



## **Disclosure Statement**

### **Operating Principles for Impact Management**

APRIL 12, 2021

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\$ 209 million as of December 31, 2020.

A handwritten signature in black ink, appearing to read "K Kember".

Ken Kember, Interim CEO

## PRINCIPLE 1

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# Define Strategic Impact Objective(s), Consistent with the Investment Strategy

*The Manager shall define strategic impact objectives<sup>1</sup> 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 Framework**<sup>2</sup> 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 Strategy**<sup>3</sup> to ensure the promotion of gender equality throughout our investments and operations.
- In 2021 we will launch our Climate Change Strategy to further define our approach to promoting climate change mitigation and adaptation through our investments. In 2022 we plan to do the same for our Market Development goal.
- Our impact 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).

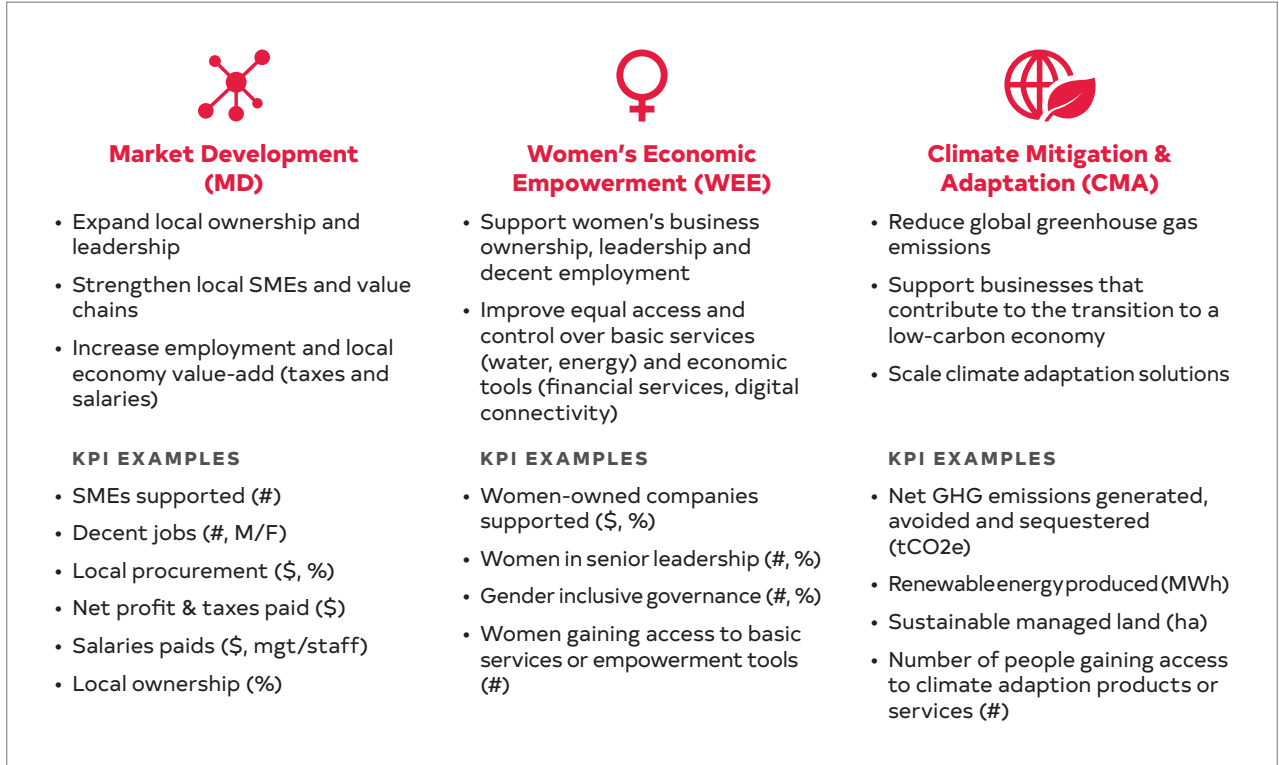
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<sup>1</sup> Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC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

