

Advancing SDG focused Impact Investing in Emerging Markets

June 14, 2023 Event Summary Report



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ADVANCING SDG FOCUSED INVESTING IN EMERGING MARKETS

Impact investments seek to generate positive, measurable, social and environmental impact, along with a financial return.

The Canada Forum for Impact Investment and Development (CAFIID)

is a community of individuals, organizations and investors who treat positive social and environmental impact and financial returns as co-existing priorities. CAFIID members have a combined track record of innovation in structuring impact investment products, delivering technical assistance, and promoting sustainable investment ecosystems in emerging markets and developing economies. As a community, CAFIID members believe that impact investments are critical to supporting economic growth and achieving the Sustainable Development Goals (SDGs) by fostering more prosperous, inclusive selection and management of investments.



On June 14th, 2023, CAFIID convened 97 stakeholders to explore opportunities to advance the commitments CAFIID made in its 2021 State of the Sector Report and to address the barriers inhibiting its growth in an effort to contribute to the development of the global impact investing ecosystem with a focus on emerging economies. Through a series of working groups, the participants examined a variety of issues related to SDG focused impact investing and developed recommendations for CAFIID and the sector. The event also featured the launch of an impact measurement and management community of practice and working closely with other Canadian impact investing organizations to advance a National Advisory Board on impact investing. These two areas will be critical for advancing impact investing in Canada and around the globe.

STATE OF THE SECTOR REPORT RECOMMENDATIONS AND WORKING GROUP DISCUSSIONS

Over 20 experts participated as small group discussion leads and speakers. The interactive session featured a total of nine working groups, three of which covered Gender Lens Investing (GLI) theme. Each group discussion was led by an industry expert with knowledge of the specific theme. The following sections summarize the discussions.



Themes

- Advancing Canadian leadership in Gender Lens Investing (GLI);
- Deepening diversity, equity, and inclusion in impact investing;
- Mobilizing institutional investors;
- Expanding the participation of International Non-Governmental Organizations (INGOs) and philanthropic capital;
- Updating taxonomies and fiduciary duty; and
- Harmonizing impact standards.

ADVANCING CANADIAN LEADERSHIP IN GENDER LENS INVESTING

The State of the Sector Report noted Canadian leadership in Gender Lens Investing (GLI) which is investing that seeks to advance women's wellbeing and leverages investment as a tool to support women's engagement in the governance, employment, supply chains and client base of investee companies.

The discussion noted that women often face unique challenges due to social norms and time poverty. Tailored support and capacity-building programs are needed to address these specific needs and to help women become investment-ready. GLI is about impact, not just capital. Broader adoption of GLI requires a shift in focus from simply moving capital towards actively promoting gender equality and women's economic empowerment through designing and structuring of investment products. It also requires follow-on monitoring, evaluation, and learning activities. It was also noted that traditional criteria for evaluating businesses may not be suitable for women-owned and -led enterprises. Adopting gender-specific evaluation criteria is essential for supporting and investing in women-owned and -led businesses effectively. Engaging men in discussions about gender equality and GLI is critical.

Some of the key interventions to advance GLI includes supporting the care economy which can help provide the necessary support structures for women, enabling them to balance business responsibilities with caregiving duties effectively. Another opportunity includes collaborating with Women's Rights Organizations (WROs) and gender specialists who can help the community be more intentional about driving more power-aware businesses into the GLI space and support more awareness in the private sector for gender equality initiatives.

CAFIID has a unique role to play in advancing GLI in Canada. Through the Community of Practice, CAFIID can continue to share GLI best practices and success stories to encourage investors stakeholders to adopt gender-inclusive strategies.

DEEPEN DIVERSITY, EQUITY AND INCLUSION IN IMPACT INVESTING



The State of the Sector Report noted that there was little data within CAFIID members on the level of diversity, equity and inclusion (DEI) in the impact investing sector. The working group noted that data gaps need to be addressed to understand capital flows better and identify areas for improvement; prioritize comprehensive data collection and utilization for informed investment decisions.

While data is limited, the working group recognized the need for impact investors to address DEI by tackling unconscious and implicit biases within impact investing processes. While unconscious bias training is a good first step, it has limitations. Additional strategies are required to deepen diversity, equity and inclusion in impact investing.

Critical to advancing DEI in emerging market impact investing involves building networks and adapting to local communities. Empowering communities and locally based teams to be active participants in the decision-making process for impact investing is also critical.

