Our Approach to Development Impact

FinDev Canada

Table of contents

Letter from our CEO and our Chief Impact Officer

April 1, 2024

As we share our **Approach to Development Impact**, reflecting on FinDev Canada's impact journey since our launch five years ago is both a humbling and galvanizing experience. Looking back, the unparalleled disruption from the COVID- 19 pandemic, increasing conflicts, economic and political instability, growing inequalities, the escalating crises of climate change and biodiversity loss and the imperative of diversity, equity and inclusion have shaped the dynamic environment in which we have grown. Today more than ever, there is clear recognition of the risks of inaction in addressing these challenges, particularly in the emerging markets and developing economies we serve.

As we have evolved over the last five years, we have adopted our *Growth with Purpose Strategy* that is calibrated to our transition from being in a start-up phase to a growth-oriented development finance institution ("DFI"). It affirms our focus on three impact goals, with refreshed thinking on their scope and names: Climate & Nature Action, Gender Equality and Market Development. We started our impact journey as a gender lens investing champion. Since then, we have built up our expertise in climate finance and market development, now valuing these goals in the same way as gender equality. We've had early successes by partnering with financial intermediaries to support and serve the needs of micro, small and medium-sized businesses. We are now growing into our mandate to also invest directly in key sectors in the markets we serve. We will invest more and provide value to our clients in agribusiness and forestry, and sustainable infrastructure and continue to support clients in the financial industry.

Overall, our internal processes and frameworks have matured, alongside the growth of our portfolio. As our portfolio has expanded to include innovative structures and approaches, we have shown nimbleness and agility in our impact management approach, particularly as we look to work closely with institutional investors to increase the amount of capital flowing towards our strategic impact goals in the markets we serve. We have emerged as a trusted partner for our clients, peers, the Canadian government, and other stakeholders to drive development impact. Our client-centric approach means that we work closely with them, enabling them to achieve their objectives, enhance their ambitions, and advance development impact. This came with the uplifting realization that even as the youngest development finance institution, small steps taken in partnership with our clients can drive meaningful change further down the road. This has been a key learning from our experience providing technical assistance and advisory support for gender action, for example.

To reflect this evolution, our inaugural Development Impact Framework (2018) was updated using a new structure. We have an overarching policy document, the Development Impact Policy, which is operationalized through two documents. The first **Our Approach to Development Impact** ("Impact Approach"), a strategic document that details our key development impact objectives, as well as our strategic intent and approach for making impactful investments, and the second, **Our Impact Management Framework** ("Impact Framework"), an operational document that details how we manage and measure impact throughout the investment lifecycle and presents the key features of our development impact tool.

In this document, our **Impact Approach**, we share the rationale for our three impact goals, the synergies among them and articulate how they connect with our priority sectors. We lay down our approach to making impactful investment and measuring and reporting on our impact.

Looking ahead, we intend to accelerate into the next phase of growth as we take action towards building a more sustainable, resilient, and inclusive private sector in Sub-Saharan Africa, Latin America and the Caribbean, and the Indo-Pacific. Given the scale of the development impact challenges the markets we serve face, one thing is certain: we cannot do this alone. Collaboration – with our clients, peers, and other stakeholders – has been a defining aspect of our start-up years, and we are excited to reinforce existing partnerships and forge new ones with organizations who, like us, are creating meaningful change in the markets we serve.

Lori Kerr
Chief Executive Officer

Stéphanie Émond
Chief Impact Officer

Executive summary

FinDev Canada is Canada's bilateral development finance institution (DFI), established in 2018. FinDev Canada supports development through the private sector by providing financing, investment, and blended finance solutions, as well as technical assistance and knowledge, to promote sustainable and inclusive growth in emerging markets and developing economies (EMDEs) aligned with the United Nations Sustainable Development Goals (SDGs) and Paris Agreement commitments.[1] Our **Approach to Development Impact** is a strategic document that details our key development impact objectives and describes our strategic intent and approach for making impactful investments.

Our impact goals and ambition

FinDev Canada prioritizes three development impact goals, Climate and Nature Action, Gender Equality and Market Development, to achieve our mandate in a rapidly evolving global landscape. All three are interconnected and critical to our mission, acting as drivers of our strategy and decision-making.

Climate and Nature Action

- Reduce global GHG emissions
- Support businesses that contribute to the transition to a low-carbon, climate-resilient and nature-positive economy
- Support nature-based solutions and climate adaptation solutions

Gender Equality

- Support women's business ownership, leadership, and quality employment
- Improve equal access to basic infrastructure and economic empowerment tools
- Increase uptake of business practices reducing gender inequalities

Market Development

- Support local ownership and leadership
- Strengthen local MSMEs and local value chains
- Increase access to basic services (such as finance and electricity)
- Grow employment and local economic value-added

Our approach to making impactful investments

FinDev Canada has a client-centric approach to making impactful investments that focuses on three key sectors: sustainable infrastructure, agribusiness, forestry & their value chains, and the financial industry. We offer financial and non-financial solutions to add value to our clients beyond traditional debt and equity. We incorporate development impact as a primary element of our investment process; from investment selection, through to investment due diligence, approval, monitoring and reporting during the investment term, all the way to responsible exit. The realization of positive development impact is also underpinned by the management and mitigation of impact risks. We strive to mobilize private capital, both from domestic and international investors, where feasible, to increase the amount of capital flowing towards our three development impact goals.

