

September 2018



→ **Development  
Impact  
Framework:  
Stakeholder Engagement  
Report**

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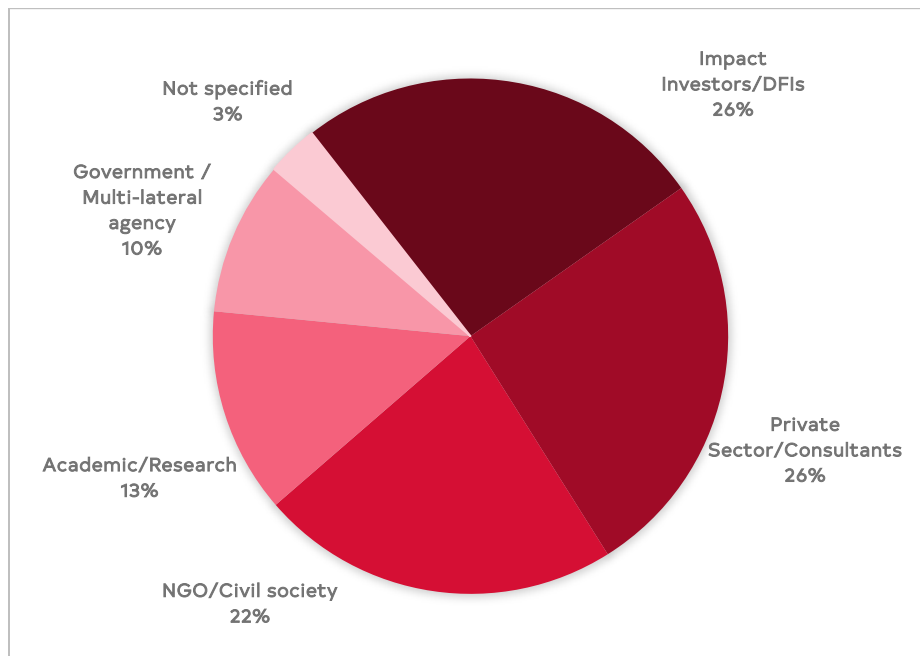
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## INTRODUCTION

FinDev Canada's Development Impact Framework was open for stakeholder comments in May and June 2018. We received more than 145 comments from over 30 different organizations and individuals, and the organizations represented a range of stakeholder types, including non-governmental organizations / civil society, development finance institutions (DFIs) and impact investors, the private sector, academic and research institutions, and multilateral and government agencies. A full list of the organizations that commented on the Framework is available at the end of this document. We are grateful to those stakeholders who took time to provide thoughtful feedback to our impact approach.

**FIGURE 1. RANGE OF STAKEHOLDERS COMMENTING ON THE DEVELOPMENT IMPACT FRAMEWORK (N=31)**



## CATEGORIZATION AND TOPICAL THEMES OF STAKEHOLDER COMMENTS

For review and analysis, comments were categorized into two groups: 1) comments that directly relate to the content of the Development Impact Framework, and 2) comments that relate to other strategic or operational areas of FinDev Canada. Within these two groups, we then further classified the comments into the following eight common themes:

**TABLE 1. STAKEHOLDER COMMENT THEMES**

Group 1 – Themes directly related to Framework content	Group 2 – Themes related to other strategic or operational areas
1. Stakeholder affirmation of the development impact approach	6. Priority markets, sectors, client segments
2. Gender equality and women’s economic empowerment approaches	7. Policy coherence and coordination with other actors (incl. public sector)
3. Transaction impact screening criteria/processes	8. Financial topics such as returns, risk, instruments and incentives
4. Data, impact measurement and targets	
5. Environmental, social and governance (ESG) policies and approaches	

The following sections summarize by theme the comments and questions received and FinDev Canada’s responses. For *Group 1 themes*, where there is more information about the topics within the Framework, this document provides a full response including noting any additions made to the Framework itself. For *Group 2 themes*, which relate to other operational areas, we provide as much context as possible in this document, and also refer the reader to other places where they may learn more about these topics in the coming months, as FinDev Canada’s operations and strategy become more formalized.

