Canada Forum for Impact Investment and Development

# Through the Pandemic and Beyond

*"The pandemic and shutdown of advanced economies could push as many as 60 million people into extreme poverty – erasing much of the recent progress made in poverty alleviation," World Bank Group President David Malpass.*[1]

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**Dealing with the COVID-19 pandemic and beyond is a defining imperative of our time. For Canada's impact investors, this is also the moment to build the resilience case of impact portfolios. As we emerge from the acute phase, CAFIID members are peering through the fog of uncertainty to position themselves once the crisis has passed and things return to normal. The question however is, 'what will normal look like?'**

In May, CAFIID conducted a survey of members[2] to understand how the pandemic has affected their organizations, investees and their investees clients. We also spoke to leaders in Canada responsible for impact investing in emerging and frontier markets to discuss their survival strategies and what the other side could look like. Insights for this article are also drawn from CAFIID's first CEO Live Discussion on June 3rd.

Just over half (54 percent) of survey respondents said that the pandemic has negatively or very negatively affected their organization. Over 94 percent reported negative impacts on their investees. The biggest challenges cited by their emerging and frontier market investees are reduced demand for products or services (85 percent), insufficient working capital (75 percent) and supply chain issues (65 percent).

From Sarona Asset Management to Engineers Without Borders, everyone is seeing dramatic changes in their portfolios. The speed of change has been dizzying, and all are having different discussions for different types of portfolios. Liquidity is the top priority

[1] https://www.worldbank.org/en/news/press-release/2020/05/19/world-bank-group-100-countries-get-support-in-response-to-covid-19-coronavirus

[2] For summary of survey results see Appendix.

and the need for risk tolerant investment capital has never been higher. Levels of global coordination and cooperation among investors is unprecedented.

Emergency liquidity facilities, patient capital, concessional finance, technical assistance and collaboration are all central to protecting the resilience of investees and portfolios.. Some, including Sarona and Cordiant Capital, are also finding that an impact focus leads to investing in more sustainable sectors in emerging and frontier markets.

For Canadian players, the pandemic lock-down means fewer hours on airplanes and more time talking with co-investors and investees. “The result, said Alexa Blain, Managing Partner of Deetken Impact, “is deeper relationships with portfolio companies.” New deal flow is also emerging from trusted partners on the ground.

Quebec-based Développement international Desjardins (DID), Oikocredit and Deetken Impact see the majority of their investments flow to microfinance (MFIs) and financial institutions (FIs). Keeping MFIs and FIs strong is critical to protecting the most vulnerable local entrepreneurs who bank with them. “Our investments are mostly debt funds. In a crisis, if there’s a problem asset or company, all lenders need to work together to preserve the company as a going concern,” said Blain of Deetken.

DID is leveraging the deep expertise of their parent, Desjardins Financial, to provide technical assistance to the FI investees who lack the experience or capacity to face the current challenges said Robert Cheberiak, Director of Investments in a recent call.

Jean-François Sauvé, Partner and Co-CEO at Cordiant Capital, has not yet seen negative outcomes in most of their portfolio. He said, “Cordiant’s investing focuses on four sectors that we believe are sustainable, each of which benefits from strong economic tailwinds. As such, we expect our portfolio companies to weather the current crisis well. Since the onset of the pandemic, our first line of interest has been to evaluate the impact of the crisis on the operations of our investees to ensure that they have access to sufficient cash resources.”

Gerhard Pries, founder and CEO of Sarona, says, “Our fund of funds approach seems to be working well at the moment as local funds are much closer to the ground so more able to provide direct support to their [investee] companies than we could from Canada.” Sarona’s portfolio of funds is invested in 300 companies together employing over 200,000 staff. To keep those companies afloat, co-investors are establishing liquidity facilities seeking EUR 40M for the companies on the verge of collapse.

