

# The catalytic effects of DFI investment – gender equality, climate action and the harmonisation of impact standards

An essay series

Edited by Samantha Attridge

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A chemical analyst at work in Lahendong Geothermal Plant, Indonesia, 2009.  
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## About this publication

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# Acronyms

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<b>ADB</b>	Asian Development Bank
<b>AIN</b>	Angel Investor Networks
<b>AUM</b>	assets under management
<b>BIO</b>	The Belgian Investment Company for Developing Countries
<b>CIP</b>	Clearance in Principle
<b>COFIDES</b>	Compañía Española de Financiación del Desarrollo
<b>DEG</b>	Deutsche Investitions- und Entwicklungsgesellschaft
<b>DFI</b>	development finance institutions
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EDFI</b>	Association of European Development Finance Institutions
<b>EIB</b>	European Investment Bank
<b>ESG</b>	environmental, social and governance
<b>FMO</b>	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
<b>GAD</b>	gender and development
<b>GBV</b>	gender-based violence
<b>GDN</b>	Global Development Network
<b>GHG</b>	greenhouse gas
<b>GIIN</b>	Global Impact Investing Network
<b>GLI</b>	gender-lens investing
<b>HIPSO</b>	Harmonized Indicators for Private Sector Operations
<b>IFC</b>	International Finance Corporation
<b>ILO</b>	International Labour Organization
<b>IMM</b>	impact management and measurement
<b>IMP</b>	Impact Management Project
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>IRIS</b>	Impact Reporting and Investment Standards
<b>JII</b>	Joint Impact Indicators
<b>JIM</b>	Joint Impact Model
<b>MDBs</b>	multilateral development banks
<b>MoC</b>	memorandum of cooperation

<b>NFC</b>	New Forests Company
<b>NGO</b>	non-governmental organisations
<b>ODA</b>	official development assistance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OeEB</b>	Oesterreichische Entwicklungsbank AG
<b>OPIM</b>	Operating Principles for Impact Management
<b>PE</b>	private equity
<b>Proparco</b>	Société de promotion et de participation pour la coopération économique
<b>RCT</b>	randomised controlled trial
<b>SASB</b>	Sustainability Accounting Standards Board
<b>SDG</b>	Sustainable Development Goal
<b>SME</b>	small and medium-sized enterprises
<b>ToC</b>	theory of change
<b>UCDW</b>	unpaid care and domestic work
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>VC</b>	venture capital
<b>VRE</b>	variable renewable energy
<b>WEF</b>	World Economic Forum
<b>WMSME</b>	women-owned micro, small and medium-sized enterprises

# Foreword

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The essays included in this series are striking for several reasons, including the depth of their insight, the evidence that they bring to their analyses, and the contributions they offer at a time of significant change for development finance institutions (DFIs). But what is most striking is the diversity of viewpoints that they reflect, and this diversity is a quality they share with DFIs themselves. By their nature, DFIs reflect the perspectives of their home countries, the priorities of their stakeholders and the unique experiences of staff members working in – and frequently coming from – the developing countries where they invest. This heterogeneity makes DFIs a uniquely interesting subject of study for anyone interested in development, because the different approaches to investing for sustainable development create a form of natural experiment, as well as an openness to doing things differently.

The willingness to do things differently must be accompanied by a critical reflection on effectiveness, and it is here that these essays prove their worth. As part of the European Development Finance Institutions (EDFI) Impact Conference, which accompanied the development of this series, participants were encouraged to take a critical step back from the work of DFIs, to examine what the evidence says about the impact of investment in the private sector in developing countries, and to suggest new routes for critical scholarship. The result was a frank discussion about impact that drew on the lessons of individual investments and entire portfolios to look at how DFIs and private impact investors can deliver more effectively on their mission. It is a pleasure to see such insights reflected here.

The importance of the task facing DFIs is clear from the topics that these essays address. Gender inequality is a persistent feature of many countries where DFIs invest, with significant consequences for development. Climate change is a global challenge against which our institutions are rightly being asked to do more. Harmonisation represents an essential effort to deliver impact more consistently, transparently and effectively – whether in the area of women’s economic empowerment, climate adaptation and resilience, or the myriad other effects to which DFIs contribute. These essays show the serious reflection that DFIs and their partners are bringing to these issues, and their dedication to doing more through their investments.

If this essay series is notable for its diversity of topics and perspectives, it is also notable for the consensus view of its authors that private sector investment in low- and middle-income countries has a critical role to play in delivering the Sustainable Development Goals. That view is at the centre of efforts by European DFIs and their partners to collaborate effectively. Such collaboration rests on the sharing of knowledge, including that found in this essay series, and we are lucky to have the contributions of the authors collected here.

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# Introduction and overview

## Samantha Attridge, ODI

Private investment and a robust private sector are fundamental drivers of economic growth and job creation, which are key ingredients to help tackle poverty. Development finance institutions (DFIs), with their core mandates to promote economic growth through their financing, risk-sharing and supporting activities, have been assigned a key role in supporting the achievement of the Sustainable Development Goals (SDGs) and the implementation of the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement. This step into the limelight has been accompanied by greater scrutiny of DFI strategies and operational issues, including an increased demand by shareholders and other stakeholders to better understand the impact of DFI investment on the SDGs and the Paris Agreement, as well as for greater accountability and transparency on how this impact is achieved.

DFIs have decades of investment experience, working alongside co-investors and investee companies in developing countries, supporting their economic growth and development. This long, diverse and rich experience offers the evidence base to help us understand more fully how their investment can contribute to the achievement of the SDGs and the Paris Agreement. An important part of this experience is about how to estimate, monitor and evaluate the impacts of this investment on sustainable development. The insight gained not only improves understanding of impact, but when fed back into investment

decisions enables DFIs, investee businesses and private investors that invest for impact to enhance their development impact.

Members of the Association of European Development Finance Institutions (EDFI) managed a consolidated investment portfolio of approximately €46 billion in developing countries in 2019 and all have impact measurement and management (IMM) frameworks in place to estimate, monitor and evaluate the impact of this investment. These frameworks are heterogeneous and vary in their sophistication, reflecting the diverse nature of DFIs, their evolving mandates and the nascent nature of the impact investing industry, of which DFIs were the pioneers. As noted in our previous essay series (Attridge et al., 2019) these frameworks have tended to focus on direct economic impacts of individual investment and in core areas such as job creation, energy provision and taxes paid. For example, the consolidated investment portfolio of EDFI members in 2019 directly and indirectly supported the creation of 8.5 million jobs, the generation of 98 terawatt hours of electricity and the payment of tax contributions to developing country governments of €17.3 billion.<sup>1</sup> More recently, DFIs have started to examine a wider range of impacts, as well as exploring sector-wide and wider societal impacts. They seek to understand the impact of their investment on the achievement of the SDGs at the economy-wide level and to better articulate and communicate these impacts to their shareholders and other stakeholders (Attridge et al., 2019).

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1 [www.edfi.eu/about-dfis/impact/](http://www.edfi.eu/about-dfis/impact/)

This 2021 essay series focuses on the three themes of the 2021 EDFI impact conference, which was held in May 2021:

1. The catalytic effects of gender-smart investing (SDG 5)
2. Climate finance impact and related developmental concerns (SDG 13)
3. The harmonisation of impact management and reporting.

These themes were chosen as they reflect key priorities for European DFIs and are areas in which IMM thinking and approaches are fast evolving. Most European DFIs report gender- and climate-related impact indicators and some have explicit associated targets. But the IMM practices around these are less mature than, for example, job creation and energy provision, which were the focus topics of the 2019 EDFI impact conference and essay series. There have also been numerous IMM harmonisation efforts in recent years, which have brought significant benefits. But more needs to be done, especially to ensure that individual initiatives do not compete with one another and result in further fragmentation.

## Overview of essays

We invited experts and conference participants to reflect on these three themes and submit short essays that help take stock of knowledge on the impact of DFI-facilitated private investment on

reducing gender inequality, promoting women's economic empowerment and addressing climate change, as well as exploring issues in the harmonisation of IMM frameworks. Many of the essays also touch on associated methodological issues that can help advance our understanding of impact in these areas. The essays have been structured into three sections:

1. Women's economic empowerment and gender equality
2. Combating climate change and related development concerns
3. Harmonisation of IMM

## Women's economic empowerment and gender equality

As noted by Jessica Espinoza Trujano in her essay, gender-lens investing (GLI)<sup>2</sup> is currently defined as 'an investment approach that incorporates a gender lens into the investment cycle in order to provide women with improved access to entrepreneurship, leadership opportunities, decent and skilled employment, finance, as well as products and services that enhance their economic participation'. GLI has grown rapidly in recent years and there is increasing interest amongst DFIs to better understand and intentionally target their investment towards supporting women's economic empowerment and gender equality, as exemplified by the 2X Challenge (Box 1).

