

Disclosure Statement Operating Principles for Impact Management

April 10, 2020

Since April 2019, FinDev Canada is a signatory to the Operating Principles for Impact Management (the Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed.

This Disclosure Statement confirms that FinDev Canada's investments are managed in alignment with the Principles. Total assets under management in alignment with the Principles is USD\$ 142 million as of December 31, 2019.

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Principle 1

Define strategic impact objective(s), consistent with the investment strategy

The Manager shall define strategic impact objectives¹ for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

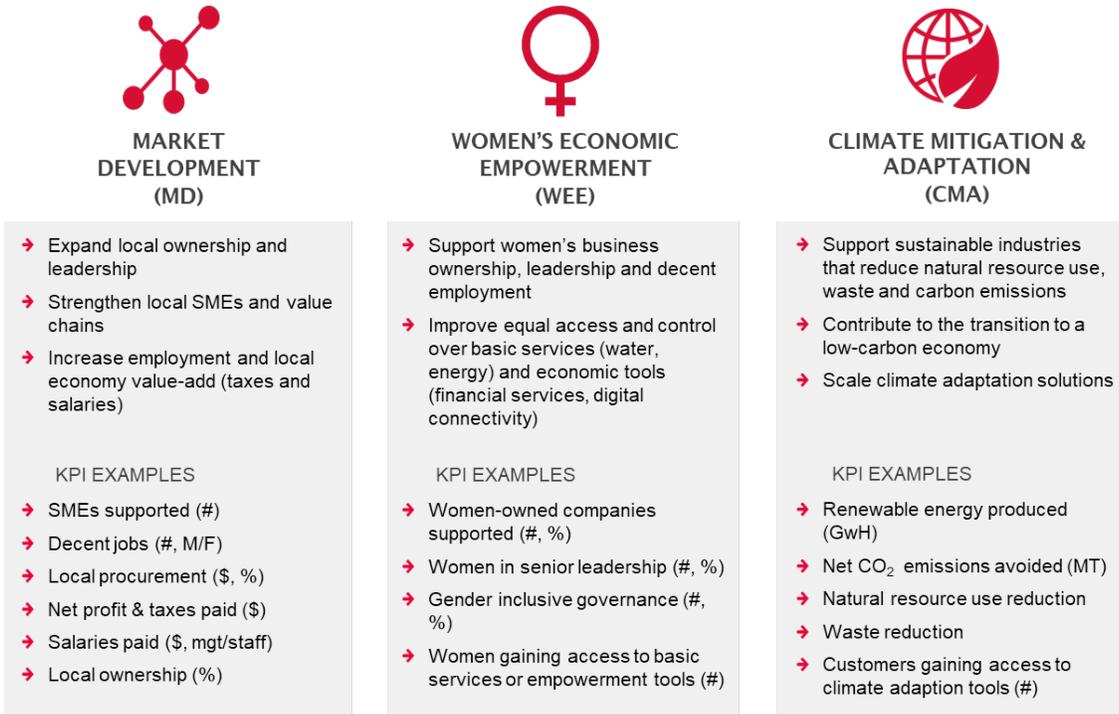
- ➔ FinDev Canada was launched in 2018 as Canada's bilateral development finance institution (DFI) to help bridge the financing gap in emerging and frontier markets and to complete Canada's range of international assistance tools and programs. We provide financial solutions to private sector entities to foster inclusive and sustainable economic growth across Sub-Saharan Africa, Latin America and the Caribbean.
- ➔ To deliver on our mission, we built a **Development Impact Framework²** which defines our strategic impact objectives and describes how we measure and manage their achievement on the ground. As a gender-lens investor, we supplemented our framework with a **Gender Equality Strategy³** to ensure the promotion of gender equality throughout our investments and operations.
- ➔ Our framework prioritizes **three development impact areas** that guide our investment decision-making process: (1) market development, (2) women's economic empowerment and (3) climate mitigation & adaptation. Each of the three is underpinned by a set of key performance indicators (KPIs) (Figure 1).

¹ Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (www.oecd.org/dac/).