Pries, Sauvé and others are keen to see more liquidity from the G20 and development finance institutions (DFIs) to support viable small and mid-sized companies. To protect gains made towards achieving the SDGs from being decimated by the pandemic, trust and partnerships must be built with the public, private, and civil society sectors.

With an unprecedented outflow of capital from emerging markets in the last quarter,[3,] DFIs are uniquely positioned to attract private investment in developing countries through syndication, securitization and other means. Most DFIs raise concessional funding from donors (typically government development agencies), blend it with their own capital and thus are able to invest at below market terms to reach companies and projects they typically do not support. Bilateral DFIs actively structuring blended finance deals include the UK's CDC,  Netherland's FMO, France's PROPARCO, United States' DFC, and Germany's KfW.

FinDev Canada, founded in 2018 with a capitalization of $300M, is smaller than its peers who, according to a 2018 study, have financial commitments ranging from $4B (UK's CDC) to $18B (US DFC)[4]. For now, FinDev Canada is focused on providing liquidity to financial institutions and private equity funds, according to Paul Lamontagne, CEO. With COVID-19 spiking demand, FinDev Canada has accelerated its investment process to approve deals in as little time as two months. Lamontagne expects 2020 investments to double to twenty deals over the ten equity and debt products deployed in 2019.

With staff now working from home, FinDev Canada is relying on partners with deep market experience and boots on the ground who are sharing due diligence, deals and investee resilience and response reports. A member of the DFI Alliance, the current crisis is seeing unprecedented cooperation among DFIs.  This is something that is happening across the Canadian impact investing space with over 70 percent of survey respondents reporting greater collaboration with peer organizations being the greatest opportunity to emerge from this pandemic.

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[3] Institute for International Finance, Capital Flows Report, April 9, 2020

[4] Comparing Five Bilateral Finance Institutions and the IFC, Centre for Global Development, January, 2018, p. 5

While a working group of DFIs has defined a set of principles around deploying blended concessional capital[5] blended finance is not on the table, at the moment, for FinDev Canada. Positioned behind commercial investors, FinDev Canada is positioned between concessional capital and purely commercial financing on a funding continuum that starts with grants on one end and commercial investors on the other. Lamontagne states that, as a result of the pandemic, FinDev Canada is working with exceptional levels of risk.

“The risk profile of the markets we are in has deteriorated,” said Lamontagne. “Every economy has been downgraded by one or more of the agencies. So just to remain [in these markets] our risk profile has increased. Our board supports that. We need to accept that a commercial investor is not as present today in these markets as before. The DFIs must move to occupy that space – so any concessional money needs to move down the risk continuum,” said Lamontagne.

COVID-19 has stalled deployment by Global Affairs Canada (GAC) of concessional capital. In the 2018 federal budget, Ottawa committed $900M over five years under the International Assistance Innovation Program (IAIP) for concessional finance to support the SDGs. However, funds have yet to flow from Ottawa and, with a recent notice posted on the IAIP website cautioning significant delays due to the current pandemic crisis, no one should expect Ottawa to move anytime soon.

In the meantime, Paulo Martelli, Head of Investments at FinDev Canada is keeping his eye on their portfolio and considering how things will work in the future - which business models, cost structures and revenue streams will still make sense in a post-pandemic economy. Will high volume, small margin businesses survive in a world defined by social distancing?

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[5] DFI Working Group on Blended Concessional Finance for Private Sector Projects, October 2018. For the most active DFIs by number of financial commitments see How Development Finance Institutions engage in blended finance, Convergence, 12 March, 2019.

*"The coronavirus crisis has raised the stakes, and despite its catastrophic nature has created an added opportunity for us to accelerate systemic change..." Overseas Development Institute (ODI).*[6]

London-based ODI, an independent think tank, is calling for a global reset and asking decision-makers how to reinvigorate global cooperation to deliver a fairer more sustainable future for all. In times of crisis opportunities emerge and creativity, innovation, and entrepreneurship are inspired. Despite deteriorating economies, Pries is optimistic about the future of Canada's impact investing culture and he is not alone. When asked about the turbulence facing Deetken, Blain said, "this is not the time to back away from emerging and frontier markets. Rather it is the time to double down and focus the recovery on the right tools moving forward." She believes the pandemic has accelerated a trend that was there already – a shift to purpose-driven investments alongside financial returns.

