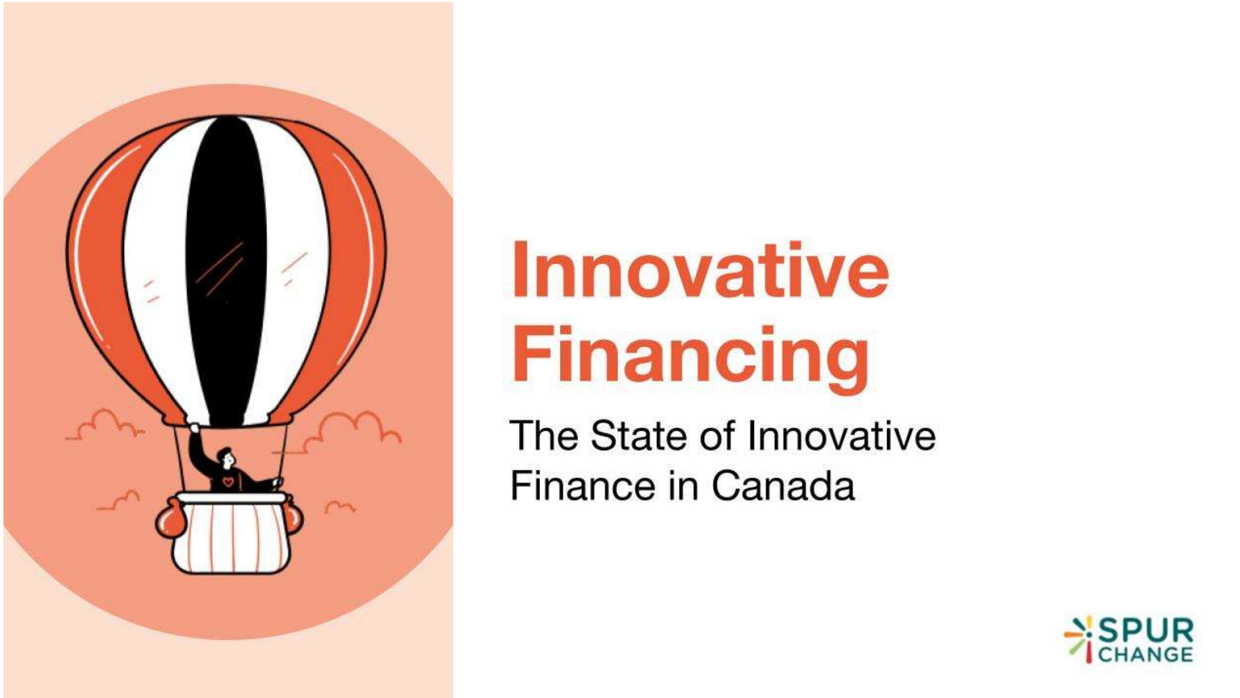


Canadian content video 2. The state of innovative finance in Canada.

