



Disclosure Statement

Operating Principles for Impact Management

APRIL 12, 2022

FinDev Canada is a founding signatory to the Operating Principles for Impact Management (the Impact Principles). The Impact 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 Impact Principles. Total assets under management in alignment with the Impact Principles are **USD\$ 312 million** as of December 31, 2021.

In 2021, BlueMark, a Tideline company and a leading provider of impact verification services, performed an independent verification of our Disclosure Statement. Guided by their findings, we have continued our efforts to align FinDev Canada's policies, procedures, and practice with the highest standards of the Impact Principles.

A handwritten signature in black ink, appearing to read "Lori Kerr".

Lori Kerr, Chief Executive Officer

A handwritten signature in black ink, appearing to read "Stéphanie Émond".

Stéphanie Émond, Chief Impact Officer

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.

- Launched in 2018, FinDev Canada is Canada's development finance institution, providing financial services to the private sector in developing countries with the aim of combating poverty through sustainable and inclusive economic growth. Our vision is a more sustainable and inclusive world, where women contribute to, and benefit from economic opportunities.
- Our mission is to provide financial and non-financial solutions to the private sector in Sub-Saharan Africa, Latin America, and the Caribbean, with the potential to positively impact market development, empower women and drive climate action. In addition to financing solutions such as debt, equity and guarantees, FinDev Canada offers technical assistance to address capacity gaps and enable private sector companies to deepen their development outcomes. Technical assistance is focused in three areas: gender action, impactful data, and business performance to deepen companies' abilities to transform, deliver more value to end customers, and increase their competitive edge.
- To complement our existing financing solutions, FinDev Canada launched in 2021 [2X Canada: Inclusive Economic Recovery](#) (2X Canada), a blended finance facility that is funded by the Government of Canada through Global Affairs Canada. The facility supports investments that intentionally drive women's economic empowerment by addressing persistent market gaps and structural barriers faced by underserved populations in Latin America, the Caribbean and sub-Saharan Africa. FinDev Canada leverages the impact framework, policies and processes described herein for initiatives funded through 2X Canada.
- To deliver on our mission, we built a **Development Impact Framework**¹ which defines our strategic development impact objectives² and describes how we measure and manage their achievement on the ground. Closely related to this, we also developed and implemented a **Gender Equality**³ and a **Climate Change Strategies**⁴ to ensure the promotion of gender equality and climate action throughout our investments and operations.
- 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 change mitigation & adaptation. Each of the three is underpinned by a set of key performance indicators (KPIs) (Figure 1).

