

September 2018



→ Development Impact Framework

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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 official development assistance, FinDev Canada envisions a private sector that is accelerating sustainable and inclusive local economic growth that incorporates increased women's participation, reduced poverty, and positioned for a low-carbon future. 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 results reporting.

CONTEXT

The global community, including the Government of Canada, recognizes the need for a growth model that leads to a more sustainable, inclusive and prosperous global economy that ensures “no one is left behind”. International accords such as the United Nations Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda (AAAA), and the Paris Agreement on Climate Change outline global sustainable development objectives and the important role that the private sector will need to play to make meaningful progress towards these goals. The Government of Canada also recognizes the importance of women in achieving inclusive and sustainable development and has thus prioritized its international assistance to support initiatives that can elevate women's economic empowerment and improve gender equality in developing countries. While good progress has been made, additional support and financing is still required to achieve these goals. For example, the McKinsey Global Institute estimates that between USD 12 and 28 trillion could be added to global GDP simply by achieving gender parity in the economy (see infographic)¹. Research also shows that based on current trajectories, 31 countries will still have extreme poverty headcount ratios of at least 20 percent in 2030² (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 which needs to raise an additional USD 1.7 trillion to achieve universal access³ (SDG6).

FIGURE 1. POTENTIAL GDP GROWTH



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 provide financial solutions to the private sector in developing countries, with an emphasis on reaching businesses that have the potential to develop local markets, economically empower women, and mitigate climate change. It is thus critical that FinDev Canada establish mechanisms that can credibly measure our progress towards delivering on this mission and broader international goals. This document outlines FinDev Canada's Development Impact Framework,

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.

which guides the organization’s immediate strategy, impact goals, and investment decision-making process. The Framework provides direction while allowing FinDev Canada to continue to build its capabilities to leverage development impact measurement technologies and tools that will position it to succeed in the evolving world of development finance. Both internal and external stakeholders can refer to the Framework as a guiding document, and it serves as a point of reference when elaborating more tactical or operational tools, reports, or communication materials that relate to development impact.

PRIORITY IMPACT GOALS AND DEVELOPMENT IMPACT PATHWAY

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—FinDev Canada envisions a private sector that is accelerating sustainable and inclusive local economic growth that incorporates increased women’s participation, reduced poverty, and positioned for a low-carbon future.

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 2).

FIGURE 2. FINDEV CANADA'S DEVELOPMENT IMPACT GOALS

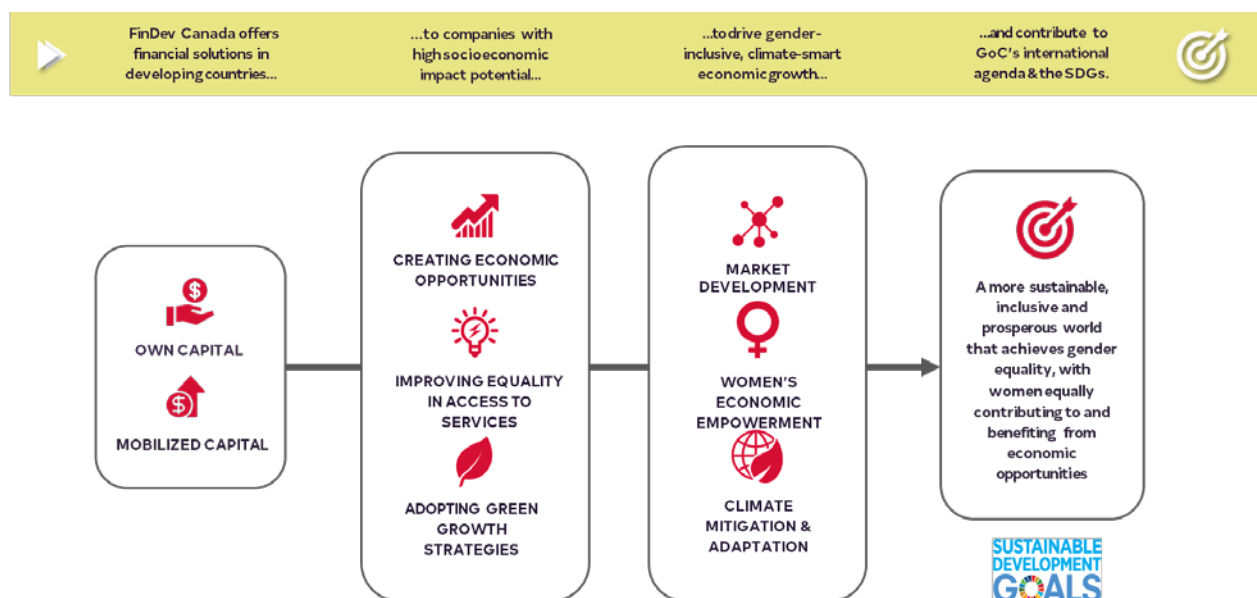


All three impact goals are important to FinDev Canada’s mission, however the Framework considers the goal of women’s economic empowerment a core driver of our decision-making and strategy.

