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Canada

A Canadian Approach to Innovative Financing for Sustainable Development

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Introduction

In 2017, Canada launched its **Feminist International Assistance Policy**, which seeks to eradicate poverty and build a more peaceful, inclusive and prosperous world.

Canada firmly believes that promoting gender equality and empowering women and girls is the most effective means to achieve these goals.

The Government of Canada has a **range of financial and non-financial tools** at its disposal to achieve these objectives. For example, Global Affairs Canada (GAC) has effectively used traditional grant and contribution arrangements over many decades to achieve sustainable development results like reducing maternal mortality, increasing food security, and protecting refugees and internally displaced persons.

These kinds of investments will remain a vital part of how Canada delivers aid.

In parallel, Canada is keen to **seize emerging opportunities for new partnerships** in the development landscape and **to support promising new approaches**. This is why the 2017 Policy emphasizes Canada's commitment to better leverage its Official Development Assistance (ODA) to mobilize new streams of public and private finance for sustainable development, and to expand its partnerships towards this end. This can be done by using tools from across the innovative financing spectrum, from pay-for-results structures to debt, guarantees, equity and sovereign loan investments.

By attracting new resources and partners to complement its ODA, Canada is seeking to do all it can to achieve the Sustainable Development Goals (SDGs), and to realize the scale and scope of what is needed to lift all populations out of poverty.

Purpose

This document lays out why, how and when Canada will draw on innovative financial instruments to support the achievement of its Feminist International Assistance Policy objectives and the SDGs.

When pursuing innovative finance initiatives, Canada will seek to **target the poorest and most vulnerable, support climate change mitigation and adaptation**, and **prioritize gender equality outcomes**, particularly the empowerment of women and girls in developing countries.

Canada will use innovative finance in both low-income countries (LICs) and middle-income countries (MICs) and will seek to do so across all program channels including multilateral, bilateral, humanitarian, and with all partners, including civil society organizations.

The **ultimate goal is to achieve positive development impact by catalyzing new channels of financial resources**, applying new public sources of innovative development financing and maximizing the use of a new range of partnerships, tools, and policy and program innovations.

NOTE: Innovative financing tools may not be appropriate for every sustainable development initiative. This document aims to improve the ability of Global Affairs' staff to properly consider innovative financing tools in discussions with partners about project design and sustainable development objectives (*see more in the section on Guiding principles*).

