


CANADIAN IMPACT INVESTING IN EMERGING AND FRONTIER MARKETS

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CAFIID

Canada Forum for Impact Investment and Development



The report is based on self-reported data collected in January and February 2019 from CAFIID members, followed by a desk review to validate the responses. Thirty of 55 organizations who were members as of January 2019 responded to the survey. As a result, the findings are illustrative of CAFIID members rather than representative. Eighteen respondents actively manage impact assets and answered questions related to investment activity. This is the first time this survey was conducted. As CAFIID membership grows and the data is updated, we expect subsequent reports to capture richer data for analysis from a larger group of respondents.

Recommendations in PART II flow from the survey, from a whiteboard session with members held in December 2018, and from individual interviews with members and industry experts. Recommendations, endorsed by the CAFIID board of directors, might not represent each individual member's views.

The report was written and edited by Eugene Ellmen and Susanne Courtney. CAFIID thanks Eugene and Susanne for their outstanding work on this project, without which this report would not have been possible. This project was led by CAFIID's vice chair, Stephanie Emond.

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Photo credits: AHL Ventures, FinDev Canada, MEDA, Sarona Asset Management, Twiga Foods, Rent-To-Own Zambia, Women's World Banking.

Preface

We are pleased to share the Canada Forum for Impact Investment and Development's (CAFIID) first **Report on Canadian Impact Investing in Emerging and Frontier Markets (EFM)**: a ground-breaking review of the Canadian impact investing landscape for international development – the volume of assets under management (AUM), the players, their strategies and the products. The report also offers prescriptions for much-needed change to advance Canada's corporate and financial market contributions to achieving the Sustainable Development Goals (SDGs) and the Paris Agreement on Climate Change.

It is clear that without additional capital, we cannot address global poverty, income inequality, gender discrimination, climate change and the many other challenges to global development. Impact Investors recognize the power of financial markets to drive social and environmental solutions to the most pressing development challenges the world faces today. We are encouraged by those business leaders who are beginning to acknowledge the need to challenge decades-old norms that prioritize shareholder returns.

Canada lags behind other OECD countries in investing for impact. We hope this report challenges us to fundamentally rethink expectations around the responsibilities of business and finance in society in order to increase capital invested purposefully to align investment returns with social and environmental impacts. This report calls for fundamental changes to the regulatory and other frameworks necessary to give Canadians the options they want to make positive impacts with their investments.

With a history dating back to the early 1950's¹, impact investing by Canadians in emerging and frontier markets is seeing a surge of interest attributable in part to several significant factors including:

- A rapidly shifting market of Canadian investors (see RIA 2018 Trends Report) who are examining the role their investment capital can play alongside financial returns towards building stronger, greener communities, fostering the growth of small and medium- sized business, creating meaningful jobs for, and by, women;
- Growing social entrepreneurship is creating social and environmental business opportunities for Canadians and non-Canadians in EFM;

- The 2018 launch of **FinDev Canada**, Canada's first development finance institution (DFI);
- Early adoption of the IFC's **Operating Principles for Impact Management**, including by four CAFIID members², promises much needed standards to harmonize the management of impact investments;
- Global Affairs Canada's 2019 launch of the \$300 million Gender Equality Fund and the \$870 million **International Assistance Innovation Program** mark the federal government's most significant commitments to stimulating private capital investments aligned with its Feminist Foreign Assistance Policy (FIAP) and the global SDGs;

As you will see in the report, the time is here for Canadians to increase our contributions, leadership and participation in impact investing in emerging and frontier markets. We hope this report will stimulate a deeper, more informed conversation of where we are, where we want to go and what we need to do to get there.



Serge LeVert-Chiasson
Chair, CAFIID



Stéphanie Émond
Vice-Chair, CAFIID



¹The first example of impact investing with intentionality that we know of was in 1053 when Kitchener-based MEDA invested in Sarona Dairies, a Paraguayan dairy farm that sought to provide sustainable jobs and livelihoods for Mennonites fleeing Europe after the Second World War and their indigenous neighbours in the Chaco region. There may be others that we have not documented.

²The four Canadian early adopters of the principles include FinDev Canada, Cordiant Capital, Sarona Asset Management and Origin Capital (part of World Vision Canada).

TABLE OF CONTENTS

- 
- 04** Executive Summary
 - 08** Part 1: Canadian Impact Investing in Emerging and Frontier Markets: The Investor Profile
 - 16** Part 2: Growing Canada's Participation in Impact Investing in Emerging and Frontier Markets
 - 24** Case Studies
 - 31** Appendices
 - A. Methodology
 - B. Organizations Consulted
 - C. Participants in Whiteboard session
 - D. Abbreviations and Definitions
 - E. Further Reading

Executive Summary

The Canada Forum for Impact Investment and Development (CAFIID) 2019 Report on Impact Investing in Emerging and Frontier Markets (EFM) is the first to examine Canada's impact investor activity to achieve the global Sustainable Development Goals (SDGs) in developing countries. Part I examines the volume and approaches of Canadian EFM impact investments. Part II reflects on steps necessary to mobilize additional Canadian activity and leadership in these markets.

The report attempts to address several important questions:

- What is the value of Canadian impact investors' assets under management in emerging and frontier markets?
- Who are these investors?
- How do they deploy capital?
- How do they raise their capital?
- How do their activities relate to the Sustainable Development Goals & Paris Agreement on Climate Change?
- How do they measure and track impact?

In this report, we define **impact investments** as those that actively seek both a financial return and social and/or environmental impacts. The key element is a specific intention by the investor to achieve positive social and/or environmental impact that is measured along with financial performance.

Further, we define **emerging markets** as countries or regions in the process of growth and development with lower per capita incomes and less mature capital markets than developed countries. By contrast, a **frontier market** is one with little market liquidity, marginally developed capital markets, and lower per capita incomes vis à vis the more developed emerging markets. Impact investors allocating capital to either or both of these markets are included in this report.

The total value of impact investments in EFM only includes investments reported by CAFIID members responding to the 2019 survey. For this reason, the report may understate the true value of impact investments in EFMs by Canadians.

The survey was part of a larger consultation of CAFIID members who include financial advisors, consultants, portfolio managers, academics, public agencies, non-profits and private sector organizations. Thirty members responded to the survey with 18 reporting active EFM impact investment assets under management.



Part I: Canadian Impact Investments in EFM – Key Findings

Of 30 CAFIID survey respondents, 18 organizations reported current impact investments in emerging and frontier markets of \$2.05 billion³. **Canadian EFM impact investing asset owners and investors** include non-profit, public and private sector organizations. Eight of the respondents are non-profit organizations, one is a foundation, seven are from the private sector, one is a private impact investor and one is a public sector investor. With the total impact investments in Canada estimated at \$14.75 billion in 2017 and growing rapidly, impact investments in EFM represent approximately 14 percent of that total and, with concerted industry efforts, stand poised for growth as the market matures.

These assets are spread across a **broad range of classes**, including private and public equity, debt, and venture capital. Thirteen respondents provide loans, nine are in equity placements and seven offer convertible notes. Of note, most organizations offer more than one funding model with 10 respondents offering three or more of these options. Eight organizations report using grants as well – typical of a blended finance structured deal.

Geographically, eleven respondents are active in four or more of the EFM regions included. The majority of investments are in Latin America (including Mexico and the Caribbean) and Sub-Saharan Africa with others in Central and Eastern Europe, Central Asia and Caucasus, Middle East and North Africa, South Asia and Southeast Asia.

It was interesting to see fully half of respondents (nine) reporting interest in all of the following **sectors**: agriculture and agri-business, financial services and financial inclusion, green growth and renewable energy. Many also listed a range of other interests including water, sanitation and hygiene, health, education, employment and infrastructure.

Half of the respondents (nine) reported that their capital is privately sourced. Seven reported products for accredited investors and institutions while only two organizations have retail investment products.

Two-thirds of the respondents (12) have engaged in **blended finance** structured deals using development finance or philanthropic funds to mobilize private capital. Nearly all of the respondents **measure their targeted impacts**. Sixteen reported impacts aligned with the SDGs with 15 using either customized impact measurements or the Impact Reporting and Investment Standards

(IRIS), managed by the Global Impact Investing Network. Respondents also reported using additional frameworks including the Global Impact Investment Ratings System (GIIRS), the Principles for Responsible Investment (PRI) or the Impact Management Project (IMP).