FinDev Canada’s long-term vision will be achieved through its activities and the activities of its clients, which is outlined in the development impact pathway diagram (Figure 3) and narrative below.

Our engagement with companies starts when potential financing opportunities are identified, which can be in the form of debt, equity or guarantees. We also aim to mobilize other financiers (ideally from the private sector) to meet broader client financing requirements and to maximize progress towards impact goals. Client companies may themselves be SMEs, corporations, or intermediaries such as financial institutions or investment funds. In each case we will use a similar methodology to assess the development impact potential.

FIGURE 3. FINDEV CANADA'S DEVELOPMENT IMPACT PATHWAY



In the short-term, we expect client companies to generate positive development returns through their operations in one or more of the following three ways.

- They can create **local economic opportunities** by strengthening SMEs⁴, growing local value chains, providing decent employment, and contributing to government revenues and gross domestic product (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 individuals). Our impact model will measure the increased economic activity across the entire value chain centered on the client company. Contribution to local ownership levels is also considered, with local ownership defined as 50% or greater shareholders from the client's country of operations.
- They can offer products or services that expand **equal access to basic services** (such as water, sanitation, or energy) or important **economic empowerment tools** (such as skills training, financial services or digital connectivity) to underserved groups, particularly women.
- They can adopt **green growth strategies** by introducing or scaling up technologies (renewable energy, climate-smart products, circular economy, or other) that encourage sustainable industrial development, through their own operations or through customer products or services that offer climate mitigation or adaption benefits.

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:

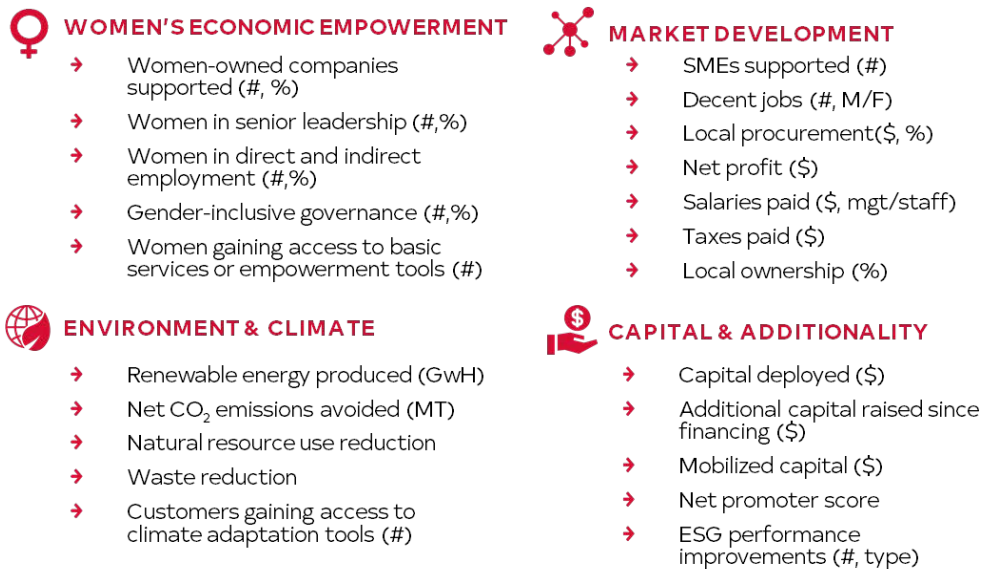
- less than 300 employees;
- less than USD 15 million in assets; or
- less than USD 15 million in annual sales

⁴ See text box and IFC Interpretation Note on Small and Medium Enterprises, 2012 for the full definition: https://www.ifc.org/wps/wcm/connect/de7d92804a29ffe9ae04af8969adcc27/InterpretationNote_SME_2012.pdf?MOD=AJPERES

In each of these operational areas, FinDev Canada will consider both the client's current contributions to development objectives as well as future expected contributions, based on the client's growth strategy, new product development, customer diversification plan, or other relevant business information.

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.