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2 Also often referred to as gender finance or gender-smart investing.

## Box 1 The 2X Challenge: financing for women

In June 2018 at the 2018 G7 Summit in Canada, G7 countries committed their DFIs to collectively mobilise \$3 billion of DFI and private investment in businesses that benefit women by the end of 2020, providing women with access to finance, leadership opportunities, quality jobs and business support (2X Challenge, 2018). As of January 2021, the 2X Challenge (n.d.) had added an additional seven DFIs as members and the European Investment Bank as an adopter, and had mobilised over \$4.6 billion in commitments.

The 2X Challenge Working Group has developed five ‘2X criteria’, which define what it means to invest in gender equality and women’s empowerment. DFI investments qualify as 2X-aligned if they meet at least one of the five metrics in areas that cover entrepreneurship, leadership, employment, consumption and intermediated investment.

These criteria were formally adopted by the Global Impact Investing Network (GIIN) as the global standard for GII and in 2019 they were incorporated into the GIIN’s impact measurement and management system, IRIS+. The metrics have also been aligned with the Harmonized Indicators for Private Sector Operations (HIPSO). The 2X criteria will be revised in 2021 and potentially be further developed into a ‘version 2.0’. Since its launch, the initiative has attracted significant attention from multilateral DFIs and private equity funds, as well as more mainstream institutional investors like global investment banks and pension funds, who have expressed their interest in joining the 2X Challenge.

The business case underpinning GII is clear and well documented. In a ‘full potential’ scenario in which women play an identical role in labour markets to that of men, as much as \$28 trillion, or 26%, could be added to global annual gross domestic product (GDP) by 2025 (Woetzel et al., 2015). In 2018, the United States accounted for 24% of global GDP; having a gender-equal global economy would be equivalent to adding the largest economy to worldwide GDP (World Bank, 2020).

GIIN is a relatively new approach. As such, the concept and thinking underpinning it, as well as the metrics to measure impact, are in early stages of development but are evolving rapidly. As this approach gathers momentum and DFIs

and the broader impact investment community seek to increasingly intentionally target their investment towards this issue and harmonise their impact metrics it will be essential to move from the current narrow conceptualisation of impact, which ‘counts’ inputs, to one that captures outcomes and impacts. A more informed understanding of the wider indirect and induced effects will also be needed, in the same way that we have seen the thinking about job creation and DFI investment evolve. This will need to be informed by the development of gender-specific theories of change (ToCs). The publicly available gender-specific ToCs developed by FinDev Canada and DEG can serve as preliminary examples. These ToCs can be further developed and strengthened

by more clearly defining direct and indirect impact pathways, underpinned by academic and policy evidence. Reflecting on the experience of the 2X Challenge to date also offers DFIs the opportunity to learn and to further develop thinking and IMM approaches in this area.

Eight essays explore the gender issue and fall into two categories that address: (1) evidence – what we know and have learned about the impact of GLI; and (2) new emerging areas or issues that can further enhance our understanding of the impact of DFI GLI investing.

## Evidence base

*Jessica Espinoza Trujano* notes that there is a strong academic evidence base for the catalytic effects of investment in women's economic empowerment and it highlights the complexity of gender power dynamics. This, she argues, underscores the need for nuanced thinking and well-calibrated investment approaches. Given the nascent nature of GLI she notes the need to build the evidence base specifically on the impact of DFI investment. This could help build DFIs' gender-specific ToCs and enhance the rigour of their GLI.

She discusses how the field of GLI is evolving and how it has evolved over time from gender-sensitive to gender-responsive investment approaches. She suggests that the field is likely to continue to evolve by focusing on gender-transformative investment approaches, which focus on the transformative potential of GLI to 'dismantle unequal power dynamics'. She also mentions some of the issues that a gender-transformative ToC would need to address. She discusses several forthcoming studies, 2X Challenge learnings and tools, which offer a unique opportunity to increase rigour, innovate and generate impact at scale to merge the business case with gender-transformative impact.

*Maaïke Platenburg* and *Mitzi Perez Padilla* summarise the findings of a recent external study commissioned by FMO of three of its investments that targeted women entrepreneurs. Its aim was to understand how different financial institutions (FIs) address the gender gap in financial inclusion. The authors discuss the gender gap in financial inclusion and the funding shortfall to achieve global goals on gender equality, highlighting the role that DFIs can play in shrinking this financing gap. They provide a brief overview of the study and note five major challenges that women entrepreneurs face in accessing finance. The authors then briefly summarise their key findings highlighting that successful strategies deployed by FIs included: (1) reaching out to women through word-of-mouth; (2) developing products targeted to women's needs; and (3) focusing on building skills and creating networks of women. Recommendations from the study suggest that: (1) investors and FIs could engage more with women's rights organisations and NGOs; (2) FIs could use social performance management to improve products and services; and (3) FIs should continue to uphold client protection standards.

*Robin Young* and *Till Bruett* reflect on DAIs experience of managing the US Agency for International Development (USAID)'s INVEST mechanism. INVEST provides catalytic capital to support seven GLI vehicles to suggest new GLI impact metrics for the fund management industry, funds themselves and their investees. The authors discuss the growth of GLI and note the problem of a lack of very-early-stage seed and pre-seed GLI. At the investee level, they discuss how context matters for GLI and how consideration of some top-line common impact metrics may mask persistent inequalities if they are not considered within the broader economic and societal context. In reviewing evidence and their investment experience, they find that the prevalence of women's participation in ownership,

leadership and management of funds and the firms in which they invest is closely correlated with not only the prevalence of GLI, but also the overall performance of funds and their investment portfolios. They, therefore, argue that metrics that track women's presence at senior levels in funds and firms should be prioritised when measuring the impact of GLI. They also urge that 'impact metrics related to specialised GLI funds or those based on assumptions that certain sectors or value chains are 'GLI-friendly' must be contextualised to ensure that they are not a reflection of the gender-sorting that is endemic in many economies and societies'.

In their essay, *Juho Uusihakala, Ilona Mooney and Nilah Mitchell* recognise how instrumental the 2X Challenge has been in increasing DFI investment in gender equality and women's economic empowerment and how it has brought the DFI community together on this issue. They discuss how it provides investors with a framework to help determine what constitutes a gender-sensitive investment, helps them assess the level of gender equality in their potential investments, and enables DFIs to monitor the progress over time in their investee companies. They argue that the next step to build on this progress is to look beyond the numbers to better capture the impact of companies on gender equality and women's economic empowerment. They briefly provide an overview of the key findings of two recent FinnFund studies that do exactly this: a study on an investment in an East African forestry company and its smallholder suppliers in Africa, and a study on an investment targeting women in the distribution of clean energy products in Africa. The authors highlight three key insights. Firstly, the studies yielded insights on the socio-economic profile of the female customers and stakeholders and generated analytical data on outcome-level impacts on women with clear action points for companies. Secondly, they also helped

FinnFund to collaborate with its investees to further enhance the positive gender impact of its investments. Finally, tech-enabled data collection methods were cost efficient and provided near real-time data for companies and DFIs and gave women a voice.

## New areas to enhance understanding of impact

*Jessica Espinoza Trujano and Anne-Marie Lévesque* discuss the issue of women's unpaid work and the care economy, which remains largely unexplored for most DFIs, and analyse the potential transformative impacts of DFI investment in the care economy. They explore how DFI investment has the potential to recognise, reduce and redistribute care work. This could be through direct investment in the care economy, as well as investment in other sectors such as energy infrastructure, which can reduce and redistribute care work and promote enabling workplace policies and practices in their investee companies. They argue Covid-19 has provoked a change of perspective on the relationship between the private sector and society and that there is a growing expectation that companies have a duty to provide a range of care economy support to their workforce and potentially even to the communities in which they operate. This will likely lead to increased demand for care service providers and encourage the emergence of innovative care-related business models that require financing. In discussing the opportunities for DFIs to engage in the care economy, they highlight what this means for impact management and measurement.

*Jessica Espinoza Trujano and Bonnie Chiu* explore the interlinkages between gender and climate. They note that women are disproportionately affected by climate change but also play an extremely important role in combating climate

change – the influential climate study Project Drawdown finds that educating girls and family planning are two of the ten most effective ways to reduce carbon emissions. The research shows that climate investments are more effective with a gender lens, and gender finance is more impactful with a climate lens. The authors argue that integrating climate and gender as an interrelated investment lens will further enhance the impact of DFI investment. To inspire this, and building on the G20 Charter for Engagement on Women Leading Climate Action, the authors propose a new strategic engagement framework for DFIs to capitalise on the opportunities presented by this nexus, focused on four pillars: financing, mobilising, reforming policies and creating markets, and capacity building. They discuss how DFIs can lead the pack to bring gender- and climate-related impact metrics together in IMM by building on and further developing the current GIIN IRIS+ indicators, which relate to both gender and climate finance.