For impact investing to be truly inclusive, it was noted that it was critical for organizations to adopt a comprehensive organizational approach to inclusion beyond compliance. This can include an Equity, Diversity, and Inclusion (EDI) pipeline of key staff across all levels of the organization as well as addressing gender diversity disparities from entry-level to leadership positions. Finally, intersectionality must be considered in diversity analysis, especially in the Canadian context.

CAFIID commits to support greater collection of DEI data to understand the demographics of the sector and to work closely with other organizations to advance DEI in impact investing in Canada.



MOBILIZING INSTITUTIONAL INVESTORS

One of the key findings of the State of the Sector Report was that there is little engagement by Canadian institutional investors in emerging market impact investing and that for the sector to grow, their participation is critical. While there has been an increase in ESG focused investing by institutional



investors, impact investing remains limited and impact investing into emerging markets even less. It was noted that other OECD countries have made progress in engaging institutional investors and the Danish SDG fund, a blended finance fund supported by Danish pensions, their development finance institution (IFU) and the Danish government was highlighted in the report as an example.

The lack of standardized impact metrics and frameworks which limit the clear evaluation and comparison of impact investments was also cited as a barrier. Frameworks like IRIS+ can clarify impact objectives and facilitate understanding among stakeholders. Integrating standards currently being used by asset owners and asset managers, such as the ones advanced by the Sustainability Accounting Standards Board (SASB) and Task Force on Climate-Related Financial Disclosures may help attract institutional investors. The establishment of the International Sustainability Standards Board in Montreal provides an opportunity for Canadian impact investors to support the development of standards.

Mismatched deal size was also noted as a barrier. Institutional investors prefer or need larger and more liquid investment opportunities. However, for many institutional investors there is a lack of investable projects at the size and scale needed to draw their interest.

CAFIID commits to continue to work with others to share ideas, experience and global examples of successful institutional investors investing in emerging and frontier markets.

EXPANDING PARTICIPATION OF NON-GOVERNMENTAL ORGANIZATIONS AND PHILANTHROPIC CAPITAL

As impact investing and blended finance become an ever more important part of the development funding landscape, there is a role for international and local Non-Governmental Organizations (NGOs) to participate in impact investing. The working group highlighted issues related to the misalignment of mandates and the regulatory constraints that hinder both NGOs and philanthropic organizations from pursuing impact investment. However, it was also noted that the barriers and challenges differ across these two groups. For philanthropic organizations, there is more to do to encourage the use of impact investing tools as part of the overall toolkit in addition to aligning their endowments towards impact.

For NGOs, overcoming ideological and perception barriers requires NGOs to shift the narrative to emphasize impact investing's role in social change. Innovative solutions can include leveraging concessional finance or engaging in blended finance structures and learning by doing or by sharing experience. CAFIID has an important role to play in this regard.

Promising practices include NGOs supporting impact investment industry development without actually deploying capital. MEDA recently established MEDA Impact Investing which is the first charitable organization in Canada with impact investing in its charitable goals. It was also noted that for NGOs in particular, institutional donors have an important role to play to support wider impact investing adoption.

CAFIID Commits to work with other Canadian organizations to address barriers to philanthropic engagement in impact investing and to share best practice for impact investing by NGOs.





UPDATING TAXONOMIES AND FIDUCIARY DUTY REQUIREMENTS

Taxonomies are systems of classification of economic activities that provide criteria to evaluate activities' environmental or social impact. They provide definitions and guidelines to investors to help them know what economic activities are sustainable or impactful and in what circumstances. Taxonomies help investors and corporations working within a region to make investment decisions and to allocate capital. By providing a clear definition on what is an impact investment, taxonomies increase market clarity and can help attract international investment by allowing for consistent comparisons between similar investments.

The discussion noted that clear taxonomies and standardized analysis boost investor confidence, with auditors playing a key role in ensuring credibility. Addressing green taxonomy and divestment practices is vital for driving change and collaboration in impact investing. International initiatives like the International Financial Reporting Standards, Global Reporting Initiative are essential for establishing global standards.