FIGURE 4. CORE KPI EXAMPLES



Throughout our engagement with companies, FinDev Canada will track key performance indicators (KPIs) using several different methods outlined below (see table 1 on section "Managing and measuring outcomes and impacts"), such as direct data collection, macroeconomic or sectoral data, and industry-developed economic modeling. We started 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. This will enable us, over the medium-term, to measure how the FinDev Canada portfolio is contributing to our three priority impact goals of *market development*, *women's economic empowerment*, and *environment and climate action*. Figure 4 provides examples of "Core KPIs" that will be tracked across all investments. Sector-specific KPIs aligned with the client's industry and business will also be tracked as needed.

In the long-term, when a time-series of data on portfolio performance is available and can measure changes in outcomes against these goals, we hope to demonstrate how FinDev Canada contributed to a more sustainable, inclusive and prosperous world that eliminates extreme poverty and lessens the gender equality gap by ensuring that women can equally benefit from and contribute to economic opportunities, in line with the 2030 SDGs. Our priority SDGs are illustrated in Figure 5, and while we recognize that many of the SDGs are interrelated and interdependent, we have

FIGURE 5. FINDEV CANADA'S PRIORITY SDGS



limited FinDev Canada’s priority SDG selection to ensure that the development impact pathway and associated reporting remain manageable at this early stage of operations.

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 enters our portfolio, we support the client to fulfill its operational impact goals and focus on monitoring KPIs and results.

FIGURE 6. DEVELOPMENT IMPACT MANAGEMENT CYCLE

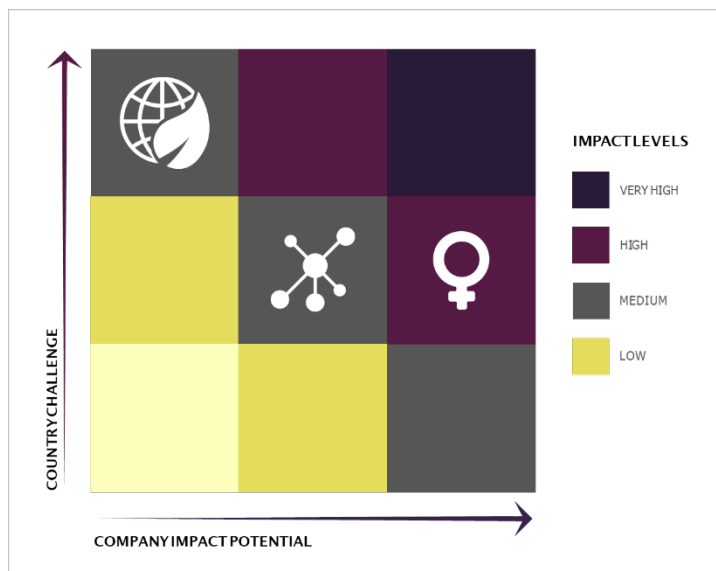


We have established a development impact management cycle that is embedded in our organizational investment process, as shown in Figure 6. How the investment team considers development impact during each stage of the cycle is outline below.

1) Pre-screening: At this early stage we assess the potential development impact of an opportunity against all three FinDev Canada impact goals. Using both quantitative data and qualitative argumentation, each opportunity earns a score **on the impact dimensions of country development need and company impact potential**. To assess the country dimension, the impact tools incorporate a variety of economic and social indicator datasets in areas such as poverty level, 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. To assess client potential, the tools use available financial and operational data to estimate client contribution to all three areas of impact. Companies with higher results against the three goals will score higher on the “X” axis of the tool. 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 Figure 7). These scores are used to assign the client a qualitative impact rating out of 10. To ensure that we prioritize opportunities with the highest potential

FIGURE 7. PRE-SCREENING IMPACT MATRIX



impact on women, we give the women's economic empowerment goal a higher weighting than the other impact areas in the development impact rating.

2) **Due diligence:** Clients that score well on potential impact at pre-screen may be recommended to the investment committee to move to due diligence. We build on the initial assessment by introducing additional quantitative tools. This includes a review of company operational and performance information and referencing additional national and sector-specific databases to understand gaps and potential impacts of company operations over the estimated project lifetime. FinDev Canada and the

BOX 2. ESG POLICY REVIEW PROCESS

FinDev Canada is undertaking a further benchmarking and review to finalize its ESG and human rights policies/positions and approaches. This review process will involve industry experts and stakeholders as well as testing various tools for applicability in our markets and client segments. Following this review, FinDev Canada will publish its updated ESG, human rights and gender equality policies/positions in 2019.

client discuss operational, financial and impact objectives, consider both current and future performance, and estimate changes in results at company and end-customer levels. Finally, we map expected outputs against established development impact KPIs (both core and sector-specific, see details below), allowing FinDev Canada to assign scores across the three impact goals, and produce an overall numerical rating that summarizes the client's total potential development impact. This method 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.