*Edward Jackson* notes that the Covid-19 pandemic has underscored the crucial role that women play as essential workers and care providers and how inadequate and often exploitative their work conditions are. He therefore argues that the issue of women’s job quality is as important as mobilising increasing investment in support of gender equality and women’s economic empowerment. He examines the issue of women’s job quality to illustrate how IMM can be harmonised and streamlined. He argues that IMM needs to be smart, agile and affordable and suggests a core set of metrics on women’s job quality that are comparable, cost-effective and streamlined. He sets out six steps that could help harmonisation efforts with voice and choice at their centre: (1) integrating the theory of change; (2) amplifying the voices of women workers; (3) choosing core indicators that are comparable, cost-effective and streamlined on women’s job

quality; (4) moving from policy presence to verifiable performance; (5) selecting an evaluation methodology that is fit for purpose; and (6) containing and sharing costs.

*Matt Gouett* and *Samantha Attridge* discuss how the 2X Challenge and the creation of the 2X Challenge indicators represent great steps forward for GLI and suggest three improvements that they believe would enhance the understanding of the impact of DFI gender investments. Firstly, they discuss the importance of theories of change and note that the 2X Challenge and many of its members have not yet publicly articulated a ToC of how 2X Challenge-aligned investments can reduce gender-inequality. They suggest that underpinning 2X Challenge-aligned investments with a ToC would help inform and guide investment as well as help external stakeholders engage and understand conceptualisations of GLI. Secondly, they note that although the 2X Challenge encourages and incentivises progress, the current reporting does not capture the marginal change effected by 2X Challenge-aligned investments and they suggest a greater focus on capturing progress in future iterations. Finally, the authors note that the specific evidence base on the impact of DFI investment on reducing gender inequalities is weak. More in-depth ex-post impact analysis would help inform GLI ToCs and better investment decisions.

## **Combating climate change and addressing related development concerns**

There is no doubt that the world is facing a climate emergency and countries rich and poor need to urgently transition to low-carbon, climate-resilient growth pathways. DFIs are well-placed to help support this transformation and support the realignment of financial flows to help ensure that they support the goals of the UNFCCC Paris Agreement in developing countries. Further, it is

very much in the interest of DFIs to understand and manage the financial and development risks to their portfolios from the transitional and physical risks of climate change.

Over the last five years, members of EDFI have committed €8 billion to climate finance in low- and middle-income countries (EDFI, 2020) and have started to develop a concerted approach in this area, which is rapidly evolving. In November 2020, EDFI members announced that they will align all new financing decisions with the objectives of the Paris Agreement by 2022 and will ensure that their portfolios achieve net zero emissions by 2050 at the latest (EDFI, 2020). This alignment will also involve harmonisation of methodologies and approaches at the project and portfolio level. As highlighted throughout the essays, DFIs are diverse and so will follow different paths at different speeds to realise these new commitments.

*Alberto Lemma* provides an overview of how DFIs are tackling the climate challenge. He notes that the majority have now adopted clear climate change and sustainability strategies to help them meet SDG and Paris Agreement commitments made by their respective shareholders. He discusses how DFIs measure their climate change impacts, noting that this is a relatively new aspect of their IMM. He outlines how this has evolved from DFIs using different methodologies to calculate greenhouse gas (GHG) emissions avoided and generated by portfolio activities towards efforts to harmonise their reporting of aggregate GHG emissions reductions, as agreed by EDFI members in October 2020. EDFI members have also agreed to increase their climate impact disclosure commitments and have agreed to significantly reduce investments in fossil fuel energy. He argues that DFIs are currently taking a low-risk approach to climate change, targeting relatively low-hanging fruits such as renewable energy, which are closely aligned with their pre-

existing investment strategies. He suggests that DFIs could take a more proactive approach to finding and targeting green growth investment opportunities particularly in growth-supporting sectors such as manufacturing.

Most climate finance flows to mitigation efforts. Only 5%, approximately \$30 billion, addresses climate adaptation (CPI, 2019). But the United Nations 'estimates that by 2030, the global climate change adaptation costs may range from a staggering \$140 billion to \$300 billion per annum and could rise to between \$280 billion and \$500 billion per annum by 2050' (UNFCCC, 2019). *Anne Arvola, Juho Uusihakala and Mikko Halonen* explore the issue of climate adaptation and how to mobilise more private investment to support it. They note that the Intergovernmental Panel on Climate Change (IPCC) definition of climate adaptation highlights two dimensions: avoiding harm as well as exploiting beneficial opportunities. They argue that, to date, private sector approaches to adaptation finance have focused mainly on the avoidance of harm and management of risk with much less attention paid to exploiting beneficial opportunities. The authors outline the business case for investment in climate adaptation and discuss what constitutes adaptation finance, reflecting on the IPCC definition and EU Taxonomy for Sustainable Finance. They note that it is context- and location-specific. For this reason they argue it is necessary to develop a process-based approach to determine if an activity is itself adaptation or if it is adaptation-enabling and contributes to wider system-level climate resilience. The authors describe the approach that Finnfund has been developing to capture the two dimensions of adaptation in its investment process. They conclude that the 'upside' of adaptation is a market opportunity and that DFIs are well placed to play an important role in scaling adaptation investment.

Climate change presents a difficult challenge for DFIs. On the one hand they are focused on promoting economic growth in developing countries and on the other hand they are also tasked with aligning their portfolios with the Paris Agreement and investing in mitigating and adapting to climate change. But there can be trade-offs between these two objectives, at least in the short- and medium-term, which DFIs need to balance in their investment strategy and decisions. A prime example of this is the lack of access to reliable, affordable energy supplies, which constrains economic growth, and how to address this in the most climate-friendly way. *Paddy Carter* examines this challenge by exploring the developmental and climate impact of making new investments in gas power. He argues that in exceptional circumstances, some selective and time-bound DFI investments in new gas power are both necessary and Paris-aligned. Reliable and affordable power is essential for economic growth and poverty reduction and he argues that most African countries are in no position to deviate far from least-cost technical solutions. He also notes that the Paris Agreement recognises that the least-developed countries' pathways to net zero by 2050 will likely see growth in their greenhouse gas emissions in the near-term as they tackle a number of development challenges, before declining towards net zero in 2050. Deciding whether to invest in gas is a very difficult decision for a DFI to make. The author briefly outlines the Gas Guidance tool that CDC has developed to help assess whether an investment in gas is Paris-aligned. The tool contains an indicator framework and scoring matrix, which is used to make an aggregate assessment about whether to invest.

## **Harmonisation of impact measurement and management**

A common theme running through the essays is the diversity amongst DFIs. This diversity has

resulted in many different IMM frameworks. This hinders a common understanding about the effectiveness and impact of investment and, given that DFIs often co-invest with each other, can result in an unwieldy reporting burden for clients. Further, it can undermine credibility of IMM. Consequently, and in the context of an increasing scrutiny of DFI investment, several initiatives to harmonise IMM practices have been developed in recent years, many driven by DFIs themselves. These initiatives are briefly identified in Table 1.

These initiatives are hugely valuable and have resulted in significant benefits. Credible and comparable impact data is key to informing investment decisions and supporting the development of the impact investment industry more broadly, which is estimated by the International Finance Corporation (IFC) to stand at \$2 trillion in 2019. Of these impact investments, only \$505 billion had IMM systems in place (IFC, 2020). Harmonisation of metrics can reduce costs, free up time and inform a common understanding of what works and does not work. This results in better impact investment as well as helping DFIs to better communicate their contribution to the SDGs. And by strengthening transparency and credibility, it can further support the development of the impact investing market.

But the landscape remains complex and there is a risk of competition between initiatives, which may further fragment the IMM landscape. The HIPS0 and IRIS+ metrics are the two sets of impact metrics that are most widely used by impact investors including DFIs. For this reason, the development of the Joint Impact Indicators (JII), which start to align these two sets of metrics, represents an important step forward for DFIs and the broader impact investing industry to coalesce around a core set of common and comparable impact metrics.