Measuring and reporting on our impact

FinDev Canada's impact measurement and reporting approach draws on methodologies consistent with industry practice and aligns with industry-led harmonization initiatives. Transparency is essential to our work, and we publish detailed disclosures and annual reporting on our website. We measure our impact at both the client level and the portfolio level and as our portfolio matures, we are committed to capturing and disseminating our learnings.

[1] Hereinafter, the term investment is used to cover all financial solutions that we could provide, including debt, equity & guarantees.

1.0 Introduction

FinDev Canada is Canada's bilateral development finance institution (DFI) established in 2018 to support development through the private sector in emerging markets and developing economies (EMDEs). FinDev Canada provides financing, investment, blended finance solutions, technical assistance, and knowledge to support private enterprise and mobilize private capital, both domestic and international, in and into Sub-Saharan Africa, Latin America & the Caribbean, and the Indo-Pacific.[2] FinDev Canada promotes sustainable and inclusive growth in alignment with the United Nations Sustainable Development Goals (SDG) and Paris Agreement commitments.

The 2015 Addis Ababa Action Agenda acknowledges the significant role that the private sector plays in sustainable development. While the private sector serves as an engine of growth in EMDEs, financing constraints often serve as a barrier for private firms to maximize their growth potential and, in turn, their development impact.[3] At the half-way point of the 2030 Agenda for Sustainable Development, we are off track to achieve the SDGs by 2030.[4] That said, DFIs are well positioned to support the achievement of the SDGs and continue to play an important role in the growth trajectory of EMDEs.[5] DFIs make investments that may go untapped in their absence, balancing financial viability with broader societal and environmental gains.

FinDev Canada has a dual mandate to achieve both development impact and financial sustainability. To deliver on our mandate, when FinDev Canada was set up in 2018, we developed our inaugural Development Impact Framework to articulate our impact goals and inform our investment decisions and results reporting. After five years, we have updated the framework to leverage our technical expertise and maturity, consider the evolving needs and challenges of the private sector, incorporate learnings, and reflect our corporate strategy of "Growth with Purpose" going forward.

Our updated Development Impact Framework has a new structure. We have an overarching policy document, the Development Impact Policy, which is operationalized through two documents. The first, **Our Approach to Development Impact**, is a strategic document that details our key development impact objectives and describes our strategic intent and approach for making impactful investments and measuring and reporting on our progress. The second, **Our Impact Management Framework**, is an operational document that details how we manage and measure our impact throughout the investment lifecycle and presents the key features of our development impact tool.

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[2] Hereinafter, in this document, the term investment is used to cover all financial solutions that we could provide, including debt, equity & guarantees.

[3] Approximately a quarter to half of the firms in the markets we serve are credit constrained according to the World Bank Enterprise Surveys. Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank. (Accessed on October 15, 2023).

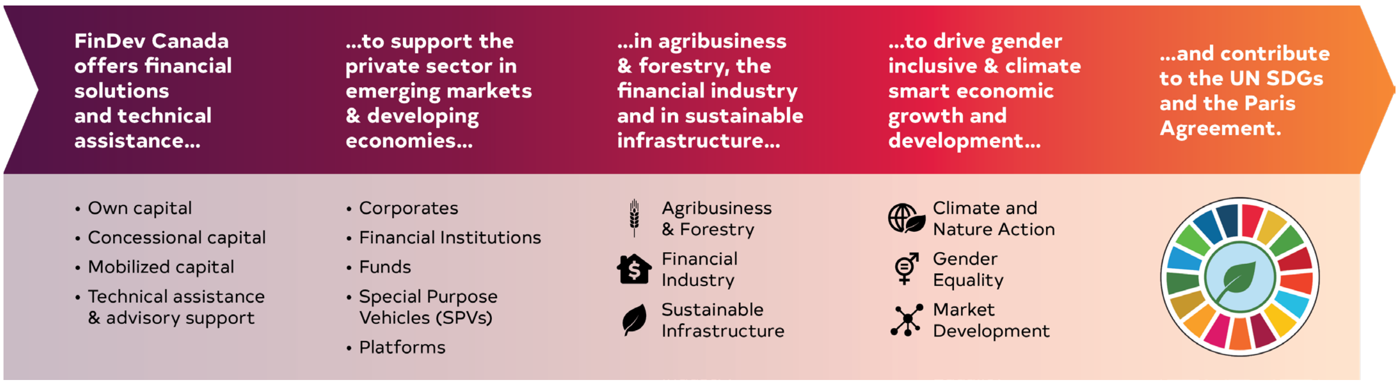
[4] Independent Group of Scientists appointed by the Secretary-General, Global Sustainable Development Report 2023: Times of crisis, times of change: Science for accelerating transformations to sustainable development, (United Nations, New York, 2023).