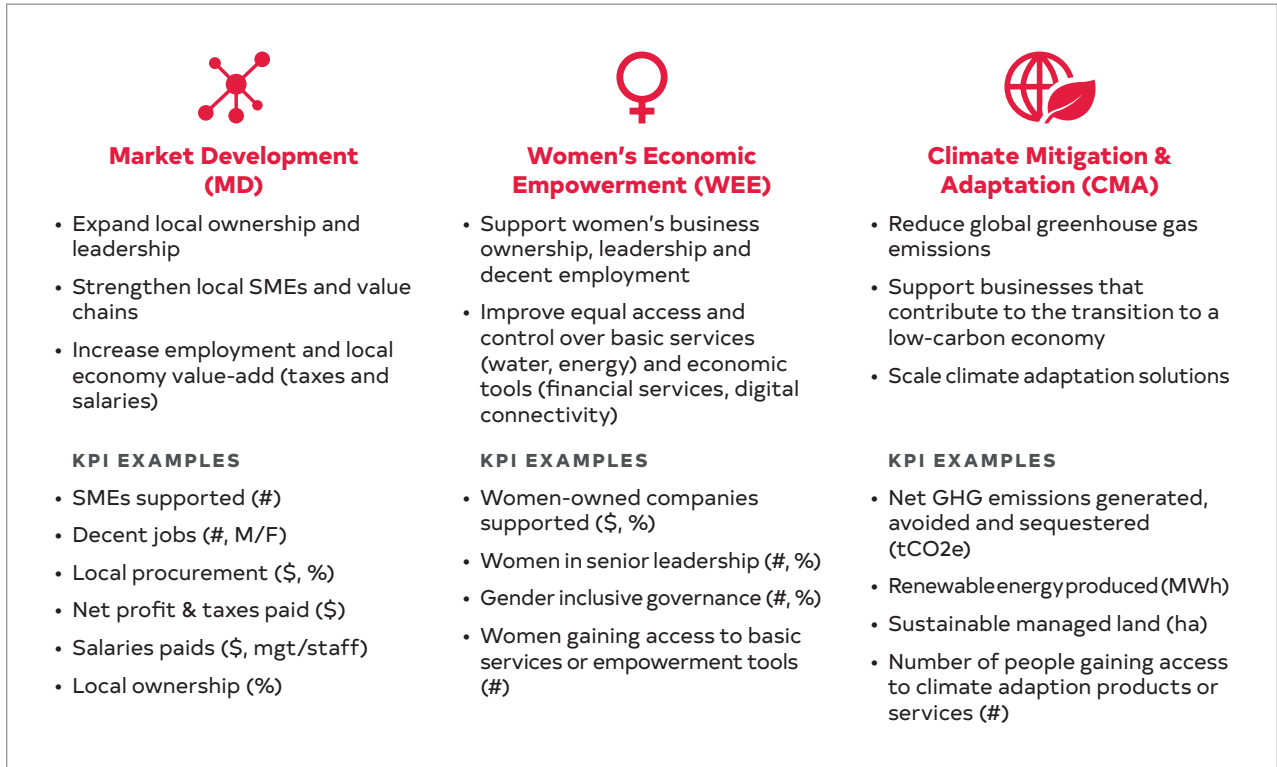
¹ See: https://www.findevcanada.ca/sites/default/files/2018-10/development_impact_framework_en_-_final_092018.pdf

² Development 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/).

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

⁴ See: https://www.findevcanada.ca/sites/default/files/2021-11/2021_080_Climate_Change_Strategy_EN_V3_11_02.pdf

FIGURE 1: FINDEV CANADA'S DEVELOPMENT IMPACT GOALS



- Our **Environmental & Social Policy**⁵ and **Business Integrity** function ensure that environmental, social and governance (ESG) risks are evaluated alongside development impact objectives (*for more details, please refer to Principle 5*).
- We aligned our development 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 SDGS⁶



- In 2022, we are undertaking a strategic review of FinDev Canada to take stock of our work to-date and refine our strategy looking forward. Consequentially, this is likely to bring adjustments to our development impact framework and its supporting strategies, policies, and tools.

⁵ See: <https://www.findevcanada.ca/sites/default/files/2020-04/FinDev%20Canada%20ES%20Policy%20-%20%2002Mar%202020.pdf>

⁶ 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.