Amidst the market turmoil commentators are declaring socially responsible investing "a rare bright spot in this year's market meltdown."Morningstar, the investor research firm, has reported global sustainability-focused funds attracted a record inflow of $45.7B in the first quarter of 2020[7]. There is also potential for impact investing to grow given governments are unable to fully fund progress to the SDGs by 2030. Cordiant has long used ESG as a tool for screening potential investments. The viability of this approach, said Sauvé, was confirmed in a 2016 report by McKinsey that concluded that investors who factor ESG alongside returns are better stewards of capital.

The structural drivers of investors' growing interest in ESG investing — from millennials managing their money in socially responsible investments, to the imperative of addressing climate change and inequality — have not gone away in the pandemic crisis. And that creates opportunities for Canadian-originated impact investing in

[6] See ODI call to decision-makers to manage the pandemic recovery and rebuild differently to provide a more equitable and sustainable future.
[7] https://www.cnbc.com/2020/06/07/sustainable-investing-is-set-to-surge-in-the-wake-of-the-coronavirus-pandemic.html

developing countries. To get there Canada needs to address the structural and regulatory barriers, and create more space for collaboration.

Cautious or optimistic, Canada has work to do to grow our participation in this sector. Europeans embraced impact investing decades ago. Denmark's DFI, Investment Fund for Developing Countries, founded in 1967, launched an SDG fund at the beginning of 2019 and raised almost $1B – mobilizing most, if not all, pension plans in Denmark.

The risk-averse character of Canada's large pension funds is often used to explain their slow adoption of impact investing. As Pries said on June 3rd, "The Canadian government needs to be a courageous actor." He is calling for government action to drive the big institutional funds to allocate part of their total portfolios to impact.

Lamontagne spends a lot of his time on mobilizing private capital. "I see a world where every financial institution in Canada has an impact investing arm. All pension funds, banks and family offices will be impact investors in one way or another. Over the past year, I have met with the CEOs of most pension funds in Canada. We are introducing ourselves and asking what is their impact strategy is? They all have an answer. Some even speak of the SDGs but it's mostly focused on ESG reporting," he said.

In the June 3rd Live Discussion, Blain zeroed in on a lack of retail investment opportunities in Canada - with VanCity's Unity GIC as one exception. "We need to bring more investors into this space," she said.

"Impact tracking is why impact is different," said Bain. Impact tracking differentiates impact investments from ESG. In an effort to standardize impact measurement, the IFC launched the Operating Principles for Impact Management (the Principles) in 2019. Signatories, including Cordiant Capital, Deetken, FinDev Canada and Sarona, will disclose annually their alignment with the nine principles and provide regular, independent verification.

In an encouraging development, BMO Financial Group recently became the first of Canada's bank-owned asset managers to sign the Principles.

"Canada's impact investors in emerging and frontier markets are a tight-knit community. That works to your advantage over other northern countries", said Rachna Saxena, Associate Partner in the New York office of Dalberg Advisors.

Canada hosts several internationally important market builders and aggregators who share a global lens - Convergence, FinDev Canada, Grand Challenges Canada (GCC) and the MaRS Centre for Impact Investing. For Saxena, key questions are, "How is FinDev Canada amplified by Convergence? How does GCC interact with potential Canadian investors?"

For Canada's big fund managers, Convergence is an important platform to research global deal offerings. For family offices and other impact investors, Toronto-based Grand Challenges Canada, has a pipeline of over 1,000 innovations in 95 countries.