<sup>2</sup> See: [https://www.findevcanada.ca/sites/default/files/2018-10/development\\_impact\\_framework\\_en\\_-\\_final\\_092018.pdf](https://www.findevcanada.ca/sites/default/files/2018-10/development_impact_framework_en_-_final_092018.pdf)

<sup>3</sup> See: [https://www.findevcanada.ca/sites/default/files/2019-08/2019\\_137\\_gender\\_equality\\_strategy\\_en\\_final.pdf](https://www.findevcanada.ca/sites/default/files/2019-08/2019_137_gender_equality_strategy_en_final.pdf).

**FIGURE 1: FINDEV CANADA'S IMPACT GOALS**



- In addition to the Development Impact Framework, we have developed and implemented an **E&S Policy**<sup>4</sup> to ensure that environmental and social (E&S) risks are evaluated alongside development impact objectives (for more details, please refer to Principle 5).
- We 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 focus our efforts on **five priority SDGs** to allow for targeted use of our capital and to ensure that the development impact pathway and associated reporting remain manageable at this early stage of operations (Figure 2).
- 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).

**FIGURE 2: FINDEV CANADA'S PRIORITY SDGS<sup>5</sup>**



<sup>4</sup> See: <https://www.findevcanada.ca/sites/default/files/2020-04/FinDev%20Canada%20ES%20Policy%20-%20%2002Mar%202020.pdf>

<sup>5</sup> 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.

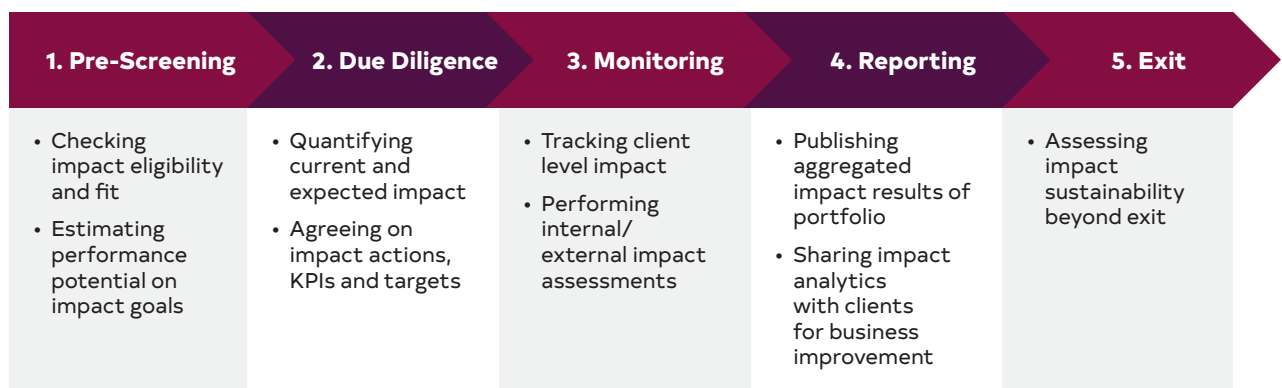
## PRINCIPLE 2

# 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**.

**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** 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 criteria<sup>6</sup>, or that operate in the Least Developed Countries.
- At due diligence, we always review how a prospective investment **contributes towards one or more of these impact goals**. This in turn enables us to direct our capital towards impactful investments while at the same time building a diverse and financially stable portfolio of clients with adequate E&S risk management systems and capacity.
- To align the impact objectives with our own actions, FinDev Canada's performance-based compensation program for all employees integrates impact considerations.