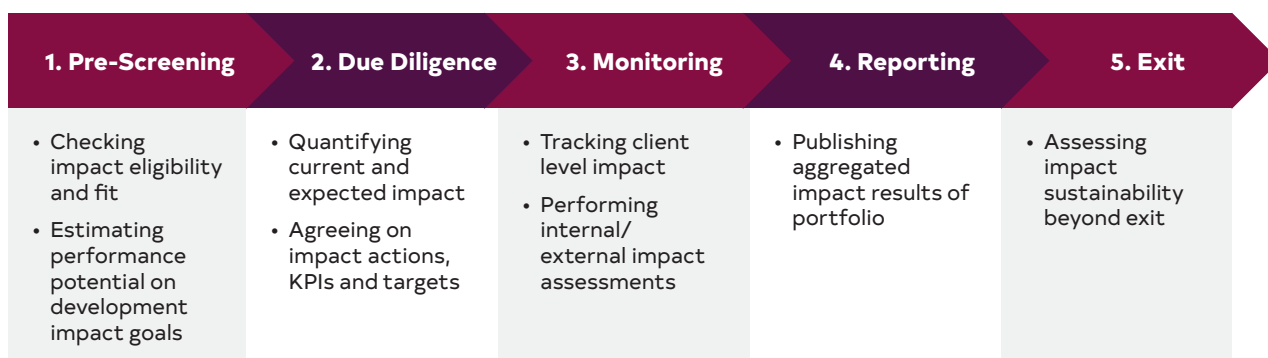
PRINCIPLE 2

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. Procedures to integrate impact considerations throughout the investment lifecycle are described in the *Impact Officer Manual*, which can be updated from time to time to reflect any procedural changes, to ensure continuity and consistency in the impact assessment of investments. Figure 3 illustrates **how development impact is integrated into every part of the investment process**.

FIGURE 3: FINDEV CANADA'S DEVELOPMENT IMPACT MANAGEMENT PROCESS



- To advance on our development impact goals, we set **targets for the portfolio** based on a percentage of investments that meet specific development impact criteria. For example, a percentage of transactions that will meet the 2X criteria⁷, that qualify as Climate Finance⁸, or that have exposure in Least Developed Countries.
- At pre-screening stage, we assess the potential development impact of an opportunity against all three of our priority development impact goals. The assessment is based on the country development challenges and the company impact potential. At due diligence, we dive deeper to review how a prospective investment will **contribute towards our impact goals** (see Impact Principle 4). Later at the asset management stage, we track client's actual performance against the initial estimate as well as aggregate data to better understand our portfolio's overall performance.
- To align our development impact objectives with our actions, FinDev Canada's **performance-based compensation program** for all employees integrates development impact considerations. An internal impact dashboard enables the team to track portfolio results in real time.

⁷The 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, which has emerged as the standard criteria for gender-lens investing. See: <https://www.2xchallenge.org/criteria>

⁸ As per the MDB/IDFC Common Principles for Climate Change Mitigation & Adaptation Finance Tracking

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, 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.
- The additionality of each investment — both financial and non-financial — is assessed early in the investment process and again prior to commitment. To standardize the process, we developed an **Additionality Framework**, based on internationally recognized practices, that establishes criteria for the determination of additionality. The Framework also provides for ex-post monitoring of the effectiveness of our approach.
- For **financial additionality**, we track to what extent FinDev Canada's investment helps provide:
 - improved availability of financing that is not offered by the private sector or at least not in sufficient quantities
 - improved terms suitable to clients' needs and not offered otherwise by the private sector
- For **non-financial additionality**, we evaluate to what extent we help clients:
 - 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 ESG management capacity to mitigate risks of negative ESG impacts.

Through our Technical Assistance Facility, we deliver added value to our clients by addressing specific capacity gaps, to enable them to deepen their development outcomes.