**Group 1. Themes directly related to Development Impact Framework content**

**1) Stakeholder affirmation of FinDev Canada’s development impact approach**

Stakeholders were overall very supportive of the Development Impact Framework, in particular the “clear, concise, and consistent” nature of the Framework and the focus on specific development priorities and impact goals. There was also praise for the inclusiveness of the Framework process, with many stakeholders pleased to have had the opportunity to formally offer feedback directly to FinDev Canada. Stakeholders offered validation of our focus on SMEs and women as priority groups for driving outcomes and confirmed the appropriateness of the preliminary Key Performance Indicators (KPIs) and the range of financial instruments. Overall, it was rewarding to hear the stakeholder community’s affirmation that FinDev Canada’s Development Impact Framework approach aligned with their expectations for Canada’s development finance institution.

**THEME 1. SELECTED STAKEHOLDER COMMENTS**

“Overall, the framework is a well-constructed and articulated document. The four stages of the development impact management cycle are clear and consistent, and provide a good summary of the key priorities and needs.” – FinDev Canada stakeholder

“[We] welcome the tripartite approach to accountability and transparency articulated in [the] Development Impact Framework. In particular, we applaud the formal inclusion of independent members from civil society and academia in the Advisory Council, as well as the commitment to less formal but regular engagement with external stakeholders.” – FinDev Canada stakeholder

“The framework usefully lays out, in a high-level way, the essence of FinDev [Canada]’s vision and mission; its theory of change; its theory of action; performance management cycle, and the governance arrangements it is proposing for oversight of the impacts framework around gender inclusion.” – FinDev Canada stakeholder

## 2) Gender equality and women's economic empowerment approaches

Many stakeholders expressed their support for FinDev Canada's high level of commitment to supporting the economic empowerment of women as a priority goal and for the alignment of the approach with the Government of Canada's international development priorities.

### *Gender equality frameworks and tools*

Stakeholders provided valuable suggestions around frameworks and tools that support the incorporation of gender into private-sector and investment initiatives, such as the Growth and Economic Opportunities for Women (GrOW) program, Women's Empowerment Principles Gender Gap Analysis Tool, Gender-based Analysis Plus (GBA+), ILO Guide to Mainstreaming Gender Analysis in Value Chain Development, MEDA's Gender Equality Mainstreaming (GEM) Toolkit, EDGE certification, Women's World Banking Organizational Gender Assessment Toolkit, and the GIIN Gender Lens Investing Initiative. The UN Convention for the Elimination of all forms of Discrimination Against Women (CEDAW) was also mentioned as relevant framework for FinDev Canada's approach.

In coordination with our Gender Specialist, FinDev Canada will assess the range of existing tools and frameworks on gender equality so we may build on the excellent work of other organizations for gender assessment, impact scoring, and impact monitoring and measurement.

### THEME 2. SELECTED STAKEHOLDER COMMENTS

"FinDev Canada could seek to build a business case for closing gender gaps – commercially viable gender strategies and impact reporting for lessons learned." – FinDev Canada stakeholder

"The KPIs for WEE must have a strong focus on the rights of women...KPIs should measure changes to gender [outcomes] on individual, household, community, and national levels." – FinDev Canada stakeholder

### *Gender equality as a priority outcome*

Despite the focus on women and gender, some stakeholders felt that the Framework had not sufficiently integrated the goal of gender equality into the overall approach, or that the selected KPIs were not comprehensive enough for this area. Others noted that there could be challenges to reaching this goal, such as barriers to women's employment, or access to basic services or economic empowerment tools, and that as an investor, FinDev Canada will need to work with the private sector to tackle these or other underlying challenges to women's economic participation.