**Table 1** Inventory of harmonisation initiatives

Initiative	Participating institutions			Strategic → specific	
	DFIs, MDBs	Private investors	Donors/other public	Principles/framework	Impact metrics
Operating Principles for Impact Management (OPIM) – established 2019 by IFC	✓	✓	✓	✓	
Impact Management Project	✓	✓	✓	✓ Forum for building global consensus on IMM	
Impact Standards for Financing Sustainable Development (IS-FSD) – launched by OECD 2021	✓	✓	✓	✓	
IRIS+	✓	✓	✓		✓
Harmonized Indicators for Private Sector Operations (HIPSO) – established 2008	✓ 28 DFIs and MDBs				✓ 38 metrics
Joint Impact Indicators (JII) – launched 2021	✓	✓			✓ 18 metrics Aligned subset of HIPSO indicators and IRIS Catalogue of Metrics which cover gender, jobs and climate
EDFI Harmonisation Initiative – launched in 2019	✓	✓			✓ Objective to harmonise reporting in five key impact areas (SDG5, SDG8, SDG10, SDG13, other impacts including environmental and social)
Joint Impact Model – launched in 2020 by DFIs and Steward Redqueen	✓	✓			Model to estimate indirect impacts of DFI and private investment

Source: ODI

As discussed by *Priscilla Boiardi* and *Esmé Stout*, harmonisation initiatives can be grouped into those that focus on: (1) principles and guidance; (2) frameworks and methodologies; (3) standards, certifications and ratings; and (4) metrics and indicators (Boiardi, 2020). These four categories go from high-level general initiatives focused on principles and values to more specific initiatives focused on specific metrics. The first five essays in this section are presented in the order that the categories are listed above. Several of these essays note the heterogeneity of DFIs and the challenges this poses for harmonisation. The sixth essay by *Suhyon Oh* and *Michael Hansen* explores this issue in more detail.

As mentioned in their research at the Organisation for Economic Co-operation and Development (OECD), *Priscilla Boiardi* and *Esmé Stout* have mapped the different IMM tools used by DFIs and how these relate to the various industry-led harmonisation initiatives. They map the initiatives along two axes: (1) function (whether the initiative targets impact management or measurement); and (2) purpose category.

The authors argue that it is possible to both harmonise broad sets of agreed principles and standardise metrics and indicators. They find a rise of common principles and guidance and discuss how DFIs have coalesced around the OPIM developed by the IFC and how European DFIs have aligned with EDFI Principles for Responsible Financing of Sustainable Development. They argue that this alignment is an important step but it remains at a very high level and so does not allow for a consistent, transparent and meaningful understanding of the impact of investment. As they consider more specific initiatives such as those targeting metrics and indicators, the research also shows that DFIs are increasingly using harmonised impact indicators. The most

popular indicators are the HIPS0 and GIIN IRIS+, with some DFIs using both. Recognising the need to avoid duplication, the Joint Impact Indicators (a subset of HIPS0 and the IRIS Catalogue of Metrics) have recently been developed with a focus on jobs, gender and climate.

The authors find that the majority of DFIs do not implement a harmonised impact management framework and that DFIs have developed their own proprietary frameworks. They argue that due to the heterogeneity of DFIs, flexibility is required and it is therefore not useful to converge towards a ‘one-size-fits-all’ framework.

Good impact management practices are critical to help reassure asset owners who co-invest with DFIs or invest in private impact funds that these institutions have robust systems in place to invest to deliver impact and meet asset owners’ impact objectives. The OPIM developed by the IFC in 2019 provides a benchmark against which impact management systems may be assessed. Signatories to the principles agree to disclose annually how their impact management system aligns with the principles and agree to regular independent verification of this alignment. In his essay, *Neil Gregory*, reviews the first batch of public disclosure statements published by the signatories to the OPIM. He identifies a number of areas where there is convergence towards good practices such as: the use of the SDGs as a ‘reference point for defining impact goals’; a consideration of the form of contribution to impact in the investment decision; defining expected impact and likelihood of impact at the start of the investment, and monitoring impact through the investment; the use of common impact metrics based on HIPS0 and GIIN IRIS+; and the integration of environmental, social and governance (ESG) considerations into impact management systems. He also identifies several

areas where further progress is needed such as assessing impacts relative to the gap being addressed and the need to develop a common framework to assess ESG risks.

*Paddy Carter* argues that the harmonisation of impact data is just one side of the harmonisation coin and that the impact industry would benefit from efforts to harmonise how impact metrics are interpreted. He notes that a framework developed by the Impact Management Project (IMP) has potential to improve consistency across investors but few DFIs have adopted it. In the essay he describes CDC Group's experience with applying IMP's five dimensions of impact (what, who, how much, contribution and risk) to their day-to-day decision-making and impact management. He discusses how the coherent and structured approach of the IMP framework has been invaluable as it has helped develop a common language when assessing impact at the deal level and has helped focus attention on these key dimensions of the most material impacts of an investment. Paddy also notes that the pathway to realising impact can be long and indirect. He discusses how CDC has added a sixth dimension to the framework, which focuses on 'how' impact is realised. This is helping identify and refine sectoral-level theories of change. He argues that at the transaction level this approach provides a much richer understanding of impact than scoring individual investments. The approach also guides how CDC manages its portfolio for impact. Finally, he notes that the approach is very much designed to assess and manage impact at the transaction level and thus does not lend itself to aggregation. For this reason, he notes that it must be complemented by other reporting methods such as the recently launched Joint Impact Indicators.

*Sabine Dankbaar, Giulia Debernardini and Aneese Lelijveld* argue that although harmonisation

of impact measurement is needed to improve transparency, comparability and learning, it is often challenging to achieve because of the diversity of the institutions involved. The authors reflect on their experience working with a diverse group of DFIs in developing the Joint Impact Model, a harmonised tool to measure and report on indirect economic and environmental impacts of DFI investments. They identify and discuss five key success factors that can help enhance the effectiveness and efficiency of future harmonisation initiatives: develop an action plan; adopt a phased approach; put skin in the game; be flexible; and do not reinvent the wheel.

Impact studies complement the insights garnered during regular portfolio impact monitoring and reporting. In their essay, *Claudio Cali, Nina Fenton and Matt Ripley* describe the benefits of undertaking impact studies, which include helping DFIs to: better understand the impact of their investment (including indirect impacts) thus helping them make better investment; better understand causality between an investment and its outcome; better understand how impacts vary between different groups; and build the capacity for impact measurement and evaluation within DFIs, among DFI clients, and among external experts and organisations involved in the studies. Furthermore, the authors note that impact studies play an important role in helping increase accountability and promote transparency.

An increasing number of DFIs have launched impact studies and the authors identify and discuss potential benefits of greater harmonisation in the approach of such studies. These include increased efficiency and effectiveness, reduced burden on investees, increased understanding and credibility, and improved technical quality. The authors argue that total harmonisation may not be possible

or desirable given that impact studies often examine complex projects in varying sectors and contexts but suggest that harmonisation around a set of principles may be useful to help realise some of these benefits and outline a tentative set of principles. The authors conclude by outlining some possible steps towards greater collaboration, which include: the establishment of an independent and expert oversight committee across a group of DFIs to help harmonise approaches and plan studies strategically to help fill knowledge gaps; and build a critical mass of understanding on important questions.

*Suhyon Oh and Michael Hansen* explore in more detail the diverse nature of DFIs that is mentioned in several essays. They argue that DFIs are hybrid organisations. This hybridity stems from DFIs pursuing the dual objectives of development impact and profitability. The degree of hybridity varies between DFIs because each DFI has its own history, mandate and ownership structure. The authors discuss why this hybridity and its variation between DFIs explains the difference in DFIs' approaches to impact measurement and makes harmonisation of impact measurement difficult. The authors note that the adoption of the SDGs and the accompanying emphasis on mobilising private finance has resulted in DFIs significantly increasing their engagement and co-investment with a wider range of private investors who may have different perspectives on impact management. They argue that this increases this hybrid tension and potentially makes harmonisation more complicated. The authors finish their essay by reflecting on how DFIs can nevertheless enhance harmonisation efforts whilst remaining cognisant of the hybrid nature of DFIs and the varying nature of this hybridity. They put forward the idea of a 'clustering

approach', which would group DFIs with a similar type of hybridity, and impact measurement and reporting methodologies would be developed within each cluster.

## Conclusions and key findings

There is no doubt that DFIs have stepped up their efforts to strengthen their IMM systems and better communicate how their investment impacts on the achievement of the SDGs and supports the goals of the Paris Agreement. It is also clear that, despite their diversity, DFIs are committed to move towards greater harmonisation, with several promising initiatives underway that will help with comparability and credibility of IMM. The following key findings emerge from this essay series:

### Women's economic empowerment and gender equality

- GLI has seen rapid growth in recent years and the concept is quickly evolving. There is a very strong and well-documented business case underpinning GLI and it is an increasing area of focus for DFIs, as exemplified by the 2X Challenge. There are very clear interlinkages with climate change mitigation and adaptation and a strong business case to integrate climate and gender as interrelated investment lenses in DFI investment.
- Great first steps have been made by the 2X Challenge in terms of mobilising investment in support of women's economic empowerment and gender equality, as well as convergence towards key gender metrics that are aligned with IRIS+. The 2X Challenge has far exceeded its target of mobilising \$3 billion by 2020, having mobilised \$4.6 billion, and the development of the initiative has fuelled collaboration amongst

DFIs. Going forward it will be important to move beyond metrics that ‘screen’ and ‘count’ to metrics that focus on outcomes and impacts of GLI, and to build the specific evidence base of the impact of DFI GLI. This will help DFIs move towards more intentional GLI investment.