Karlee Silver, co-CEO of Grand Challenges Canada, would like to accelerate the UN's Every Woman Every Child commitment by seeing Canada become a lead investor. "Canada has the right credentials when it comes to supporting innovation targeting healthy and empowered women, children and adolescents." she said on June 3rd adding, "While generally an impact-first investor, GCC is now looking to address a critical gap that presents an opportunity for Canada." To get there, GCC is hosting the Every Woman Every Child Innovation Marketplace, a strategic alliance with Bill & Melinda Gates Foundation, Government of Norway, United States Agency for International Development, and Every Woman Every Child, which offers a portfolio of the most promising innovations for women and children's health in low- and middle-income countries ready to scale up, and a network of global funders to form funding syndicates to accelerate these innovations scale and sustainability."

Educating financial services players is key to moving impact investing into the mainstream according to Sauvé who finds it easier to source emerging markets private debt investors outside Canada. "Traditionally, our approach has resonated more with international investors than Canadian ones. European investors, in particular, were ahead of the trend when it comes to ESG and Impact investing," said Sauvé.

CAFIID's ground-breaking 2019 Report on Canadian Impact Investing in Emerging and Frontier Markets, identified six action areas to grow this sector. The May CAFIID survey asked respondents which of those recommended actions are the most important in a post-pandemic world. The two highest priorities for CAFIID members today are:

1. challenge new thinking on the role of capital in global development;
2. advance blended finance partnerships.

CAFIID is committed to building our community and has a solid foundation for our ambitions. The relationships in CAFIID's network run deep. Our wide networks are essential to building the space for impact investing in developing countries.

Mobilizing capital, amplifying our market builders and networks, promoting consistent impact measurement standards, educating financial markets, and advocating for concessional finance to structure blended finance deals are all part of the path forward for CAFIID. The pandemic underscores just how important and urgent our work is.

For Silver, the world is on pause, thinking about rebuilding for greater diversity and sustainability. In the June 3rd Live Discussion, she talked about the, "...broad adoption of things five months ago we would have thought as ludicrous. What can be accelerated now? We need to understand how innovation can help us leapfrog into the world we were trying to create before COVID-19."

Silver points to WelTel Health, a healthcare innovator advancing mobile health. With early stage funding from Grand Challenges Canada, WelTel's business model was validated in a randomized clinical trial. It showed significant benefits of using low-cost mobile phones to improve adherence and treatment outcomes in HIV patients in Kenya. With COVID-19 disrupting patient access to healthcare professionals, WelTel is bringing its solutions to Canada, the UK, Rwanda and Kenya. Their digital health platform balances the need for patient isolation in the context of COVID-19 with the need for continuous, real-time data collection and dissemination of essential public health information.

There are many more WelTel opportunities for Canadian investors. COVID-19 is the moment for strengthening the CAFIID network and working together to bring new Canadian capital onboard.

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## Appendix

# 2020 COVID-19 Pandemic Response Survey

**Between May 7 and May 25, 2020, CAFIID surveyed members about the impact of the COVID-19 pandemic on their organizations, their clients, and investees in emerging and frontier markets. The goal was to assess the community response and to better redirect CAFIID priorities for implementing the 2019 CAFIID Landscape Report recommendations for mobilizing additional Canadian resources for investing in Emerging and Frontier Markets. This note provides a summary of survey responses and highlights some innovative approaches that CAFIID members are using to respond to the pandemic.[8]**

### Who responded, which regions do they work in and what do they do?

- 60% private sector organizations
- 30% non-profit organizations
- 10% public sector or foundations

In terms of emerging and frontier markets:

- over 66% work in Sub-Saharan Africa
- 50% in Latin America (including Mexico and the Caribbean)
- 30% (approx) in South Asia and Southeast Asia
- 20% in Eastern Europe

Respondents came mostly from the group of CAFIID members with direct experience in impact investing. Over 63% of respondents conduct private sector investment and activities, with 20% undertaking grant making. Other popular activities of respondents

[8] A total of 30 of CAFIID's 80 members responded to the Survey. We estimate the margin of error is 15% at a 90% confidence level.

included grant receiving and research with 13% of respondents indicating that they do these activities respectively.