Survey respondents included some of Canada's internationally respected leaders in EFM impact investing such as Cordiant Capital, Sarona Asset Management and Développement International Desjardins. With these and other leading organizations, CAFIID believes that Canada's reputation, experience and depth of expertise offer potential to steward a significant increase in Canadian impact investor capital in emerging and frontier markets.



³All figures in this report are in CAD unless otherwise noted.



Part II: Recommendations

Since the universal, global adoption in 2015 of the 17 Sustainable Development Goals, it is clear that without additional capital, we will not be able to address global poverty, income inequality, gender discrimination, climate change and the other challenges to global development. Impact Investors leverage financial markets to support market-based approaches to important social and environmental challenges.

In order to grow Canada's capital flow to emerging and frontier markets, **Part II** highlights practical as well as ambitious recommendations to develop new products, educate finance and investment professionals, activate new investor interest and increase the awareness by Canadians of the important role capital can play in achieving the Sustainable Development Goals.

More specifically, recommendations include the professional development of, and new incentives for, advisors, fund managers and investors; review and harmonization of regulatory frameworks to address Canadian barriers; standardization of methodologies including measurement to encourage broad adoption of an impact investing mindset; and finally, support for reshaping how Canadians view the role of capital in society.

Tackling Regulatory Barriers

Despite active development of new products by survey respondents to raise capital and grow investor participation, current restrictions of CAFIID-member products to accredited and institutional investors limit the potential for

Canadian investor participation. Permitting the crowding-in of retail investors would open up important new pools of capital and stimulate market interest in impact investing. Furthermore, Canada's large pension funds, banks and insurance companies are significant sources of global capital not yet embracing impact investing. The report examines a range of complex steps and actions needed to advance participation of Canadian capital - from revisiting the legal interpretation of fiduciary duty to updating fundamental investment theory and more.

Measuring and Reporting Impacts

Widespread adoption across Canada of the IFC's 2019 global *Operating Principles for Impact Management*⁴ would offer a much-needed standardization of impact measurement to grow investor confidence and allow easier identification and benchmarking of different products aligned with intended impacts. Furthermore, as harmonized impact reporting gains traction, investors will increasingly be encouraged to disclose social and environmental impacts alongside financial performance, motivating the participation of larger and larger investments.

New Partnerships

Encouraging more investments that support the global goals for sustainable development calls for new partnerships - across governments who shape the markets, professional organizations who set standards governing behavior and compensation, and public education to provide clarity on risk and return.

From revisiting legal interpretations of fiduciary duty to rethinking fundamental investment theory, building momentum for impact investments in development will require concerted action by those who influence capital flows. Each of the recommendations is achievable. Some we have already seen in other markets. Collectively they promise significant, positive change to Canada’s investor market impacts.

The table below summarizes the report’s recommendations to grow impact investments in emerging and frontier markets, thereby accelerating Canada’s contribution to the Sustainable Development Goals and the Paris Agreement on Climate Change. These recommendations are intended to stimulate discussions and consultations across various organizations cited.

Category of Action	Recommendations
1. Shaping a Shared Canadian Agenda for Impact Investing in Emerging and Frontier Markets	<ul style="list-style-type: none"> i) Share best practices for impact measurement, management, and reporting ii) Clarify the roles of various types of capital
2. Market behaviours	<ul style="list-style-type: none"> i) Challenge new thinking about the role of capital in global development ii) Standardize process, measurement and reporting standard for measuring impact iii) Align incentives with impact
3. Products	<ul style="list-style-type: none"> i) Support new product development ii) Commit capital to emerging and frontier market fund managers iii) Advance blended finance partnerships
4. Tools and services	<ul style="list-style-type: none"> i) Promote third party validation ratings ii) Expand the availability of investment banking services
5. Education and Training	<ul style="list-style-type: none"> i) Train finance professionals ii) Support the development of impact-focused SMEs in EFM countries
6. Policy and Regulation	<ul style="list-style-type: none"> i) Remove securities barriers to EFM impact investments ii) Update fundamental investment theory iii) Review registered investment eligibility rules iv) Clarify fiduciary duty

⁴Operating Principles for Impact Management, International Finance Corporation. https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-Investing

Part I:

Canadian Impact Investing in Emerging and Frontier Markets: The Investor Profile

Introduction

Founded in 2017, the Canada Forum for Impact Investment and Development (CAFIID) is a non-profit association of Canadian impact investing organizations and professionals working in emerging and frontier markets (EFMs). CAFIID exists to foster learning, sharing and collaboration to advance Canada's contributions and flows of capital to impact investment in emerging and frontier markets to support the development of sustainable and equitable communities.

Since early 2019, CAFIID membership has grown to over 70 members from a diverse eco-system including academia, asset management, banks and credit unions, corporations, foundations, government, non-profit organisations, start-ups and advisory firms. Collectively, CAFIID members combine many years of collaboration and engagement

in EFMs with a track record of innovation in structuring and funding impact investment products, designing and delivering technical assistance, and promoting sustainable investment ecosystems.

CAFIID undertook this report to provide both a baseline accounting of Canadian-led impact investing in emerging and frontier markets, and to reflect on critical actions necessary to increase critical Canadian deal-flow to compliment grant-based global economic and social development. Ultimately, we seek to stimulate a robust discussion about what we want and what we must do to mobilize Canada's share of global capital necessary to meet the challenges of the Paris Agreement on Climate Change and the Sustainable Development Goals (SDGs)⁵.



What is impact investing?⁶

"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education."

⁵Sustainable Development Goals <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

⁶Global Impact Investment Network (GIIN). <https://theqiin.org/impact-investing/need-to-know/#what-is-impact-investing>

“An emerging market is, in short, 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 one with little market liquidity, marginally developed capital markets, and lower per capita incomes vis à vis the more developed emerging markets.”⁷

CAFIIID considers the OECD Development Assistance Committee list of countries eligible for Official Development Assistance a reasonable list of emerging and frontier markets.⁸

According to the Global Impact Investing Network (GIIN), there are four tenets of impact investing:⁹

1: Intentionality.

An investor’s intention to have a positive social or environmental impact through investments is essential to impact investing.

2: Investment with return expectations.

Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.

3: Range of return expectations and asset classes.

Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital and private equity.

4: Impact measurement.

A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.



⁷NASDAQ. What is the difference between a developed, emerging, and frontier market?

<https://www.nasdaq.com/articles/what-difference-between-developed-emerging-and-frontier-market-2012-05-11>

⁸OECD Development Assistance Committee:

<https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-List-of-ODA-Recipients-for-reporting-2020-flows.pdf>

⁹Global Impact Investing Network (GIIN). <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

The Current Landscape

Eighteen CAFIID member organizations reported total Canadian impact investment assets in emerging and frontier markets of \$2.05 billion, as of the date of the survey (January 2019). While this represents a fraction of Canada's total 2017 impact investment sector at \$14.75 billion¹⁰, with this baseline report, we are now able to measure future EFM impact investment growth.

Impact Investor Profile

Canada's EFM impact investor profiles reflects the blend of traditional non-governmental organizations' 'mission-based' approach with emerging private investor interest in these markets. Eight of the 18 CAFIID survey respondents are non-profit organizations, one is a foundation, seven are private sector organizations, one is a private impact investor and one is a public sector investor.

Instruments

Debt is the most widely used Canadian EFM impact investment instrument - with 13 organizations offering

loans. Overall, CAFIID members report a broad array of funding approaches and models with a variety of options for investees. Most organizations offer more than one funding model with 10 respondents reporting three or more. Thirteen organizations invest directly in their investee partners and others invest in funds that, in turn, make direct investments. In addition to loans, nine respondents offer equity placements and seven offer convertible notes. Seven organizations also provide grants.

Geographies

Sub-Saharan Africa and Latin America are the most commonly targeted markets by Canadians although eleven respondents report investments in four or more EFM regions. The focus on Sub-Saharan Africa reflects the investor interest in this fast-growing region as well as the perceived opportunities for high social and environmental impacts. Latin America and the Caribbean activity reflects Canada's close geographic and historic connections to the region.