In addition to assessing the development impact of all transactions, FinDev Canada is committed to applying rigorous environmental, social and governance (ESG) assessment and monitoring approaches throughout the life-cycle of its engagement with companies. ESG is an area where FinDev Canada can lend its expertise to support measurable performance improvement of clients. During due diligence, FinDev Canada reviews a client's human rights and ESG performance to identify potential risks and/or areas for improvement, a process based on our [Interim ESG Assessment Policy](#)⁵. The policy mainly draws on the IFC Performance Standards on Environmental and Social Sustainability⁶, the most widely used set of ESG standards in the development finance sector. 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. This will draw on existing gender mainstreaming and assessment tools, many of which are already used in the development finance sector. See Box 3 for more information on the forthcoming FinDev Canada Gender Strategy.

If the client development impact performance score meets FinDev Canada expectations (and all other due diligence requirements, including risk, return, and ESG, are also satisfactory), FinDev Canada shares the client

BOX 3. DEVELOPING A GENDER STRATEGY

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.

⁵ FinDev Canada's Interim ESG Assessment Policy and related policies are currently being reviewed by internal and external experts, and we expect to issue a final set of policies in 2019.

⁶ The full IFC Performance Standards can be accessed in English and French at https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards.

package with its investment committee for review.

3) Contracting and monitoring: If the committee approves the investment, we move into the contracting and monitoring phase. Based on the impact objectives and projections discussed in Stage 2, FinDev Canada drafts a Development Impact Action Plan that outlines expected annual activities, KPIs and reporting for inclusion in final contracting. The monitoring phase should drive both performance and impact learning: our clients provide us with updates on progress, and we 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 up our capabilities and digital tools for data collection, performance monitoring, and business analytics, we will also seek to speed up 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.

By monitoring individual client outputs, we can compare clients' performance levels and aggregate data at a portfolio level to track progress towards our goals. We will also conduct *ex-post* evaluations of a sample of our transactions (either internally or using third-parties), as they mature and leave the portfolio, to validate development impact assumptions and improve our Development Impact Framework to better predict development outcomes. (See section below on "Managing and measuring outcomes and impacts" for more details). 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 reports on the impacts of its portfolio, including online tools (dashboards, trends), annual reporting, 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, 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 impact experiences of client companies and their end-customers.

MANAGING AND MEASURING OUTCOMES AND IMPACTS

FinDev Canada's impact measurement 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.

The organization emphasizes a research and learning 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. For KPIs that capture information on people, data should be gender disaggregated to ensure trends and impacts are visible. Technology solutions for impact data collection and analysis will be an important part of our approach, and FinDev Canada is building a technology roadmap to guide its operations, including impact monitoring, 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.
- 2) End-customer level data: Many companies already track significant customer level information such as business size and type (e.g. SMEs), income level, gender, customer 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 benchmark company performance against peers, and to estimate indirect outcomes outside of the companies' own operations FinDev Canada will draw on existing national and sectoral level datasets (see Box 4 for examples of datasets used). To make these estimates as robust as possible, we will rely on recognized models used by other DFIs, consultants and academic researchers, and will consider adding new impact modeling techniques as they become available. By incorporating tools to help assess broader development outcomes in our selected markets FinDev Canada will build an improved understanding of full investment returns and data that can feed back into our Framework for improved decision-making.

BOX 4. SAMPLE SOCIOECONOMIC DATASETS

- Gender Inequality Index (United Nations)
- DataBank on World Development Indicators (World Bank)
- Index of Financial Market Development (International Monetary Fund)
- Global Findex (World Bank)
- Observatory of Economic Complexity (Massachusetts Institute of Technology)

We are building a measurement framework that matches our impact pathway and its goals. This approach will allow us to measure impact at different result levels, for example at a client, portfolio and corporate level. Table 1 below outlines the measurement methods we will use at each impact level.