To further underscore high priority of improved gender equality outcomes in our impact approach we have added content in the Framework on the role of a gender baseline assessment for all of our clients, both as part of a gaps and barriers assessment but also to identify gender-relevant impact opportunities through the company's business operations, policies, and market linkages. While it may be more difficult to measure changes in barrier reduction, particularly those at a national or societal level, FinDev Canada believes that gender assessment as part of early engagement with companies will be the first step in surfacing and discussing key issues such as barriers, hidden biases, and other potential roadblocks to women's economic participation. To measure outcomes, we will focus on tracking appropriate KPIs at the company and portfolio levels, and to complement to the work of others, including governments, who may track gender equality changes at the community or national level. As discussed in the Framework, we will also other methods, such as impact assessments and surveys, to

measure outcomes at the individual customer level. (See also Table 1 in the Development Impact Framework explaining our methods for each level of impact). At this stage, FinDev Canada's activities are not large enough to measure impact at a broad scale.

In addition, we expect that strategic partnerships will be key in co-designing and delivering effective gender equality capacity building and support to our clients, and to ensuring maximum gender equality outcomes at all levels of organizations, supply chains, and end-customer segments. We agree with stakeholders who felt that FinDev Canada has a role to play in generating more knowledge about how businesses benefit from investments in gender equality and women's economic empowerment (building the 'business case'), and we will seek to document and share our learnings with the community as our clients grow and mature in this area. To ensure a common and consistent approach to promoting gender equality and women's economic empowerment, FinDev Canada will develop a customized gender strategy adapted to our size, capitalization and priority countries and sectors. Expected to be finalized in 2019, the gender strategy will draw from innovative approaches and latest thinking on promoting gender equality and women economic empowerment in the private sector, including those referenced by stakeholders. The strategy will be fully aligned with - and maximize the outcomes of - our Development Impact Framework.

### 3) FinDev Canada transaction impact screening criteria and processes

Regarding client screening criteria and process as it relates to impact goals, stakeholders had various questions and comments such as:

- whether the screening process will measure past actions/achievements of clients versus future potential operations/activities;
- whether FinDev Canada will adjust impact outcomes to allow for comparability across countries/industries;
- if the process can account for value chain impacts of the investments, or financing needs at other stages of the value chain;
- how the screening process will account for the perspectives of the poor, cited as a priority for Global Affairs Canada;
- whether FinDev Canada will support locally-owned businesses, which stakeholders stressed should be a priority; and
- how the process will maintain a focus on commercial/financial returns at the enterprise level, to ensure companies do not focus only on development results (e.g. job creation) at the expense of company financial sustainability.

### THEME 3. SELECTED STAKEHOLDER COMMENTS

"FinDev Canada should develop and implement a policy on leadership and employment of national staff in client countries, while incentivizing value chains that promote local economic growth and development." - FinDev Canada stakeholder

Regarding client screening, as described in the Framework, the due diligence process will consider both current (or past) client performance and projected future performance to assess potential development impacts across the three goals. The tools also consider value chain impacts through local procurement and informed estimates of indirect job creation (e.g. upstream or downstream of the client).

Regarding financing needs elsewhere in a client value chain, FinDev Canada may consider these opportunities if they fit our screening model, or we may engage other financiers (including local financial institutions where possible) to help fill these financing gaps.

Regarding how FinDev Canada will compare development outcomes across the portfolio, our aim is to ensure that the key performance indicators (KPIs) used are general enough to apply in a variety of economic and sectoral contexts. External economic or environmental factors might influence the development (and financial) outcomes of clients, and our models will need to account for these external events when reporting on outcomes. Monitoring tools will also incorporate industry-specific KPIs to capture specific outputs/outcomes that are not comparable across sectors (example: number of new customers with access to energy).

Stakeholders asked if local ownership of businesses was a goal of FinDev Canada and were sensitive to criticisms that other DFIs finance Western-founded companies operating in middle-income countries, implying that nationally-owned businesses were at a disadvantage in trying to access finance from DFIs.