## How is the pandemic affecting CAFIID member organizations?

In terms of the impact of COVID-19 on their businesses, **over half** of respondents said that the impact was either **negative** or **highly negative**. 37% said it had a neutral effect and 10% said the effect was positive.

Respondents were asked to indicate all of the challenges they were facing as a result of the resulting from the pandemic. The biggest challenges identified by respondents were: delayed workflow (63%), decrease in productivity due to a shift to remote working (43%) and reductions in organization expenditure (37%).

Other challenges included child care for working parents (30%), difficulty staying connected with clients (30%) and supply chain issues (16%). 7% reported employee layoffs, or employees or family members getting sick as main issues.

## How is the pandemic affecting clients or investees in emerging or frontier markets?

For clients/investees in emerging and frontier markets, the impact is far worse than for CAFIID members. Over 82% respondents reported COVID-19 impact as **negative** or **highly negative** for investees. 18% reported the impact as neutral. No one indicated that the pandemic had a positive impact.

When asked to identify all of the challenges facing their emerging and frontier market clients or investees as a result of the pandemic:

- 78% seeing a **reduction in demand for their products and services**
- 73% have **insufficient working capital**
- 70% report **supply chain issues**
- 52% have **laid off employees and have difficulty staying connected with clients**
- 43% have **reduced organization expenditures**
- 30% are experiencing **a decrease in productivity due to remote working**

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Interestingly, 30% also indicated an **increase in demand** amongst some of their investees or clients. *Several respondents indicated that they saw both an increase as well as a decrease in demand amongst their clients/investees which shows how the pandemic may be affecting different organizations and sectors in their portfolio in different ways.*

**CAFIID members are using innovative approaches to support clients and investees.**

CAFIID members are responding swiftly to support their clients/investees.

- Over 50% have provided **liquidity** or **working capital** as a means of support
- Over 44% are providing **technical assistance** and **training**
- Over 25% are providing **loan guarantees**

Other support mechanisms identified by respondents include providing **tools for business continuity** and **scenario planning** and **stress testing**. Some respondents have helped their clients to **pivot to direct to consumer sales and delivery** in the case of investees/clients who normally rely on traditional retailers to sell their goods and services.

For those who provide **debt**, many have been providing **grace periods (moratoriums) or changing repayment schedules**.

For those who are **raising investment funds**, requirements are also shifting as the market does. Over one third of respondents indicated that **a shorter time to market for new products or services and reduced due diligence time was an important opportunity arising from the pandemic**.

Other means of support includes **helping companies to pivot to support a market/channel that focused on COVID-19** or finding ways of directly supporting the pandemic relief efforts such as 3D printing of PPE, transitioning from juice making to hand sanitizer, and supporting emergency ambulance care for COVID-19 patients.