HARMONIZING IMPACT STANDARDS



The importance of harmonized impact standards, and some of the challenges related to impact measurement was also discussed in a working group. It was noted that there is some harmony amongst ‘high level’ such as the Sustainable Development Goals. However, there is less harmonization at the more detailed and granular level. While donors and regulatory bodies play a significant role in advancing harmonization standards, it was noted that customized standards used by different Development Finance Institutions (DFIs) and other organizations further complicates harmonization with some DFIs focus on compliance over broader impact and governance issues.

While harmonization of standards will help grow the sector, it was noted that standard KPIs may not fully capture an organization's impact, necessitating the development of more meaningful indicators and that impact approaches should be adaptable to suit organizations' scale and nature, avoiding one-size-fits-all practices.

The discussion noted the importance of distinguishing between impact and more standard Environment, Social and Governance (ESG) considerations found in responsible investing. It was noted that this distinction is essential in measuring revenue streams' effects on social and environmental issues. Environmental impact frameworks and KPIs have matured, but social metrics and frameworks require further refinement.

The working group also discussed several key issues related to measurement including scope, process, and the integration of measurement into the overall process. In terms of scope, it was noted that a more expansive view of impact measurement involves measuring indirect impact. Measuring indirect impact is challenging without standardized frameworks which may hinder a comprehensive view of an organization's impact. In terms of process, it was noted that consistent data collection, ideally from the beginning and annually, is vital for effective impact measurement. In addition, for some investors or funds, incentives may be needed for investee Small and Medium-Sized Enterprises (SMEs) to participate.

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CAFIID IMPACT MEASUREMENT AND MANAGEMENT COMMUNITY OF PRACTICE (IMM COP) TO DRIVE ADVANCEMENTS IN IMM IN CANADA

Given the importance of impact measurement and management as an issue, the event also featured a panel discussion on Impact Measurement and Management. Some of the key takeaways include:

Proactivity: A proactive approach to IMM is necessary. Rather than relying solely on retrospective analysis, organizations should continuously educate and advocate for integrating impact considerations throughout the investment process. This approach ensures that strategic decision-making is based on intended results, maximizing the positive impact.

Transparency is a crucial aspect of IMM reporting. The panelists emphasized the importance of not only describing and reporting impact, but also providing transparency regarding the "why" behind impact investments. Transparency fosters trust among stakeholders and helps avoid double-counting of impact, ensuring that each impact investor's contributions are rigorously accounted for. Transparency in "how" impact is measured is equally important.

Standardization while accounting for contextual nuances is important. Standardized approaches to impact measurement to facilitate comparability across projects and sectors are important. However, recognizing the contextual nuances within each initiative must be part of the process. The panel shared information on the 5 Dimensions of Impact used by established and reputable IMM platforms including the Impact Management Platform (IMP), a global initiative, and the Common Approach to Impact Measurement, a Canadian initiative. While a common language for impact measurement is helpful, it's important to strike a balance between standardization and contextual understanding to reach maximum impact.

The Impact Management Project (IMP) was highlighted as an important framework.

“By implementing the IMP or five dimensions, the partners are able to articulate their thoughts on it. Management team is able to understand and most importantly, the board can see the strategic intent and expected impact. Sometimes a combination of traditional metrics plus the five dimensions works the best”.

Alyna Wyatt, Senior Advisor, Impact and Learning at BHP Foundation

Engagement: Stakeholders and communities must be engaged. The role of stakeholders, including communities, in optimizing IMM was identified as an important measure of success. Organizations should embrace shared responsibility and transparency, opening up measurement practices for correction and improvement. Empowering communities to advocate for accountability ensures investments align with the realities on the ground, leading to a more meaningful and sustainable impact. By embracing participatory methods, the value of improved IMM practices should be felt by all stakeholders involved so it is not just an added ‘to-do’ for the benefit of the funder.

Clear metrics and definitions are required. The panelists highlighted the significance of clear metrics and insights derived from impact measurement to inform decision-making. Common language and definitions play a vital role in providing clarity and context. Organizations must address the challenge of differing interpretations of impact to enhance the effectiveness of impact investing efforts.

JOIN THE CAFIID IMM COP

CAFIID invites members interested in advancing IMM in Canada and abroad to join the IMM CoP. By becoming a member, participants will benefit from valuable resources, engage in discussions, and contribute to shaping the future of impact investing in the country. The IMM CoP will provide a platform for collective action and advocacy, enabling stakeholders to drive policy changes, regulatory reforms, and the adoption of standardized impact measurement practices. By speaking with a united voice, participants can amplify their impact and drive systemic change within the impact investing ecosystem.