Sub-Saharan Africa is the most targeted region

Fig. 1: CAFIID members responses to the survey question: Is your organization currently active in emerging markets? If so, check all regions in which your organization is active.



¹⁰2018 Canadian Impact Investment Trends Report, Responsible Investment Association <https://www.riacanada.ca/research/2018-impact-trends-report/>

Investment Sectors

Financial services and financial inclusion lead investor interest. This reflects traditional global interest in microfinance and small and medium enterprise financing as a source of development opportunity, poverty alleviation and investor returns. Agriculture and agribusiness are also commonly cited investments which is not surprising given the food production opportunities in EFM countries. Canadians also reported significant impact investment activity in green growth and renewable energy given global interest in non fossil-fuel energy in response to climate change pressures. Half of the respondents (nine) reported that they are interested in all of the following sectors: agriculture and agribusiness, financial services and financial inclusion and green growth & renewable energy.



Financial Inclusion is predominant in Canadian EFM impact investments

Fig. 2: CAFIID members responses to the survey question: What is/are your main sector(s) of interest in developing countries? Check all that apply.



Product Offerings

While the mission of CAFIID members is to make impact investments in emerging and frontier markets, many also feel that it is important to raise their capital from the Canadian market, thereby creating a direct link between Canadian investors and communities in EFM countries. However, while half of the respondents (nine) reported

that their capital is privately sourced from Canadians and others, they do not have investment products available to Canadian investors. Seven report having investment products available solely to accredited and institutional investors. Only two organizations reported having products for retail investors.

This is not surprising given investment restrictions under the Canadian securities regulatory system.

In recent years, securities rules have been relaxed somewhat and certain categories of retail investors can now invest limited amounts in certain kinds of exempt offerings¹¹. But these are not yet widespread and costs to

meet the exemption rules mean that they have not been widely adopted by the EFM impact investing sector.

Retail investor products offered by two CAFIID members are managed through a special partnership using a savings deposit product offered by an Ontario credit union¹².

Blended Finance



What is blended finance?¹³

“Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries and sustainable development. Blended finance is a structuring approach that allows organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social impact, or a blend of both). The main investment barriers for private investors addressed by blended finance are (i) high perceived and real risk and (ii) insufficiently attractive returns for the risk relative to alternative investments in developed markets. Blended finance creates investible and bankable opportunities in developing countries which leads to more development impact.”

In recent years there has been a sharp increase in interest in blended finance. According to the *State of Blended Finance 2019*,¹⁴ published by Convergence, around \$140 billion has been mobilized around the world through blended finance deal structures, with annual volumes around \$15 billion. This estimate includes financial commitments from more than 1,100 organizations to around 500 blended finance transactions.

“Blended finance has become a key theme in global conferences, made news headlines, and found its way into international development policy and strategies,” according to the Convergence report.

As Canadian organizations look for innovative pathways to scale up funding for development challenges in EFMs, more are turning to blended finance. Twelve CAFIID survey respondents reported using blended finance structures in deals with development finance or philanthropic funds deployed to mobilize private capital for emerging and frontier markets. Fourteen respondents also provide a variety of technical assistance, capacity building and advisory services to assist loan and equity recipients. And in terms of next steps, all but one respondent reported interest in exploring blended finance programs in the future.

The 2018 Global Affairs Canada launch of the International Assistance Innovation Program (IAIP), with a five-year budget of over \$900 million, is generating additional attention to this deal structure. This pilot program- intended

to build markets to benefit the underserved, by creating conditions for better investments in developing countries – is expected to demonstrate that impact investing in support of the Sustainable Development Goals (SDGs) can yield both development and financial returns. To do this, the IAIP will use one, or a combination of the following concessional financial instruments:

- debt (repayable contributions)
- guarantees
- equity
- non-repayable grants and contributions

The IAIP builds on existing Canadian development finance initiatives including funding in 2015 of Convergence in partnership with the World Economic Forum.



¹²Oikocredit Global Impact GICs. Kindred Credit Union and Oikocredit International. <https://www.kindredcu.com/Investing/Products/GICs/Oikocredit/>

¹³Convergence, the global network for blended finance. <https://www.convergence.finance/blended-finance>

¹⁴Convergence. *The State of Blended Finance 2019*. <https://www.convergence.finance/resource/13VZmRUtik96hgAvUPk4rt/view>



“Blended finance offers a way forward. It is the strategic use of catalytic capital from public or philanthropic sources to mobilize commercial capital from the private sector for developing countries. A transaction designed with catalytic ‘first loss capital’ – money from public or charitable sources – mobilizes ‘senior’ capital from the private sector. In case of any losses, the first loss layer shields the senior investors, thereby reducing risk and, in some cases, increasing returns.”

Joan Larrea, CEO, and Justice Johnston, Senior Associate, Convergence¹⁵.

Examples of Canadian blended finance structured deals:

- Oikocredit International has a partnership to help coffee co-ops in South America mitigate the risk of fluctuating coffee prices. Partners in the program include USAID, the International Development Bank, Catholic Relief Services and Keurig Green Mountain Coffee. Oikocredit is financing costs related to price risk management.
- Développement International Desjardins reported that a number of its early stage equity investments have been accompanied by a technical assistance facility through Global Affairs Canada to support investee and partner training and capacity building.
- FinDev Canada has an equity stake in Climate Investor One, a global blended finance fund for renewable energy in emerging markets.

Alignment with the Sustainable Development Goals

Universally adopted in 2015, “the United Nations Sustainable Development Goals (SDGs) are an ambitious and universal call to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity. The SDGs also present a tremendous opportunity for investors to support this global agenda by deploying increasing amounts of capital to high-impact projects that address these critical societal challenges.”

Global Impact Investing Network (GIIN)¹⁶.

¹⁵To solve the world’s problems, the global development community turns toward the private sector. *Globe and Mail*, July 15, 2019. <https://www.theglobeandmail.com/business/commentary/article-to-solve-the-worlds-problems-the-global-development-community-turns/>

The United Nations estimates that the nations of the world need to invest between \$5 trillion and \$7 trillion per year in order to meet the capital needs of the SDGs. With current allocations of about \$1.5 trillion, it is estimated that \$4 trillion in additional capital is needed annually worldwide to meet the goals. Emerging and frontier markets alone face an annual gap of \$2.5 trillion¹⁷. The enormous amounts of capital needed means that the goals cannot be met by governments alone. The private sector will have to step up.

With this in mind CAFIID asked its members to report on how their activities align with the Global Goals.

Seventeen respondents reported impacts aligned with the Sustainable Development Goals (SDGs). The top four cited:

SDG 1 – No Poverty

No Poverty, Decent Work and Gender Equality are the most targeted SDGs

Fig. 3: CAFIID members responses to the survey question: What are your development sector focus areas in relation to the United Nations’ Sustainable Development Goals? Select a maximum of three goals your work most applies to.



¹⁶Financing the Sustainable Development Goals: impact investing in action. <https://theqiin.org/research/publication/financing-sdgs>

¹⁷United Nations Conference on Trade and Development. World Investment Report 2014. https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

Impact Measurement

CAFIID set out to track how members measure their impact. Nearly all respondents with impact assets gauge the social and environmental impacts of their financing activities. 17 reported that their impacts are aligned with the SDGs. 15 reported using either their own customized impact measurements or the Impact Reporting and Investment Standards (IRIS), managed by GIIN. Several also use additional frameworks such as the Global Impact Investment Ratings System (GIIRS), the Principles for Responsible Investment (PRI) or the Impact Management Project (IMP).

“Portfolio-wide metrics give us a good snapshot of where our investments are, and 2-3 bespoke metrics unique to each investment are helpful for the [investee] company to grow and understand their business.”

- DKM Foundation

“We have a targeted number of metrics, some of which are aligned with international frameworks and we follow their improvement on a yearly basis. We also follow the Canadian Government initiatives with respect to gender equality.”

- Développement International Desjardins

“We have an ESG Scorecard in which we measure the environmental, social and governance performance of our partners both prior to when a loan or investment is made, and then on an annual basis. We have a minimum threshold for performance in order to grant a loan or investment, or a loan renewal.”