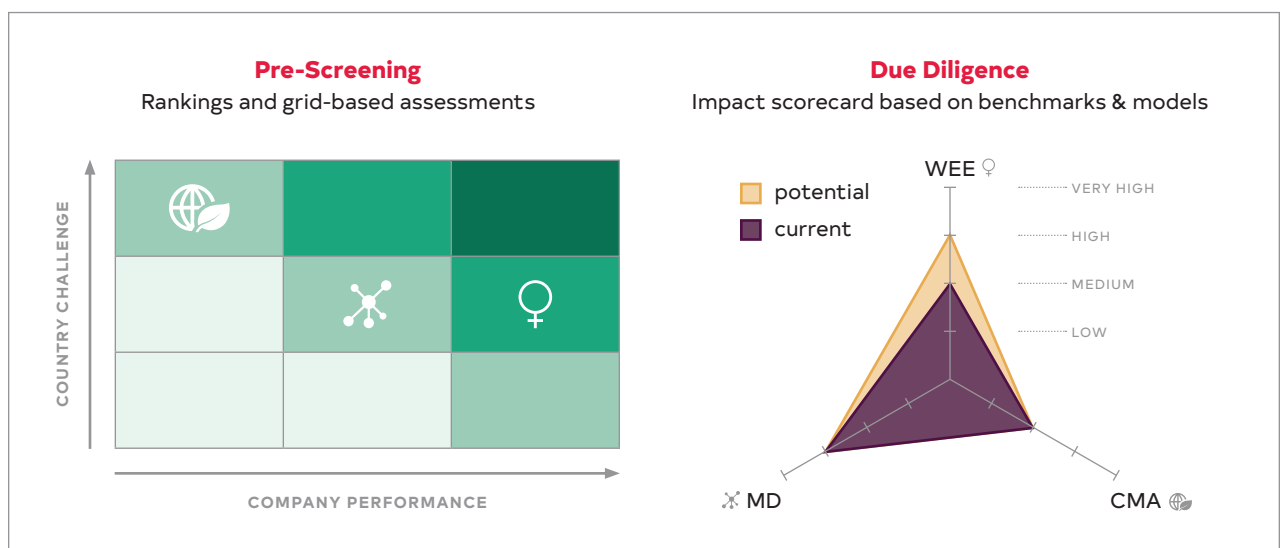
PRINCIPLE 4

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 impact⁹ 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.

- A **development impact tool** helps us systematize how we assess each deal for its development impact. It includes **analytical and visual tools** to quantify the current and potential impact of a prospect client (Fig 4). Last year, we put in place a governance framework to help us better manage the tool's maintenance and its periodic updates.

FIGURE 4: IMPACT TOOL EXAMPLES AT ORIGINATION



- At a pre-screening stage, using both quantitative and qualitative data, each opportunity earns a **score on the development impact dimensions of a country's development needs and a company's development impact potential**. To assess the country dimension, the tool incorporates a variety of economic and social indicator datasets, such as the Inclusive Development Index, the Gender Development Index and the Global Adaptation Index⁹. To assess a company's current or potential contribution to impact, at this early stage, we use basic information of the company's operations and reach.

⁹ Developed by the World Economic Forum, the United National Development Programme and the University of Notre Dame respectively

- 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 development impacts of company operations over an investment's estimated lifetime**. We capture both the current and future performance of the investment, where the latter is based on additional commitments that the company would make to enhance its impact
- As an investor that applies a gender lens to all investments, we undertake a **baseline assessment of gender equality in client operations**, to identify opportunities to strengthen gender outcomes as part of our engagement with the client. To do this, we leverage existing gender mainstreaming and assessment tools, such as the 2X Criteria and the Women's Empowerment Principles Gender Gap Analysis Tool¹⁰, which are both 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 women's economic empowerment** than the other two development impact dimensions.
- 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. We recognize that some clients will be stronger on certain development impact areas than others; some will be further ahead on their development impact journeys while others might be just starting theirs.
- 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 clients to achieving these targets.
- Detailed development impact assessments supported by action plans and targets, alongside ESG 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 development impact** through our ESG review process (for more details, please refer to Impact 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 (HIPSO), the recently-updated 2X Criteria and the Global Impact Investing Network (GIIN)'s Impact Reporting and Investment Standards Plus (IRIS+). We also encourage and participate in the harmonization of impact measurement approaches including the Joint Impact Model¹¹ and the Joint Impact Indicators¹².

