Disclosure Statement

Operating Principles for Impact Management

APRIL 12, 2023

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$ 546 million*** as of December 31, 2022.

In 2021, BlueMark, a Tideline company and a leading provider of impact verification services, performed an independent verification of our Disclosure Statement and provided recommendations to further align with the highest standards. Guided by this, we have continued our efforts to further improve FinDev Canada's procedures and practices on Impact Management.

Lori Kerr, Chief Executive Officer

Stéphanie Émond, Chief Impact Officer

*Total assets under management refers to the value of outstanding financing and equity transactions for both their funded as well as committed yet unfunded amounts.

PRINCIPLE 1

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

The Manager shall define strategic impact objectives 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 development.

- Our mission is to provide financial and non-financial solutions to the private sector in developing countries with the potential to positively impact economic development, empower women and drive climate action. In addition to financing solutions such as debt and equity, FinDev Canada offers technical assistance to address capacity gaps and enable private sector companies to deepen their development outcomes, 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 objectives[2] and describes how we measure and manage their achievement. We also developed and implemented **Gender Equality**[3] and **Climate Change Strategies**[4] to guide the promotion of gender equality and climate action throughout our investments and operations.

- Our Development Impact Framework prioritizes **three impact areas**: (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).

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[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

Market Development (MD)

- Expand local ownership and leadership
- Strengthen local SMEs and value chains
- Increase employment and local economy value-add (taxes and salaries)

KPI EXAMPLES

- SMEs supported (#)
- Decent jobs (#, M/F)
- Local procurement ($, %)
- Net profit & taxes paid ($)
- Salaries paid ($, mgt/staff)
- Local ownership (%)

Women's Economic Empowerment (WEE)

- Support women's business ownership, leadership and decent employment
- Improve equal access and control over basic services (water, energy) and economic tools (financial services, digital connectivity)

KPI EXAMPLES

- Women-owned companies supported ($, %)
- Women in senior leadership (#, %)
- Gender inclusive governance (#, %)
- Women gaining access to basic services or empowerment tools (#)

Climate Mitigation & Adaptation (CMA)

- Reduce global greenhouse gas emissions
- Support businesses that contribute to the transition to a low-carbon economy
- Scale climate adaptation solutions

KPI EXAMPLES

- Net GHG emissions generated, avoided and sequestered (tCO2e)
- Renewable energy produced (MWh)
- Sustainable managed land (ha)
- Number of people gaining access to climate adaption products or services (#)

- Our **Environmental & Social Policy**[5] and **Business Integrity** functions 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.
- 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).
- In 2022, we undertook a strategic review of FinDev Canada to take stock of our work to-date and refine our strategy looking forward. This will bring adjustments to our development impact framework and supporting strategies, policies, and tools, which we will integrate in the coming years.

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

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 2 illustrates **how development impact is integrated at each stage the investment process**.

FIGURE 2: FINDEV CANADA'S DEVELOPMENT IMPACT MANAGEMENT PROCESS

1. Pre-Screening	2. Due Diligence	3. Monitoring	4. Reporting	5. Exit
• Checking impact eligibility and fit • Estimating performance potential on development impact goals	• Quantifying current and expected impact • Agreeing on impact actions, KPIs and targets	• Tracking client level impact • Performing internal/ external impact assessments	• Publishing aggregated impact results of portfolio	• Assessing impact sustainability beyond exit

- At the pre-screening stage, we assess the potential development impact of an opportunity against all three 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 advance our development impact goals, we set **targets for the portfolio** based on the volume of investments that meet specific development impact criteria. For example, transactions that will meet the 2X criteria[7], that qualify as Climate Finance[8], or that have exposure in Least Developed Countries.

- 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.

[7] The 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.