We agree that it can sometimes be more difficult to identify locally-founded businesses than those with international connections and networks, and we will need to build out new and local networks to reach this market segment. As we note in the Framework, local ownership and leadership are some of the indicators included in our ex-ante screening methodology under the "market development" impact goal, and we will continue to monitor progress against this indicator as we build our portfolio. For our screening purposes, we define "locally-owned business" as one that is at least 50% owned by nationals of the country or countries of operation. Working with intermediaries such as investment funds that are familiar with the local market is another way to identify local investment opportunities.

Financial viability, although a critical aspect of our project assessment, is not addressed in the Framework, which focuses on how we will evaluate the client's impact potential. Part of a client's financial viability will of course include aspects such as labour efficiency, which would prevent an over-emphasis on jobs without considering overall enterprise health.

Incorporating the perspectives of end-customers (e.g. our clients' customers) is important to FinDev Canada, and as mentioned in the Framework, we plan to work with our clients to ensure robust data collection on indicators related to end-customers, who may often be low-income households, SMEs, and/or women. Besides indicator monitoring, we also plan to use assessments, surveys, or case study methodologies to support clients to learn more about customers' perceptions of products or services accessed and resulting changes in their lives, homes, or communities. Better incorporating the end-customer's perspective throughout client engagement will be valuable both to assess impact and to improve of our screening processes.

#### 4) Data, impact measurement and targets

##### THEME 4. SELECTED STAKEHOLDER COMMENTS

"The Data Use and Modelling framework which uses three levels of data: direct data collection, macroeconomic or sectorial data, and industry-developed economic modeling, is well laid out and impressive. If executed correctly this could provide some very well triangulated impact measurement." – FinDev Canada stakeholder

"More details on financial additionality are needed. Due diligence requires a framework to assess financial additionality." – FinDev Canada stakeholder

### *Measurement frameworks and tools*

Several stakeholders provided links and suggestions to useful frameworks and tools that support financial and social performance alignment and/or support coordination with wider impact investment and measurement initiatives such as IRIS, Outcoming Mapping, Navigating Impact, SPI4 from Cerise, GIIRS, Right-Fit Evidence, the Rate Drop Rebate model, Feedback Labs, Lean Data, HIPSO, IDEO Human Centered Design Toolkit, the Donor Committee for Enterprise Development (DCED) and others. As mentioned in the Framework, FinDev Canada welcomes the opportunity to work with existing tools and models and will incorporate harmonized standards and approaches into our Framework.

### *Data collection and measuring outputs, outcomes and broader impacts*

Stakeholders agreed with our framework approach, which incorporates different levels of data including direct data, macroeconomic/sectoral data, and economic modelling approaches. There were several stakeholder comments related to monitoring frequency and methods, including selection of KPIs. Some suggested using or creating locally-informed indicators where possible, while others either pressed for additional KPIs to better measure outcomes against priority goals, or felt it was more important to keep reporting requirements simple for private-sector partners.

Stakeholders also recommended that as we build up our internal database of client performance and customer impacts, we consider how this new information could support other development-oriented institutions. There was also confirmation of our focus on using appropriate technologies to speed up the process and lower the costs and burden of data collection internally and for clients.

The Framework strives to strike the right balance on data collection, with a focus on measuring the most important output indicators that will inform progress against our impact pathway. As mentioned in the Framework, FinDev Canada will collect gender-disaggregated monitoring data annually at a minimum, with a drive towards more frequent reporting where client business operations allow and as technology solutions become available to make the process easier, faster, and less burdensome for clients. FinDev Canada aims to collect and use data as intelligently as possible, including in ways that help us to improve our own Impact Framework and to contribute to the industry body of knowledge available for impact screening, evaluation and benchmarking.

The core KPIs listed in the Framework are not the only indicators that FinDev Canada will measure. As noted, we will also report on sector-specific indicators, which will also support FinDev Canada's three priority impact goals. Sectoral or industry economic models (including local models where available) will complement direct data collection to generate outcome level conclusions, as will impact assessments by FinDev Canada or independent evaluators. The Framework now contains additional detail on these topics to better explain our methods and approach.