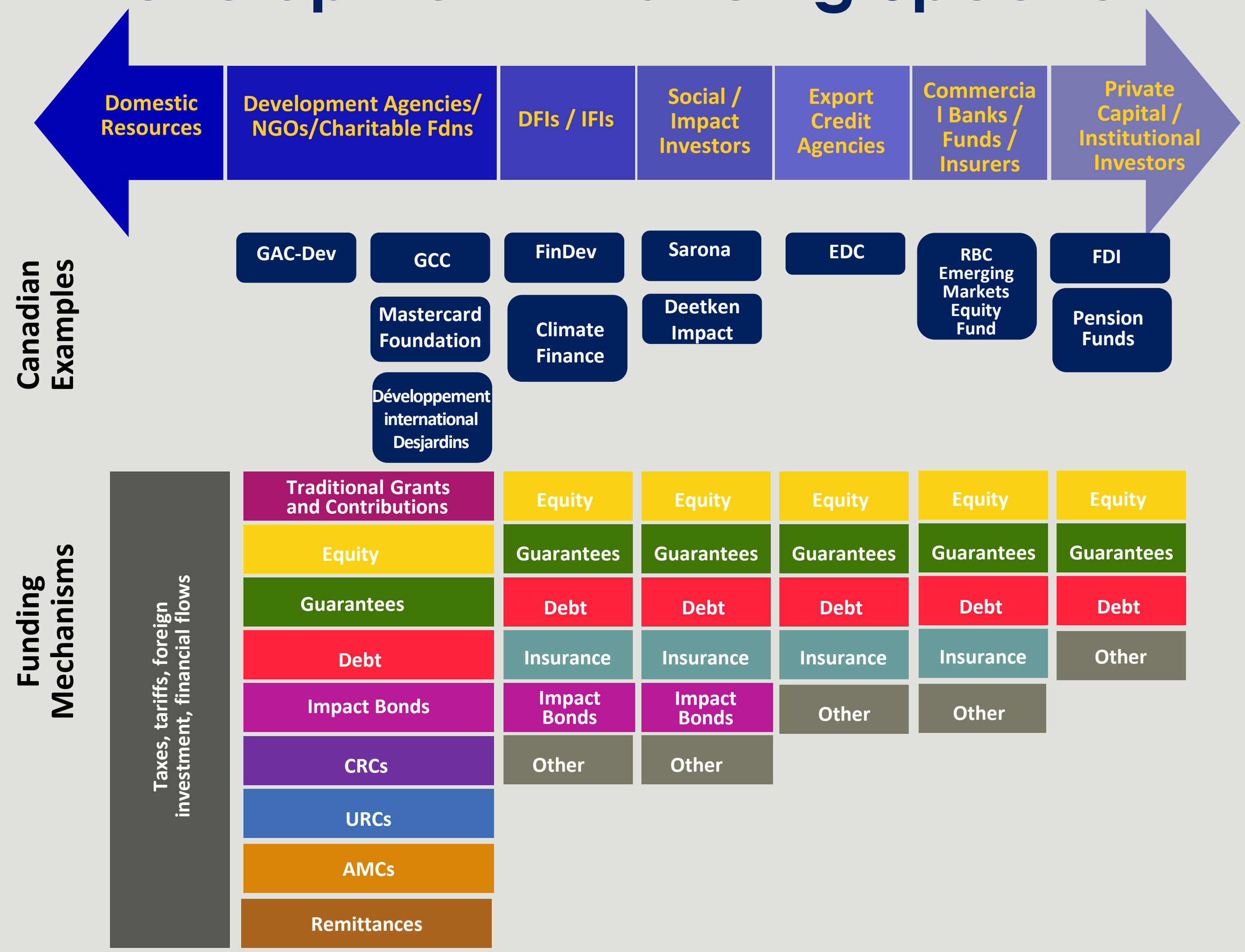
This document will be complemented by training, expert support and tools such as case studies. It will continue to be updated in response to new developments and lessons identified through the experience of Canadian and international partners.

What is financing for development?

Financing for development refers to a range of measures that allocate resources toward sustainable development impacts. It can include, for example, domestic resource mobilization (such as through taxation), remittances, the provision of ODA by partner countries such as Canada, as well as access to capital from multilateral and international financial institutions, impact and institutional investors, and the private sector.

The term **innovative finance** has emerged during the last few years. It is a set of actions related to financing for development and goes beyond traditional grants and contributions, as illustrated here.

Development Financing Spectrum



What is innovative financing?

While there is no agreed definition of innovative financing for **sustainable development among international partners**, at a general level, the term refers to financial structures and mechanisms that mobilize, govern or distribute funds beyond traditional donor-country ODA. Many of the mechanisms involve multifaceted partnerships with new actors.

As partners seek to clarify and refine the elements that may comprise innovative financing, attention is also being devoted to how best to measure the impact it can have.

Innovative finance:

- can use **public sector resources** to catalyze incremental financing from private capital sources and invest in sustainable development
- **narrows the gap** between the resources currently available from the public and private sectors, and those actually needed to achieve the SDGs
- to date, has been applied in the context of social enterprises, cooperatives, social sectors and public goods
- involves an increasingly **diverse set of investors** with different expectations of returns—from philanthropists and foundations, to impact investors, financial institutions, and institutional investors including pension funds and retail investors
- is **more than just finance** and includes knowledge and technical expertise, market access and supply chain development, and research and development
- often targets the infrastructure, energy, transportation and financial sectors in developing countries but with new models and ways of working emerging, it also increasingly involves investments **in social sectors**, such as education, health or climate adaptation
- can be **adapted to support projects in all sectors** of the economy, including women's economic empowerment, financial inclusion, small and large climate-smart infrastructure, inclusive business, climate-smart agriculture, and transparency in supply chains.

A Canadian definition

For Canada, the decision to deploy innovative finance means using mechanisms to **raise funds and stimulate action**, by private, public and philanthropic actors, in support of international sustainable development in new and more efficient and scalable ways to solve social, economic and environmental problems globally.