[5] 2019. S. Attridge et. al. (Ed.). Impact of development finance institutions on sustainable development. ODI & EDFI 12892.pdf (odi.org) (accessed on November 1, 2023)

2.0 Our impact goals and ambition

FinDev Canada prioritizes three development impact goals, Climate and Nature Action, Gender Equality and Market Development, to achieve our mandate in a rapidly evolving global landscape. These are aligned with the challenges faced by EMDEs in the regions we serve, the SDGs and the Paris Agreement. All three development impact goals are critical to and informed by our mandate and serve as drivers of our decision-making. Our long-term vision, which will be achieved through our activities and the activities of our clients, is outlined in our development impact pathway (Figure 1) and the narrative below.

FIGURE 1: OUR DEVELOPMENT IMPACT PATHWAY



2.1 Climate and Nature Action

Climate change is an existential threat to the well-being of our people and our planet. The interdependence of climate, biodiversity and human societies is well recognized.[6] Climate resilient development integrates adaptation and mitigation to advance sustainable development for all. Accelerated financial support for developing countries is a key enabler to enhance climate and nature action.[7] Supporting the private sector in developing countries can be instrumental in developing clean infrastructure, reducing energy and water use, improving the climate resilience of cities and communities, and supporting natural capital and ecosystems.

We apply a climate lens to all our investments. Our Climate Change Strategy updated periodically, provides the details on our approach to climate action, underpinned by the acknowledgment that climate change is not gender neutral. We focus on climate change mitigation, as well as adaptation and resilience. As such, we seek investments that can help reduce greenhouse gas (GHG) emissions and increase adaptation and resilience measures in the markets we serve, many of which are among the most vulnerable to the effects of climate change. In our first five years of operations, a significant portion of our climate finance portfolio[8] focused on climate change mitigation and we strive to increase our allocation towards investments in climate adaptation and resilience in EMDEs. For instance, we have supported increased generation of renewable energy and expanded access to clean energy.

We also recognize that climate change presents a financial risk and are committed to progressively implementing internationally recognized frameworks for climate-related financial disclosure and assessing and managing climate risk across our investment process. Additionally, we are integrating emerging best practices related to the alignment of our portfolio and transactions with the objectives of the Paris Agreement. This entails assessing the climate mitigation and adaptation impact of our operations, and how they align with national climate policies and strategies.

[6] IPCC, 2023: Summary for Policymakers. In: Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change.

[7] Id.

[8] We measure our climate finance activities against the. Multilateral Development Banks (MDBs)/ International Development Finance Club (IDFC) Common Principles for Climate Change Mitigation and Adaptation Finance tracking (Common Principles for Climate Mitigation Finance Tracking, https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf (accessed Sep 30, 2023)) and Common Principles for Climate Adaptation Finance Tracing, Common Principles for Climate Change Adaptation Finance Tracking (eib.org) (accessed Sep 30, 2023).

Climate change and biodiversity loss are inextricably intertwined and mutually reinforcing. We aim to consider nature and biodiversity at different levels in our strategy, operations and decision-making, understanding that they present both risks and opportunities. We leverage international best practices on managing environmental and social risks, evaluating client approaches to biodiversity conservation and sustainable management of living natural resources and requiring alignment with relevant environmental and social performance benchmarks. We have also supported transactions that contribute to biodiversity protection, reforestation and preservation of the oceans.

Climate and nature action crosscut several SDGs. We expect that our portfolio will be closely aligned with SDG 13 (Climate Action) with other contributing SDGs, including SDG 6 (Clean Water & Sanitation), SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities and Communities), SDG 12 (Responsible Production and Consumption), SDG 14 (Life Below Water) and SDG 15 (Life on Land).

2.2 **Gender Equality**

Gender inequality continues to persist worldwide; according to the Global Gender Gap Index, which benchmarks the current state and evolution of gender parity across four key dimensions of economic participation and opportunity, educational attainment, health and survival, and political empowerment, the 2023 global gender gap stands at only 68% closed.[9] Women's participation in the global labour market has decreased in recent years, and other markers of economic opportunity have been showing substantive disparities between women and men.[10] The private sector can play a significant role in reducing gendered economic inequalities and spurring economic empowerment, even though most levers to rectify legal, social, and economic gender disparities rests within the public sector. By supporting quality jobs, leadership opportunities, access to finance, knowledge, and technology, private enterprises can generate more equitable development outcomes for a wide range of women stakeholders. Importantly, private business can help tackle causes and attenuate the effects of some of the gender inequalities, or gaps, including such as unequal access to basic economic and social infrastructure services and undersupply of quality jobs in the formal economy.