- However, understanding the outcomes and impact of DFI investment on women’s economic empowerment and gender equality is complex and context specific. Nuanced thinking and calibrated investment approaches are needed. DFIs that target this issue would benefit from developing gender-specific ToCs that take these issues into account to help ensure that DFI investment empowers women and improves gender equality. Related to this is the importance of ex-post evaluation to investigate results in more depth, particularly for causation and attribution, and to adjust ToCs and investment as required. However, as in other areas evaluation can be complex and expensive, which supports the case for greater collaboration in planning and undertaking ex-post impact evaluation studies.
- Covid-19 has underscored the importance of gender and women’s economic empowerment and illuminated existing blind spots such as the issue of women’s unpaid work and the care economy as well as the issue of women’s job quality.

### Combating climate change and addressing related development concerns

- Concrete commitments have been made by EDFI members to align all new financing decisions with the objectives of the Paris Agreement by 2022. These will ensure that their portfolios achieve net zero emissions by 2050 at the latest. Given the diverse nature of DFIs, they will follow different paths at different

speeds to realise these new commitments. For example, Swedfund will have a climate-neutral portfolio by 2045 whereas CDC will reach climate neutrality by 2050. Efforts are underway by European DFIs to understand the degree of Paris alignment and develop their climate strategies.

- This commitment to Paris alignment by European DFIs will also involve harmonisation of methodologies and approaches at the project and portfolio level. European DFIs have made commitments to work as a group on this and work is underway, but it will be equally important for European DFIs to share best practices and engage with a wider group of investors who are also developing approaches in this area.
- DFIs face potential trade-offs in aligning their investment portfolio with the Paris Agreement and investing to support economic growth, which illustrates the need for holistic climate and development impact assessment.
- DFIs are currently taking a low-effort approach to climate change, targeting relatively low-hanging fruits, which are closely aligned with their pre-existing investment strategies, such as investment in renewable energy. As DFIs develop strategies to align their portfolios with the Paris Agreement, they should take a more proactive approach to finding and targeting green-growth investment opportunities and should seek to exploit the business opportunities presented by the ‘upside’ dimension of adaptation.

### Harmonisation of impact measurement and management

- DFIs employ a wide range of IMM systems, reflecting their diversity, but this hinders consistent, transparent and meaningful understanding of impact, and can result in

unwieldy reporting burdens for clients. It also creates a risk of ‘SDG impact washing’, undermining the integrity of impact reporting and the flow of private capital seeking impact. Therein lies the case for harmonisation.

- The diversity of DFIs presents a challenge and means that total harmonisation in IMM, for example a ‘one-size-fits-all’ impact management framework, is not possible nor is it necessarily desirable. However, in some aspects of IMM harmonisation is desirable and good progress has been made – there has been coalescence around common principles such as OPIM at one end of the spectrum and around harmonised impact metrics such as HPSO and IRIS+ and the Joint Impact Model at the other end of the spectrum. There may also be benefits to working towards a common language around how impact metrics are interpreted when making investment decisions and collaborating and harmonising approaches to undertaking impact studies.
- DFIs have been at the forefront of some of these harmonisation initiatives but the landscape remains complex and there is a risk of competition between initiatives, which may further fragment the IMM landscape. It will be important for all impact investors to work towards the identification of a set of common core impact metrics that could define the minimum scope for impact measurement and reporting. This will be key in strengthening transparency and credibility, which will support the development of the impact investing market.

In conclusion, DFIs are on a journey and good progress is being made in the three thematic areas of this series but further work needs to be done. In GLI, DFIs have come a long way since 2018, driven

by collaboration and coalescence around the 2X Challenge. They are now at a pivotal moment as they move from IMM that has served to establish ‘baselines’ of where DFIs are to IMM that can inform more intentional investment in support of women’s economic empowerment and gender equality. This requires learning and the building of an evidence base on the impact of DFIs’ GLI to help DFIs better understand impact pathways and outcomes that can facilitate learning, and to inform more impactful investment. Likewise in the climate space, DFIs have come a long way in a relatively short space of time and the EDFI climate statement in 2020 is a very important step forward. DFIs are moving from impact assessment based on calculating GHG emissions avoided and generated by portfolio activities, using different methodologies, to commitments to harmonise methodologies and IMM focused on aligning DFI investment portfolios with the Paris Agreement. Given the urgency of the climate challenge and the disproportionate impact of climate change in DFI investment geographies it will be important for DFIs to better understand the total climate impact of their portfolios and communicate this to stakeholders in a transparent and comparable way. As can be seen from Table 1, there are many initiatives aimed at harmonisation and again good progress has been made but the landscape remains complex and there is a risk of competition between initiatives, which may further fragment the IMM landscape. Going forward it will be important for the industry to move towards a common core set of metrics that define a minimum scope for impact measurement and reporting for all impact investors. This will enable a more transparent, consistent, and comparable understanding of impact and progress in key areas.

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# Part 1

The catalytic effects of  
gender-smart investing

# 1 The catalytic potential of gender-lens investing

Jessica Espinoza, DEG

## Abstract

Gender-lens investing (GLI) has emerged as a strategic priority for development finance institutions (DFIs) and a wide range of investors. New definitions, levels of ambition and theories of change (ToCs) are unfolding globally. A common denominator is the objective to unleash the catalytic potential of gender equality and women's economic empowerment. Four decades of gender and development (GAD) research offer valuable insights into the catalytic effects, complexities and pitfalls. As GLI gains global momentum and DFIs learn from investments made in the first three years of the 2X Challenge, there is a unique opportunity to increase rigour, innovate and scale in order to merge the business case with gender-transformative impact.

## Introduction

With the launch of the 2X Challenge at the G7 Summit in 2018, GLI has emerged as a strategic priority for DFIs. GLI approaches spearheaded by DFIs are evolving as part of a global trend attracting a wide range of investors across the risk-return spectrum, from grant providers to impact investors, family offices and private equity funds, all the way to large investment banks and pension funds. The promise of GLI extends far beyond the impact investing industry – those at the forefront of GLI envision a transformation in investor

cultures and investment practice across all asset classes, geographies and sectors.

As the field of GLI is evolving globally, new definitions, different levels of ambition, and more nuanced investment approaches are emerging (Table 1). What they all have in common is an explicit objective to promote gender equality and women's economic empowerment. Important efforts have been undertaken to promote harmonisation across frameworks and investors. A major milestone has been the harmonised 2X impact metrics aligned with the Global Impact Investing Network's IRIS+ framework for impact management and measurement as well as with the Harmonized Indicators for Private Sector Operations (HIPSO).

New impact insights and lessons are emerging from investment practice in the first round of the 2X Challenge (2018–2020), which lay the foundation for scaling GLI in the second phase, with a new ambitious 2X target (2021–2022), new 2X member DFIs and multilateral development banks (MDBs), and important steps towards investment rigour.<sup>1</sup> The mainstreaming of GLI is also evident in new milestones under the broader 2X initiative, including the launch of 2X Flagship Funds to mobilise co-investments, a new 2X Gender and Climate Taskforce, and Project Aurora in partnership with Hogan Lovells to develop a legal playbook for GLI, endorsed by DFIs and private sector investors alike.

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1 Details will be publicly announced in the context of the G7 Summit in June 2021.

**Table 2** Evolving definitions of GLI

Stage	Definition
Origination	Definition coined in 2009: GLI is an investment approach that ‘incorporates a gender analysis into financial analysis in order to get to better outcomes’ (Criterion Institute, 2015).
Present	Current working definition based on the 2X Challenge criteria (2018–present): GLI is an investment approach that incorporates a gender lens into the investment cycle in order to provide women with improved access to entrepreneurship, leadership opportunities, decent and skilled employment, finance, as well as products and services that enhance their economic participation.
Future	Trends 2020+: As the field continues to evolve globally, there is a growing focus on the transformative potential of GLI to dismantle unequal power relations and catalyse change at the micro, meso and macro levels. Therefore, future definitions of GLI will likely have a stronger focus on an explicit analysis of gender and power dynamics, and the process of change, as well as investors’ contribution and value-add.

