

# → Development Impact Framework

## Executive summary

FinDev Canada’s Development Impact Framework reflects the critical social and economic changes we would like to see in developing country markets. In the medium- to long-term -by 2030 - in line with Canada’s overarching vision for overseas development assistance, FinDev Canada would like to see a private sector that is accelerating local economic growth in an inclusive and sustainable way, with higher women’s economic empowerment at all levels of the economy, lower levels of poverty, and supporting a transition to low-carbon economies. Incorporating a variety of investment industry and impact measurement tools, FinDev Canada’s development impact framework will underpin our values, guide our risk appetite and inform our investment decisions and progress reporting.



## Context

The global community, including the Government of Canada, has recognized the need for a growth model that leads to a more sustainable, inclusive and prosperous global economy that ensures no one is left behind. The specific goals related to sustainable development, as well as the importance of the private sector in achieving them, are outlined in international accords such as the United Nations Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda (AAAA), and the Paris Agreement on Climate Change. The Government of Canada has also recognized the importance of women in achieving these global goals and thus prioritized its support to initiatives that can elevate women’s economic empowerment and improve gender equality. While good progress has been made, there is still a need for support and financing to achieve these goals, for example, McKinsey Global Institute estimates that between USD 12-28 trillion could be added to the global GDP simply by achieving gender parity in the economy (see infographic<sup>1</sup>). Research also shows that based on current trajectories, 31 countries will still have extreme poverty headcount ratios of at least 20 percent in 2030<sup>2</sup> (designated as “severely off-track countries”). Annual economic losses because of missed development goals present tangible investment opportunities for the private sector, for example in the water sector where an estimated USD 1.7 trillion is needed to achieve universal access (SDG6).<sup>3</sup>

1. McKinsey Global Institute. “The Power of Parity: How advancing women’s equality can add \$12 trillion to global growth.” September 2015.

2. Gertz, Geoffrey and Homi Karas. “Leave No Country Behind: Ending poverty in the toughest places”, The Brookings Institution Global Economy & Development Working Paper 110, Feb. 2018.

3. OECD Policy Perspectives. “Financing water: Investing in sustainable growth.” OECD Environment Policy Paper No. 11, 2018.

To help bridge this financing gap and to complement Canada’s range of international assistance mechanisms, FinDev Canada was established as Canada’s bilateral development finance institution (DFI). FinDev Canada’s mission is to offer financing solutions directly to the private sector in developing countries, particularly small and medium enterprises (SMEs), to help solve sustainable development challenges and improve gender equality. As such, it is critical that FinDev Canada can credibly assess our success in contributing to progress towards this mission. This document outlines FinDev Canada’s Development Impact Framework, which guides the organization’s immediate strategy, impact goals, and investment decision-making process. It is designed to allow FinDev Canada to also continue to build our capabilities to leverage new technologies and tools for development impact measurement that will position our organization to succeed in the evolving world of development finance. The framework is relevant to both internal and external stakeholders and serves as a point of reference when elaborating more tactical or operational tools.

## Priority impact goals and development impact pathway

FinDev Canada’s priority impact goals are based on the changes we would like to see in the markets where we engage, e.g. in developing country markets. In the medium- to long-term -by 2030 - we would like to see a private sector that is accelerating local economic growth in an inclusive and sustainable way, with higher women’s economic empowerment at all levels of the economy, lower levels of poverty, and supporting a transition to low-carbon economies.