Recognizing that our influence in resolving systemic gender inequalities in the markets we serve may be limited, our role in advancing gender equality[11] is to support the private sector in generating more equitable development outcomes by helping to close existing gender gaps. As a DFI working through the private sector, we see women's economic empowerment as the primary mode through which we can contribute to gender equality and demonstrate the viability of gender-lens investing.

We apply a gender-lens to all our investments. We played a foundational role in the 2X Challenge, an initiative launched at the G7 Summit in 2018 in Charlevoix, Canada, to inspire DFIs and other investors to invest in women. In 2021 we supported the establishment of the 2X Collaborative, an industry body for gender-lens investing, which paved the way to 2X Global[12], a steward of the 2X Challenge and an underlying analytical framework - the 2X Criteria. We actively participate in this important organisation, recognizing its ground-breaking work in advancing gender-lens investing.

Our Gender Equality Strategy, updated periodically, details our gender-lens approach. We aim to be inclusive of all genders, while focusing on the inequalities faced by women[13] in private sector operations and investment decisions. We focus on four elements of women's economic empowerment: women's entrepreneurship, women's access to leadership positions, women's access to quality employment, and women's access to and control over basic services and economic empowerment tools. We help our clients to become more gender-inclusive in their operations (e.g., by driving gender action at the portfolio level and through direct products or services). As a gender-lens investor, we also help clients identify and mitigate adverse or disproportionate potentially negative impacts on women which may result from a client's operations or on-lending, paying particular attention to identifying and addressing gender-based violence and harassment risks.

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[9] World Economic Forum. 2023. Global Gender Gap Report http://reports.weforum.org/globalgender-gap-report-2023.

[10] Id.

[11] Gender refers to the roles, behaviours, activities, and attributes that a given society at a given time considers appropriate for men and women. Gender gap refers to any disparity between women and men's condition or position in society. Gender equality refers to the equal rights, responsibilities and opportunities of women and men and girls and boys. Equality does not mean that women and men will become the same but that women's and men's rights, responsibilities and opportunities will not depend on whether they are born male and female. FinDev Canada's Gender Glossary

[12] 2X Global https://www.2xglobal.org/ (accessed on Sep 30, 2023)

[13] We recognize that women do not form a homogenous group, and that the inequalities they face may differ or be compounded by factors such as poverty, race, ethnicity, disability, geographic location, age, religion, sexual orientation, or gender identity.

Gender equality is mainstreamed throughout all the SDGs in addition to being a dedicated goal. We expect that our portfolio will be closely aligned with SDG 5 (Gender Equality) with several other contributing SDGs, such as SDG 10 (Reduced Inequalities).

2.3 Market Development

Our role as a development finance institution is to stimulate inclusive and sustainable economic growth and development through investments in the private sector. We support the development and strengthening of local markets in the regions we serve. In the context of our investments, market development is when the strategic deployment of resources increases impacts for stakeholders in the value chain. As such, we support productivity growth, local leadership, innovation, improvement in market linkages, and skills, to improve the offering of products and services (including quality improvements, affordability, and the delivery to "last-mile" users) that better meet firms' and consumers' needs. This leads to productive employment and better jobs.

Investments in and through the private sector can also generate positive effects along value chains. These can be transformative when the scale of the change achieved through the investment and the value addition from the investment introduces meaningful and lasting improvements for a value chain, raising industry practices, the pace of innovation and/or competition.

Our aim is to promote an inclusive approach to market development. Inclusivity matters in its own right, and it also has an impact on economic efficiency[14] since it has the potential to meet needs in traditionally underserved markets. We consider under-served and socially excluded groups such as rural populations, smallholder farmers and low-income groups, while assessing the impact of our investments.

Our investments have helped provide access to finance to underserved individuals and businesses, strengthened micro, small, and medium-sized enterprises (MSMEs), increased productivity, enhanced local value chains, supported local ownership and leadership of companies, and provided employment. Our investments have facilitated improved resilience and growth of financial intermediaries that we've supported. We also help develop local capital markets, by investing in local bond issues. As such, our investments could serve as "proofs of concept" for similar transactions and structures – thereby developing markets.

As examples: by investing in sustainable infrastructure, we can facilitate local businesses and households to access cleaner and more reliable electricity and other services such as digital connectivity and clean water; by investing in agribusiness and forestry value chains, we can help improve their productivity, profitability and resilience; by lending to financial institutions with use of proceeds requirements, we can support increased access to finance and capacity building support for under-served MSMEs, including women-owned or -led businesses, and increased financial inclusion for low-income households. These efforts can lead to a demonstration effect and enable lending to other MSMEs, beyond the direct perimeter of our own investment.