² See: https://www.findevcanada.ca/sites/default/files/2018-10/development_impact_framework_en_-_final_092018.pdf

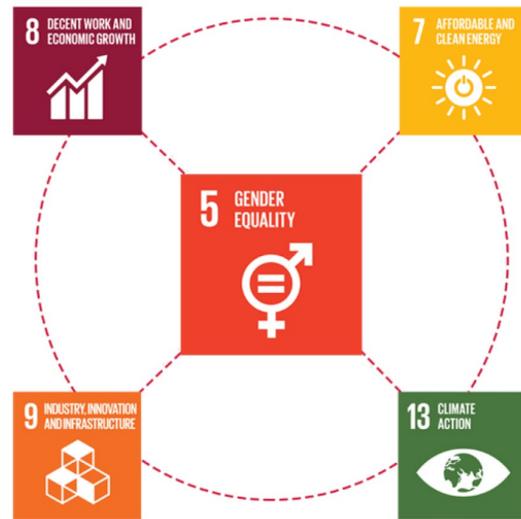
³ See: https://www.findevcanada.ca/sites/default/files/2019-08/2019_137_gender_equality_strategy_en_final.pdf.

Figure 1: FinDev Canada's Impact Goals



→ We also aligned our impact goals with the international development agenda as defined by the SDGs. While we recognize that many of the SDGs are interdependent, we are focusing our efforts on **five priority SDGs** to ensure that the development impact pathway and associated reporting remain manageable at this early stage of operations (Figure 2).

Figure 2: FinDev Canada's priority SDGs⁴



- ➔ Starting this year, we also defined a set of **portfolio development impact targets**. These are annual targets based on a share of transactions in the portfolio that meet specific impact criteria (for more details, please refer to Principle 2).

⁴ SDG 5: Gender equality; SDG 7: Affordable and clean energy; SDG 8: Decent work and economic growth; SDG 9: Industry innovation and infrastructure; SDG 13: Climate action.

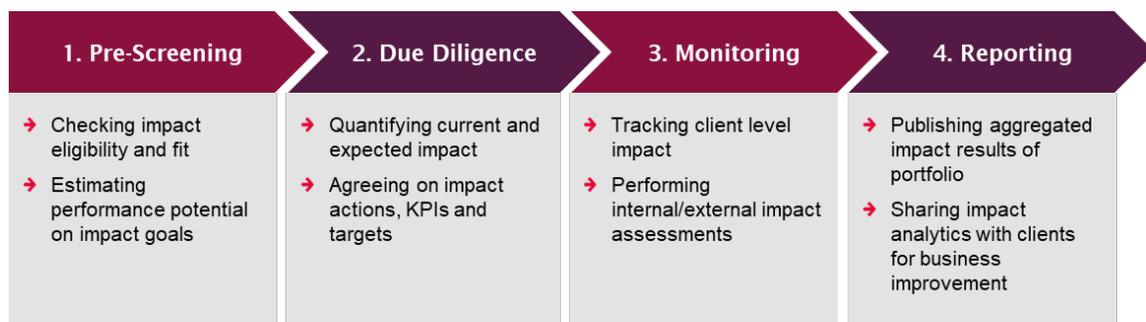
Principle 2

Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Our Development Impact Framework guides our investment decisions and results reporting. Figure 3 illustrates **how impact is integrated into every part of the investment process**, from pre-screening to due diligence, approval, monitoring and reporting.

Figure 3: FinDev Canada's Development Impact Management Process



- At FinDev Canada, we are aiming to build a balanced impact portfolio. We recognise that some investees will be stronger on certain development impact area(s) than others; some will be further ahead on their impact journeys while others might be just starting theirs. To accommodate for this, in 2019 we developed our first set of diverse portfolio impact targets that are based on a percentage of portfolio investments that need to meet specific development impact criteria. For example, a percentage of investees that we expect to meet the 2X Challenge criteria⁵, or that demonstrate

⁵ 2X Challenge is a global DFI-led initiative that aims to mobilize substantial capital towards women's economic empowerment. To qualify under it, investments need to meet specific criteria in line with the four vectors mentioned earlier. See: <https://www.2xchallenge.org>

strong impact potential on climate change mitigation and adaption practices.

- At due diligence, we always review how a prospective investment **contributes towards one or more of these impact targets**. This in turn enables us to direct our capital towards impactful investments while at the same time building a diverse and financially stable portfolio.
- To align the impact objectives with our own actions, FinDev Canada established a **short-term incentive program for all employees** that is based on the impact, financial and operational targets of our portfolio.