Source: Author

## Conceptualising women’s economic empowerment

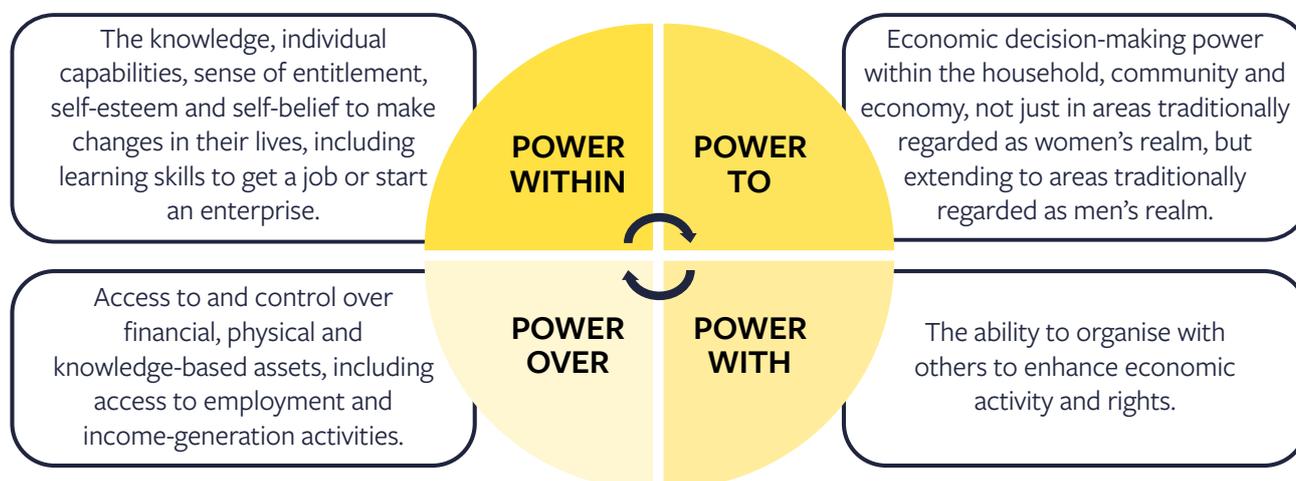
There are four dimensions of power that serve as change outcomes (see Figure 1).

Women’s economic empowerment is defined as:

Empowerment, then, is understood as ‘a process of change that transforms women’s and girls’ lives in these four areas and interacts with resources (pre-conditions), agency (process), and achievements (outcomes)’ (Perezniето and Taylor, 2014: 236; based on Kabeer, 1999).

‘a process whereby women’s and girls’ lives are transformed from a situation where they have limited power and access to assets to a situation where they experience economic advancement, and their power and agency is enhanced’ (Perezniето and Taylor, 2014: 236).

**Figure 1** Framework of empowerment



Source: Author, based on Perezniето and Taylor (2014)

## The catalytic potential: building the evidence base

The evidence base of the catalytic effects of investments in women's empowerment is strong in the overall academic literature. Important lessons on the catalytic potential of investing in gender equality and women's economic empowerment – as well as the pitfalls – can be drawn from four decades of GAD research. Research findings demonstrate the catalytic effects of investments in women and girls on a range of Sustainable Development Goal (SDG)-related outcomes, but also reveal the complexity of gender dynamics and make a strong case for careful, intentional project design and implementation.<sup>2</sup>

Empowerment is a complex and multi-layered process. As gender outcomes are highly context-specific and dependent on programme design and implementation, gender-lens investments must go beyond a 'one-size-fits-all' approach. What is clear, however, is that the traditional development focus on primarily income and access to opportunities, without equal attention to women's and girls' agency and power, significantly limits the catalytic potential of such investments.

As the field of GLI is still nascent, the evidence for the impact of DFIs' gender-lens investments specifically is still limited to case studies of individual investments. An upcoming learning

report of the first round of the 2X Challenge (2018–2020) will provide a first impact assessment across a portfolio of DFI investments. These insights will play an important role in further developing ToCs and enhancing GLI rigour.

## Emerging theories of change

Recent research into DFI practice has revealed that DFIs are undertaking serious efforts to incorporate gender analysis into their investment process (Lee et al., 2020). This includes GLI strategies, monitoring the share of investments with a gender focus at portfolio level, and adding gender experts to deal teams. While all are working towards adding gender-disaggregated metrics that are aligned with 2X and IRIS+ to their management systems, to date just over half of DFIs have gender-disaggregated data on their investments.

Convergence (2020) has recently drawn our attention to the importance of distinguishing between investments that are gender-intentional and those that are simply gender-aware. Of around 530 blended finance transactions analysed, only 10% were gender-intentional, that is they comprehensively integrated a gender lens to narrow gender inequalities and empower women and girls. Another 24% were gender-aware, that is they collected gender-disaggregated data to make inequalities visible but, importantly, this awareness did not translate into action.

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2 For example, in a relevant ODI study, Perezniето and Taylor (2014) reviewed 70 evaluations of development interventions with a direct or indirect impact on women's and girls' economic empowerment with the aim of informing the design of future interventions for transformative impact. Their findings and recommendations are particularly relevant for the field of GLI as the thematic areas covered by their review include financial services, business development services, skills training, asset provision (both financial and non-financial), social protection, unions and fair employment, trade and access to markets as well as regulatory and legal frameworks. All of these areas are important aspects of GLI. Recent GAD research also offers important insights for the development of theories of change, indicators and evaluation methods. On the current state of measuring women's agency as a key component of empowerment, see Aletheia et al. (2020); best practice in measuring women's ownership, control and use of assets is summarised in Doss et al. (2020).

As GLI is gaining momentum, there is a trend away from historical gender-blind investments to gender-sensitive and more recently gender-responsive approaches. The future direction of GLI is a gender-transformative approach to investing (Figure 2). This is illustrated by the nuanced approach reflected in the new Gender

Ambition Framework at the heart of the Private Infrastructure Development Group’s new GLI strategy.<sup>3</sup> Developed by gender planning and development expert Caroline Moser, it distinguishes between different ambition levels: ‘Do the minimum’, ‘Empowerment’ and ‘Transformation’ (PIDG, 2019).

**Figure 2** Gender Ambition Framework



Source: Author; framework adapted from PIDG (2019) and UNEG (2018)

All three approaches are relevant and should not be seen as mutually exclusive, but rather synergetic. Gender-sensitive approaches should be an integral part of DFIs’ environmental, social and governance standards, hence a focus of due diligence and action plans. Gender-responsive approaches are at the core of current GLI ambitions, ensuring gender-intentional project design and making a measurable contribution to women’s economic empowerment. For GLI to be truly transformative and deliver on the catalytic ripple effects at micro, meso and macro levels, gender-transformative approaches are needed.

Emerging investment practice and thought leadership provide promising examples of what a gender-transformative approach could look like.

### **Towards a gender-transformative theory of change**

From a macroeconomic perspective, ToCs often build on key insights from flagship reports, such as McKinsey’s study (Woetzel et al.), demonstrating how closing the gender gap in the labour force would boost global gross domestic product (GDP) by \$28 trillion (+26%) per annum by 2025. The peer-

3 The Private Infrastructure Development Group (PIDG) is an infrastructure development and finance organisation operating in the poorest and most fragile countries, funded by the United Kingdom’s Foreign, Commonwealth and Development Office (FCDO), the Netherlands Directorate-General for International Cooperation (DGIS), the Swiss State Secretariat for Economic Affairs (SECO), the Australian Department for Foreign Affairs and Trade (DFAT), the Swedish International Development Cooperation Agency (SIDA), the International Finance Corporation (IFC) and development finance institutions FMO and KfW.

reviewed literature provides a more complex picture: Seguino (2020) investigates how gender equality or inequality influences macro-level outcomes. While these depend on the country-specific context, including the structure of the economy and gender division of labour, her research shows that both greater gender equality and output growth are more likely when: (1) women and men share social reproduction more equally; (2) gender wage gaps are small; (3) an extensive high-quality paid care sector exists; (4) there is sufficient investment in reproductive infrastructure to reduce care burdens.

The global trend goes in the opposite direction: occupational and sectoral segregation by gender has been persistent, even increasing in developing countries, and is a main driver of gender wage gaps (Borrowman and Klasen, 2020). Women's lower labour force participation and concentration in the lowest segments of labour markets are reflective of social norms and women's subordination within the family, society at large and institutions. More jobs alone cannot make up for these disadvantages. As gender segregation by sector and occupation is indicative of structural forces, a key lesson for DFIs and their investee companies is not to provide just more, but higher-quality jobs for women.

Consistent with these findings, an emerging theme in the field of GLI is the role of DFIs in the care economy. The Covid-19 pandemic has put a spotlight on the unequal distribution of unpaid care and domestic work (UCDW), which constitutes a major barrier to women's access to decent jobs.<sup>4</sup> There is thus an important opportunity for GLI to address women's 'triple burden' (paid work, unpaid care and community work) (Moser, 1989) due to social norms. This requires a focus beyond individual women to the roles of men and institutions.<sup>5</sup> New research sheds further light on the role DFIs can play to promote transformative change along the 5R framework (recognise, reduce, redistribute, reward and represent) (see Essay 5).

Relatedly, research demonstrates that women's economic empowerment and their reproductive empowerment are closely connected. Both dimensions must be addressed for sustainable impact (Gammage et al., 2020). Opportunities at the intersection of economic and reproductive empowerment enable women's workforce participation and career advancement in quality jobs, result in broader gender equality outcomes in society, and allow countries to achieve the demographic dividend (Berlin Institute, 2014).