- Oikocredit International

“We publish a public document each year highlighting the aggregate impact metrics as well as sharing impact case studies. We also complete the PRI transparency report and the B Corp certification process, which are both public documents. We also issue our ESG and Impact Policy publicly and encourage public comment on our approach to improve on our processes.”

- Sarona Asset Management

Most investors track their impact against the SDG framework and customized metrics

Fig. 4: CAFIID members responses to the survey question: Which of the following frameworks does your organization use to measure impact?





Part 2:

Growing Canada's Participation in Impact Investing in Emerging and Frontier Markets

With the adoption of the Sustainable Development Goals (SDGs) by the United Nations in 2015, the Paris Agreement on Climate Change and the Addis Ababa Action Agenda on Financing for Development, investors have been challenged to help bridge the financing gap to achieve this global agenda. The UN estimates that investments between \$5 trillion and \$7 trillion are needed annually to meet the SDGs. With current allocations, emerging and frontier markets alone face an annual SDG funding gap of \$2.5 trillion¹⁹. Governments cannot meet this alone, and it is clear that the private sector must step up.

The realities of Canada's capital markets mean that there are significant barriers to increasing investor participation in impact investing in Emerging and Frontier Markets. For Canadians to meet our collective responsibilities and ambition for global progress, there will have to be systemic policy, regulatory and legal changes in how Canadian capital is deployed for investor returns to be aligned with international development goals. Provincial and federal changes will need to be accompanied by regulatory changes at various agencies involved in the regulation of capital markets. These include securities regulators, banking regulators, insurance and pension regulators, corporate governance institutes, business schools, CFA standards and more.

We must revisit how Canadians view the role of capital. Our objective is to amplify the conversations and debates with a comprehensive set of recommendations that will move capital market influencers to acknowledge the

opportunities this brings, and to rally around a common purpose of investing capital for both financial returns and social/environmental results. With this report, we highlight the critical actions needed to drive increasing amounts of Canadian impact investment capital into emerging and frontier markets.

The following recommendations were inspired by the six categories of action from the GIIN's Roadmap for the Future of Impact Investing: Reshaping Financial Markets²⁰. The GIIN is an organization providing global thought leadership and organization frameworks to promote global impact investing. The authors concluded there is merit and benefit to aligning Canadian market development to the GIIN Roadmap. This promotes clarity on actions and sharing of lessons learned across markets. Many CAFIID members are also affiliated or aligned with the GIIN.

The authors also reviewed the June 2019 report of *Canada's Expert Panel on Sustainable Finance*²¹ aimed at shaping Canada's capital markets to meet the challenges of Canada's commitments under the Paris Agreement on Climate Change. While the report of the Expert Panel is focused on the ambition of transitioning Canada's economy to the low-carbon future, several recommendations in this report are similarly identified in of the Expert Panel Report. Specifically:

- Recommendation 6: Clarify the scope of fiduciary duty in the context of climate change.
- Recommendation 7: Promote a knowledgeable financial support ecosystem.

¹⁹United Nations Conference on Trade and Development. World Investment Report 2014. https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

²⁰Global Impact Investing Network. Roadmap for the Future of Impact Investing: Reshaping Financial Markets. <https://theiin.org/research/publication/giin-roadmap>

²¹Government of Canada. Final Report of the Expert Panel on Sustainable Finance - Mobilizing Finance for Sustainable Growth. <https://www.canada.ca/en/environment-climate-change/services/climate-change/expert-panel-sustainable-finance.html>

1. Shaping a Shared Canadian Agenda for Emerging and Frontier Markets

Impact investing is generating a buzz in Canada. However, there is limited consensus among mainstream investors²² and specialized niche players on what impact investing is, the role each investor category can play, what asset classes are most relevant, how the ecosystem is structured and what constraints the sector faces. As a result, there is widespread confusion regarding what impact investing promises and ultimately delivers. If we are to mobilize Canadian investment capital to support the Sustainable Development Goals and the Paris Agreement on Climate Change, we must bring the sector together around a shared agenda with clear and transparent standards of practice, and a common vision.

Governments are in a unique position to make the impact investing for development agenda of strategic national importance to build commitment and stimulate market action. Capitalizing on the power of governments to build interest in impact investing, working together with CAFIID and other Canadian market influencers, we can facilitate engagement and collaboration within an enabling policy framework.

i) Share best practices for impact measurement, management, and reporting

As the *GIIN Roadmap Report*²³ points out: “The lack of a standard approach for measuring and managing impact is problematic for three main reasons. First, it demands extra time and effort from investors and asset managers to define, articulate, and comprehend the potential and actual impact of investment opportunities. Second, it

prevents rigorous aggregate analysis to understand and compare the impact different investors and strategies achieve. Third, it places additional burdens on investees, who must often report differently to each investor.”

This observation also appears to hold true in Canada as Part I of the report showed that the 18 organizations with EFM impact assets measured and reported their impacts across a broad range of frameworks and metrics. This duplication of effort adds additional costs and administrative burdens.

The various providers of impact frameworks need to create new initiatives to integrate and educate EFM investment providers on best practices in impact measurement and management.

ii) Clarify the roles of various types of capital

The roles of different types of capital including philanthropic, donor, public, and private capital need to be clarified. Philanthropic donations, and public capital could be used to de-risk investments and/or provide concessional capital which would allow private capital to take on a different risk-return profile. We talk about this more below in the section on Blended Finance.

Some of this work is being done by Convergence to educate different types of investors about blended finance and its applicability through conference sessions, workshops, reports, and case studies. CAFIID, working with Convergence, has also taken the lead on this issue by organizing a series of blended finance workshops in 2019 in cities across Canada to educate asset managers, advisors and investors.



2. Market Behaviours

There is a growing need for individual and institutional owners of capital to recognize and report the ESG impacts of their investments, including those in emerging and frontier markets. Promoting education on impact investing while also challenging decades-old norms that prioritize shareholder returns will begin shifting market behaviours that value and measure impacts. Work has begun to build greater awareness and understanding. Convergence, for example, actively participates in conferences, workshops and produces reports and case studies to educate different types of investors on blended finance. CAFIID actively undertakes workshops, webinars and other initiatives in cities across Canada to educate asset managers, advisors and investors about the concepts and practice of impact investing in EFM.

i) Challenge new thinking about the role of capital in global development

The fledgling education outreach discussed above is only the beginning. Much more can be accomplished to build EFM impact investment participation if players from the public, private and NGO finance and development sectors work together to explore and promote impact purposes for investment. Broader campaigns to explore EFM impact investing will also challenge views and promote dialogue on the role of capital in society.

ii) Standardize process, measurement and reporting standards for measuring impact

In early 2019, the International Finance Corporation (IFC) launched the *Operating Principles for Impact Management*²⁴, which seek to establish a common discipline and consensus around the management of impact investments as well as help shape and develop this nascent sector. We encourage Canadian financial institutions, funds, asset managers and advisors working in the EFM impact sector, to learn more about, and consider signing on to the Operating Principles, while also actively contributing to the future development and evolution of these principles.

iii) Align incentives with impact

Advisor and money manager incentives in the financial industry are aimed at maximizing profit. Investments' ESG impacts are not considered. This is a notable area of neglect that has a strong influence in maintaining the business-as-usual focus of the financial industry. As the market grows and the regulatory frameworks shift to recognize EFM impacts, the investment sector and the financial industry are encouraged to consider new models of compensation that include the measured, non-financial impacts of money manager and advisor investments.

“How can investors trust that their investments are delivering impacts as intended, and that asset managers are not simply exaggerating the social and environmental benefits of their products – a practice known as “impact washing?” The key is common standards – from how investments are managed to achieve impact to how impacts across projects and even asset managers are assessed.”