TABLE 1. DEVELOPMENT IMPACT RESULT LEVELS AND RELEVANT MEASUREMENT METHODS

Result level	Result type	Method/Tool	Frequency
Client results against client development impact KPIs/targets	Outputs	Direct client data collection End-customer data, including statistically valid surveys or sampling techniques Economic models that estimate indirect outputs of client operations	Quarterly or annually, depending on data availability Annually
Consolidated portfolio results against FinDev Canada development impact KPIs	Outputs/ Outcomes	Consolidated/benchmarked client data Consolidated/benchmarked end-customer data, including statistically valid surveys or sampling techniques Economic models that estimate indirect outputs or outcomes of client operations Interim client, sector, or portfolio impact assessments (by FinDev Canada or third-party evaluators) End of project impact assessments (by FinDev Canada or third-party evaluators)	Annually Annually Annually Periodically, but usually near mid-point of financing term After the end of financing term / exit of investment
Consolidated portfolio results against three priority impact goals, SDGs, Paris Agreement, or other global targets	Outcomes/ Impacts	Consolidated reporting of changes in development outcomes that can be fairly attributed to FinDev Canada portfolio activities	Follows international reporting frequencies and availability of long-term data on the portfolio from interim and end of project assessments.

We recognize that external economic or environmental factors may influence development outcomes, and we will need to ensure that our conclusions on impact consider these contextual anomalies when we analyze, compare, benchmark, and report on client-level and portfolio-level outcomes.

Measuring additionality: FinDev Canada will assess its financial and non-financial additionality in all transactions. For financial additionality, we will 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;
- 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.

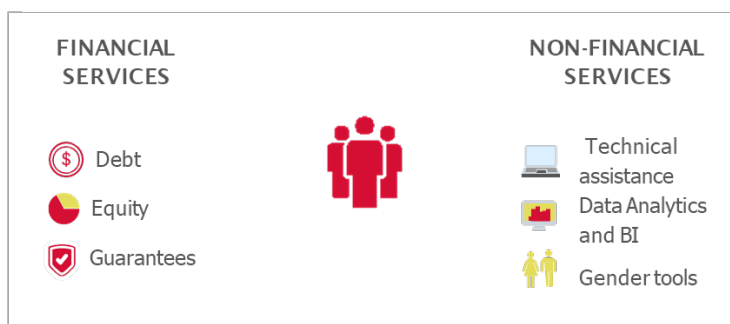
For non-financial additionality, we will assess other elements of FinDev Canada’s value-add in the transaction, such as knowledge, networks; technical assistance, and opportunities to enhance client performance, including in areas such as ESG practices, reputational benefits, or expanded development outcomes.

Measuring attribution: attribution is an important feature of development finance impact measurement, as it seeks to define the portion of results measured that can fairly be linked to a financier. FinDev Canada will align with industry initiatives that seek to attribute results among collaborating partners. FinDev Canada is continuing to refine its attribution model, which will differ between direct client financing and indirect financing, e.g. transactions in which FinDev Canada participates at a second tier, for example in an investment fund which then makes investments in companies. For direct financing, FinDev Canada expects to use a prorated or proportionality calculation based on the share of its contribution to the project’s assets (non-current) or total project size. For indirect financing, FinDev Canada will define a more detailed approach drawing on other DFI practices and calculated ratios, such as sector or regional capital intensities.

CLIENT-CENTERED APPROACH AND PERFORMANCE INCENTIVES

FinDev Canada aspires to offer both financial and non-financial value to its 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. 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.

FIGURE 8. CLIENT-CENTERED APPROACH



FinDev Canada also recognizes the importance of technical assistance activities for clients, particularly cost-sharing arrangements that may help offset the short-term costs of implementing improved financial, operational or impact outcomes, gender equity initiatives, and/or environment, social, and governance (ESG)-related practices. We will seek to partner with other organizations (public or private) that have access to grant funds for

technical assistance activities in order to bring this additional value to our clients when required.

Clients often invest time and effort in impact monitoring. To support our clients and reduce reporting costs and resources FinDev Canada will invest in technology solutions such as cloud-based systems, lean data methods, and open-source, mobile, or artificial intelligence tools. We may also implement system-to-system communication methods (i.e. electronic data exchange/API) to streamline data collection and reporting. Impact data collection will focus on data and analysis that provides clients improved business intelligence in areas such as market opportunities or customer behavior. By making impact data and analysis more useful to companies, 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.

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 development results. The Advisory Council will meet at regular intervals throughout the year and is comprised 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 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. Besides 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 Board of Directors regularly monitors the Development Impact Framework goals and results, as the Board is accountable for the impact performance of the organization.

As a development finance organization, transparency is an important principle of our work. A summary of each transaction will be disclosed on the FinDev Canada website, including a summary of expected development impacts and ESG action items. 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. The use of independent assessors of our portfolio will also help to validate our results and ensure a high level of accountability in progress towards our development impact goals.