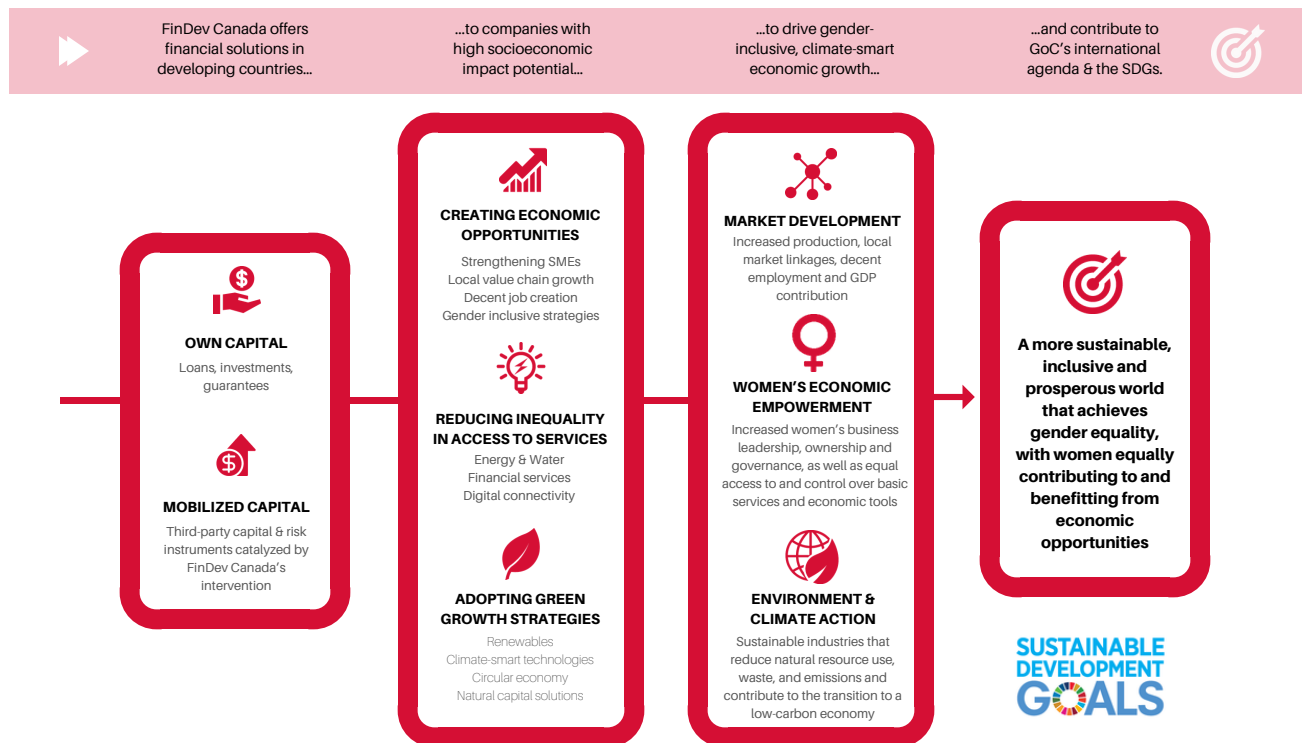
To achieve our medium-term vision while positioning FinDev Canada for long-term impact in a rapidly evolving global economic landscape, we have prioritized three development impact goals (Figure 1).

**Figure 1 - FinDev Canada's Development Impact Goals**



All three impact goals are important to FinDev Canada’s mission, however in particular the goal of Women’s Economic Empowerment will be considered a key driver of our investment decisions. How our activities and our clients’ activities will contribute to FinDev Canada’s long-term vision is outlined in the development impact pathway diagram (Figure 2) and narrative below.

**Figure 2 FinDev Canada's Development Impact Pathway**



Our engagement with an eligible company ('client company') starts with financing, either through debt, equity or guarantees. We also aim to mobilize other third-party financiers (ideally from the private sector) to meet broader client financing requirements and to maximize progress towards impact goals. FinDev Canada participates in financial transactions that provide additionality, meaning that the financial need could not be satisfied by commercial capital.