### *Development impact targets:*

At a high level, FinDev Canada has set three priority impact goals, and over time we intend to measure and report progress against each goal. We have not yet set corporate targets for each goal, but we intend to report on key performance indicators for each goal. We will set corporate or portfolio targets in future once there is sufficient operational experience to guide our target-setting. Due to the complexity of measuring impacts (which are long-term and harder to attribute to an intervention), FinDev Canada will set targets focused on outputs and outcomes, and will track these in our measurement and monitoring.



*Selecting priority Sustainable Development Goals (SDGs)*

Although the Framework was not specific about which SDGs FinDev Canada has linked to its impact pathway, in other forums we mentioned several priority SDGs, including SDG 8 (decent work), SDG 5 (gender equality) and SDG 13 (climate action) that relate closely to our impact priorities. A few stakeholders suggested additional SDGs that FinDev Canada should include, for example SDG 1 (no poverty) or SDG 16 (peace, justice, and strong institutions). Many SDGs are interrelated and interdependent, for example investing in access to energy (SDG 7) may influence household livelihoods (SDG 10 or SDG 3), making them less poor (SDG 1).

To keep our goals, Framework, and impact pathway as simple as possible, we have started with a small selection of priority SDGs. In this way, it will be easier to focus on the direct contributions of the portfolio. FinDev Canada’s investment outcomes may influence other SDGs, but we will first track impacts to these priority SDGs (see diagram). This should also help with over-attribution of outcomes, which happens when there is one activity associated to many development outcomes, which may exaggerate the actual changes in outcomes towards the SDG targets. We have added a note around priority SDGs in the Framework for clarity and will continue to assess how and when FinDev Canada can report back on the contributions of our financing activities to the SDG goals.

*Measuring additionality:*

Several stakeholders were interested in how FinDev Canada will measure additionality, and a more detailed definition is now in the Framework so that our approach is clear. We will assess FinDev Canada’s financial and non-financial additionality in all transactions, including in areas such as gaps in commercial financing, financial innovation, and other non-financial value added such as knowledge, networks, or technical assistance. This builds on the best practices of other DFIs in assessing and reporting on additionality.

**5) Environmental, social and governance (ESG) policies and approaches**

Some stakeholders were interested in more detail on how FinDev Canada will approach environmental, social and governance (ESG) issues, including on human rights, corruption and other risks that might be present in the markets where we work.

FinDev Canada is committed to applying rigorous ESG assessment and monitoring approaches throughout the lifecycle of engagement with companies, in fact this is an area where FinDev Canada can support clients for measurable performance improvement. FinDev Canada issued 'Interim Environmental, Social and Governance (ESG) Policies' in 2017 to have immediate operational capacity. In the coming months, FinDev Canada will review our existing policies to identify any additions or changes to ensure we align with leading DFIs or other peers. This policy review will draw on the knowledge of industry experts and stakeholders and will encompass areas of special interest, including human rights, financial transparency, ESG performance monitoring, and other relevant issues. The updated ESG, human rights, and gender policies or positions will be released in 2019.

**THEME 5. SELECTED STAKEHOLDER COMMENTS**

"FinDev Canada should clarify how it will monitor and ensure accountability for upholding ESG and human rights standards through the duration of the investment." – FinDev Canada stakeholder

## Group 2. Themes related to other strategic or operational areas

The Development Impact Framework sets out our approach and methodology for impact screening and monitoring and is complementary to other strategy documents, such as the annual FinDev Canada Corporate Plan, that define where and how FinDev Canada will engage with the market, with partners, and with clients. Stakeholders had questions around different aspects of the FinDev Canada strategy, much of which is still being defined. Where available, we have included that information here. The strategy will evolve as we build a portfolio, expertise, and learning on impacts.