This can include:

- **new approaches** for pooling private and public resources to develop or scale up activities for development impact
- **new finance streams** earmarked to developmental activities on a multi-year basis; and
- **new incentives** to address market failures or scale up ongoing developmental activities.

Global Affairs Canada will deploy innovative finance mechanisms, in accordance with the *International Financial Assistance Act* and funding envelope parameters in support of our Feminist International Assistance Policy objectives.

Since the **spectrum of development finance tools and stakeholders is wide**, it is important to understand the range and variety of actors implicated, as Global Affairs Canada's innovative finance efforts will be one of a number of ways to finance sustainable development.

Canada has demonstrated important thought leadership in encouraging international policy work and investments on innovative finance. It has been a first mover in the space through partners, even as it developed its own tools internally.

Available mechanisms to support innovative finance

Global Affairs will continue to make strategic use of grants and contributions, but expand their use to include a range of new and non-traditional finance mechanisms, both financial and non-financial, including:

Financial

- ❑ Guarantees
- ❑ Insurance
- ❑ Concessional loans
- ❑ Repayable contributions
- ❑ Result-based financing
- ❑ Equity
- ❑ Local currency bonds

Non-Financial

- ❑ Challenge prizes
- ❑ Advanced market commitments
- ❑ Technical assistance
- ❑ Impact investing
- ❑ Blended finance
- ❑ Income sharing agreements

The case for action

Public finance, including ODA and domestic resource mobilization, remain vital for sustainable development, especially to meet the needs of vulnerable populations and low-income countries (LICs).

Since the adoption of the **Addis Ababa Action Agenda for Financing Development** and the **2030 Agenda for Sustainable Development**, however, a consensus has emerged that despite increasing investment in sustainable development by both public and private sectors, new streams of financing are needed beyond traditional ODA.

Without this additionality, the international community will not achieve the aspirations set out in the SDGs given the identified needs.

The case for action to mobilize new and innovative development finance is compelling:

According to the UN, developing countries require an estimated USD **$2.5 trillion annually** to fulfill SDG investment needs (UNCTAD), with Least Developed Countries (LDCs) alone needing some USD $1.6 trillion annually. While the USD $142.6 billion (2016) in traditional ODA remains important, it does not constitute enough on its own.

Evidence shows that investing in **gender equality and the empowerment of women and girls** acts as a force multiplier on other development goals. Development financing is more impactful and sustainable when it promotes gender equality and empowers women and girls. Empowering women as managers, traders, suppliers, producers, workers and consumers also drives local business growth.

Bilateral aid agencies have traditionally **relied on grants and contributions** to advance development cooperation, yet bilateral agencies can experiment and learn with new and innovative tools.

Private sector finance has not yet materialized or mobilized around the SDGs; a 2016 DAC survey (OECD) of public development finance showed USD $81 billion of private resources was mobilized between 2012 and 2015. Of this, 77% was for projects in middle-income countries home to five of the world's seven billion people and 73% of the world's poor people. **USD $5.5 billion (7%) was mobilized for projects in LDCs** and USD $2.2 billion (3%) in other LICs.

Developing countries at country and community levels are demonstrating increasing interest in co-creating initiatives with the private sector, public investment, philanthropists and civil society that are investment ready/bankable and can generate sustained positive social, environmental and economic benefits.

Institutional investors and others interested in responsible investment are increasingly internalizing the benefits of sustainable investment, including by paying a premium for suitable risk-adjusted returns.

There is also a growing appetite to coalesce around **investment guidelines and/or principles** that can be conducive to greater investment, and which protect high environmental, social and governance standards, such as with the G7 Charlevoix commitment to smart, sustainable and high-quality investments to boost growth, productivity and create quality jobs.

New and **emerging technologies**, such as those related to data analytics and information management, have the potential to create efficiencies, lower transaction costs, and improve peoples' access to services—issues that impede sustainable development.

Providing support for such efforts will be an important step to cleaner, lower carbon economies. But, technological innovations (for example, fintech) should be inclusive and provide benefits to all, such as by addressing gender disparities and enhancing the inclusion of marginalized groups.

But there are challenges…

Innovative finance tools are **not a panacea**. Mobilizing effective investments that achieve sustainable development results for the SDGs require efficient institutions and financial expertise, capacity, tools, and networks among partners in developed and developing countries, as well as within the Government of Canada.

