

## Executive Summary



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

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

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

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<sup>2</sup>DFIs: the need for bold action to invest better - AADFI

## PREFACE

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

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

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

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

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

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

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

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

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

CAFIID also lays out our commitments to growing the ecosystem.

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<sup>3</sup> Volk, Ariane, Research Analyst, International Finance Corporation, *Investing for Impact: The Global Impact Investing Market 2020*, July 2021