In the short-term, we expect client companies to generate positive development returns through their operations in up to three different ways:

- First, they can create **local economic opportunities** by strengthening SMEs, growing local value chains, and providing decent employment and impact GDP through salary payments, tax contributions, and profits. FinDev Canada will consider the company's total (current or potential) impact on local value chains, both upstream through their sourcing and/or downstream on their customers (whether businesses or end-users). Our impact model will measure the increased economic activity across the entire value chain centered around the client company.
- Second, they may offer products or services that expand **equal access to basic services** (water and sanitation, energy) or important **economic tools** (financial services or digital connectivity) to underserved groups, especially women.
- Third, they can adopt **green growth strategies** by introducing or scaling up technologies (renewables, climate-smart, circular economy, or other) that encourage sustainable industrial development, through their own operations or through customer products and services.

Cross-cutting themes for all companies include how they are leveraging technology and data-driven business models, and their commitment to improved gender equality at all levels of operations, governance, and ownership, as we consider these to be critical components of long-term private sector success and inclusive development.

Over the length of our engagement with companies, FinDev Canada will track key performance indicators (KPIs) in each of the above operational pathways. KPIs will be measured through a combination of data gathering techniques outlined further below (see section on “Data use and modeling”) and will rely on direct data collection, macroeconomic or sectorial data, and industry-developed economic modeling. We have chosen to start with a smaller set of core KPIs as proxies to track performance on FinDev Canada’s development impact pathway in a meaningful, yet practical and cost-effective way, while keeping our tools flexible in order to add in new indicators as they become accessible. This will enable us, over the medium-term, to be able to effectively measure the contribution of the entire FinDev Canada portfolio against our three priority impact goals of market development, women’s economic empowerment, and environment and climate action.

In the long-term, as we collect more and deeper data about our portfolio companies, and as progress against these impact goals is broader and impacts evidence techniques improve, we hope to be able to demonstrate how FinDev Canada contributes to a more sustainable, inclusive and prosperous world that eliminates extreme poverty, closes the gender equality gap and allows women to equally benefit from and contribute to economic opportunities, in line with the 2030 global SDGs.

## **Development impact in the investment process**

FinDev Canada incorporates development impact as the primary element of its investment process, all the way from pre-screening (early country and company scoping) through to investment due diligence, approval, monitoring and reporting. A company’s current and potential contribution to our three impact goals is the most critical factor in our deal selection and decision-making process, alongside robust analysis of risk, return and pricing. Once a company successfully enters our portfolio, we support the client to fulfill its operational impact goals and closely monitor actual KPIs and results.

We have established a development impact management cycle that is fully embedded in our organizational investment process and shown in Figure 3.

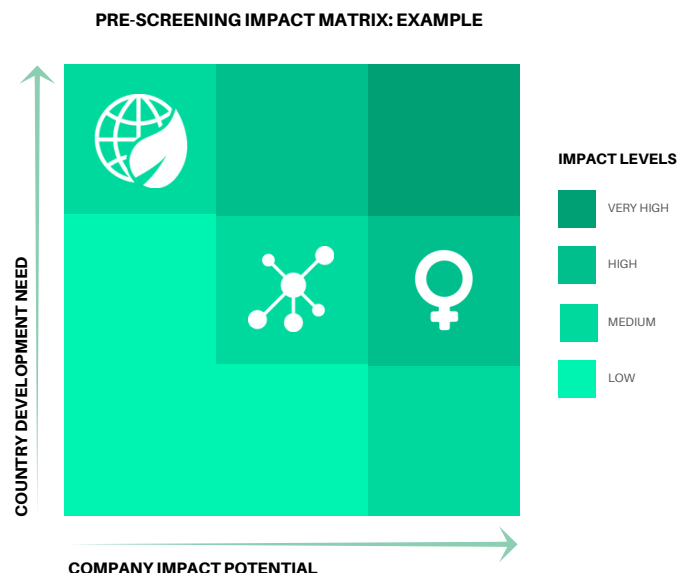
The development impact management cycle is implemented using the following process:

