is responsible for overall project implementation and leading the T.A. to trade finance intermediaries, SMEs and SHFs. GAC is the Project's international donor partner and seed investor of Trading Up. Sarona is responsible for the investment component and managing the Sarona Trade Finance Fund (STFF), which invests in 10 trade finance intermediaries (TFIs) that on-lend to 5,000 SMEs worldwide.

The University of Waterloo's role is to perform critical research which that identifies those components of investment and T.A. which have with the highest impact on local economic development and low-income households. Those components can be shared with the industry at large.

CASE STUDY

In the Project's T.A. component, MEDA and U.W. are building the capacity of TFIs on Gender Equality (G.E.)/Environment, Social, and Governance (ESG)/Impact Measurement & Management (IMM) considerations to maximize development impacts.

Since Project inception, four (4) TFIs and one (1) SME have received capacity-building support, – including robust needs assessments, coaching, and an action plan development, – demonstrating enhancements in the adoption of GE/ESG/IMM. Enhancements include becoming 2X Challenge eligible, adopting Women Economic Empowerment as part of their impact themes, building in-house capacity by hiring impact-dedicated staff, and completing MEDA's Gender Equality Mainstreaming (GEM) assessment.

Deal and T.A. Program Size ($):
CAD 19.5M (includes seed capital of CAD 15M and T.A. Programming of CAD 4.5M)

Instrument Used:
Fund of funds (offered to private investors)

Expected IRR and Expected Impact:
- Net return to commercial investors (Series A): Targeting 6 to 8 % IRR
- Investments in 10 Trade Financing Intermediaries
- 5,000 SMEs benefited from investments
- Creation of 7,500 jobs
- 15,000 jobs supported
- 10-12 farmer associations/portfolio companies benefitting from matching grant support
- Ten thousand small farmers benefiting from the Program

Investment/T.A. Program Terms:
Investment: 2017-2032, tenure of catalytic contribution
T.A. Program: 2017-2024

CASE STUDY

Fondaction and EcoTierra: Working with small farmers on responsible land use and sustainable agriculture in Peru and Colombia

Name of Organization/s:
ECOTIERRA

Name of Project:
Urapi Sustainable Land Use Fund

Type of Investment:
Debt and Equity

Region:
Latin America

Sector/s:
Agroforestry, Coffee and Cocoa, and others

Key Impact Focus and Primary Metrics:
Number of producers involved
Number of converted hectares
Number of hectares conserved
Tonnes of CO_2 sequestered

ECOTIERRA is an agroforestry project developer and operator. Its mission is to work the deforestation and poverty cycle of many forest frontier areas dominated by smallholder agriculture.

ECOTIERRA created the Urapi Sustainable Land Use Fund to break the deforestation and poverty cycle of many forest frontier areas dominated by smallholder agriculture.

Urapi Sustainable Land Use Fund was created to work over the long-term with producers and cooperatives as equal partners versus working with beneficiaries in the context of a 3-5 year project that goes beyond certification to integrate multiple solutions at all stages of the value chain from financing for farmers, production of inputs, technical assistance to increase quality and productivity, diversification of revenues, accessing carbon finance by cooperatives, and commercialization of products with higher value.

The fund will invest in four projects designed and operated by ECOTIERRA. There are currently two active projects in Peru and Colombia.

The projects combine diversified activities and revenue streams, including:

- Micro-credit for land use transition to sustainable agroforestry
- Value-chain reinforcement (infrastructure and sales of commodities)
- Carbon impact monitoring through VCS certified projects

FUND STRUCTURE:

Urapi is the investment vehicle, i.e., a fund structured as a limited partnership (L.P.) that channels the investment of various L.P.s such as Fondaction. To date, the fund has reached US$ 40 million in commitments. Fondaction's commitment is US$5 million.

The General Partnership (G.P.) is co-owned by ECOTIERRA and Fondaction, and ECOTIERRA manages the day-to-day activities of the fund. ECOTIERRA is therefore responsible for managing the G.P., including selectingand managing the various investments on behalf of the fund.

Deal Size ($):
Currently at US$40.2 million with a target of US$50 million for the second closing

Instrument Used:
Debt and equity

Expected Impact:
- 300% income increase for coffee producers
- 25,000 hectares reforested
- 400,000 hectares conserved
- 7,300,000 tonnes of $CO2$

Investment Term:
15-year fund

CAFIID

Canada Forum for Impact Investment and Development

www.cafiid.ca