¹⁰ 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>

¹¹ See <https://www.jointimpactmodel.org/>

¹² See <https://indicators.ifipartnership.org/indicators/joint-impact-indicators-jii/>

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 ESG risk assessment and monitoring approaches throughout the life-cycle of our engagement with clients. 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, in addition to **preliminary assessments by our Business Integrity (BI) team** such as know-your-customer (KYC) reviews and consideration of risks related to financial crimes.
- At due diligence, our E&S team reviews 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 policy¹³. The policy draws on the IFC Performance Standards on Environmental and Social Sustainability¹⁴, the most widely used set of E&S standards in the development finance sector, as well as its Interpretation Note on Financial Intermediaries¹⁵ and its Environmental, Health and Safety Guidelines¹⁶, 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's Principles of Client Protection¹⁷, or commodity-specific certifications¹⁸ when cited as a major component of a client's E&S risk management approach. In addition, given the cross-cutting nature of gender equality, we also consider significant **risk factors that could disrupt potential development impact** through our E&S review process, including **gender related risks** such as gender-based violence and harassment for workers, communities, and clients.
- Also at due diligence, our BI team will assess risks related to **financial crime, sanctions, corporate governance, business ethics and their associated reputational risks**. Focus is placed on the client's management capacity in these areas, its risk management process, and the regulatory framework under which they operate. Ad-hoc review is also launched whenever any trigger event is brought to the team's attention.

¹³ See: <https://www.findevcanada.ca/sites/default/files/2020-04/FinDev%20Canada%20ES%20Policy%20-%20%2002Mar%202020.pdf>

¹⁴ See: https://www.ifc.org/wps/wcm/connect/c02c2e86-e6cd-4b55-95a2-b3395d204279/IFC_Performance_Standards.pdf?MOD=AJPERES&CVID=kTjHBzk

¹⁵ See https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_interpretationnote-fi

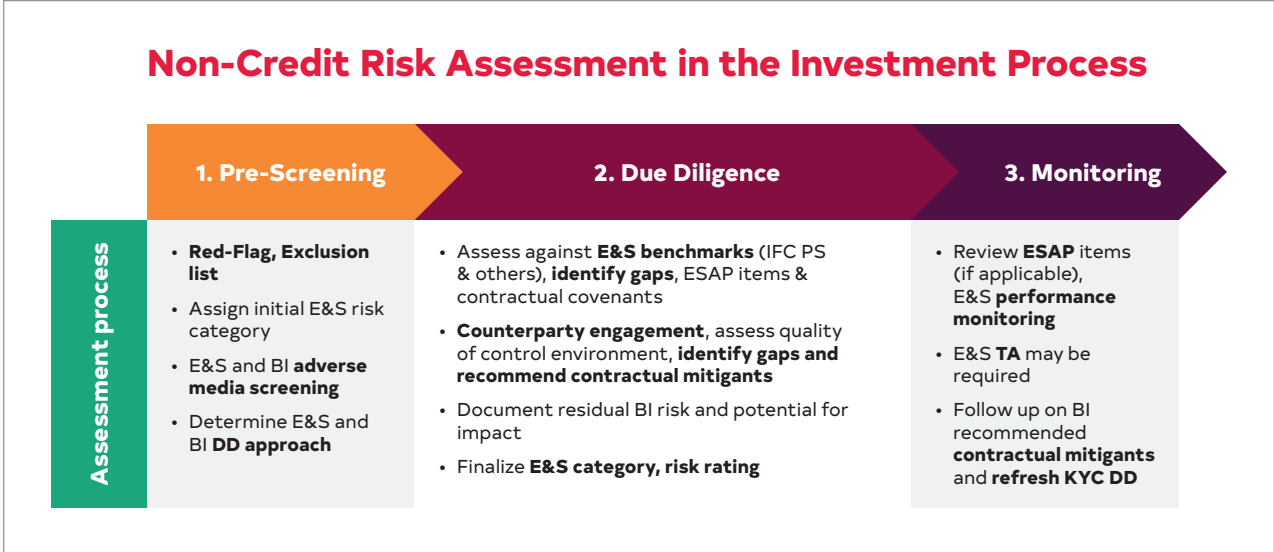
¹⁶ See https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines

¹⁷ See: <https://www.centerforfinancialinclusion.org/research/consumer-protection>

¹⁸ For example, Forest Stewardship Council's Forest Management Standard or Fair Trade.