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4 All over the world, women shoulder the lion's share of UCDW, accounting for \$10.8 trillion or 13% of global GDP and equivalent to millions of hours. Women spend two to 10 times more hours per day than men on UCDW (Oxfam, 2020). This imbalance, rooted in social norms and stereotypes, results in time poverty and reduces the opportunities of women and girls to participate in education, decent paid work and public life. As a result, they are often trapped in precarious jobs in the informal economy. Recognising, reducing and redistributing ('3Rs' framework) UCDW is a key driver of women's economic empowerment (OECD, 2019). Companies can be a part of the solution, as highlighted in a Business Briefing on unpaid care work and domestic work published by Oxfam GB and Unilever (2019).

5 Chant's research (2008) shows how the recognition of the 'feminization of poverty' has led to a 'feminization of anti-poverty programs' and, consequently, to a 'feminization of responsibility and obligation'. A narrow focus on women ignores any responsibility of men and institutions, carries the risk of reinforcing gender stereotypes, and can even exacerbate women's burden of coping with poverty and adversely affect their overall well-being. Also see Chant and Sweetman (2012).

To unleash the catalytic potential of GLI, it is important to transform social norms and engage with both women and men. CDC Group's investment in Portea, a leading healthcare company in India, provides an interesting example of what this might look like in a DFI investment context. Portea actively engages men to transform gender roles in the company as well as at household and community level (ICRW, 2018).

Gender-transformative approaches also require careful attention to the relationship between economic empowerment and gender-based violence (GBV). A recent guide published by the European Bank for Reconstruction and Development (EBRD), CDC and International Finance Corporation (IFC) on GBV and the private sector offers practical insights for DFI investment processes (EBRD, CDC, IFC, 2020). The Criterion Institute is spearheading an approach that considers GBV a systemic risk, analogous to political and macro risks, which should be priced into investment models. Such an approach would be a gamechanger in truly embedding gender analysis into financial analysis and, ultimately, mainstreaming a gender lens.

Finally, an intersectional lens deepens our understanding not only of 'what works', but 'for whom', recognising that women are not a homogeneous group (Chant, 2008; Kabeer, 2009; Perezniето and Taylor, 2014; Buvinic and Furst-Nichols, 2014). Particularly in a DFI context, gender inequality is exacerbated by intersecting power dynamics around race, ethnicity and class. The Inter-American Development Bank (IDB) has pioneered investment approaches with an intersectional equity lens, which offer valuable lessons. Furthermore, the power analysis

approach spearheaded by the Criterion Institute offers an opportunity for context-specific, intersectional gender analysis.

In response to these insights, DEG and OeEB have been conducting a comprehensive research study on the transformative potential of GLI in order to develop a more gender-transformative ToC for DFI business models. The study and resulting ToCs will be launched later in 2021 and link the harmonised 2X IRIS+ impact metrics to gender-transformative indicators at meso and macro levels. New emerging gender analysis tools, such as the comprehensive and tech-enabled Equilo Dash tool,<sup>6</sup> offer exciting opportunities for DFIs for more rigorous context-specific gender analysis, data-driven investment decisions, and gender-intentional project design and value creation plans. The overall aim of the DEG and OeEB study is to provide a comprehensive GLI impact evaluation framework based on a transformative ToC with underlying metrics to measure catalytic effects.

## Conclusion

As GLI is evolving as a mega trend in the global investment field, attracting a broad range of investors as well as public and civil society partners, there is an unprecedented opportunity for capital mobilisation, impact-driven value creation and gender-transformative change. The first three years of investment practice and learning under the 2X Challenge present the opportunity to take GLI to the next level. The next phase of GLI will see an increase in rigour, innovation and collaboration to generate impact at scale. Done well, this presents the opportunity to merge the business case with gender-transformative impact.

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6 Equilo Dash offers comprehensive, country- and sector-specific gender analysis across 30 gender equality dimensions and 15 thematic areas, using machine learning, deep analytics and big data. Intersectionality and social inclusion underpin the analysis.

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## 2 Improving access to finance for women entrepreneurs

**Maaïke Platenburg and Mitzi Perez Padilla, FMO**

### Abstract

While access to finance for women has improved over the past decade, the gap between men and women remains. Development finance institutions (DFIs) have an important role to play by prioritising investments targeting gender equality. As part of FMO's agenda on gender equality, three investments targeting women entrepreneurs were studied to understand how different financial institutions (FIs) address the gender gap in financial inclusion. We found that successful strategies included (1) reaching out to women through word-of-mouth, (2) developing targeted products to meet women's needs, and (3) focusing on building skills and creating networks of women. Recommendations from the study suggest that investors and FIs could engage more with women's rights organisations and non-governmental organisations (NGOs), FIs could use social performance management to improve products and services, and FIs should continue to uphold client protection standards.

### Introduction

Being financially included can help women increase control over their income, better manage risk, fund household expenditures in education and health, and create access to other economic opportunities (Dupas and Robinson, 2013; Hendriks, 2019). Enabling women to be included in the economic life of a country can have multiplier effects in development that can lead to, for

example, increasing gross domestic product by up to 35% in countries where gaps in labour force participation rates are largest (Lagarde, 2019).

It is therefore central to policy development to strive for gender equality across all different areas that impact women's empowerment, and especially relevant to DFIs is the financial inclusion of women as an enabler of opportunities and resilience. This is captured not only in the Sustainable Development Goal (SDG) 5 (Gender Equality), but also relates to SDG 8 (Economic Development and Decent Work), and SDG 10 (Reduced Inequalities).

### The role of international finance

The current challenge is that women's access to the financial system is limited and the degree of its limitation varies between countries. Globally, 65% of women have a formal account at a financial institution versus 72% of men, and although overall access has improved over time for both groups, the gap between genders has remained (Demirgüç-Kunt et al., 2018). Moreover, even when women have access to an account at a financial institution, having access to the right products can be a challenge. According to estimations by the International Finance Corporation (IFC), there is a sizeable funding gap to women-owned micro, small and medium-sized enterprises (WMSMEs), which is largest in East Asia and the Pacific, the Middle East and North Africa region, and Eastern Europe and Central Asia (IFC, 2017).

The amount of international finance that focuses on gender equality is not necessarily enough to achieve the global goals and commitments in this area, but it is increasing. In 2018–2019, \$53 billion of bilateral allocable aid (on average per year) focused on gender equality. This represents 45% of bilateral allocable official development assistance, a historical high (OECD, 2021). A funder survey conducted by The Consultative Group to Assist the Poor (CGAP) shows that commitments by international funders to women’s financial inclusion have been growing but they remain low – at about 14% of the total funding allocated in 2019, up from 10% in 2018 (CGAP, 2020). To address this gap, a group of DFIs launched the 2X Challenge<sup>1</sup> to increase the commitment to invest with a gender lens, advancing women’s economic empowerment and gender equality. To date, the total amount committed in the challenge is approximately \$4.5 billion, surpassing the initial \$3 billion objective. Aside from investing directly, DFIs can also support indirectly through initiatives such as the UN Capital Development Fund’s Women Enterprise Recovery Fund<sup>2</sup> to address gaps left by the pandemic, among others.

FMO increasingly invests through financial intermediaries on women’s financial inclusion (FMO, 2020a). To measure the results of our efforts and look for improvements to our approach, we commissioned an external study of three MASSIF<sup>3</sup> and FMO investments that serve WMSMEs. The study, finalised in

2020, was funded by MASSIF and carried out by PricewaterhouseCoopers (PwC) (FMO, forthcoming).

## The study

The three investments were in organisations rooted in three different regions. Two are microfinance institutions, one based in Lebanon and the other in South Africa. The third is a mid-sized bank in Armenia. The key objective was to analyse these investments and distil learnings at the client level as well as for FMO. In addition, the study assessed how a rapidly changing environment caused by the Covid-19 pandemic impacted the three clients and women entrepreneurs in the three respective countries.

The evaluation applied a mixed-method approach, involving the systematic integration of both qualitative and quantitative data. During the field visits to the different FIs, the team conducted in-depth interviews with staff and local stakeholders (e.g. NGOs), as well as focus group discussions with women entrepreneurs and site visits to several women-owned businesses.

## Five barriers facing women entrepreneurs

To analyse the different country contexts in which the FIs operate, it was essential to first identify the local barriers that women entrepreneurs face. Challenges tend to be multifaceted and complex

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1 The 2X Challenge calls for the G7 and other DFIs to join together to collectively mobilise \$3 billion in commitments that provide women in developing country markets with improved access to leadership opportunities, quality employment, finance, enterprise support and products and services that enhance economic participation and access.

2 The Women Enterprise Recovery Fund looks to partner with private sector innovators, to design and launch digital solutions that support women enterprises economically impacted by Covid-19 and to address their financial and other business requirements.