<sup>6</sup> 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>

## PRINCIPLE 3

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# 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, based on the premise that as a DFI supporting private sector operations we should make a contribution beyond what is available in the market without crowding out the private sector.
- To standardize the assessment process and ground it in internationally recognized practices, we developed an **Additionality Framework** that establishes criteria for the determination of additionality and monitoring of the effectiveness of our approach.
- For **financial additionality**, we track to what extent FinDev Canada's investment is leading towards:
  - improved availability of financing that is not offered by the private sector or at least not in sufficient quantities
  - improved terms suitable to investees' needs and not offered otherwise by the private sector
- For **non-financial additionality**, we evaluate to what extent we help investees:
  - enhance their knowledge and skills,
  - improve working conditions for their employees and/or across their supply chain,
  - empower women they employ and/or in their customer base/portfolio/supply chain,
  - transition to a low-carbon economy and be resilient to climate change, and
  - raise their E&S standards to mitigate risks of negative E&S impacts.
- In addition, we are working to refine our **attribution methodology for impact data** so we can report portfolio's results relative to the share of our investment. We are seeking to align our approach with existing global standards such as the ones developed by GIIN and PCAF<sup>8</sup>.

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<sup>8</sup> [https://thegiin.org/assets/Methodology%20for%20Standardizing%20and%20Comparing%20Impact%20Performance\\_webfile.pdf](https://thegiin.org/assets/Methodology%20for%20Standardizing%20and%20Comparing%20Impact%20Performance_webfile.pdf) and <https://carbonaccountingfinancials.com/>

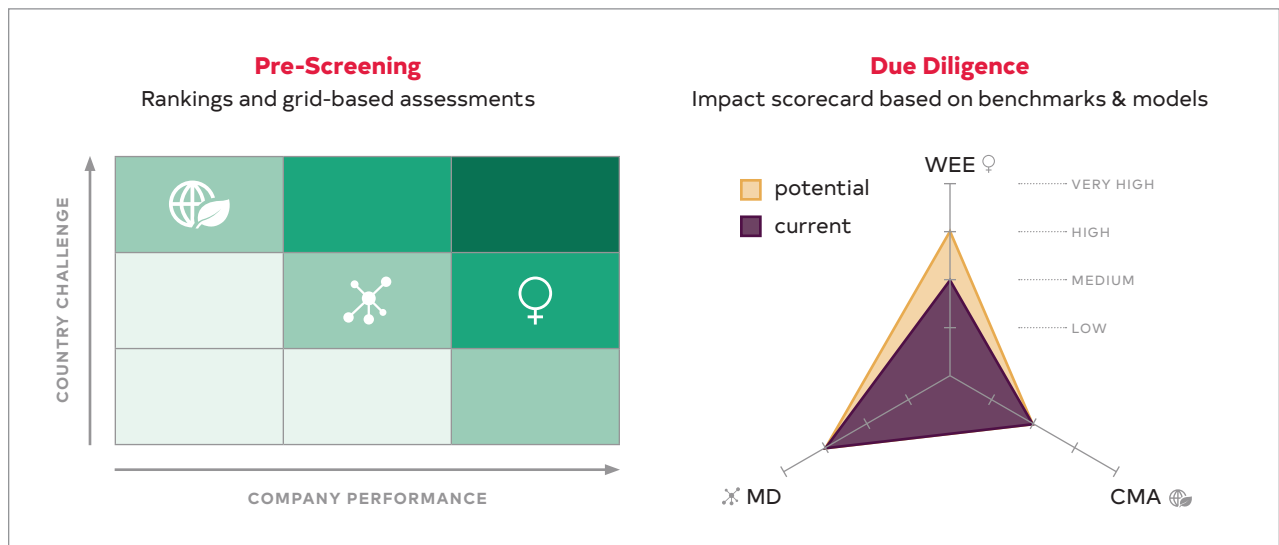
## PRINCIPLE 4

# 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 impact<sup>9</sup> 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 development impact, we developed **a set of analytical and visual tools** that help quantify the current and potential impact of a prospect investee (Fig 4).

**FIGURE 4: IMPACT TOOL EXAMPLES AT ORIGINATION**



<sup>9</sup> 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.