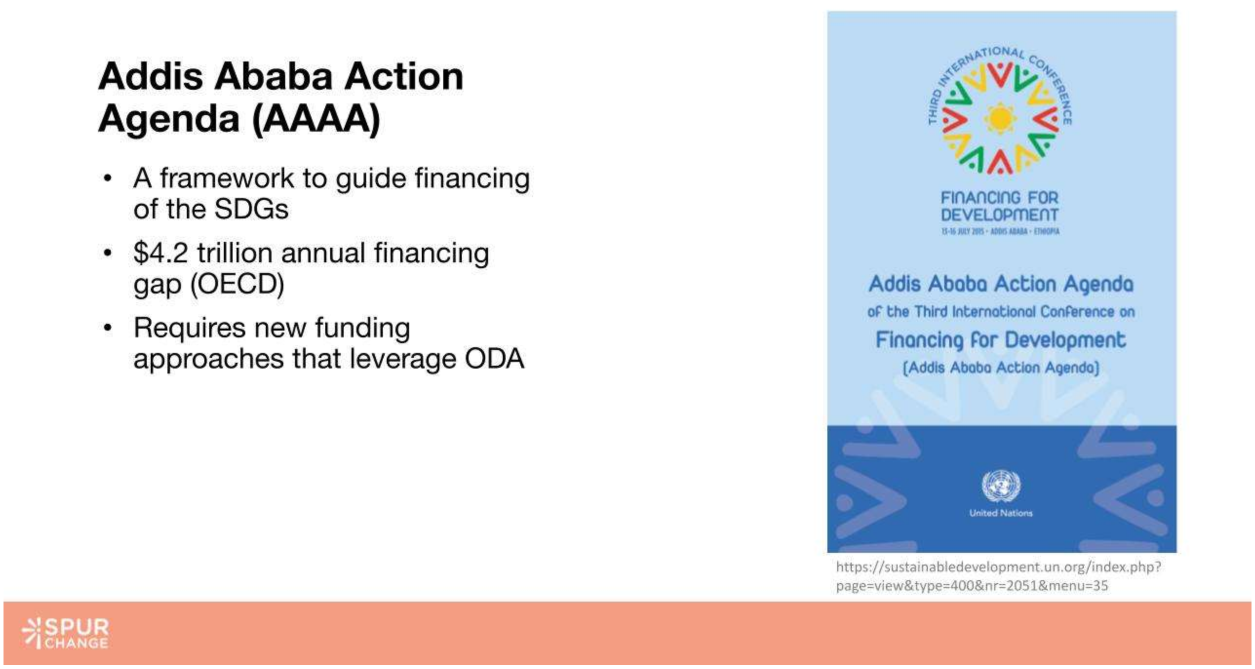
Innovative Finance: A New Funding Trend

Following the 39th G8 Summit, the Social Impact Investment Taskforce was established, with National Advisory boards established for each G8 country, responsible for investigating issues related to the impact investment market within each G8 country's context.

Canada’s own advisory board conducted an analysis and published a report with their findings and recommendations in 2014. In their report, they highlighted the restrictions faced by charities and non-profit organizations, based on the current regulatory framework, when it comes to earned revenue, and made a number of recommendations on the matter.

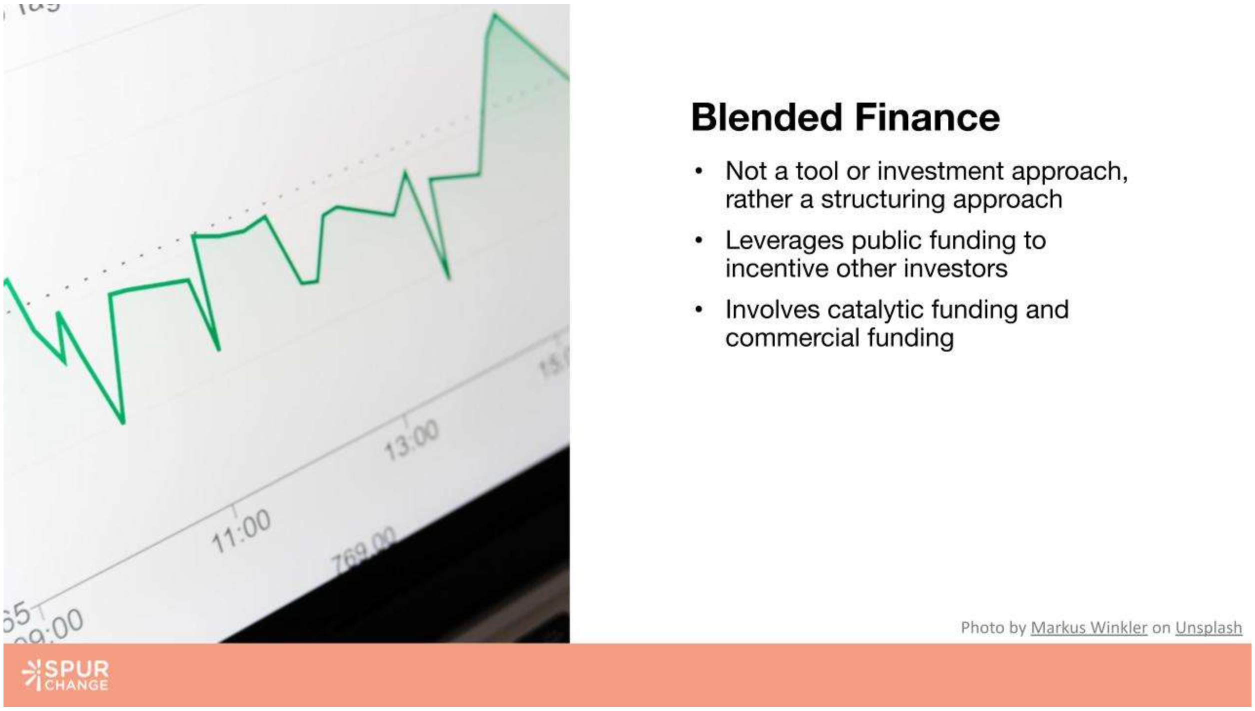
One of the recommendations made was for the Canadian Government to expand the definition of ‘related business,’ specifically, to adjust the requirement that a related business must be linked to an organization’s purpose. The National Advisory Board argued that earned revenue is going to be increasingly necessary to engage in innovative finance transactions, and outcomes-based financing, which more and more Governments are engaging in.