Our experience has shown us that the impact pathways for market development vary greatly from one sector to another, and we have developed sectoral theories of change for our focus sectors. A brief overview of our approach in our key sectors is provided in section 3.2 below. We also continuously improve our ability to track how our investments contribute to market development by considering the direct, indirect, and systemic levels of impact of our transactions.

Market development is crucial to sustainable development and is linked to numerous SDGs. We expect that our portfolio will align most closely with SDG 8 (Decent Work and Economic Growth), with several other contributing SDGs like SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 9 (Industry, Innovation, and Infrastructure).

[14] 2021. Carter, P (2021) The economics of development finance, CDC quality improvements, affordability, ubiquity and the delivery to "last-mile" beneficiaries Insight: 024.

FIGURE 2: OUR IMPACT GOALS

Climate and Nature Action

- Reduce global GHG emissions
- Support businesses that contribute to the transition to a low-carbon, climate-resilient and nature-positive economy
- Support nature-based solutions and climate adaptation solutions

CORE KPI EXAMPLES

- Climate finance (%, $)
- Net GHG emissions generated, avoided, and sequestered (tCO2e)
- Renewable energy produced (MWh)
- Land under sustainable management (ha)
- Number of people benefiting from climate adaptation and resilience products or services (#)

Gender Equality

- Support women's business ownership, leadership, and quality employment
- Improve equal access to basic infrastructure and economic empowerment tools
- Increase uptake of business practices reducing gender inequalities

CORE KPI EXAMPLES

- 2X aligned investments (%, $)
- Women-owned and women-led companies supported ($, %)
- Women in senior leadership (#, %)
- Women gaining access to basic services or economic empowerment tools (#)
- Gender action plans implemented (#)

Market Development

- Support local ownership and leadership
- Strengthen local MSMEs and local value chains
- Increase access to basic services (such as finance and electricity)
- Grow employment and local economic value-added

CORE KPI EXAMPLES

- Investments in LDCs & SIDS (%, $)
- MSMEs supported (#, M/F)
- Jobs supported (#, M/F)
- Expenses on local suppliers ($, %)
- Salaries, net profit, and taxes paid ($)
- Local ownership and leadership (%)

2.4 Interconnectedness of our impact goals

Our three impact goals are highly interconnected and synergistic, with each having an influence on the others.

Climate change and biodiversity loss pose a significant threat to the development objectives and the lives and livelihoods of people in EMDEs[15] and have a disproportionate economic impact on the most vulnerable parts of society.[16] There is clear evidence that women are disproportionately impacted by climate change.[17] At the same time, women and other excluded groups are also agents of change and key managers of natural resources. It is critical that gender and equity considerations are explicitly incorporated into climate and nature action. Gender equality and women's full and effective participation in the workforce are critical to economic growth, promote diversified economies, reduce income inequality and strengthen financial sector stability.[18] Resilient economies need environmentally sustainable and inclusive market development.

Addressing climate and nature action, promoting gender equality, and fostering market development can lead to more sustainable, resilient, and equitable development. It is also beneficial for the business performance of our clients. For instance, integrating climate[19] and nature[20] risks can strengthen supply chains, leading to financial benefits in the medium-long term. More gender diversity on boards and in leadership is correlated with companies having higher return on assets and return on equity.[21] Our investments, whenever possible, align with two or more of our impact goals. While we recognize that not all our investments will closely align with all our impact goals, we take a holistic approach to our impact assessment and management, and assess each transaction across all impact goals in our development impact tool.[22]

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[15] IPCC, 2022: Climate Change 2022: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [H.-O. Pörtner, et. al. (eds.)] doi:10.1017/9781009325844.

[16] World Bank Group. 2022. Climate and Development: An Agenda for Action - Emerging Insights from World Bank Group 2021-22 Country Climate and Development Reports. http://hdl.handle.net/10986/38220

[17] GenderSmart. 2021. Gender & Climate Investment: A strategy for unlocking a sustainable future. 20210202 GenderSmart Report Design.indd (squarespace.com) (accessed on October 20, 2023).

[18] IMF Working Paper. 2020. Bertay et. Al., Gender Inequality and Economic Growth: Evidence from Industry-Level Data. Working Paper No. 2020/119.

[19] Sustainability Accounting Standards Board. Climate Risk Technical Bulletin. 2021

[20] University of Cambridge Institute for Sustainability Leadership (CISL). (2022). Integrating Nature: The case for action on nature-related financial risks. Cambridge: University of Cambridge Institute for Sustainability Leadership.

[21] Value for Women. "Value for Women Insights Series: The Business Case– Is the Business Case for Including Women Enough to Drive Change?" Volume 1, Issue 2. London: Value for Women, 2023

[22] Our Development Impact Tool and the methodology we use therein is described in Our Impact Management Framework.