Interested individuals should communicate with the IMM CoP lead, Sarah Nielsen, Managing Director, Relativ Impact at sarah@relativimpact.com.



REESTABLISHING A NATIONAL ADVISORY BOARD (NAB) FOR IMPACT INVESTING IN CANADA: PERSPECTIVES, BENEFITS, AND CHALLENGES

One of the key commitments in the State of the Sector Report was to work with others to address some of the barriers to the growth of impact investing in Canada. The re-establishment of a National Advisory Board for Impact Investing in Canada holds great potential for growing the impact investment ecosystem. In 2022, the Table of Impact Investment Practitioners (TIIP) and CAFIID came together to reinvigorate the Canadian National Advisory Board. The NAB will allow practitioners to share best practices and address barriers to scaling impact investing. It's goal is to:

Raise awareness of impact investing across a broad range of constituents

Engage with, and be accountable to, the communities we serve, as the collective of people and organizations making up the field's effectiveness and performance of the field

Focus on developing the overall effectiveness and performance of the field

Identify opportunities to drive toward critical mass of activity, talent, knowledge and practice exchange, supportive policy and infrastructure for impact investing



CONCLUSIONS

The day was a great opportunity to build community and revisit the key issues highlighted in the State of the Sector report and to reflect on a number of advances that have been made since its publication in late 2021 including the creation of the IMM Community of Practice and the work with other Canadian organizations to reestablish the NAB which can help serve as a platform for addressing the underlying barriers to impact investing in Canada. CAFIID is currently considering the next iteration of the State of the Sector Report. This will involve market sizing and data collection.

ANNEX

The event was made possible with the generous financial and in-kind support of the Mennonite Economic Development Associates and George Brown College.



PARTICIPANTS

HOSTS OF THEMATIC GROUP DISCUSSIONS

| Name | Position | Organization | Theme |
|---------------------|---|-------------------------|--|
| Adaora Ogbue | Director, Investment Strategy | Equality Fund | Advancing Canadian leadership in GLI |
| Katie Turner | Independent Consultant | | Advancing Canadian leadership in GLI |
| Carolyn Burns | Independent Consultant | | Advancing Canadian leadership in GLI |
| Rachel Murphy | Senior Impact Officer | Deetken Impact | Advancing Canadian leadership in GLI |
| Narinder Dhami | President | The Sonor Foundation | Deepen diversity, equity and inclusion in impact investing |
| Sarah Nielsen | Managing Director | Relativ Impact | Harmonizing impact standards |
| David Harlley | CEO | Third Way Capital | Host of the small group discussion: Mobilizing institutional investors |
| Susanne Courtney | Freelance Writer and Journalist | | Host of the small group discussion: Updating taxonomies and fiduciary duty - turbocharging or slowing down investment opportunities |
| Nadine Grant | Vice President, International Programs and Business Development | Plan Canada | Expanding participation of INGOs and philanthropic capital |

MODERATORS AND SPEAKERS IN SESSIONS

| Name | Position | Organization | Role |
|---------------------|---|---|--|
| Lindsay Wallace | SVP, Strategy and Impact | Mennonite Economic Development Associates | Presenter, Facilitator Small group discussion Panelist: National Advisory Boards to the Global Steering Group for Impact Investment |
| Jason Sukhram | Impact Services Lead | Quinn+Partners | Presenter, Facilitator Small group discussion |
| Dr. Colin Habberton | Co-Founder | Relativ Impact | Moderator: Impact Measurement and Management |
| Kelly Gauthier | President | Rally Assets | Panelist: Impact Measurement and Management |
| Alyna Wyatt | Senior Impact and Learning Advisor | BHP Foundation | Panelist: Impact Measurement and Management |
| Noura Kamel | Monitoring & Evaluation Lead | MarketShare Associates | Panelist: Impact Measurement and Management |
| Dr. Brian Carriere | SPO, Social Innovation and Impact Investing | Colleges and Institutes Canada | Moderator: National Advisory Boards to the Global Steering Group for Impact Investment |
| Jo Reynolds | Director | Social Innovation Canada | Panelist: National Advisory Boards to the Global Steering Group for Impact Investment |
| Jillisa Brown | Executive Director | Table of Impact Investment Professionals | Panelist: National Advisory Boards to the Global Steering Group for Impact Investment |

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