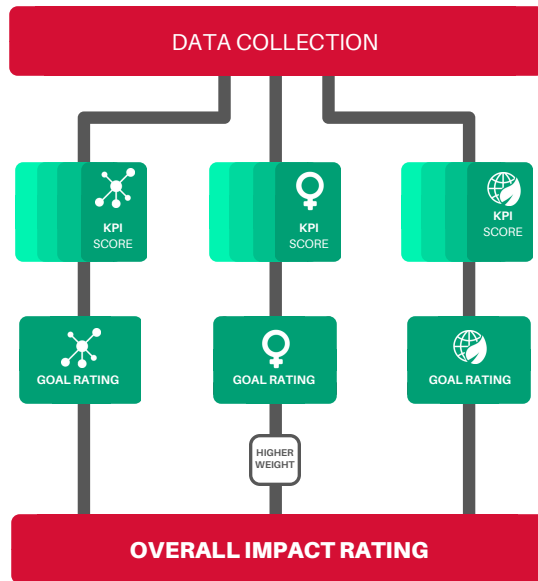
**Figure 3 Development impact management cycle**



1. *Pre-screening*: At this early stage we assess the potential development impact of an opportunity against all three FinDev Canada impact goals. Using a combination of quantitative data and qualitative argumentation, we score opportunities against the dual impact dimensions of country development need and company impact potential. Country development need is measured using a variety of economic and social indicator datasets that rate country performance in key areas such as poverty levels, women’s economic opportunity, market development, basic services access, and environmental performance; countries with larger gaps in performance will score higher on the y axis of the screening tool.

Company impact potential is measured using readily-available financial and operational data, assigning a high-level estimate on potential contribution to all three areas of impact; companies with higher outcomes against the goals will score higher on the x axis of the tool. By combining the country potential and company potential for each impact area gives FinDev Canada the ability to compare different companies, assigning each opportunity and impact goal a qualitative score of very high, high, medium, or low impact potential (see diagram). The same screening tool is used regardless of sector, type of financing instrument, or size of opportunity, although these parameters may of course influence the impact potential of an opportunity.





*2. Due diligence:* If the company has an adequate qualitative pre-screen score, we build on the initial assessment by introducing additional quantitative analysis tools. This includes review of detailed company operational and performance information and referencing additional national and sector-specific databases to understand gaps and potential impacts of company operations over the projected project lifetime. We discuss with the potential client its operational, financial and impact objectives, consider both current and future performance, and estimate changes at both company level and end-customer level. These objectives are mapped to established development impact KPIs (both core and sector-specific, see details below), allowing

FinDev Canada to assign scores across the three impact goals, and eventually produce an overall numerical rating that summarizes the total potential development impact of the client. This methodology allows us to compare the potential contribution of companies of different sizes, sectors, and business models in a standardized way to make optimized investment decisions. To ensure that we prioritize opportunities with highest potential impact on women, we give the Women’s Economic Empowerment goal a higher weighting than the other impact areas in the final development impact score.

In addition to assessing development impacts, FinDev Canada reviews the human rights and environmental, social and governance (ESG) performance of potential clients to identify potential risks and/or areas for improvement, using our Interim [ESG Assessment Policy](#). Finally, if the client development impact performance score meets expectations (and all other due diligence requirements, including risk, return, and ESG are also satisfactory), the client package is shared with the FinDev Canada investment committee, which must review the proposed investment.

*3. Contracting & Monitoring:* If the investment is approved, we move into the contracting and monitoring phase. Based on the impact objectives and projections discussed in Stage 2, an impact plan that outlines expected activities, timelines, KPI targets and reporting is included in the legal agreement. The monitoring phase is meant to drive both performance and impact learning: our clients provide us with updates on progress, and we provide support and guidance on how impact outcomes could be expanded or accelerated. FinDev Canada draws on both internal subject matter experts, such as development and gender specialists, and external experts as needed for technical advice on impact-related activities. As we build up our data collection and analysis capabilities, we will also increase the frequency of monitoring, with a goal of moving towards more real-time performance monitoring, dashboards, and analytics, both for internal use and for client business optimization. The individual client monitoring will allow us to compare progress of individual clients and aggregate data at a portfolio level in order to track progress towards our goals. We will also conduct ex-post evaluations of a sample of our transactions (either ourselves or using third-parties), as they mature and

leave the portfolio, to validate development impact assumptions and continuously improve our development impact framework to better predict development outcomes. To ensure customer value, we will assess client satisfaction with impact engagement and results using qualitative and quantitative feedback tools.