3.0 Our approach to making impactful investments

3.1 Being client-centric

We strive to understand and prioritize the needs and interests of our clients. We target a broad range of private sector entities as clients, including corporates, funds, financial institutions, and project finance sponsors.

We meet our clients where they are, presenting the value of and the business case for advancing impact and support them to meet their objectives. We aim to deliver both financial and non-financial value by identifying areas of impact that benefit our clients and align with our impact goals and we work with our clients to foster their growth, enhance their capabilities, encourage ambition, and promote inclusive and sustainable practices. Our client-centric approach is adaptable, dependent on our role in a transaction, whether as a lead investor/financier or as part of a syndicate. As a nimble and agile organization, we work with our clients in a timely fashion, and tailor our support to their needs in the local context. We strive to build long-term relationships with our clients and engage in repeat deals through strong partnerships.

Offering a broad set of financial and non-financial solutions

We offer a broad set of solutions to our clients, with a flexible capital toolkit and technical assistance and advisory support that enable us to provide the solutions that best meet our clients' needs and objectives, while achieving our impact objectives.

FLEXIBLE CAPITAL TOOLKIT

Our financial products, include (i) Debt – which can range from short-term unsecured lending to 20+ year project finance structures as well as a variety of quasi-equity (mezzanine capital, subordinated loans, convertible loans) instruments; ii) Equity – which can range from direct equity investments in companies to indirect equity exposure through the use of private equity funds; and (iii) Guarantees[23] – credit enhancements mechanisms or risk-sharing guarantees tailored to meet the specific needs of the borrower and targeted creditors.

We also deploy concessional capital. We have the capacity to manage pools of concessional capital with differentiated risk, return and impact propositions.

2X CANADA: INCLUSIVE ECONOMIC RECOVERY – OUR FIRST CONCESSIONAL FINANCE FACILITY

In 2021, FinDev Canada launched 2X Canada: Inclusive Economic Recovery (2X Canada), a CAD 75.9M blended finance facility funded by the Government of Canada through Global Affairs Canada. Focusing on Sub-Saharan Africa, Latin America and the Caribbean, the Facility aims to enhance the socio-economic well-being of underserved, vulnerable populations, particularly women, through concessional blended finance and technical assistance. Investments should drive positive impact on women's economic empowerment, seeking to address persistent market gaps and structural barriers faced by women, as well as drive a gender-smart economic recovery after COVID-19, including through the mobilization of additional public and private investment. All transactions through this facility must be eligible for the 2X Challenge.

We can also use impact-linked financial incentives to help our clients to further their impact performance and reward clients that meet or exceed development impact targets.

[23] We have not deployed any guarantees in the initial five years of our operations.

TECHNICAL ASSISTANCE & ADVISORY SUPPORT

We offer technical assistance (TA) and advisory support to enable our clients to enhance development impact outcomes, mitigate risks and strengthen their business performance. We provide advisory support and guidance during due diligence and annual impact reviews, and on an as-needed basis throughout the life of an investment. TA is delivered as grant-based projects to address targeted business and impact areas.

In 2020, with funding from Global Affairs Canada, we launched our TA Facility, to help our clients and other market players build capabilities that contribute to increased and sustainable development impact. Our TA Facility expanded with the establishment of 2X Canada.

We offer TA to our clients in areas aligned with our development impact goals; to enhance gender action, climate and nature action, and business performance (including Environmental & Social (E&S) risk management and data capabilities) and specific to the sectors in which we invest. TA and advisory services enable us to deepen our engagement and proximity with our clients. Through TA at the market level, we also contribute to the development finance ecosystem by building of tools, training, and other resources, filling knowledge gaps and supporting innovative initiatives aimed at market building.

3.2 Being sector led

A focus on key sectors is fundamental to our ability to deliver on our development impact goals. This approach enables us to better understand the markets we serve, address the sector-specific opportunities and risks, build our own expertise, and support our clients in advancing their objectives.

We focus on three key sectors:

Sustainable infrastructure

Sustainable infrastructure is critical to economic growth and underpins the building of inclusive, connected, low-carbon and climate resilient economies in the markets we serve.[24] We see an opportunity to support mid-market infrastructure where needs remain unmet and where other market players are not as active. We focus on energy generation from renewable sources, on energy efficiency, and on transmission and distribution projects that help reduce carbon emissions, increase availability, reliability and connections to electricity; *water* - projects that ensure availability and sustainable management of clean water and sanitation for all, making cities and communities more inclusive, safe, resilient and sustainable; *transportation* - low-carbon, energy efficient and safe modes of transport that contribute to climate change mitigation and adaptation, and local development; and *digital infrastructure* – projects that improve connectivity and productivity.