- ESG assessment is embedded into our investment cycle, just like development impact – from pre-screening to due diligence, approval, monitoring and reporting (see fig. 5). Given that our clients and countries of investment may face different ESG challenges and capacity constraints, we recognize that **compliance needs to be progressive and based on reasonable timelines**, for example through the use of Action Plans and/or technical assistance to ensure ESG gaps are addressed appropriately.
- Once an investment is made, we continue to monitor its ESG performance and evaluate potential risks on an annual basis (or more frequently, if required), in accordance with transactional documentation requirements and our E&S Policy, including ESG performance reporting, ESG incident reporting and the delivery of required Action Plan items. **In 2021, FinDev Canada developed and piloted a dynamic risk classification approach to facilitate regular assessments on E&S risks, throughout the transaction life cycle.** This has been implemented as part of annual asset monitoring reviews, which feed into FinDev Canada's overall Enterprise Risk Management Framework and reporting infrastructure.

FIGURE 5: ESG DUE DILIGENCE & MONITORING IN THE INVESTMENT CYCLE



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 **Development Impact, ESG reporting requirements and, where appropriate, support it with an Action Plan** which outlines expected annual activities and future milestones. Once the investment is approved, these commitments are written into a final contract with the client¹⁹.
- Our asset management activities integrate development impact and ESG considerations. The responsibility for data collection lies with the Impact, E&S and BI teams which collect and analyze the relevant data directly from clients using monitoring reports and data collection templates. Using this information, the 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 that a client's performance is not aligned with pre-investment impact or ESG 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 development impact is rarely straight and requires cooperation and adaptation to reach meaningful goals. In the event where underperformance would be observed over a more extended period of time, we may add a client to an internal **watchlist**, prompting more formal tracking of performance.
- Recognizing the importance of stakeholder voices and seeking to offer a channel to hear any potential complaints, FinDev Canada is developing a formal independent accountability mechanism with a planned completion date in 2022. While this is being developed, an interim process to receive external concerns and complaints has been put in place.

¹⁹ Clients are required to submit regular impact and ESG reports in addition to notification requirements related to material ESG incidents impacting the environment, workers and local communities or related to governance.

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 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 ESG targets are set. In other words, the foundation of the exit process is already embedded throughout the investment process and will be further developed as we approach our first exit.

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 are in the process of building our client data management portal which will enable us to streamline and integrate reporting across Impact, E&S, BI and other areas of our operations. As an intermediate step, we developed an impact data solution with live dashboards that we currently use to review clients' performance, both at individual and portfolio levels. We update this information regularly and use it to inform our internal discussions, including those with the executive management and the Board.
- 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' (VOC) System. In 2020, FinDev Canada conducted a test study of a VOC system by, inter alia, conducting in-depth interviews with clients. Results of the test were discussed with senior leadership in 2021, along with a re-designed approach. The VOC system will be rolled out in 2022.
- FinDev Canada's Interim Disclosure Policy²⁰ 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 investments²¹. In addition, we have made available on our website an overview of our portfolio, which provides additional information of our investments, and its contributions to our core areas of development impact. Furthermore, we report FinDev Canada's generated, avoided, and sequestered GHG emissions in alignment with the **attribution approach from the PCAF Standard**²².

²⁰ See https://www.findevcanada.ca/sites/default/files/2018-02/disclosure_interimpolicy_11dec2017_final.pdf

²¹ See website for transaction disclosures <https://www.findevcanada.ca/en/what-guides-us/transparency-policy-and-approach>

²² See <https://www.findevcanada.ca/en/what-we-do/climate-change-approach>

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.
- In 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 website²³.
- FinDev Canada remains committed to repeat the independent verification every three years.

²³ See [FinDev Canada-BlueMark_Verifier statement_Detailed assessment_03.01.20 \(1\).pdf](#)