The National Advisory Board was speaking to a new funding trend that has emerged in the wake of the Third International Conference on Financing for Development, that took place in July 2015, in Addis Ababa, Ethiopia, and from which the Addis Ababa Action Agenda (AAAA) emerged.



The Addis Ababa Action Agenda is a framework for the mobilization, measuring and monitoring of additional sources of funding that can be leveraged, outside of Official Development Assistance (ODA), including taxation, private sector investment, philanthropy, and remittances, in order to meet the SDG financing gap. Under this framework, official development assistance will continue to be a significant pillar of development finance, especially for low-income countries, but it is not sufficient to finance the achievement of the 17 sustainable development goals (SDGs) by 2030. Pre-COVID, the financing gap to achieve the SDGs was USD $2.5 trillion annually, and post-COVID, the OECD estimates this gap could increase by as much as 70%, or USD $4.2 trillion annually.

To date, there have been a number of approaches developed to mobilize new sources of capital for funding the SDGs, the most prominent being blended finance.



Blended finance is a structuring approach that is meant to bring in a number of different investors, and involves the use of catalytic funding, which is start-up, or initial, funding that comes with little to no expectations of return, often from public or philanthropic sources, to increase private investment in sustainable development. On the private investment or commercial side, it is often development banks, commercial banks, impact investors and institutional investors that participate in these types of transactions.

The Feminist International Assistance Policy, the Government of Canada’s overarching foreign policy, references innovative finance and makes a commitment to better leverage ODA in order to mobilize new streams of public and private finance for sustainable development. In practice, this will entail the Government of Canada continuing to make use of grants and contributions for development finance but expanding and leveraging their use to include a range of new and non-traditional finance mechanisms and partnerships, while still being grounded in the Feminist International Assistance Policy's core principles.

Global Affairs Canada is currently piloting a number of innovative finance programs, including a conditionally repayable contributions pilot, that was launched during the March 2021 to April 2022 fiscal year. While already an existing funding tool, this is a new type of funding tool being utilized within the international cooperation space, which entails the Government providing funding that is repaid by the applicant or borrower, when specific conditions, that are specified in a Contribution Agreement, are met.

While still a nascent market in Canada, experts do agree that changes to the regulatory framework are needed to better enable innovative finance. In addition to the recommendations made by the National Advisory Board for the CRA to expand its definition of a 'related business,' the Board also cites the fact that Private Foundations, which are classified as a charity under the CRA, are prohibited from investing in Limited Partnerships. Impact investments and social impact bonds, both prevalent in blended finance transactions, are often structured as limited partnerships.

Therefore, considering the amount of assets held by Private Foundations in Canada, changing this rule could increase the amount of Foundation capital that is invested, and could have the potential to catalyze additional non-foundation investments. The National Advisory Board's recommendation in this regard was for the Government of Canada to change federal tax rules to allow private foundations to invest in these types of partnerships, including with non-qualified donees.

Thank you