Short-term investment horizons can be an obstacle to sustainable investing, made worse by systems that can impede long-term scaled-up private investment in developing countries for development.

There is an emerging social investment market that is not yet fully aligned to sustainable development, where competing definitions/expectations are apparent at times, caused in part by a difficulty in connecting the finance sector with the development sector or matching supply with demand.

Canada hopes to address these issues through its participation in investments and through its policy advocacy and thought leadership in global forums with investors—drawing on the full range of innovative financing mechanisms.

A role for Canada

There are significant opportunities for Canada to develop solutions that help achieve the SDGs and **close the SDG financing gap**, including expanding its collaboration with private capital and investors, notably as they seek to support the SDGs and integrate Environmental, Social and Governance (ESG) principles and practices.

The Government of Canada is committed to modernize its approach by attracting new partners, and supporting innovative and flexible financing tools to achieve its objectives.

Efforts will seek to:

- achieve our development objectives by **building markets** to benefit the poorest and most vulnerable, and by creating conditions for investment in developing countries
- increase the **volume of private capital** supporting development outcomes by helping investors engage in emerging and frontier markets and in areas of importance to vulnerable populations
- demonstrate that investing in support of the SDGs can yield both **development and financial returns**
- strengthen our use of **knowledge and tools**, including impact measurement and management tools and increased expertise in innovative financing partnerships

In this context, Canada is convinced that **women play an important role** in driving investment that leads to inclusive and sustainable economic growth, but must be included in decision-making and empowered to realize their rights. We must also work in partnership with business, government and civil society to improve opportunities and outcomes.

Canada will integrate a gender-based analysis plus (GBA+) perspective and pursue gender-responsive design practices in innovative finance initiatives so as to **maximize impacts for gender equality and the empowerment of women and girls**, including in emerging markets, especially in Africa.

Canada will seek to maximize opportunities for innovation, experimentation and sharing of evidence and best practices.

Canadian experience

Building on Canada's experience in financing for development, and that of other donors, there are a number of promising approaches that can lead to more diverse development funding, including several in which Canada has a particular strength, such as investing in countries' ability to raise their own revenues for social and economic growth.

Canada has been a leader in testing and expanding the scope of blended finance in international sustainable development, piloting innovative approaches that facilitated unconventional partnerships.

For example, Canada was the anchor investor with the IFC, the IDB and through the Canadian Climate Fund for Private Sector in Asia, which catalyzed private sector climate investments in developing countries.

Likewise, contributions by Global Affairs Canada have enabled private investment for the benefit of development through initiatives such as:

- Impact Investing in Frontier Markets (INFRONT) is an investment fund that leverages private equity investment to help the most promising small and medium enterprises (SMEs) in developing countries grow.
- Canada-Asia Trade and Investment for Growth (TRIGR) Program uses ODA to encourage private sector investments that address development challenges to create trade and investment opportunities.
- Advance Market Commitments (AMC) to create a pneumococcal vaccine allocates ODA to guarantee the purchase of vaccines, once they are developed and as long as they meet criteria specifically set out for the developing world.
- Grand Challenges Canada provides small grants to innovators to conduct research and develop promising innovative ideas, developing strategic partnerships, leveraging private sector funding and know-how, as well as business and marketing plans, to enable development.
- Convergence Blended Finance is a platform that brings together public and private investors for blended finance investments in emerging and frontier markets.
- Global Financing Facility is a multi-donor financing mechanism that helps developing countries transform how they prioritize and invest in the health sector to benefit women and children.

New Canadian tools to go further

In 2017 and 2018, Canada created three new important instruments to facilitate private investor engagement in sustainable development: FinDev Canada provides commercially priced financial solutions to private sector enterprises in developing countries; and two new Global Affairs-managed programs—the International Assistance Innovation Program and the Sovereign Loans Program, announced in Budget 2018.

In addition, Global Affairs' International Development Assistance **toolkit** was expanded through Budget 2018 to more effectively support private sector engagement and resource mobilization, which could make use of **conditionally repayable contributions** (CRCs). CRCs enable Global Affairs to blend its concessional resources with commercial resources to more effectively catalyze investments in emerging/frontier markets by absorbing risks to achieve greater development impact.