### 6) FinDev Canada's priority markets, sectors, and client segments

#### THEME 6. SELECTED STAKEHOLDER COMMENTS

"I can appreciate the focus on SMEs – how are SMEs defined in this case, and is there a specific target size within the SME definition?" – FinDev Canada stakeholder

"Are you going to target the poorest countries? Will Africa make up half your portfolio, in line with the government's budget promise to spend half of bilateral aid on Africa?" – FinDev Canada stakeholder

#### *Priority country markets and approach:*

Stakeholders were eager to know more about which countries FinDev Canada will target for enterprise investments, and whether we will set targets for our portfolio based on type of market or regional criteria. There was feedback indicating stakeholder preference for working in Least Developed Countries (LDCs), and questions as to whether we would follow Government of Canada international assistance priorities that target half of all aid for Sub-Saharan Africa by 2020.

At a high level, FinDev Canada is authorized to work in countries eligible for official development assistance (ODA), as defined by the OECD Development Assistance Committee (DAC), and decided to begin operations in Latin America, the Caribbean, and Sub-Saharan Africa, which is a subset of approximately 72 countries. This list is available on the OECD website<sup>1</sup>, and FinDev Canada's screening methodology, as described in the Framework, seeks to prioritize financing for clients operating in markets with the widest gaps in FinDev Canada's three priority development impact goals. Our tools draw on widely used indicators of economic development, poverty, and access to finance, and score poorer and least developed countries (LDCs) higher in terms of development potential, which will help to prioritize and eventually perhaps select the top 10 to 25 markets that align with impact as well as factors such as risk. We will monitor and report on the breakdown of our portfolio by country and region, including by country income classification, and will use this to rebalance the composition of the portfolio as needed for diversity of region, country income level, market risk classification, or other relevant measurements that help us to drive towards our impact and financial sustainability goals.

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<sup>1</sup> See OECD DAC List of ODA Recipients for 2018, 2019, 2020: [http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC\\_List\\_ODA\\_Recipients2018to2020\\_flows\\_En.pdf](http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2018to2020_flows_En.pdf).

### *Priority sectors:*

While the Development Impact Framework does not define specific economic sectors for engagement, earlier FinDev Canada strategy documents identified potential sectors of focus such as green growth, agribusiness, and financial services. A few stakeholders noted that health and education sectors are also key to women's economic empowerment.

There are many different sectors where investments could generate positive outcomes for women. Our sectors, while few, are broad in scope. For example, green growth can encompass many industries including renewable energy, climate-smart natural resource management, or green infrastructure. In order to maximize FinDev Canada's potential impacts, learnings and contributions to the field of development finance, while properly managing our risks, it is more strategic to start with a smaller number of sectors. As our strategy evolves and as we gain market experience and with partners, we may consider adding additional sectors to the portfolio.

### *Priority market segments / clients:*

- Small and medium enterprises (SMEs):

Stakeholders recognized SMEs as an appropriate target group for FinDev Canada, given their significant contribution to employment and economic development in our target markets. Stakeholders asked for clarity around how FinDev Canada would define the SME market, and noted that this group may be difficult to reach, depending on the financial and ESG screening requirements, risk assessment, and due diligence and reporting needs.

We recognize that as a DFI with specific transaction requirements, it may not be efficient to directly target SMEs. As mentioned in the Framework, FinDev Canada will work with different client types that can impact and help grow SMEs, either by financing larger enterprises that interact with SMEs in their supply chains, or through relationships with intermediaries such as financial institutions or investment funds that can offer lower levels of financing more appropriate to SMEs. We also expect that as we build efficiencies in our operations, and establish partnerships in our target markets, we may be able to move downmarket to certain types of SMEs. FinDev Canada uses the IFC definitions for SMEs<sup>2</sup>, which has been added to the Framework and to Box 1 here.

- Microenterprises:

Stakeholders asked whether FinDev Canada will target microenterprises, an important generator of livelihoods in developing markets.