Principle 3

Establish the Manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- FinDev Canada aspires to offer both financial and non-financial value to our clients, by finding areas of impact that bring value both to client companies and to FinDev Canada, and by supporting companies to integrate this link between operations and development into day-to-day management.
- For **financial additionality**, we consider various elements, as applicable, such as:
 - gap in commercial availability of financing, including appropriate terms and tenor;
 - level of participation of FinDev Canada vis-à-vis other funders (with our attribution model differing between direct and indirect client financing⁶);
 - financial innovation of the transaction, for example bringing new deal structures or financial products to the market; and
 - volume of funds mobilized from other financiers.
- For **non-financial additionality**, we aim to assess how FinDev Canada's can bring other value to the transaction, such as knowledge, networks, technical assistance, and opportunities to enhance client performance, including in areas such as ESG practices and expanded development outcomes.
- We typically capture this data at pre-screening and due diligence, and it forms an integral part of our investment decision-making process.

⁶ Indirect transactions are those in which FinDev Canada participates at a second tier, for example in an investment fund which then makes investments in companies.

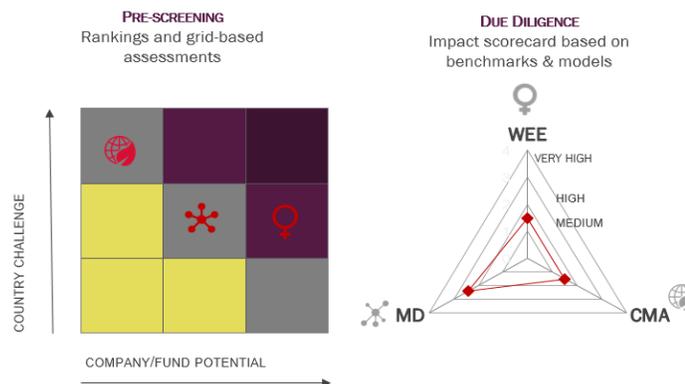
Principle 4

Assess the expected impact of each investment, based on a systematic approach

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact⁷ potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- ➔ To systematize how we assess each deal for its potential development impact, we developed a **set of analytical and visual tools** that help quantify the current and potential impact of a prospect investee.
- ➔ At a pre-screening stage, using both quantitative and qualitative data, each opportunity

Figure 4: Impact Tool Examples at



⁷ Impact is considered the material effects on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

earns a score on the impact dimensions of a country's development needs and a company's impact potential. To assess the country dimension, the impact tools incorporate a variety of economic and social indicator datasets in areas such as poverty levels, opportunities for women's economic advancement, market development, basic services access, and environmental performance.

- ➔ At due diligence, we build on the initial assessment by introducing **additional quantitative data**. This includes a review of a company's operational and performance information and a reference to additional national and sector-specific databases to **understand gaps and potential impacts of company operations over a project's estimated lifetime**.
- ➔ To ensure that we prioritize opportunities with the highest potential impact on women, our final score allocates **a higher weighting to the women's economic empowerment goal** than the other two development impact dimensions in.
- ➔ To ensure **alignment with generally accepted industry standards**, FinDev Canada's impact measurement approach draws on reporting standards such as the Harmonized Indicators for Private Sector Operations (HIPSO), the 2X Challenge criteria and the Global Impact Investing Network (GIIN)'s Impact Reporting and Investment Standards (IRIS).

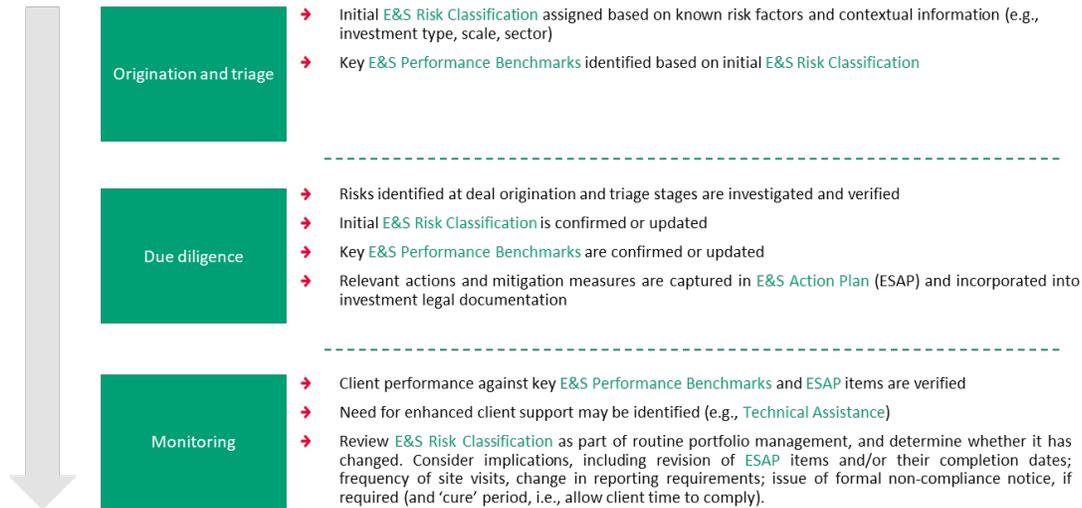
Principle 5

Assess, address, monitor, and manage potential negative impacts of each investment