Moreover, Global Affairs has **new authorities** that support development financing, which will allow it to partner with the private sector and capitalize on innovation, while responsibly managing risk. This includes the ability to **pursue guarantees, sovereign loans, equity and unconditional repayable contributions.**

These operational tools have been complemented by pioneering **policy action**, most recently through Canada's:

- 2018 G7 Presidency
- role as co-Chair of the UN Group of Friends of SDG Financing
- facilitation of new collaborations with Canadian pension funds and philanthropic investors to finance sustainable development

The **Group of Friends of SDG Financing** at the UN in New York, led by Canada and Jamaica, includes representatives from over 50 countries, the UN, the World Bank and the private sector. This platform promotes solution-oriented ideas for unlocking finance for development.

In June 2019, Canada announced its intention to work with the **Equality Fund** consortium to establish a new, innovative partnership—a first of its kind global funding platform bringing the granting, philanthropic, and investment worlds together to mobilize unprecedented levels of resources for women's rights organizations and movements in developing countries.

Canadian 2018 G7 initiatives on innovative finance

Canada used its G7 Presidency to stress the need to pioneer new approaches to innovative financing for development to support gender equality and the empowerment of women and girls.

Charlevoix Commitment on Innovative Financing for Development

Canada developed the Charlevoix Commitment on Innovative Financing for Development, pledging the G7 to develop new financing approaches, new partnerships and capacities and strengthen the evidence base for the use of public finance in innovative financing.

In doing so, the G7 sent a message to market actors to spur action on innovative financing and scale up sustainable investments in emerging and frontier markets.

The 2X Challenge – G7 DFI Initiative

On the margins of the Charlevoix meeting, G7 Development Finance Institutions proposed a bold commitment to collectively mobilize USD $3 billion in support of women's empowerment and gender equality.

The *2X Challenge: Financing for Women*, aims to inspire other DFIs and private capital to act in support of this effort.

As of June 2019, 2X Challenge partners have committed USD $922 million with the goal of raising a further USD $2.08 billion to unlock resources to help advance women as entrepreneurs, business leaders, employees and consumers of products and services that enhance their economic participation. At the 2019 Women Deliver conference, 2X Challenge partners announced the *2X Invest2Impact Business Competition*—a search for women-led SMEs who are strong candidates for targeted investment. The first edition will focus on East Africa and seeks to highlight 25 businesses, providing them with investment readiness support, mentorship and strategic business support.

G7 Investors Global Initiatives

Also at Charlevoix, Canadian institutional investors launched a leadership initiative in partnership with counterparts from G7 countries and the Government of Canada to help address some of the big challenges that limit growth that works for everyone, including:

- the lack of women in leadership positions
- a persistent global infrastructure gap, especially in emerging markets
- the threats to growth posed by climate change

Partners in this endeavour include: AimCo, Allianz, Aviva, CalPERS, CDPQ, Generali, NATAXIS, OMERS, Ontario Teachers' Pension Plan, OPTrust, PGGM and the Government of Canada.

A Canadian approach

Canada's approach to innovative financing is consistent with its commitment to the 2030 Agenda for Sustainable Development, the Addis Ababa Agenda on Financing for Development, and the *Official Development Assistance Accountability Act*.

Canada will pursue innovative finance in a manner that is consistent with commitments we have made and on issues that Canada has a particular interest in advancing.

The **Feminist International Assistance Policy** provides the vision and foundation for Canada's actions on innovative financing for sustainable development. As such, these efforts will:

- be grounded in a human rights-based and inclusive approach, contributing to progress on the six action areas identified in our Feminist policy
- prioritize investments that have potential for **gender-transformative impact**, in terms of advocacy, support, challenge, investment, knowledge and evidence
- ensure a **gender-based analysis plus** lens is applied to all investments and go further, by engaging stakeholders, including women and girls in project design and implementation

Canadian efforts will reflect the Charlevoix Commitment on Innovative Financing for Development and Whistler Principles to Accelerate Innovation for Development Impact to promote women's economic empowerment, encourage climate adaptation and mitigation, foster inclusive economic growth in developing economies, and to enable greater equality of opportunity within and between countries.

GBA+
GENDER-BASED ANALYSIS PLUS

Canada's **inclusive trade agenda** will be leveraged to build capacity for SMEs and access to developed countries' markets, support social enterprises, promote responsible and sustainable business practices and take advantage of the Canadian Market Access and Capacity Building Services (CMA-CBS) program.