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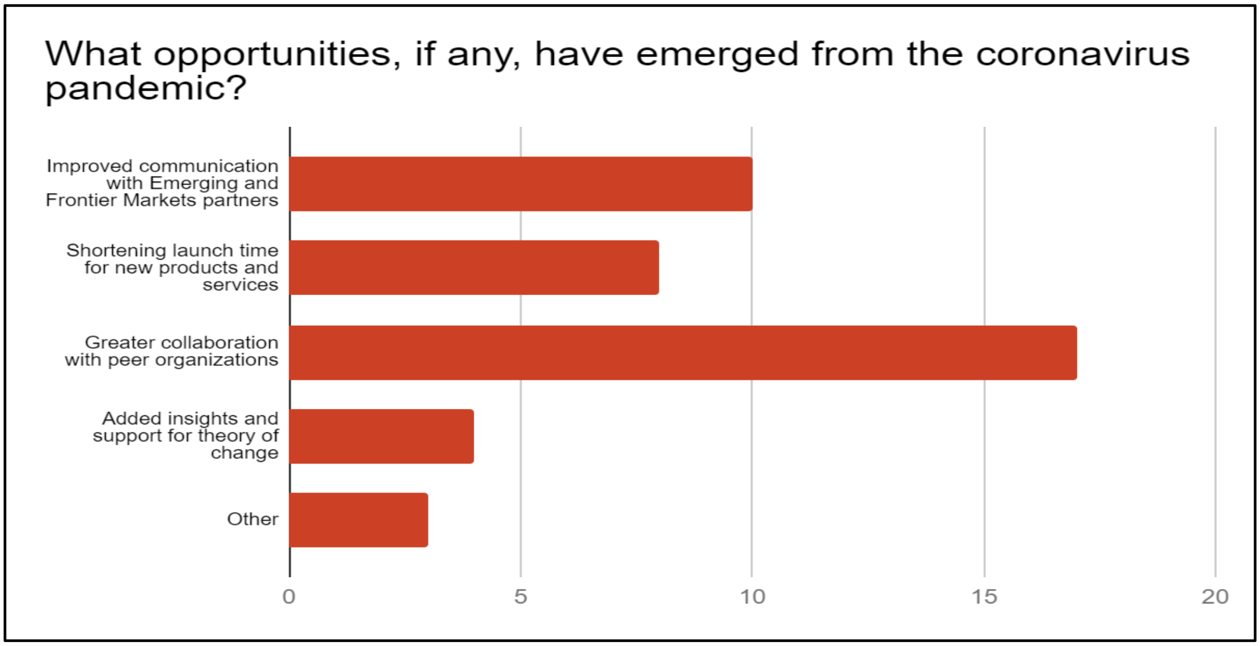
Some respondents noted that they are speaking to their clients/investees more regularly and that in some cases, they have been easier to contact. They have also sought to share best practices amongst investees through webinars and calls. **Overall there has been an increase in online connections, e-signatures, and use of online coordination tools that are likely to continue post pandemic.** Over 41% of survey respondents noted that improved communication with emerging and frontier market clients/investees was an important opportunity arising from the pandemic.