- At a pre-screening stage, using both quantitative and qualitative data, each opportunity 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, such as the Inclusive Development Index, the Gender Development Index and the Global Adaptation Index<sup>10</sup>.
- At due diligence, we build on the initial assessment by introducing **additional quantitative data**. This includes a review of a company's operational 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**.
- As a gender-lens investor, we 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 Tool<sup>11</sup>, widely used in the development finance sector and accessible to all private sector entities.
- To prioritize opportunities with the highest potential impact on women, our final development impact score allocates **a higher weighting to the women's economic empowerment goal** than the other two development impact dimensions in.
- In our analysis, we always **distinguish between a company's current and future performance**. This allows us to assess where a client may be today versus their future impact commitments and to evaluate the degree of stretch to achieve these improved outcomes and the associated risks of not achieving them.
- When the degree of stretch is high, or when there is clear room to support the company in expanding its current practices to deepen potential development impact, together with them and often alongside other DFIs, we **develop action plans with time-bound targets**. Wherever reasonable, we draw on our Technical Assistance Facility to support our investees to achieving these targets (for more details, please refer to Principle 6).
- Detailed impact assessments supported by action plans and targets, alongside E&S related concerns and other risks, are presented in the investment recommendation memos submitted to the Investment Committee and the Board.
- We also consider significant **risk factors that could disrupt potential impact** through our E&S review process (for more details, please refer to Principle 5).
- 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 (HIPS), the 2X Challenge Criteria and the Global Impact Investing Network (GIIN)'s Impact Reporting and Investment Standards Plus (IRIS+).

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<sup>10</sup> Developed by the World Economic Forum, the United Nations Development Programme and the University of Notre Dame respectively

<sup>11</sup> 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 5

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# 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 E&S risks assessment and monitoring approaches throughout the life-cycle of our engagement with companies. During initial screening, we review the client's activities against our **Exclusion List**, which prohibits investment in particularly high-risk sectors and contexts. **An initial reputational risk assessment** is conducted, and **initial E&S risk categorization** is assigned at the pre-screening stage.
- 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<sup>12</sup>. The policy draws on the IFC Performance Standards on Environmental and Social Sustainability<sup>13</sup>, the most widely used set of E&S standards in the development finance sector, as well as its Interpretation Note on Financial Intermediaries<sup>14</sup> and its Environmental, Health and Safety Guidelines<sup>15</sup>, where appropriate. Additional benchmarks may be applicable depending on a transaction's risk profile, sector or operating context, for example the Center for Financial Inclusion Campaign Principles for Client Protection<sup>16</sup> for microcredit loans, personal loans or microenterprise development and commodity- specific certifications<sup>17</sup> when cited as a major component of client's E&S risk management approach.
- E&S assessment is embedded into our investment cycle, just like development impact - from pre-screening to due diligence, approval, monitoring and reporting. Given that our clients and countries of investment may face different E&S challenges and capacity constraints, we recognize that **compliance needs to be progressive and based on reasonable timelines**, for example through the use of Environmental and Social Action Plans (ESAPs) and/or technical assistance to ensure E&S gaps are addressed appropriately.

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<sup>12</sup> See: <https://www.findevcanada.ca/sites/default/files/2020-04/FinDev%20Canada%20ES%20Policy%20-%20%2002Mar%202020.pdf>

<sup>13</sup> See: [https://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards](https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

<sup>14</sup> See <https://www.ifc.org/wps/wcm/connect/a6de7f69-89c8-4d4a-8cac-1a24ee0df1a3/IF%2BInterpretation%2BNote.pdf?MOD=AJPERES&CVID=n27ywSg>

<sup>15</sup> See [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/ehs-guidelines](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines)