Gender transformative impact

- Advocacy – for change in social norms and behaviour, legal frameworks and rights
- Support – for mentoring, leadership and self-respect to build up social capital and confidence
- Challenge – for innovative solutions to unpaid work, care solutions, time saving technology, inclusive finance and savings, land ownership, skills for employment and Technical and Vocational Education Training.
- Investment – for women-led SME development, worker safety and protection, social finance, community infrastructure, supply chains
- Knowledge and Evidence – for fostering sex disaggregated performance outcomes and results, cost-benefit indicators, financial/economic and social rates of return.

Guiding principles for Canada

Canada will apply the **OECD DAC Blended Finance Principles** in its programming, namely to:

- anchor blended finance use to a development rationale
- tailor blended finance to local context
- design blended finance to increase the mobilization of commercial finance
- focus on effective partnering for blended finance
- monitor blended finance for transparency and results

In addition, Canada will address risk, both real and perceived, as it expands its support for innovative financing by:

- developing flexible financing vehicles that can **share and manage and mitigate risk**, and catalyze private and philanthropic investments
- applying game-changing and/or **transformative technologies** to respond to development challenges
- learning from international best practice on **Environmental, Social and Governance** (ESG) criteria, including the 'do no harm' principle
- advancing **research, open data and transparency** to support evidence-based decision-making, monitoring, accountability and effectiveness
- including complementary **technical assistance** to create enabling environments
- deploying a **portfolio approach** for our investments, working with a range of investment types to prudently manage risk, while pushing for greater investment in frontier markets, fragile and conflict-affected states, and middle and low income countries, to ensure we reach the poorest and most vulnerable
- seeking **policy coherence** to identify synergies and coordinate effort to maximize intersections among Canada's development, trade and finance policies and programs, and to make best use of Canada's array of tools such as repayable contribution and with partners like FinDev, Department of Finance, and Export Development Canada

Deploying Canadian innovative financing for sustainable development

Programming across all pathways will mobilize international efforts for gender-lens investing through advocacy, partnership, new models, performance incentives, measurement, disaggregated data and an intersectional approach whereby the empowerment of women and girls, and the realization and the enjoyment of their human rights is critical to the achievement of peace, prosperity and sustainable development.

Each of the following operational pathways will be pursued through the lens of the guiding principles outlined above. These pathways are meant to be complementary and not mutually exclusive. Canada is to take a targeted and gender-smart approach to innovative finance:

1. Advance gender equality through innovative financing

2. Mobilize new resources and innovation for the SDGs

3. Strengthen enabling investment environments

4. Support climate action and resilience

Pathway 1: Advance gender equality through innovative financing

Canada will advance gender equality through innovative financing to disrupt relationships of power in finance, influence the deployment of capital and ensure a higher level of ambition and commitment to a more equitable future for women and girls around the planet, by:

a. **Deploying gender-lens investing** investment strategies to investments that: 1) seek to intentionally and measurably address gender disparities and/or 2) examine gender dynamics to better inform investment decisions;

b. **Engaging partners** that directly address gender equality and questions of power;

c. **Systematically embedding gender markers** throughout the life cycle of investments, ensuring that partners along the investment trajectory know how to do gender analysis and measure progress against an entire index of gender-sensitive indicators;

d. **Ensuring that gender analysis** is conducted along the project/investment trajectory;

e. **Using gender analysis to** influence how capital is being deployed as well as who the money is going to in order to achieve gender equitable outcomes;

f. **Developing gender-sensitive measurement indicators** and collect both social and operational gender data to mitigate risk and inform decision-making; and

g. **Encouraging investors to collect both social and operational gender data** to mitigate risk and inform decision-making.

Pathway 2: Mobilize new resources and innovation for the SDGs

Canada will mobilize new resources and innovation for the SDGs using available tools, such as blended finance mechanisms, and performance-based financing. Canada will work with the private sector to capitalise on their expertise and innovation, making sure that innovative efforts align to departmental country strategies and leverage Canada's comparative advantages by:

a. **Expanding use of risk-sharing tools in project financing** such as loans, guarantees and equity. These tools should be paired with technical assistance or innovative approaches to generate additional public development funds.

b. While grants and other forms of concessionary capital will continue, we will explore **alternatives to traditional development financing**, where alternatives can be used successfully following engagement with development partners and are subject to available authorities and accrual profile parameters.