As a DFI, FinDev Canada follows a comprehensive due diligence process applied to larger transactions that is not appropriate for microenterprises. However, there may be value chain linkages or microenterprise activities generated from the operations of our direct clients. For example, our

#### **BOX 1. DEFINING SMALL AND MEDIUM ENTERPRISES (SMEs)**

In line with IFC's interpretation note, a company qualifies as an SME if it meets two of the following three criteria:

- less than 300 employees;
- less than USD 15 million in assets; or
- less than USD 15 million in annual sales

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<sup>2</sup> See IFC Interpretation Note on Small and Medium Enterprises, 2012: [https://www.ifc.org/wps/wcm/connect/de7d92804a29ffe9ae04af8969adcc27/InterpretationNote\\_SME\\_2012.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/de7d92804a29ffe9ae04af8969adcc27/InterpretationNote_SME_2012.pdf?MOD=AJPERES)

first client, M-KOPA, tracks whether its customers start their own microenterprise once they have access to off-grid solar energy and found that over 20% of its customers have now begun an economic activity of some kind<sup>3</sup>.

- Youth entrepreneurship and employment

Some civil society stakeholders have prioritized youth entrepreneurship and employment, given their importance in many economies, especially in Africa. They wondered if FinDev Canada would also target this sub-segment of the labour market for increased opportunities via our investments.

Our impact methodology assesses a client's potential to contribute to both direct and indirect employment but will not track the client's employees' age cohort. However, some clients already report on employees by age group, and better data is becoming available that may allow us to make good estimates about the number of youth employed based on national demographics. We will continue to assess the feasibility of reporting on the outcomes for youth reached by client businesses.

### 7) Policy coherence and coordination with other actors, including the public sector

This theme covers questions and comments on how FinDev Canada will fit into the wider development landscape, particularly in the Canadian context. Some stakeholders requested that FinDev Canada use even stronger language to underscore our commitment to aligning with Government of Canada policies and international frameworks, while others reminded us that in some cases both commercial and non-commercial development assistance can be present in a market, which can affect incentives and returns. Many stakeholders mentioned the need to offer capacity building to companies, especially SMEs, to achieve optimal development outcomes, and inquired about FinDev Canada's strategy to address this need.

## THEME 7. SELECTED STAKEHOLDER COMMENTS

"Many development partners and philanthropic organizations are seeking new, blended finance opportunities, and FinDev Canada could be a conveyor to promote such partnerships..." – FinDev Canada stakeholder

"Global Affairs Canada may already fund an SME through non-profits, each having its own due diligence process. How will the two Canadian Government bodies synchronize their assessment of the performance of projects funded?" – FinDev Canada stakeholder.

As an instrument of public policy, FinDev Canada takes guidance from the Government of Canada, and the Feminist International Assistance Policy (FIAP) is an important part of this policy context, as are other international frameworks in which Canada participates, including the 2030 Agenda for Sustainable Development Goals (SDGs) and the UN Framework Convention on Climate Change (UNFCCC). FinDev Canada has developed its overall mission and approach with these principles in mind, including our focus on gender equality and women's economic empowerment. We will also strive to report against these frameworks as the tools and processes to do so become more developed. Our origination and portfolio strategies as outlined above will also take guidance from Government of Canada priorities.

Related to this, FinDev Canada agrees that technical capacity building is important to the success of companies and is exploring ways we may offer this ourselves or in collaboration with other partners. We

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<sup>3</sup> M-KOPA customer survey data, 2016.

recognize the need for cost-sharing for certain types of support or for certain types of companies (e.g. smaller companies), to help offset the cost of investing in improved impact outcomes, gender equality, and/or strengthened environment, social, and governance (ESG) practices.

Overall, FinDev Canada will coordinate with other investors and funders, such as Global Affairs Canada, to assess the full spectrum of funding—whether commercial, non-commercial reimbursable, or non-reimbursable (grants)—available in the markets in which we work. We are interested in establishing partnerships with other investors, funders, or service providers to offer non-financial technical support to clients, to help reduce the risk of newer or more difficult markets and drive improved outcomes. This will also ensure that financing is properly priced, and that clients can access other non-commercial or non-financial technical assistance that complements our engagement and impact objectives.