Agribusiness, forestry, and their value chains

Agriculture is critical to sustainable development and food security in EMDEs and is a major employer and driver of economic growth.[25] The current food system (production, transport, processing, packaging, storage, retail, and consumption) feeds the great majority of the world's population and supports the livelihoods of over 1 billion people[26]. While agriculture and land use are major contributors to GHG emissions, food security is increasingly affected by climate change.[27] Given that women make up over forty percent of the global agricultural labour force,[28] the climate and gender dimensions of agribusiness and forestry are amplified. Investments in forest pathways contribute to halting deforestation and maintaining forests; restoring degraded lands and expanding agroforestry; conservation management; and sustainably using forests and building green value chains can address environmental degradation and increase resilience.[29] We support private sector entities engaged in agribusiness and forestry, and their related value chains, from inputs, processing, packaging, manufacturing, and distribution to recycling and related services.

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[24] The New Climate Economy Report. 2016. The Sustainable Infrastructure Imperative newclimateeconomy.report//2016 (accessed on November 1, 2023).

[25] Townsend, R. 2015. Ending Poverty and Hunger by 2030: An Agenda for the Global Food System. World Bank Group http://documents.worldbank.org/curated/en/700061468334490682/Ending-poverty-and-hunger-by-2030-an-agenda-for-the-global-food-system

[26] Mbow, C. et.al., 2019: Food Security. In: Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems [P.R. Shukla et. al. (eds.)]. https://doi.org/10.1017/9781009157988.007

[27] Id.

[28] Food and Agriculture Organization of the United Nations. "Reduce Rural Poverty". FAO. https://www.fao.org/reduce-rural-poverty/our-work/women-in-agriculture/en/

[29] FAO. 2022. The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient, and sustainable economies. Rome, FAO. https://doi.org/10.4060/cb9360en

Financial industry

The development and strengthening of the financial sector is critical across EMDEs. Investing in financial intermediaries such as financial institutions, including but not limited to commercial banks, non-bank financial institutions, cooperatives, insurance providers, and funds help us address market gaps and needs.[30]

Financial intermediaries have in-depth knowledge of regional and local markets and capillarity that help us reach end-users and customers such as MSMEs and women entrepreneurs that we would not have the capacity to reach directly. Supporting financial intermediaries that have green lending programs or support green industries leads to increased financing for climate-friendly assets. Supporting established financial institutions often facilitates their expansion into riskier markets in under-served banking segments. Addressing financing constraints also helps to bring stability to these institutions and enables them to better serve their clients. Supporting private equity funds allows us to leverage the skills and expertise of fund managers to allocate capital effectively and help add value to the businesses they support to advance our impact goals.

3.3 Being additional

FinDev Canada strives to add value to our clients beyond traditional financial solutions, without crowding-out private sector activity. An assessment of additionality is central to our investment decision-making and takes place in parallel with the assessment of our development impact for each transaction.

We consider our investments to have **financial additionality** if we provide finance in quantities or on terms and conditions not commonly provided by commercial financiers, and which fill investment gaps where other sources of finance are not available. For example, we can provide increased loan amounts or extended tenors to our clients that private lenders may not have the capacity to offer, or we can make an investment that may be considered countercyclical in a market that is in a down-cycle. Furthermore, we serve as a catalyst for mobilizing resources across private sources of finance to increase investments aligned to the SDGs and the Paris Agreement. **Non-financial additionality** to support our clients to reach development impact goals and incorporate sustainable business practices is equally important. We consider our investments to have non-financial additionality if our involvement leads to improved knowledge and skills, increased development impact performance, or higher ESG standards for our clients. For example, we can help our clients promote gender action among their clients, or to strengthen and implement their environmental and social management systems.

3.4 Mobilizing private capital

We have renewed our commitment to mobilize private capital, both from international investors and domestic investors in the markets we serve. This is in line with the recognition that the massive finance gap to achieve the SDGs and achieve Paris Agreement commitments cannot be filled with public finance alone. It is imperative for DFIs to work diligently to bring along the private sector, where feasible, to increase the amount of capital flowing to our three development impact goals. An emphasis on mobilization of private capital[31] enables us to amplify the impact. Mobilization can happen at three levels: first, at the transactional level, primarily through co-finance/co-investments by commercial capital providers in our transactions, including risk-sharing instruments; second, by structuring platforms and investment vehicles, in collaboration with commercial capital providers; and third at the institutional and portfolio level. The use of concessional capital for blended finance structures at any of these levels can be a catalyst for private capital mobilization. We are committed to strengthening and scaling our mobilization approach, while carefully balancing the types of development impact we want to achieve and our ability to crowd in private sector investors.

The mobilization of private capital is closely aligned to SDG 17 (Partnership for the Goals).

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[30] J. Zhuang et. al. 2009. Financial Sector Development, Economic Growth, and Poverty Reduction: A Literature Review. ADB Economics Working Paper Series No. 173.