Use of these finance tools can take time, but their development can help to realize substantial development gains and enable Canada to successfully undertake more innovative finance projects.

c. **Strengthening the capacity of partners** in developing countries, including through the use of traditional grants and contributions, to mobilize domestic investment and expertise and facilitate access to financing, strengthen the capacity of fund managers, support practitioners to create new products, build capacity for negotiation, respond to increasing financial commitments from social and impact investing sectors, and support data collection and improved outcome measurement.

d. **Establishing rigorous departmental eligibility assessments** for innovative finance initiatives, to include themes such as development impact, additionality and financial sustainability, which include minimum concessionality, while ensuring repayability.

e. **Enhancing collaboration and partnerships** to develop innovative financing initiatives with diverse partners.

Pathway 3: Strengthen enabling investment environments

To build local financial markets and leverage developing country financial systems to mobilize domestic savings into productive investments for sustainable development, Canada will strengthen sustainable investment with diverse partners by:

a. **Advocating for common standards**, benchmarks, and transparency to facilitate pricing, comparability, and scale-up of sustainable investing.

b. **Reducing unhelpful legal and policy barriers** to support enhanced rule of law, good governance, anti-corruption measures and coherence between international and local regulations.

c. **Promoting research, data collection and dissemination** of best practices tailored to local context, including local perspective/stakeholder perspectives.

d. **Supporting training and capacity building** (for example, on preparation of infrastructure projects, gender equality outcomes), and knowledge transfer to leverage Canada's convening strength and mission network (for example, Friends of SDGs, etc.) and promote knowledge of local markets (for example, Africa etc.) among Canadian investors.

Creating an enabling environment for sustainable investment that will assist in addressing barriers to financial inclusion worldwide requires an understanding of the intersections between financial and digital inclusion, with a **particular focus on the experiences and needs of women**.

The **UN High-Level Panel for Women's Economic Empowerment** identified four systemic barriers to women's economic empowerment: unequal distribution of unpaid work between women and men; discriminatory laws and regulations; lack of access to financial, digital and property assets; and adverse social norms that impede women from achieving their potential as economic contributors.

Pathway 4: Support climate action and resilience

To support developing countries in their transition to low-carbon, climate-resilient economies, Canada will catalyze climate action and resilience by:

a. **Developing climate investments** and broadening the climate finance toolkit, using mechanisms like concessional loans and support for insurance.

b. **Building partner capacities** to promote access to finance and climate-resilient infrastructure, agroforestry, climate-smart agriculture, energy efficiency and renewables.

c. **Promoting gender-responsive partnerships** for climate action, mitigation, adaptation, renewables, risk reduction, risk finance and insurance, and unlock opportunities for commercial investments and innovations.

d. **Mainstreaming climate adaptation** into development finance.

Climate Finance

Since 2015, Global Affairs Canada has established four repayable climate finance arrangements with multilateral development banks to catalyze private sector climate-friendly investments in ODA-eligible countries:

- $200 million to the Asian Development Bank to establish the second phase of the Canadian Fund for the Private Sector in Asia;
- $150 million to the International Finance Corporation (IFC) to establish the IFC-Canada Renewable Energy Program in Africa;
- $250 million to the IFC to establish IFC-Canada Blended Climate Finance Program, supporting climate mitigation and adaption projects in developing countries globally; and
- $223.5 million to the Inter-American Development Bank to establish the second phase of the Canadian Climate Fund for the Private Sector in the Americas.

Conclusion

Innovative financing for sustainable development represents a significant shift in how Canada will use its international assistance. To achieve the objectives of the **Feminist International Assistance Policy** and the SDGs, Canada is responding to the imperative to forge new financing partnerships that can respond to the specific needs of regions and countries in order to lift the poorest and most vulnerable out of poverty.

This will require innovation, experimentation, and sharing evidence and best practices. This will also require expanding our tools and expertise, and sharpening our focus on monitoring results, building knowledge and sharing lessons. This is already happening with support from Global Affairs' Innovative Financing Bureau (MLD), the Office of Innovative Finance (SGI) and additional innovative finance focal points in Strategic Policy (PFM) and Partnerships for Development Innovation (KFM).