Philippe Le Hou  rou, chief executive officer of the International Finance Corp. and Paul Lamontagne, managing director of Development Finance Institute Canada (FinDev Canada). Canadian firms must adopt a common standard for impact investing. Globe and Mail Aug. 2, 2019. <https://www.theglobeandmail.com/business/commentary/>

²²World Economic Forum. *Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors* <http://reports.weforum.org/impact-investment/>

²³Global Impact Investing Network. *Roadmap for the Future of Impact Investing: Reshaping Financial Markets*. <https://thegiin.org/research/publication/giin-roadmap>

²⁴International Finance Corp. *Operating Principles for Impact Management*. https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-Investing

3. Products

Investment products available to retail and institutional clients of EFM impact investing in Canada are too few. This limits the number and diversity of opportunities available to Canadian investors.

One of the reasons for the limited availability of EFM impact options is the fundamental nature of impact investing in EFM. The very nature of placing loans or equity investments in emerging and frontier markets contains a different kind of risk or a higher level of risk than conventional or domestic impact investments. Blended finance structured deals offer numerous options for de-risking. Addressing important regulatory barriers is discussed in Section 6.

“There is substantial appetite from investors across Canada to add impact to their portfolios. But most impact products are private securities, and for the most part banks and credit unions have policies that prevent their customers from adding private securities to their investment accounts, or they charge prohibitive fees to do so. That needs to change if we want to meaningfully scale impact in the retail space.”

Alexa Blain, Chief Operating Officer, Deetken Impact

i) Support new product development

Within current securities regulation, efforts could be made to encourage product developers at asset management and investment firms, banks, and credit unions to develop innovative new products through, for example, pooled offerings. These could expand the number of EFM impact offerings with recent changes to exempt market products rules, expanding offerings to non-accredited investors.

On the institutional side there is significant room for product development since it doesn't face the same regulatory constraints experienced by providers of non-accredited investment products. CAFIID encourages asset managers to begin developing new investment pools or other products aggregating EFM offerings, thereby diversifying portfolios and reducing risk. Such pools could be mixed with publicly listed investments, or other more liquid investments, to reduce risk and improve liquidity.

As we have seen with the Oikocredit Global Impact GICs offered through Kindred Credit Union²⁵, banks and credit unions are well positioned to add impact offerings (including EFM offerings) to the lineup of their savings products. Banks and other credit unions are urged to introduce such products.

ii) Commit capital to emerging and frontier market fund managers

Canada's large pension funds, banks and insurance companies are immense sources of global investment capital. Meaningful participation of these capital pools will occur when portfolio managers are motivated by ethical, social and development considerations alongside financial returns. Revisions to the complex web of regulatory frameworks, fiduciary duty and updating fundamental investment theory, preconditions to unlocking these huge capital pools, are discussed later in this report.

As new products are delivered, measurement metrics are standardized and the EFM fund management industry develops additional management capability, we expect to see institutional investors allocating much larger amounts of capital to this sector.

With greater education efforts being made by CAFIID and others, we encourage those responsible for non-profit organizations' endowments, especially those active in international development, to consider aligning investments with their organizational missions to accelerate long term, sustainable programme results.

iii) Advance blended finance partnerships

Canadian experience and expertise in blended finance structured deals is growing slowly but more can be done to accelerate our depth of expertise and reach. Local finance institutions, non-governmental organizations (NGOs) and private fund managers all play a role. However, as noted by the Organization for Economic Cooperation and Development in a 2018 paper²⁶, the multilateral development banks (MDBs) and development finance institutions (DFIs) will be significant drivers of future blended finance deals. For blended finance to achieve scale, the MDBs and DFIs must approve a higher number of annual transactions, arrange a much larger aggregate total of annual financing volumes and bring in philanthropic and public sector organizations to participate in blended finance partnerships. The following highlights Canadian organizations who we expect will contribute to achieving scale.

²⁵Oikocredit Global Impact GICs. Kindred Credit Union and Oikocredit International. <https://www.kindredcu.com/Investing/Products/GICs/Oikocredit/>

FinDev Canada

As FinDev Canada, Canada's new development finance institution, moves beyond foundational investments, its role in leveraging private capital and strategic partnerships can contribute to building Canada's capacity to structure and participate in blended finance deals in emerging and frontier markets.

Global Affairs Canada

The International Assistance Innovation Program²⁷ from Global Affairs Canada was created to demonstrate that investing in support of the SDGs can bring both development and financial returns. By addressing market failures that affect the poorest and most vulnerable, they can help demonstrate the effects and value for others looking to invest for both impact and profit

INGOs

At the same time, the Canadian philanthropic sector, particularly international non-governmental organizations (INGO), can lead the way by committing increasing amounts of grant funding for technical assistance projects tied to an investment component.

In addition, INGOs can more aggressively use their investment assets (endowments) as either, or both a source of financial guarantees to provide a larger volume of first loss capital for EFM impact investment projects; and directing investments to mission-related investments.

Convergence

Finally, Canada is fortunate to have Convergence, a global network for blended finance, based in Toronto. More work to exploit this important resource and platform must be undertaken. Efforts to activate interest, knowledge and networking must continue if Canada is going to succeed in activating a larger number and volume of blended finance deals.

4. Tools and Services

Applying standardized impact ratings published by third-party providers, as Moody's and Standard & Poor do for publicly listed investments, would support investor confidence by allowing independent comparison and differentiation of investment opportunities.

In Canada, third party ratings have been pioneered by Kitchener-based Kindred Credit Union. In 2016, Kindred became the first financial institution in Canada to have its GICs validated as socially responsible investments (SRI). Working with Sustainalytics, a leading global provider of environmental, social and corporate governance research and ratings, Kindred developed a values-based process and a best-in-class social and environmental screening approach to lending decisions. These loans are funded by members' GIC deposits (with screens in place) ensuring all of its GICs are SRI validated.

i) Promote Third Party validation ratings

CAFIID along with blended finance players, such as Global Affairs Canada, FinDev Canada and foundations, can play a role in ratings service providers to develop new impact ratings for help in determining candidates for technical assistance or de-risking initiatives.

ii) Expand the availability of investment banking services

As EFM impact investing matures, there is a growing need for EFM investment banking services including capital raising, deal origination, structuring, syndication and securitization. We hope that FinDev Canada will play a role in stimulating additional investment-banking activity by collaborating with existing EFM impact managers in Canada and establishing links with international banking institutions.

²⁶Organization for Economic Cooperation and Development. Making Blended Finance Work for the Sustainable Development Goals. <https://www.oecd.org/publications/making-blended-finance-work-for-the-sustainable-development-goals-9789264288768-en.htm>

²⁷<https://www.international.gc.ca/world-monde/funding-financement/jaip-piaj.aspx?lang=eng>

5. Education and Training

With growth in both the number of emerging and frontier market-focused products and demand for impact investments, expanding financial professional training will be needed to translate this interest into capital deployed. Specialized professional development will enable financial advisors to confidently and knowledgeably recommend appropriate EFM impact investment products to their clients. In conjunction with changes to regulatory and legal frameworks, professional education is a critical component to grow the sector.

Canada's Responsible Investment Association (RIA) has taken steps to address the need for specialized professional education in the publicly listed ESG space through the RIA-sponsored advisor certification programs and certificates. At this time however similar opportunities do not exist for EFM impact investing. CAFIID would like to open consultations with financial education bodies to address these gaps in education and training.

i) Train finance professionals

CAFIID will explore creating impact investing and EFM-specific modules for existing and respected responsible

investment advisor education programs such as those now offered by the RIA. Consultations will be initiated with financial education bodies, for example the CFA Institute and Canadian Securities Institute, to discuss developing professional development modules on impact investing generally, and EFM impact investing in particular to existing curriculum.

ii) Support the development of impact-focused SMEs in EFM countries

Along with a need for additional advisor education is a need to train and educate entrepreneurs and SMEs in EFM countries. An example of this is the Price Risk Management project²⁸ mounted by Oikocredit International. Through a broad collaboration of NGOs, corporate supporters and financial institutions Oikocredit is working to increase the knowledge and sophistication of coffee cooperatives in South America with regard to hedging and price risk management. CAFIID would like to see similar initiatives supported by Canadians through the collective efforts of investors, NGOs and the public sector through Global Affairs Canada and FinDev Canada.