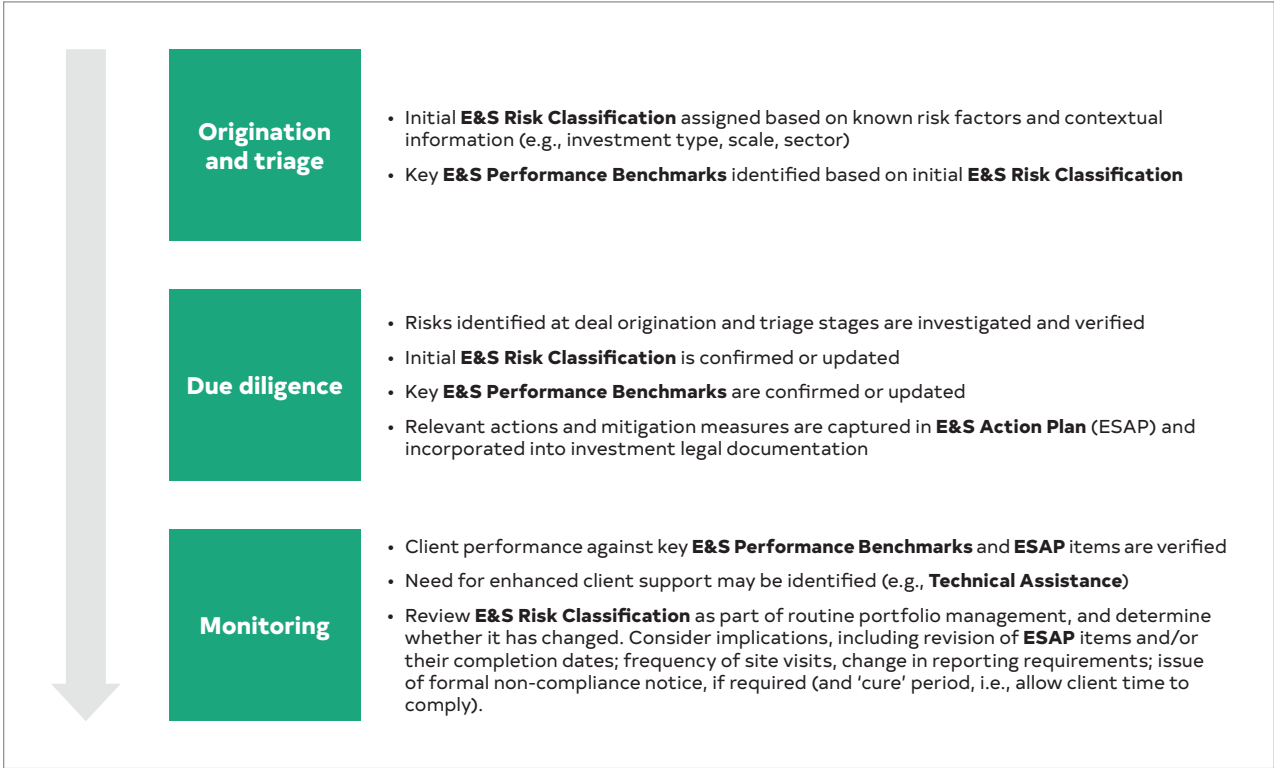
<sup>16</sup> See: <https://www.centerforfinancialinclusion.org/about/what-we-do/consumer-protection>

<sup>17</sup> For example, Forest Stewardship Council's Forest Management Standard or Fair Trade.



- In addition, **financial crime, corporate governance, business ethics and its associated reputational risks** are also assessed. Focus is placed on the client’s management capacity in these areas, and the regulatory framework under which they operate. These risks and mitigation approaches are assessed at pre-screening, due diligence and monitored throughout the lifetime of an investment as part of regular asset management activities.
- 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) (for more details, please refer to Principle 6).

**FIGURE 5: ENVIRONMENTAL AND SOCIAL DUE DILIGENCE & MONITORING IN THE INVESTMENT CYCLE**



- In addition, given the cross-cutting nature of gender equality, we also consider significant **risk factors that could disrupt potential impact** through our E&S review process, including gender related risks for workers, communities and clients as well as risks related to client protection for microenterprise and SME loan recipients<sup>19</sup>.