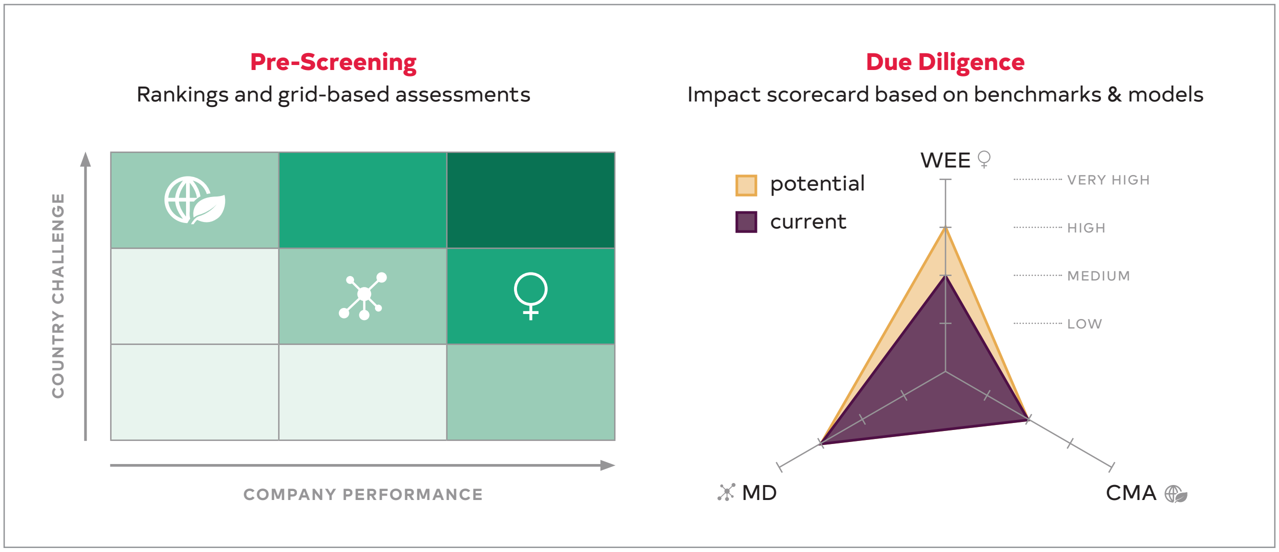
- FinDev Canada aspires to offer both financial and non-financial value to our clients, based on the premise that, as a DFI supporting private sector operations, we should contribute beyond what is available in the market without crowding out the private sector.
- The additionality of each investment — 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.
- For **financial additionality**, each of our Investment Recommendation Memos highlights 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 describe 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 enabling them to address specific capacity gaps and/or further advance their development outcomes. In particular, we are committed to helping our clients advance their practices and performance on gender equality and integrate climate related risks and opportunities in their operations. This is done with the goal of supporting them in driving women's economic empowerment, and greater climate mitigation, adaptation, and resilience outcomes. To help identify and prioritize capacity building opportunities in these two areas, we developed TA menus that outline strategic thematic interventions through which we can support our clients in reaching their gender equality or climate action commitments. The Gender Action TA Menu includes interventions aligned with the 2X Challenge criteria, and the Climate Action TA Menu includes interventions in mitigation, adaptation, and strives to support clients integrate recommendations from the Taskforce for Climate-Related Financial Disclosures (TCFD). Both menus begin with a diagnostic which allows us to assess which interventions will add the most value to our clients and deliver results.

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[9] 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 prospective client (Fig 3). We also put in place a governance framework to help us better manage the tool's maintenance and its periodic updates.
- The tool comprises **four (sub-)tools** — one for each type of investment i.e., financial institutions, funds, corporates and project finance — to enable us to recognize distinct impact attributes of each type of investment and account for them in the tool's analysis.

FIGURE 3: IMPACT TOOL EXAMPLES AT ORIGINATION



[9] Developed by the World Economic Forum, the United National Development Program and the University of Notre Dame respectively.

- 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 Index[9]. 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.

- 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**.

- 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 Tool[10], which are both widely used in the development finance sector and accessible to all private sector entities.

- 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 state — based on projected activities and/or additional 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 in achieving these targets.

- Detailed development impact assessments supported by action plans and targets where relevant, 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 Model[11] and the Joint Impact Indicators[12].