²⁸Oikocredit International. *Enhancing coffee cooperatives price risk management.*
<https://www.oikocredit.coop/k/n171/news/view/251341/462/enhancing-coffee-cooperatives-price-risk-management.html>

6. Policy and Regulation

Regulatory barriers pose one of the largest barriers to impact investment generally, and EFM impact investment in particular. Prospectus requirements create a major barrier for small issuers, such as EFM impact funds. As noted in Part I, most EFM impact investors offering products in Canada do so for the accredited and institutional markets only. This is because of the restrictive nature of securities regulation in Canada, which generally require preparation of an expensive and time-consuming prospectus to issue an investment to the public, thereby making it uneconomic for small EFM impact organizations to participate. As noted in Part I, some EFM impact issuers have issued accredited investor offerings on their own, or through Social Venture Connection (SVX),²⁹. Adoption has been very limited in the EFM sector because of the relatively high compliance costs of the accredited investor exemption.

There has been some loosening in the rules with recent eligible investor, offering memorandum and crowdfunding exemptions. However, the cumbersome approval process remains too high a burden for most EFM impact investment organizations.

Where accredited investor offerings have been issued, there is limited market exposure because private market investments (including EFM impact investments) cannot be used in popular investment vehicles such as mutual funds. This is because private investments are deemed to be illiquid assets that cannot trade and be valued on daily markets. Even when innovative liquidity mechanisms are employed (providing redeemability through internal reserve funds, for example) securities commission liquidity rules prevent such investments from being used as an underlying asset for mutual funds.

Further, some federal government eligibility rules restrict the use of foreign private shares and other types of investments for RRSP and other registered accounts. Since Canadians generally invest through their registered accounts, this creates a systemic barrier to the widespread adoption of impact investments at the retail level. These fundamental barriers have created an EFM impact investment market in Canada that is skewed heavily toward accredited investments for institutions with very limited options for non-accredited investors or retail individuals.

On the institutional side, a further barrier to the expansion of EFM impact investment is the strict application of the rule and principles of fiduciary duty as they currently exist under Canadian law, precedent and jurisprudence.

Legislative/regulatory changes will be required to truly change the system. In the meantime, mandatory social/environmental impact reporting would influence better practices.

Investment managers in other countries such as the Netherlands, Scandinavia, Japan, and Australia have modified the definition of fiduciary duty to include the responsibility to consider ESG factors.³⁰

i) Remove securities barriers to EFM impact investments

As a first step we encourage the Canadian Securities Administrators (CSA) to hold a consultation to address roadblocks to the growth of impact investment, including EFM impact investment. The aim would be to create new modes of investment targeted specifically at the impact sector (including EFM impact investments), without creating undue risk for retail investors.

Once EFM impact investment offerings are recognized in the market, further reforms could be made to permit conventional investment vehicles, such as mutual funds, to invest in them.

ii) Update fundamental investment theory

Academic theory on finance has failed to keep pace with changes to the intellectual environment on investment and impact and must be updated. There are two main methodologies underpinning all fundamental investment theory, which are taught to business and finance students. Modern portfolio theory states that there is an efficient frontier of optimal portfolios with maximum possible return based on a given level of risk. The Capital Assets Pricing Model is used to calculate the return of assets, particularly stocks, given their level of risk and cost of capital. However, neither one of these theories has been updated to incorporate impact.

We applaud those finance faculties including UBC and UWO who are already expanding the teaching of investment theory to incorporate the notion of impact, especially in regard to international development, and encourage their academic colleagues across the country to do so as well. We would like to see professional financial education bodies such as the CFA Institute support the RIA in creating broad academic and industry dialogue on these topics.

²⁹Social Venture Connection – Invest for Impact. <https://www.svx.ca/>

³⁰Investment Executive. RI is changing the meaning of “fiduciary duty” <https://www.investmentexecutive.com/news/industry-news/ri-is-changing-the-meaning-of-fiduciary-duty/>

Practitioners such as Root Capital, a non-profit lender to agricultural enterprises that connect small-scale farmers in Africa and Latin America to markets for their crops, have adapted these into the [Efficient Impact Frontier](#). This methodology plots portfolios on the efficient frontier with the highest level of impact and return for a given level of risk. Instead of worrying about trade-offs, investors can (and should) optimise impact based on anticipated risk-adjusted return, and vice-versa. In other words, all investors can (and should) seek those investments that make the largest impact (however a given investor defines impact- which can vary greatly) within their preferred return band.

iii) Review registered investment eligibility rules

To expand the reach of EFM impact investments, we would ask the Government of Canada to consider amending the list of eligible investments for RRSP and other registered products to expressly include impact products, including EFM impact investments. As noted in the previous section on products, some eligibility rules restrict the use of foreign private shares and other types of investments for RRSP and other registered accounts. Canadians generally invest through their registered accounts which creates a systemic barrier to the widespread adoption of EFM impact investments at the retail level. To address this unequal playing field, consideration should be given to changing the list of RRSP eligible investments to expressly permit impact investments, including EFM impact investments, so that they may be included in registered accounts.

“The impact investment community is the David against the Goliath of the capital markets. That’s why impact investment needs to be placed on a different regulatory footing. It needs an enabling framework that permits community- and values-based investors access to impact products while providing protection commensurate with the true risk posed by these offerings.”

Eugene Ellmen

Formerly with Oikocredit International and the Social Investment Organization (now Responsible Investment Association)

iv) Clarify fiduciary duty

It would be very helpful if provincial and federal governments consider changes to fiduciary legislation and regulation to expressly permit fiduciaries to take into account material ESG impacts in the creation of investment policies and the implementation of investment mandates or the hiring of managers based on impact investment criteria. For example, this would encourage the managers of international NGO endowments to consider EFM impact investments that are directly related to their global development mission, such as alignment with the SDGs. This would not displace traditional definitions of materiality; rather it would explicitly expand the definition of materiality to include critical ESG impact investment factors.



A Final Word on the Recommendations

CAFIID believes that these recommendations would reduce some of the systemic barriers to growth and encourage significant development in the EFM impact investment sector in Canada. They would help to address misconceptions about EFM impact investment by asset managers and advisors and build critical new infrastructure supports such as third-party ratings. Demand will grow by encouraging institutional investors to align their investment policies with their mission statements, for example, by aligning their investment policies with the SDGs. And they would help to address some long-standing inequities

in financial industry regulation that continue to favour traditional, impact-blind investments over impactful, sustainable alternatives.

We invite all parties in the investment system to join with us to make the changes necessary to usher in this exciting new investment approach for the 21st Century.



Part 3:

Case Studies

MEDA and WWB Capital Fund



MEDA (Mennonite Economic Development Associates) aims to create business solutions for small to medium sized businesses, minimising poverty in developing countries, whilst asserting sustainable development.

WWB Capital Partners (WWB Capital), a fund managed by a subsidiary of Women’s World Banking, contributes to financial inclusion in women’s access to commercial services, ensuring them success in their businesses. While it is a global fund, the largest allocations will be in Sub-Saharan Africa, Middle East and North Africa, and South Asia.

WWB Capital’s theory of change is supporting well-run financial institutions in emerging and frontier markets to develop, promote and distribute financial services and products to women, thereby allowing women greater access to financial services enabling them to succeed in business. The fund manager is active in suggesting advancement opportunities for women in junior and management positions.

Investor	MEDA with advisory support from Sarona Asset Management
Investor Targeted impact	Strong governance and operational support to portfolio companies, including guidance on new product development and on services designed for women.
Deal Size	MEDA committed \$1.5 M to WWB Capital Fund’s first fund and will commit an additional \$1.0mm to Women’s World Banking’s follow-on fund
Instrument	Equity
Investment Impact Objectives	Contribute to financial inclusion in women’s access to commercial services ensuring them success in their businesses.
Social & Environmental Metrics Tracked on Investment	<p>UN sustainable development goals; 5 and 8, being gender equality and decent work and economic growth, respectively, will be focused on through this investment. Proposed indicators are as follows:</p> <ul style="list-style-type: none"> • Number of clients or customers reached (women and men) • Number of jobs created (women and men) • Number of domestic suppliers • Amount paid to domestic suppliers • Taxes paid to local government

AHL Venture Partners and Twiga Foods



AHL Venture Partners invests in scalable businesses that focus on combating social and environmental challenges faced throughout Africa, through innovative solutions.