4. *Reporting*: FinDev Canada will produce a variety of reporting on the impacts of its portfolio, including online tools (dashboards, trends) and annual reporting, as well as progress towards our three impact goals. These reporting techniques will inform the public of overall development impact results, provide FinDev Canada with performance insights on specific segments of the portfolio, and create a feedback loop to client companies on their impact vis-à-vis benchmarks. Where possible, we will also use case studies or other more in-depth reporting techniques to share individual experiences of client companies and their end-customers with regards to impact.

## Data use and impact modeling

FinDev Canada’s impact approach draws on industry accepted development impact methodologies and aligns with harmonized standards such as the Harmonized Indicators for Private Sector Operations (HIPSO), the Global Impact Investing Network (GIIN)’s Impact Reporting and Investment Standards (IRIS) and others. We strongly emphasize a scientific approach to development impact measurement and will draw on three levels of data capture and analysis to measure impact results: client company level data, end-customer level data, and national or sectoral data. Technology solutions for impact data collection and analysis will be an important part of our approach, and FinDev Canada is building a technology roadmap for its operations (including impact monitoring) that will be rolled out over the coming months.

1. *Company level data*: FinDev Canada company-level KPIs build on impact investing and development finance industry learnings and will vary depending on the company operational impact areas. The table provides an example of the “Core KPIs” that will be tracked across all investments, using client-reported information, which has a relatively high level of accuracy and can be used for specific direct outcome reporting. We have chosen to start with a smaller set of core KPIs as proxies to track performance on FinDev’s development impact pathway in a meaningful, yet practical and cost-effective way, while keeping our tools flexible in order to add in new

## CORE KPI EXAMPLES



### WOMEN'S ECONOMIC EMPOWERMENT

- Women in ownership (% , #)
- Women in governance (% , #)
- Women in management (% , #)
- Women employed (% , #)



### ENVIRONMENT AND CLIMATE

- Energy consumption (kWh)
- Water consumption (MT)
- CO2 emissions avoided (MT)



### CAPITAL AND ADDITIONALITY

- Total capital invested (\$)
- Non-DFI capital invested (\$)
- FinDev Canada capital invested (\$)
- Capital raised since investment (\$)
- Mobilized capital (\$)
- Net promoter score



### MARKET DEVELOPMENT

- Production or services sold (#)
- End-customers (#, M/F, BoP)
- Local supplier spend (\$, %)
- Local suppliers (#, M/F, smallholders)
- Turnover (\$)
- Net profit ()
- Salaries paid (\$, mgt/staff)
- Taxes paid (\$)
- Local ownership (%)



### EMPLOYMENT

- Decent jobs created & sustained (#, M/F)
- Jobs with benefits (% , M/F, mgt/staff)
- Training hours (#, M/F, mgt/staff)
- Training budget (\$, M/F, mgt/staff)



indicators as they become accessible. In addition to core KPIs, we will also track additional sector specific KPIs such as those that related to basic services access, agribusiness, or other.

*2. End-customer level data:* Many companies already track significant customer level information such as income level, gender, household location, and use of products or services. Where relevant data on customers is not available, FinDev Canada will work with companies to identify proxy data, sampling opportunities, or new data collection tools that will improve customer knowledge for both impact purposes and improved company marketing and customer acquisition / retention.