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- ➔ In addition to assessing the development impact of all transactions, FinDev Canada is committed to applying rigorous environmental and social (E&S) risks assessment and monitoring approaches throughout the life-cycle of our engagement with companies. At due diligence, we review a client's human rights and E&S performance to identify potential risks and/or areas for improvement, a process based on our E&S policy. The policy draws on the IFC Performance Standards on Environmental and Social Sustainability, the most widely used set of E&S standards in the development finance sector.
- ➔ E&S assessment is embedded into our investment cycle, just like development impact - from pre-screening to due diligence, approval, monitoring and reporting. Once an investment is made, we continue to closely monitor its E&S performance and to evaluate potential risks on an annual basis (or more frequently, if required).

Figure 5: Environmental and Social Due Diligence & Monitoring in the Investment Cycle



- ➔ In addition, given the cross-cutting nature of gender equality, at the due diligence stage we will undertake a baseline assessment of gender equality in client operations, to identify opportunities to strengthen gender outcomes as part of FinDev Canada's engagement with the client. To do this, we leverage existing gender mainstreaming and assessment tools, such as the Women's Empowerment Principles Gender Gap Analysis Tool⁸, widely used in the development finance sector and accessible to all private sector entities.

⁸ The Women's Empowerment Principles Gender Gap Analysis Tool (WEPs Tool) is a business-driven tool designed to help companies from around the world assess gender equality performance across the workplace, marketplace, and community. See: <https://weps-gapanalysis.org>

Principle 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

- ➔ Starting at due diligence, FinDev Canada will discuss and draft with a client a **Development Impact Action Plan** that outlines expected annual activities, impact KPIs and data reporting frequency. Once the investment is approved, these commitments are written into a final contract with the client.
- ➔ The responsibility for data collection lies with the Impact team which collects data directly from clients using monitoring reports and data templates. Using this information, the team **monitors the progress against expectations and tracks clients' performance**. This is usually done annually, or more frequently where warranted.
- ➔ The monitoring phase drives both **performance and impact learning**: our clients provide us with updates on progress, and we seek to provide support and guidance on what activities could expand or accelerate impact outcomes. FinDev Canada draws on both internal and external subject matter experts as needed for technical advice on impact-related activities.
- ➔ As we **build our capabilities and digital tools for data collection, performance monitoring, and business analytics**, we will also seek to accelerate our input/output frequency of impact management and measurement, to better respond to internal management needs, and to provide clients with analysis and feedback within timelines that fit their operational cycles.

Principle 7

Conduct exits considering the effect on sustained impact

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- FinDev Canada's impact considerations will be taken into account at the exit stage of an investment to ensure sustained impact. However, no investment to date has reached that stage or is expected to in the next few years.

Principle 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- We will conduct **interim and ex-post evaluations** of a sample of our transactions, as they mature and leave the portfolio, to **validate development impact assumptions and improve our Development Impact Framework**. The learnings from the evaluations will provide us with a better understanding of development impact and serve as a basis for continuous improvement.
- We will also produce a variety of reports on the impacts of our portfolio, including online tools (dashboards, trends), annual reporting, deep dives into specific impact areas or sectors and progress towards our three impact goals. These reporting techniques will inform the public of overall development impact results and provide FinDev Canada with performance insights on specific segments of the portfolio. We will also share these results and insights to client companies so they can assess their impact vis-à-vis benchmarks.
- To ensure customer value and continuous improvement, we will assess **client satisfaction** with impact engagement and results using **qualitative and quantitative feedback tools** included in a 'Voice of Customer' System.

Principle 9

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- ➔ This Disclosure Statement confirms FinDev Canada's alignment with the Impact Principles, and we will be updating it annually.
- ➔ We are planning for the first independent verification of FinDev Canada's alignment with the Principles to take place in 2021, to be repeated regularly thereafter.