Twiga Foods uses mobile phone technology to match supply and demand, aggregating market participants and finding buyers for farmers’ produce in Africa’s large, but highly fragmented fruit and vegetable market. Twiga enables vendors to order fresh produce, as and when needed, from farmers across Kenya. The system is a win for both sides – farmers have guaranteed access to a fairly-priced, transparent, mobile marketplace while vendors can consistently source high-quality produce, which is conveniently delivered to their doorstep by Twiga. By increasing efficiency in the supply chain, Twiga is able to reduce waste and ultimately reduce food prices for end consumers.

The company has so far created over 350 full-time employment (FTE) jobs (25% women), supported an estimated 7,000 micro-entrepreneurs (70% women) and sourced products from approximately 7,000 small-holder farmers (40% women).

In June 2019 AHL Venture Partners was able to partially exit its position in Twiga at a 2.4x multiple of invested capital (\$1.0 M) through a secondary sale to Creadev, a French based investor backed by the Mulliez family. This investment was part of a \$6.6 M secondary share purchase by Creadev. After the exit, AHL was able to generate a return on its initial capital investment and maintains a position in this high growth company.

Investor(s)	AHL Venture Partners
Investor Targeted impact	Improved food safety for consumers, improved livelihoods for informal vendors, improved access to markets for farmers
Deal Size	\$1.0 M
Instrument	Convertible Note
Investment Date	May 1, 2017
Exit Date	June 3, 2019
IRR	>50%
Investment Impact Objectives	<ul style="list-style-type: none"> Develop food and market security Higher gross-margins and higher profitability for the investors
Social & Environmental Metrics Tracked on Investment	<p>Twiga covers UN’s sustainable goals 1, 2, 3, no poverty, zero hunger and good health and wellbeing respectively. AHL also tracks IRIS metrics on this investment:</p> <p>OI3160 – Direct FTE Jobs (Full & Part Time) OI6213 – Direct FTE Jobs % Women PI2758- Number of agents/ micro-entrepreneurs/ franchisees/ Distributors actively supported by the company PI9991- Number of supplier individuals/ smallholders supplying services or products PI1263 – Total volume of nutritious product sold PI4940- Number of businesses/SMEs accessing services or products FP8293 – Capital Raised FP6510 – Total Revenue FP1657- EBITDA FP1301 – Net Profit</p>

Sarona Asset Management, INFRONT and Apis Capital Partners



Sarona Asset Management Inc., in partnership with MEDA, implemented one of Global Affairs Canada’s (GAC) first blended finance program called INFRONT. Within this program, Sarona supported 17 fund managers including **Apis Capital Partners**.

In addition to the investment, Sarona provided non-financial support to Apis to improve their Environment, Social and Governance (ESG) policies, processes and impact reporting. Apis then took this training and applied it to its SME partners enabling a larger impact than if Sarona had invested directly in the SMEs. At the end of 2018, Apis had made nine investments in SMEs which employed 17,000 staff (33% of which were women), providing financial services to nearly 30 million people through 625,000 touchpoints enabling 788 Million transactions worth \$21 B in 140 countries across the world.

Investor(s)	Sarona, MEDA and Global Affairs Canada
Investor Targeted impact	Improve the fund manager’s ESG policies, processes and impact reporting and equip them to train their portfolio SMEs as well
Deal Size	\$10.6 M
Instrument	Limited Partnership Interest (equity)
Investment Impact Objectives	<ul style="list-style-type: none"> • Catalyze private capital to support impact investments in emerging and frontier markets • Assist SMEs in the portfolio to launch impact oriented and novel solutions • Grow companies in Africa and Asia and lower barriers to access to financial services
Social & Environmental Metrics Tracked on Investment	<p>Apis contributes to UN SDG Goals 1, 3, 5, 7, 8, 10, 13 and 16. Sarona tracks 20 IRIS compliant metrics and two additional Sarona impact metrics. Full details of these metrics and Sarona’s impact reporting methodology can be accessed here: https://www.saronafund.com/responsible-investment/values-reports/</p>

Rent-to-Own Limited Zambia/Lundin Foundation, Managed by AHL Venture Partners



Lundin Foundation is a private foundation that, through AHL Venture Partners fund manager, invests in small and medium-sized enterprises in sub-Saharan Africa with high growth potential.

Rent-to-Own Limited Zambia is a productive-use asset financing company that supports access to productivity-increasing renewable energy equipment through an innovative financing structure that ultimately transfers ownership of the asset to the entrepreneur. Lundin Foundation's equity and convertible note to Rent-to-Own will provide growth capital to support the businesses' expansion in Zambia and to refine its business model for geographic expansion.

Lundin- Zambia CASE STUDY IMPACT INVESTING

(source: <http://theginn.org/research/profile/rent-to-own-limited-zambia>)

Investor(s)	Lundin Foundation, Vancouver
Investor Targeted impact	Enhance livelihoods for agricultural entrepreneurs
Deal Size	\$650,000
Instrument	Convertible Note and Equity
Investment Impact Objectives	Increase the availability and accessibility of productive assets to rural entrepreneurs through innovative asset financing, stimulating job and wealth creation.
Social & Environmental Metrics Tracked on Investment	Lundin Foundation tracks several social and financial performance metrics, including IRIS metrics (IRIS alignment noted in parentheses) on this investment: Earned Revenue (IRIS aligned- FP5958) Taxes (IRIS aligned- FP7345) Gross Profit (IRIS aligned- FP7629) EBITDA (IRIS aligned- FP1657) Employee earnings, wages and commissions Units/Volume Sold (IRIS aligned- PI1263) New Businesses Created (IRIS aligned- PI4583) Clients (IRIS aligned- PI7094) Clients: New (IRIS aligned - PI9349) Client Individuals: Female (IRIS aligned- PI8330) Payments to Supplier Organisations (IRIS aligned- PI5478) Microentrepreneur Distributors (IRIS aligned - PI2758) Microentrepreneur Distributors: Female (IRIS aligned- PI6659) Microentrepreneur Distributors Earnings (IRIS aligned- PI4881)

Développement international Desjardins (DID) and CFE (Financial Center for Entrepreneurs) Tunisie



For more than 45 years, Développement international Desjardins (DID) has been working with financial institutions in developing and emerging countries with the goal of sharing the expertise and experience of Desjardins Group, the largest cooperative financial group in Canada. DID's goal is to provide disadvantaged and underserved groups and communities around the world with access to secure, diversified financial services that fit their needs.

CFE (Financial Center for Entrepreneurs) Tunisie mainly seeks to support SMEs and microenterprises. Special attention is paid to loans allocated to typically undeserved segments – in particular women and youth entrepreneurs. CFE Tunisie provides financial services and financing to start-up enterprises, helping them to transition from the informal to the formal sector, and thus contributes to their financial inclusion by eventually making them eligible for bank financing.

Investor(s)	Desjardins Fund for Inclusive Finance
Investor Targeted impact	DID and its international investor partners seek to contribute to the on-going development of governance, operations, and management practices and standards through their active involvement in the growth of the institution as well as the provision of on-going employee training and development.
Deal Size	\$3.2 M
Instrument	Equity; and short-term debt
Investment Impact Objectives	<ul style="list-style-type: none"> • Increase the availability and accessibility of appropriate, diversified and affordable financial services for entrepreneurs • Stimulate local employment and the creation of community-based assets.
Social & Environmental Metrics Tracked on Investment	<ul style="list-style-type: none"> • Client Individuals: Total • Client Individuals: New • Client Individuals: Female • Client Individuals: Active • Client Retention Rate • Client Protection Policy • Client Complaint Tracking System • Client Feedback System • Client Satisfaction Ratio • Number of Voluntary Savings Accounts • Value of Loans Outstanding • Target Stakeholder Setting • Average Loan Size Disbursed

¹⁸Sizing the Impact Investing Network. The Global Impact Investing Network. <https://theqiin.org/research/publication/impinv-market-size>

International Examples

Training finance professionals

Calvert Impact Capital (Calvert) is a non-profit investment firm based in Washington D.C. that works with investors to move capital into communities around the world. During its 22 years of operation, it has moved over \$2B in investor dollars into communities. Calvert works with 5,000+ investors and their financial professionals to lend to organisations globally working in areas like climate change, education, microfinance, affordable housing, and gender equity. An important way it has done this is to structure its product in a way that allows for brokerage distribution so that it can be “on-platform” and transacted like other fixed-income securities in client accounts. Calvert finds advisors at conferences such as USSIF, SRI Conference, etc., by working with their firms to be a resource for them, and by more direct outreach to advisors for meetings where it educates them about impact investing and how it can enhance their client relationships, conversations, and practice. Advisors might want more return or liquidity, so that might be where fiduciary concerns come in and it ultimately might not be a fit for certain investors with specific max return expectations, but that is where Calvert educates them about capital needs in the markets it works in and how it can fit various impact investments into portfolios.