[31] We understand private capital to be capital sourced from a legal entity that is: (a) carrying out or established for business purposes, and (b) financially and managerially autonomous from national or local government. Some public entities that are organized with financial and managerial autonomy are counted as private entities. Other examples include registered commercial banks, insurance companies, sovereign wealth funds, pension funds and other institutional investors or entities whose investment is made on a commercial basis (based on the Multilateral Development Banks' joint methodology for calculating private sector mobilization).

3.5 Embedding impact across the investment process

FinDev Canada incorporates development impact as a primary element of its investment process; from investment selection, through to investment due diligence, approval, monitoring and reporting during the investment term, to responsible exit. We assess our client's potential to contribute to our three impact goals through our development impact tool—a critical factor in our deal selection and decision-making process—as well as a robust analysis of risk, return and pricing. Once a transaction enters our portfolio, we help our clients to realize their impact goals and monitor key performance indicators and results.

We have established a development impact management process that is embedded in our organizational investment process more fully described in Our Impact Management Framework.

3.6 Managing risks to impact

The realization of positive development impact is also underpinned by managing and mitigating impact risks[32] and by the application of rigorous environmental, social and governance (ESG) standards and processes, which are embedded within our investment processes. We are committed to addressing potential environmental and social issues, including human rights risks in accordance with our Environmental & Social Policy, and the IFC Performance Standards on Environmental and Social Sustainability. Ensuring business integrity underpins our commitment to high standard of ethical business conduct and good governance. To that effect, we assess and mitigate, where relevant, financial crime risks and ethical and integrity concerns that could present risks for local populations and reputational risks for the corporation.

We also undertake annual monitoring to identify and mitigate unintended or intentional operational risks to impact, for example where impact data is not forthcoming or when there are proposed changes to a business model.

[32] The Impact Management Project and Social Value International identified nine types of impact risk for investors and enterprises to consider. The complete list of the types of risks is available here Risks - Five Dimensions of Impact | Impact Frontiers (accessed on January 30, 2024).

4.0 Measuring and reporting on our impact

FinDev Canada's impact measurement and reporting approach draws on methodologies consistent with industry practice and aligns with industry-led harmonization initiatives. FinDev Canada is a founding signatory to the Operational Principles for Impact Management. We make annual disclosure statements in accordance with these principles and are periodically assessed by a third-party against these principles. We actively engage with initiatives such as the Harmonized Indicators for Private Sector Operations, the Global Impact Investing Network's Impact Reporting and Investment Standards, the Joint Impact Indicators, the Joint Impact Model and others. The 'Five Dimensions of Impact' by the Impact Management Project are embedded in our impact management process.

We emphasize a learning approach to development impact measurement. We continually improve our tools and techniques to ensure they are rigorous, flexible, and easy to interpret.

For impact data, we capture and analyze client level data, end-customer level data, and national or sectoral data, as appropriate, aiming to harmonize with and leverage data requirements of co-lenders or co-investors when possible. When gathering data on specific metrics on individual users or customers of our investments, we aim wherever possible to obtain gender-disaggregated data. We may also capture and analyze data that can provide our clients with business intelligence in areas such as market opportunities, to promote business improvements and associated development impact. Technology solutions for impact data collection and analysis are an important part of our approach.

We measure our impact at the client level and the portfolio level. The table below outlines the measurement methods we use.

TABLE: DEVELOPMENT IMPACT RESULT LEVELS AND RELEVANT MEASUREMENT METHODS

Result level	Result type	Method/Process	Frequency
Client results against client development impact KPIs/ targets	Outputs	Direct client data collection	Annually
		End-customer data	Annually
		Economic models that estimate indirect outputs of client operations	
Consolidated portfolio results against FinDev Canada development impact KPIs	Outputs/ Outcomes	Consolidated/benchmarked client data	Annually
		Economic models that estimate indirect outputs or outcomes of client operations	Annually
		Interim client or sector impact assessments based on desk research and site visits	Periodically, but usually near mid-point of an investment
		End of project impact assessments	At the time of exit of an investment

In addition to annual monitoring, we are committed to undertaking evaluations as our portfolio matures, to learn more about the medium-term to long-term outcomes of certain investments. Our approach to monitoring, evaluation and learning consists of prioritized periodic site visits to capture qualitative aspects of the impact. We will also undertake portfolio-wide thematic and/or sector-specific assessments to consider the combined impact across our three impact goals. Where the opportunity arises, we will also consider collaborating with external stakeholders to make our evaluations as robust as possible.

Transparency is an essential principle of our work. Our approach to transparency and disclosure is detailed in our Transparency and Disclosure Policy. A summary of each transaction is disclosed on the FinDev Canada website, including, the anticipated development impacts and E&S risks, with an impact theory of change. We also publicly report on the status of our portfolio and consolidated impact results annually, and our website provides a snapshot of our portfolio including impact data. Where possible, we also use case studies, or other in-depth reporting techniques, to share impact experiences of client companies and their end-customers.

Control sheet

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