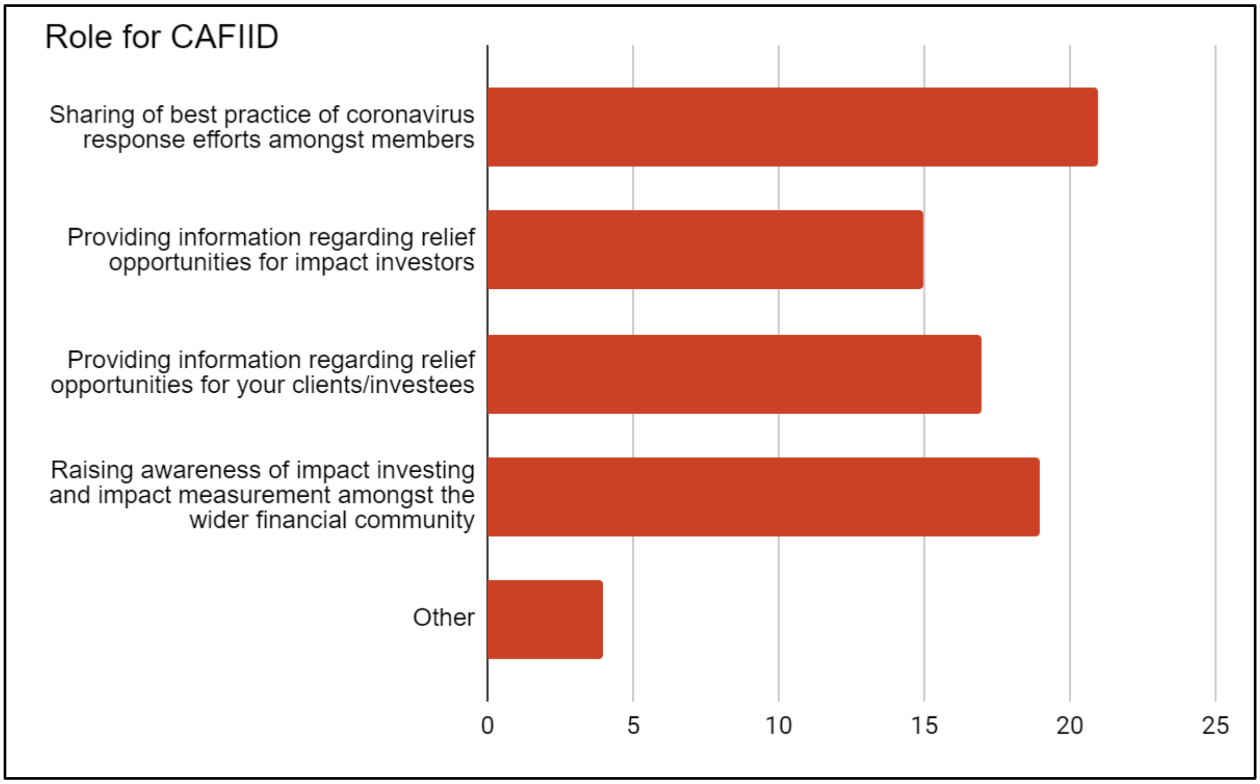



One common theme in the responses is heightened collaboration amongst peers and investors, particularly when they invest in the same organization. **Over 70% of respondents indicated that greater collaboration with peer organizations was the biggest opportunity emerging from the virus.** It is hoped that this will continue after the Covid Pandemic.

## CAFIID has a key role to play

Over 72% of respondents indicated that CAFIID has a key role to play in **sharing best practices of coronavirus response efforts** with members. Over 65% feel that CAFIID should be focusing on **raising awareness of impact investing and impact**

**measurement amongst the wider financial community**. 58% believe CAFIID should be providing **information regarding relief opportunities for its clients/investees.** Finally, 51% feel that CAFIID should be providing information regarding **relief opportunities for impact investors.**




We also asked respondents how the pandemic has changed the urgency of the 2019 CAFIID Landscape Report recommendations for mobilizing additional Canadian resources for investing in Emerging and Frontier Markets. Over two-thirds of respondents were aware or very aware of the Report. Of the 16 recommendations in the Report the following recommendations were identified on a scale of 'least important' to 'most important' and most frequently identified as 'most important':

- 40% said the recommendation to "Challenge thinking about the use of capital as a tool for international development".
- 37% said the recommendation to "Advance blended finance partnerships as a means of derisking impact investing in emerging and frontier markets."

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- 33% said the recommendation "Commit capital to emerging and frontier market fund managers."

## What's next?

This survey has highlighted the challenges that are being faced by CAFIID members and their investees or clients as a result of the pandemic sweeping the globe. While there are many challenges, particularly for the millions of small businesses in emerging and frontier markets, our members are stepping up to support their clients and investees. From relaxing terms and conditions, supporting pivots to new products or services and increasing communications and collaborations are all examples of some of the shifts underway.

But there's much more that needs to be done to address both the impact of the pandemic and fulfil CAFIID's mandate to strengthen the value and the volume of impact investment in developing countries. CAFIID will continue to act as a platform for members to learn, share, collaborate to share best practices about how to respond to the Covid Pandemic. It also remains an important platform to act as a collective voice to raise awareness of impact investing and impact measurement amongst the wider financial community.

We are grateful to CAFIID members for participating in the survey and plan to use members' feedback to guide us in the coming months. In particular, we are developing an action plan to focus on how best to address the key recommendations.

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