## **8) Financial topics such as returns, risk, instruments, and incentives**

### *Costs, risks, financial returns*

Some stakeholders felt that other DFIs had prioritized financial returns at the expense of impact returns and suggested that FinDev Canada will need to monitor returns across all aspects of its performance to ensure that our assessments equally prioritize both financial and impact goals. Others cautioned that FinDev Canada should track our transaction costs to avoid unnecessary overheads that are then passed on to clients.

## **THEME 8. SELECT STAKEHOLDER COMMENTS**

"We welcome the inclusion of possible financial incentives for attaining [development impact] KPIs." – FinDev Canada stakeholder

"Related to risk appetite and diversity in FinDev [Canada]'s investment, will there be defined distributions of the financial and impact risk sought, and captured in the investment policies?" – FinDev Canada stakeholder

FinDev Canada is establishing robust cost-tracking systems and plans to set operational targets around transaction efficiencies. Costs and pricing efficiencies will be a critical success factor, and we will monitor these for improvements as we build up our transaction teams and capabilities.

There are inherent challenges in managing competing expectations of diverse stakeholders, and this is the role of the Development Impact Framework: to assist the FinDev Canada management team to assess the potential development impact returns of clients and thus make informed decisions that align with our institutional mandate on development impact. In addition, as a financial institution, FinDev Canada will establish an approved risk appetite statement, which will guide its investment strategy. The precise definitions of financial risk and financial return expectations are the responsibility of our seasoned investment and risk professionals. The team will evaluate these two important areas of return (development impact and financial) side-by-side to determine the complete return potential of clients.

### *Priority financial instruments*

Stakeholders were interested in finding out what types of risk instruments FinDev Canada expects to use, what the ideal split between instruments might be, and in what currencies we might lend, mentioning that clients prefer local currency lending.

As mentioned in the Framework, FinDev Canada can use debt, equity or guarantees depending on our clients' needs. At this time, we are still defining our product offering but we are eager to work with partners across the financial sector and investment space who can help us develop innovative financing structures and tools that will be most useful to our clients.

#### *Financial incentives*

Many stakeholders were very supportive of the potential to use financial incentives to encourage development impact outcomes and offered to support FinDev Canada in this area. They also offered examples of impact incentives that help align impact and financial returns (see section on measurement tools for specific recommendations). We will continue to develop our capabilities in this area in the coming months.

#### *Mobilization/catalyzation of other funds*

Stakeholders agreed with the Framework's emphasis on mobilizing or catalyzing additional funds, and wanted to learn more about the volumes of capital we would seek to mobilize, and how.

These types of structures and targets are still being put into place but our additionality definition will include an assessment of mobilized capital as part of all FinDev Canada transactions, and we will report on our progress against this objective as part of our regular impact reporting.

## **CONCLUSION**

In summary, FinDev Canada received wide-ranging and relevant comments on our Development Impact Framework and on other aspects of our strategy, priorities, and operational systems. We have now incorporated the impact feedback into the Development Impact Framework and published the final version of the document, but we welcome continued stakeholder input and ideas into our impact pathway approach to measuring the outcomes of our financial transactions.

## **APPENDIX – ORGANIZATIONS THAT COMMENTED ON FRAMEWORK**

AESP Green Energy

African Access Consulting/ University of Calgary

Canadian Council for International Cooperation (CCIC)

CARE Canada

Centre for Social Innovations (CSI) (Ghana)

Consultants ProgÉva

Convergence

Deloitte

Développement international Desjardins

Engineers Without Borders (EWB)

European Investment Bank

FMO Entrepreneurial Development Bank

Food & Agriculture Organization of the United Nations (FAO)

Global Affairs Canada

Gouvernance Plus International

Grand Challenges Canada

Grass Roots Cap

IDRC

Independent Business Owners / Individuals

Infrastructure Project Development

Innovfi

Inspired HR

MEDA

Power of Voice International

Queens University

TCX Investment Management Company

The Canada Forum for Impact Investment and Development (CAFIID)

The Oxford Impact Measurement Programme

Toronto Dominion Bank