*3. National or sectoral level data:* To accurately benchmark company performance against peers, and to estimate indirect outcomes (for example, upstream or downstream in a value chain, or about the user of the services), we will draw on existing national and sectoral level databases. For this modeling we rely on international country statistics databases, industry associations, and other emerging data sets to accurately benchmark client performance and to use statistical models to estimate impact outcomes outside of the companies' own operations. Examples of preferred datasets include the Gender Inequality Index, published by the United Nations, the DataBank on World Development Indicators, operated by the World Bank, and the Financial Market Development index, produced by the International Monetary Fund (IMF). To make these estimations as robust as possible, we rely on recognized models used by other DFIs, academic researchers, and other reputable institutions and will continue to explore the addition of new impact modeling techniques as they become available. We consider that an estimation of broader outcomes in our selected markets will help us to better assess our impacts and feed back into our framework for improved decision-making.

Attribution is an important feature of development finance impact measurement, defining the portion of results measured that can fairly be linked to a financier. In most cases, we attribute our impacts by prorating results based on the share of capital our investment represents in a company. We use this straightforward approach because it allows for consistent and rational attribution and avoids the risk of overstating impacts.




## **Client-centered approach and performance incentives**

FinDev Canada aspires to offer both financial and non-financial value to its clients. Our development impact process is based on finding areas of impact that bring value both to client companies and to FinDev Canada, and on working closely with companies to ensure that this link between operations and development can be integrated into its day-to-day management. Leadership and owners should also be engaged in the development aspects of the transaction, to ensure buy-in at all levels of the organization. Where it may enhance development outcomes, FinDev Canada may introduce impact-linked financial incentives for clients, that reward clients that meet or exceed development impact targets. These approaches are already being tested in the development finance space with results that can be leveraged in financial product design.

Clients often invest time and effort in impact monitoring, and we will invest in technology and methodology solutions such as cloud-based, lean data methods, open-source, mobile, artificial intelligence, or others and will rely on system-to system-communication methods (i.e. electronic data exchange/API) that allow us to streamline data collection and reporting processes. Impact data collection is focused on data and analysis

## CLIENT-CENTERED APPROACH




### FINANCIAL VALUE

-  Debt
-  Equity
-  Guarantees



Client

### NON-FINANCIAL VALUE

-  Technical assistance
-  Data Analytics and BI
-  Gender tools

that provides clients improved business intelligence about their market, customer behavior, or new opportunities. By making impact data and analysis more useful to business operators, we hope to stimulate a positive cycle of business improvements that have associated development impacts. We will also make use of survey tools to solicit client feedback on their experience in working with

FinDev Canada at every stage of the impact cycle, to identify areas for continuous improvement or new impact solutions.

## Accountability and transparency

FinDev Canada has established a variety of structures to ensure adequate oversight of its development impact framework and management cycle:

1. *Advisory Council:* This group of external experts provides FinDev Canada with strategic advice and guidance relating to its development impact strategy, non-financial policies and its overall progress. The Advisory Council meets at regular intervals throughout the year and will consist of up to ten independent members drawn from civil society, academia, the private sector and the development finance industry.

2. *Other external stakeholders:* FinDev Canada actively engages with external stakeholders such as civil society, impact practitioners, and academic experts to gain their international perspectives on trends in international development, collaboration between civil society and development finance, and emerging issues and opportunities. In addition to regular and ongoing one-to-one engagement with stakeholders, FinDev Canada also organizes stakeholder events to allow for broader interaction and discussion.

3. *FinDev Canada Board of Directors:* FinDev Canada's development impact framework and progress are monitored on a regular basis by its Board of Directors, who are ultimately accountable for the impact performance of the organization.

As a development finance organization, transparency is an important principle of our work. All transactions will be publicly disclosed on the FinDev Canada website, accompanied by a summary of relevant details, including anticipated development impacts. We will report publicly on the status of our portfolio at least annually, but with a goal of moving to more frequent, near real-time impact data collection and online availability.

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