The European Union and incorporating fiduciary duty

On March 7, 2019 the European Commission welcomed an agreement reached by the European Parliament and European Member states on rules of disclosure requirements for sustainable investments and sustainability risks. The new regulation states that both financial market participants and financial advisors must integrate ESG risks and opportunities in their process as part of their fiduciary duty.³¹ Financial market participants are also required to disclose to investors their compliance with ESG risk, opportunities, and adverse impact on ESG matter such as assets that pollute water or devastate biodiversity.

Examples of policies in other countries

France

In Fall 2015, before the United Nations Climate Change Conference, France passed a law that made it mandatory for asset owners and asset manager to report on physical and ‘transition’ risks caused by climate change.³²

Netherlands

Pension funds have created shared definitions and standards for reporting on ESG.³³ Their hope is that this effort would enable smaller investors to increase their ESG efforts, given that they may not have the same amount of time or resources available as larger organisations.

³¹http://europa.eu/rapid/press-release_IP-19-1571_en.htm

³²<http://427mt.com/2017/01/16/impact-french-law-article-173/>

³³<https://www.ipe.com/countries/netherlands/dutch-pensions-sector-to-draw-up-esg-covenant/10018330.article>

Appendix A: Methodology

This report analyses market activity, key players and recommendations for Canadian impact investors in developing countries. The Landscape section is an analysis of the data collected from an online survey conducted in February 2019 with CAFIID and non-CAFIID members (listed in Appendix A).

The recommendations framework is based on the six categories of actions from the Global Impact Investing Network's (GIIN) report Roadmap for the Future of Impact Investing: Reshaping Financial Markets. The recommendations in this section came from a whiteboard session held with a subset of CAFIID members (Appendix B) in December 2018. Through a CAFIID webinar held in January 2019, CAFIID members provided feedback and suggestions.

Limitations to the data and the analysis:

Only a subset of CAFIID members- 30 out of 55 at the time- responded to the survey. Of these only 18 had active impact investments under management.

This was also the first time that this survey was conducted. As the CAFIID memberships grows and this data is updated, the hope is that there is a larger group of respondents to allow for richer data and analysis.

Appendix B: List of Organizations Surveyed

Aga Khan Foundation	Grand Challenges Canada
AHL Venture Partners	Kindred Credit Union
Brighter Investment	Marigold Capital
CARE Canada	MaRS Centre for Impact Investing
Convergence Blended Finance	Mennonite Economic Development Association
Cowater Sogema	Moonspire Ventures
Deetken Impact	Oikocredit Canada
Développement International Desjardins	One Drop Foundation
DKM Foundation	Rally Assets
Engineers without Borders	Sarona Asset Management
Evalysis	Solar Ear
FMA – Frontier Markets Advisors	Volta Capital
FINCA Canada	World Vision
FinDev Canada	WUSC

Appendix C: Whiteboard Session Participants

Name of organization	Participant
Développement International Desjardins	Jessie Greene
DKM Foundation	Danielle Gibbie
Evalysis	Karim Harji
FinDev Canada	Stephanie Emond
MEDA	Majid Mirza
Oikocredit Canada	Eugene Ellmen
One Drop Foundation	Marie-Claude Bourgie
Sarona Asset Management	Serge LeVert-Chiasson

Appendix D: Abbreviations & Definitions

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).

BoP - Base of the pyramid

CAFIID - Canada Forum for Impact Investment and Development.

DFI - Development Finance Institution

DOTS - Development Outcome Tracking System

EMPEA - Emerging Markets Private Equity Association.

GIC

GIIN - Global Impact Investment Network, a US-based organisation founded in 2009 that seeks to increase the scale and effectiveness of impact investing.

IFC - International Financial Corporation.

Impact Investing - investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.³⁴

OECD - Organisation for Economic Cooperation and Development.

SDGs - United Nations Sustainable Development Goals for 2030.

FDI - Foreign Direct Investment

GDP - Gross Domestic Product

HICs - High-Income Countries

IDA - International Development Association

IMF - International Monetary Fund

LICs - Low-Income Countries

LMICs - Lower-Middle-Income Countries

MICs - Middle-Income Countries

ODA - Official Development Assistance

UMICs - Upper-Middle-Income Countries

UNCTAD - United Nations Conference on Trade and Development

WDI - World Development Indicators

AIMM - Anticipated Impact Measurement and Monitoring System

AUM - Assets under management

B Corp - Benefit corporation

BCR - Benefit cost ratio

BIA - B Impact Assessment

BIS - Bank for International Settlements

BoP - Base of the pyramid

DFI - Development Finance Institution

DOTS - Development Outcome Tracking System

EFM Emerging & frontier markets [source: NASDAQ] - 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. It includes the famed BRICs, Brazil, Russia, India, and China; and even the PIIGS (Portugal, Ireland, Italy, Greece, Spain- also known by the more politically correct moniker GIPSI).

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. However, because frontier markets have yet to undergo much meaningful economic development, the potential for rapid growth and outsized returns make these markets interesting to high-risk investors. Frontier markets include the CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa) and places like Nigeria, Bangladesh, and Botswana.

EBRD - European Bank for Reconstruction and Development

EM - Emerging market

ERR - Economic rate of return

ESG - environmental, social, and governance

GAAP - Generally Accepted Accounting Principles

GAC - Global Affairs Canada

GIIN - Global Impact Investing Network (thegiin.org)

³⁴CAFIID uses the definition of impact investing defined by the GIIN. Source: <https://thegiin.org/impact-investing/>

The Global Impact Investing Network (GIIN) was founded in 2009 to increase the scale and effectiveness of impact investing around the world. Its vision is a world where financial markets serve all members of society and finance plays a role in addressing social and environmental challenges faced by the global community.

The GIIN's strategy has three main components:

- 1.** Mobilize more capital for impact investing globally – by growing awareness, creating practical information & resources, and stimulating investment
- 2.** Safeguard the integrity of impact investing – by creating a shared identity, driving adoption of values & expectations of behaviors, pushing for best practices beyond baselines expectations, and strengthening the industry's credibility
- 3.** Fuel the global impact investing movement to change mindsets about the role of capital in society – promulgate the vision of capital, elevating the perception of impact investing, building the momentum for public participation, accelerating maturation of the industry, and propelling the global movement

GIIRS - Global Impact Investing Rating System

IFC - International Finance Corporation

IFI - international financial institution

IFRS - International Financial Reporting Standards

IPO - Initial Public Offering

IRIS - Impact Reporting and Investment Standards

RR - internal rate of return

KPI - key performance indicator

MCPP - Managed Co-Lending Portfolio Program

MDB - multilateral development bank

NGO - non-governmental organization

OECD - Organisation for Economic Co-operation and Development

OECD - DAC Organisation for Economic Co-operation and Development–Development Assistance Committee

OPIC - Overseas Private Investment Corporation

PPF/SWF - public pension funds and sovereign wealth funds

PME - public market equivalent

PPM - private placement memorandum

PRI - Principles for Responsible Investing

REM - rapid evidence mapping

ROI - return on investment

SASB - Sustainable Accounting Standards Board

SCR - solvency capital requirement

SDGs - Sustainable Development Goals

SIP - statement of investment policy

SME - small and medium enterprise

SRI - socially responsible investing

SROI - social return on investment

TOC - Theory of Change

UNCTAD - United National Conference on Trade and Development

VC - venture capital

WEF - World Economic Forum

Appendix E: References & Further Reading

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