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[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 List of Excluded Activities, 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. This is in addition to **preliminary assessments by our Business Integrity (BI) team** which review the inherent risk context of a transaction, complete know-your-customer (KYC) reviews of a counterparty, and consider 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 policy[13]. The policy draws on the IFC Performance Standards on Environmental and Social Sustainability[14], the most widely used set of E&S standards in the development finance sector, as well as its Interpretation Note on Financial Intermediaries[15] and its Environmental, Health and Safety Guidelines[16], 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 Protection[17], or commodity-specific certifications[18] 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. Risk-specific reviews are also launched whenever any trigger event is brought to the team's attention.

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[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

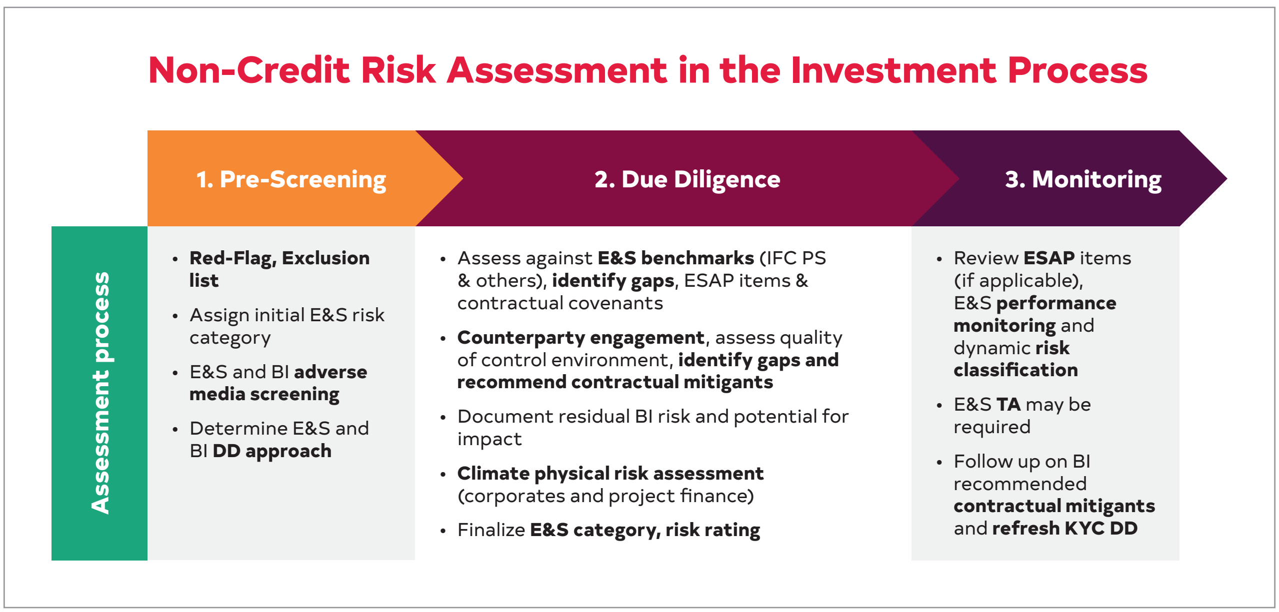
[16] See https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines

[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. 4). 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 2022, FinDev Canada started applying 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.
- In 2022, FinDev Canada also started to implement a **procedure for the assessment of climate change physical risks for direct investments** (corporate and project finance) to identify climate hazards and their potential impact and severity.

FIGURE 4: 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 client[19].
- 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. We can also refer to TA facility for additional support on their impact performance.
- 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.

[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 is committed to an impact-driven approach throughout the investment cycle with our clients — from pre-screening 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 are 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.
- FinDev Canada's Interim Disclosure Policy has been reviewed and a revised version is anticipated for release in 2023[20] .The finalized policy 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 Anticipated Development Impacts and E&S due diligence processes and findings, within 90 days of signing for all investments[21]. 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]. This was included in FinDev Canada's first TCFD disclosure, which summarizes how the TCFD recommendations are implemented across FinDev Canada.
- In 2022, FinDev Canada created the Impact Strategies and Thought Leadership team, whose responsibilities includes strengthening the organization's capacity to carry out investment- and portfolio-level impact analyses, with a view to generate learnings that will inform operational and strategic decisions.

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[20] See https://www.findevcanada.ca/en/what-guides-us/transparency-policy-and-approach

[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 website[23].
- 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