<sup>19</sup> We also rely on public resources and guidance notes to support gender risk identification and mitigation in general and in specific high-risk sectors. For example, Addressing Gender-Based Violence and Harassment – Emerging Good Practice for the Private Sector ([https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/publications/publications\\_gpn\\_addressinggbvh](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_addressinggbvh))

## PRINCIPLE 6

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# 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 and E&S Reporting and Action Plans** which outline 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<sup>20</sup>.
- The responsibility for data collection lies with the Impact and E&S teams which collect and analyze the relevant data directly from clients using monitoring reports and data templates. Using this information, the two teams **monitor the progress against expectations and track clients' performance**. This is usually done annually, or more frequently where warranted. Where applicable, we also engage with clients as members of their impact and ESG Committees and one-on-one calls.
- In the event a client's performance is not aligned with pre-investment impact or E&S expectations and contractual obligations, our approach is to engage with the client to understand the situation and what caused it. We take a client centric approach, where they lead on a **remedial action plan**. We are committed to supporting our clients in achieving better outcomes while acknowledging that the journey to impact is rarely straight and requires cooperation and adaptation to reach meaningful goals.
- The monitoring phase also drives **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 and to share best practices and support both parties' continuous improvement of development impact and E&S risk management. FinDev Canada draws on both internal and external subject matter experts as needed for technical advice on impact-related activities.
- FinDev Canada established a **Technical Assistance (TA) Facility** in 2020 to address specific capacity gaps for our client and to enable them to deepen their development outcomes and scale sustainably. TA projects are aimed at strengthening outcomes in three areas: gender action, impactful data, and business performance. In 2021 we developed a Gender Action TA offering for clients, which includes a suite of gender-focused interventions which can be deployed quickly and effectively depending on the client's needs and impact objectives. Overall, TA serves to deepen companies' abilities to transform, deliver more value to end customers, and increase their competitive edge.

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<sup>20</sup> Clients are required to submit regular impact and ESG reports in addition to notification requirements related to material E&S incidents impacting the environment, workers and local communities.

## **PRINCIPLE 7**

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# **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 takes an impact-centric approach and is committed to apply it throughout the decision-making process - from pre-screening and all the way to exit. We believe that a sustainable exit starts at due diligence when a client's impact commitment is assessed and development impact and E&S targets are set. Given the very young nature of our portfolio, we started with developing sound frameworks and tools for due diligence processes, followed by asset management. A sustainable exit strategy is next, and we are committed to putting it in place in the near future, before we make our first exits.

## PRINCIPLE 8

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# 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 have started and will continue to produce a variety of reports on the impacts of our portfolio, including online tools (dashboard), deep dives into specific impact areas or sectors and progress towards our three impact goals. These reporting techniques will inform our internal teams and the public of overall development impact results and provide performance insights on specific segments of the portfolio. We will also share 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**. In 2020, FinDev Canada conducted a test study of a VOC system by, inter alia, conducting in-depth interviews with clients. The results of the test will inform a VOC system to be developed and rolled out in 2021.
- FinDev Canada's **Interim Disclosure Policy**<sup>21</sup> demonstrates our commitment to transparent disclosure of investment activities, including requirements to publish information on potential E&S impacts related to an investment 30 days in advance of signing for Category A transactions and a comprehensive summary of Development Impact and E&S due diligence processes and findings within 90 days of signing for all investments<sup>22</sup>.

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<sup>21</sup> See [https://www.findevcanada.ca/sites/default/files/2018-02/disclosure\\_interimpolicy\\_11dec2017\\_final.pdf](https://www.findevcanada.ca/sites/default/files/2018-02/disclosure_interimpolicy_11dec2017_final.pdf)

<sup>22</sup> See website for transaction disclosures <https://www.findevcanada.ca/en/what-guides-us/transparency-policy-and-approach>

## **PRINCIPLE 9**

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# **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.
- In Q1 2021, BlueMark, a Tideline company and a leading provider of impact verification services in the impact investing market, performed an independent verification of FinDev Canada's alignment with the Impact Principles. The results have been published on our website.
- FinDev Canada remains committed to repeat the independent verification every three years.