Canada will consistently **emphasize the central importance of gender considerations** through its innovative financing, contributing to defining a new SDG-aligned global financial system and using innovative and flexible financing tools to eradicate poverty and build a more peaceful, inclusive and prosperous world.

Glossary of terms used in this document

- **Development Finance:** Development finance is public and private finance deployed with a development mandate. Development finance includes Official Development Assistance as well as private funds that are governed by a development mandate (financing provided by philanthropic organisations, for example). (OECD Making Blended Finance Work for the Sustainable Development Goals)

- **Innovative financing:** is an approach to raising funds or stimulating actions in support of international development that goes beyond traditional spending approaches by either the public or private sectors, such as new approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries; new revenue streams earmarked to developmental activities on a multi-year basis; and new incentives to address market failures or scale up ongoing developmental activities. (UNDP, Innovative Financing for Development: a New Model for Development Finance)

- **Gender lens investing:** incorporates a gender analysis into financial analysis to achieve better outcomes. Through the creation of financial products and vehicles that reflect an understanding of the gendered nature of our world, innovators within the field of gender lens investing have created a new set of investment opportunities. (The State of the Field of Gender Lens Investing, a Review and a Road Map, Criterion Institute)

Funding Approaches:

- **Grant:** is a transfer payment subject to pre-established eligibility and other entitlement criteria. A grant is not subject to being accounted for by a recipient nor is it normally subject to audit by the Department. The recipient may be required to report on results achieved. (Policy on Transfer Payments)

- **Contribution:** is a transfer payment subject to performance conditions specified in a funding agreement. A contribution is to be accounted for and is subject to audit. (Policy on Transfer Payments)

- **Equity:** a stock or any other security representing an ownership interest. This may be in a private company, in which case it is a private equity.

- **Loan:** is money lent to a borrower, represented by a promise by the borrower to repay a specific amount, at a specified time or times, or on demand, usually with interest.

- **Guarantees:** are catalytic, risk-absorbing instruments that mobilize private sector investments towards development. Guarantees provide investors/entities with the assurances they need to invest capital into projects with development impact. Without the risk-sharing provided by a guarantee, partners would not support development projects.

- **Advanced Market Commitments (AMC):** are market creation mechanisms that provide the incentives and guarantees needed to ensure sufficient returns on investment by private sector developers. Best known as a proposed solution for the development and manufacture of vaccines.
- **Blended Finance:** The strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries, with 'additional finance' referring primarily to commercial finance. (OECD Blended Finance Principles)
- **Challenge prizes** offer a financial reward for the first or best solution to a problem. They specify a problem to be solved and incentivize innovators to address the issue in whatever way they deem best. Challenge prizes allow funders to reach beyond traditional stakeholders and reach innovators that other funding mechanisms miss (adapted from Nesta).
- **Performance Based Financing:** a fee-for-service tool that is conditional on quality. It is prevalent in many low- and middle-income countries and is sometimes referred to as Results-Based Financing, which refers to a range of mechanisms designed to enhance the performance of aid through incentive-based payments. (World Health Organization)
- **Impact Investing:** 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. (Global Impact Investing Network (GIIN))
- **Social Impact Bonds (SIB):** A SIB is an innovative financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organizations, and investors to pay for the delivery of pre-defined social outcomes.
- **Repayable Contributions:** Contributions issued under a transfer payment program for which the terms and conditions, or a Treasury Board decision, clearly establishes whether the contributions are to be unconditionally repayable or if repayment is to be conditional as well as the events or circumstances that will trigger repayment obligations, the factors that will determine the amount of the repayment and the terms of the repayment.
- **Unconditionally repayable contributions (URCs):** are contributions that must be repaid without qualification. The contribution agreement contains specific repayment terms that set out the time and amount of payment(s) due. URCs are used in a context of a lower risk appetite and high certainty of repayment; concessional sovereign loans are extended to eligible recipients tailored to their needs, priorities and capacity to repay.
- **Conditionally repayable contributions (CRCs):** are contributions which are repayable (in part or in full) if conditions specified in the contribution agreement/arrangement materialize. CRCs are used when risks are high and/or cannot be quantified with certainty with respect to repayment.