3 MASSIF is a Dutch government fund managed by FMO that focuses on financial inclusion.

and differ by geography, and they can influence whether the approach to women's financial inclusion is successful or not. From the literature, five major challenges were identified:

1. Legal frameworks giving women fewer rights compared to men
2. Normative frameworks limiting women's economic empowerment
3. Lack of understanding of gender issues in institutional capacity development
4. Women are less likely to receive finance from formal institutions
5. Women have fewer opportunities to receive (technical) education and access capacity development.

The study findings show that the three FIs increase women's access to finance by offering products that are focused on and tailored to women. They also show that non-financial services can be a key tool to tackle the capacity development barrier. Another study commissioned by FMO and the IFC reinforces the findings of this study by highlighting the effects of non-financial services on WMSMEs. It demonstrates that offering this holistic approach is a win-win for both clients and the FIs, estimating a positive return of investment from these activities within two years of implementation (FMO, 2020b).

## Key takeaways

Across the three cases studied, we identified some common factors of success and suggestions for improvements that FIs and DFIs can focus on when implementing a gender strategy:

- **Outreach strategies:** While two of the FIs had strategies in place to reach out to

women, such as social media campaigns, all three organisations recognise that the most successful strategies to reach women were word of mouth and having close contact between loan officers and clients.

- **Mindful targeting:** Products and services developed for women entrepreneurs should offer them a clear benefit over other products.
- **Skills and contacts:** Financiers can be a big help to women entrepreneurs by providing financial and business skills training, and connecting them to other professionals. The cases showed that this is done in different ways, either through a capacity development programme or through support provided by loan officers. DFIs can play an important role here. For example, FMO is setting up the Empow(h)er programme in partnership with Babson College to provide tools to women entrepreneurs that will help them run, maintain and grow their businesses.
- **Client protection:** The study identified repeating loan cycles in some of the investments, which can be a good thing as clients grow. However, especially in times of crisis, FIs need to keep up good standards of client protection to avoid harming entrepreneurs.
- **Social performance:** FIs can use social performance measurement more actively to continue to improve their products and services and to understand the changes in their clients' lives. DFIs can support FIs more actively in developing and improving these systems and connecting clients to learn from each other.
- **Local partnerships that advance women's rights:** While FIs are addressing many of the barriers to women entrepreneurs, the evaluation finds that more work could be done by cooperating with women's rights

organisations and NGOs that tackle broader issues relating to gender equality. DFIs such as FMO can play a larger role in this, for example by introducing clients to international networks such as the Financial Alliance for Women.

- **Covid-19:** The study indicated that the Covid-19 crisis has affected women entrepreneurs. It has exposed the existing inequalities, largely because women tend to work in the hardest hit sectors (e.g. hospitality and food services, sectors identified by ILO (2020) as at high risk of severe Covid-19 related impacts), have fewer social protections, and are the primary family care givers. More research is recommended to fully understand what the long-term impacts of the pandemic will be on women entrepreneurs.

## Conclusion

Shrinking the financing gap to women entrepreneurs is a challenge that DFIs and other investors can contribute more to. The importance of this has been emphasised by the Covid-19 crisis because women have been hit hard. Targeted flows of external finance to FIs working to include more women entrepreneurs in the financial

system can benefit an entire economy as women form an essential part in development. Moreover, the role of DFIs goes beyond providing access to international funding, by supporting FIs in their journey to develop and improve financial and non-financial products.

Whether investments in gender equality succeed, or the degree to which they can make a difference, will depend greatly on the strategies FIs have in place to tackle local barriers for women, either legal, institutional, financial, educational or normative. Financing FIs that address these barriers locally, target products and services to women's needs, and have a holistic approach addressing financial and non-financial needs jointly, can move the needle on shrinking the gender gap.

FMO will continue to invest in financial inclusion of women entrepreneurs and to support our customers in developing a targeted approach to serve WMSMEs. FMO is also looking forward to sharing lessons learned from this study with customers that have the ambition to improve their reach to WMSMEs.

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# 3 How gender-lens investing measures up

**Robin Young and Till Bruett, DAI**

## **Abstract**

There is increasing documented evidence and growing acceptance that gender-lens investing (GLI) generates a ‘triple win’ – for women, for firms and for investors – with additional wins likely among families, societies and economies. The evidence comes from a mix of traditional key performance indicators for investing disaggregated by gender-related data points as well as comparing the performance of funds and firms with women in key positions relative to overall industry averages. It appears that the prevalence of women’s participation in ownership, leadership and management of funds and the firms in which they invest is closely correlated with not only the prevalence of GLI, but also the overall performance of funds and their investment portfolios. Therefore, metrics that track women’s presence at senior levels in funds and firms should be prioritised when measuring GLI.

## **Introduction**

DAI manages the United States Agency for International Development (USAID)’s INVEST mechanism, which includes developing and managing a network of over 300 investment advisory and asset management firms, many of which have never worked with any development financial institution (DFI) before. Through INVEST, USAID is providing catalytic capital valued at \$5.35 million to support seven GLI vehicles working in developing countries that are projected to mobilise

\$334.5 million assets under management (AUM), of which \$52.7 million has been raised to date. DAI is responsible for assuring the additionality and identifying and testing ways to design and select (or screen) projects, and monitor and measure impact across a wide range of investments. In this essay we will examine and put forth GLI measurements for consideration, based on their prevalence and relevance in the INVEST GLI portfolio and research conducted by DAI.

## **GLI facilitates mobilisation of capital, but not at all levels**

GLI is growing rapidly in terms of the number of GLI funds and the value of funds raised, which experienced year-on-year growth between 2018 and 2019 of 56% and 118%, respectively (Biegel and Hunt, 2020).<sup>1</sup> The 138 mostly private equity (PE) and venture capital (VC) firms identified as GLI investors had raised a cumulative \$4.8 billion by 2019, averaging \$34.7 million raised per firm by 2019 as compared to \$25.3 million just one year before (ibid.). The influx of new funds firms, and capital, and the slow but measurable shift from a concentration in North America to other regional investment hubs, shows that this is not simply a relabelling or re-characterising of existing funds as GLI.

At the same time, it is less clear if very early-stage GLI investment, namely seed and pre-seed investment, is growing fast enough to help build an investment pipeline to meet the demand for

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<sup>1</sup> The totals are likely higher as some funds would not allow reporting, others were missed and more started in 2020. The report does not include GLI through corporate venturing, which the authors suggest is on the rise.

these larger VC and PE funds. A 2020 report on angel investment in Asia highlights that networks of angel investors interested in GLI are beginning to pool capital and share deal flow and in doing so are shifting focus to larger deals. Angel investor networks (AIN) are creating venture funds such as the Ladies Investment Club (of Singapore), which formed Her Capital to focus on women entrepreneurs across Southeast Asia (ANGIN and SPF, 2020) and WIC Capital launched in 2019 by the Women's Investment Club (WIC) Senegal, which blends local and international institutional and individual investors with catalytic capital from USAID to invest in women-owned businesses in Senegal and Côte d'Ivoire. While these partnerships and structures may attract more capital from more investors into GLI, they may move the focus away from much needed GLI angel investments into larger size investments and may reinforce the ghettoisation of GLI rather than its proliferation across the investment industry. The lack of very early-stage seed and pre-seed GLI is evident and problematic even in the United States; in 2019 women CEOs comprised only 16.6% of all seed/series A angel investment (Angel Resource Institute, 2019). In addition, women CEOs consistently received lower valuations than men – averaging nearly 50% lower – across almost all sectors of the economy (Aibid.). What most GLI funds have in common is that women investors or investment managers are usually the driving force for their creation. Studies also show that female venture capitalists are twice as likely as male investors to invest in start-ups founded by women (Lallos, 2020).<sup>2</sup> Unfortunately, the percentage of women fund managers globally has remained unchanged at 14% over the past 20 years (ibid.).

Keeping in mind the trends and the persistent gender-related imbalances among investors, metrics for GLI at a sector and fund level should include both GLI outcomes relative to the industry as a whole and organisational issues that drive those outcomes, particularly women's participation. For example, some indicators that should be considered at an *industry* level are: the number of PE and VC funds, and AINs that have GLI targets; the growth in PE and VC funds, and AINs with GLI targets; the percentage of all VC and PE funds, and AINs allocated to GLI; the value of capital raised by GLI funds; new (first time) GLI funds; and AUM of GLI funds. Some indicators that can be measured at the fund level are: the number of women on the board of directors or other governing body; the percentage of women members of AINs; the number and percentage of women investment practitioners (e.g. analyst, portfolio manager, partners); the number of investors and fund managers trained in GLI; the percentage of women-owned or women-run businesses in the portfolio; and the average valuation of investments in women-owned or women-led businesses compared to the overall average.

The indicators related to women's participation expand on the 2X Challenge criteria put forward by a group of DFIs by looking not only at women's ownership and leadership at the firm level, but also within investors' own ranks.<sup>3</sup> Finding ways to bring in and promote more women in leadership positions is a challenge in a relationship-driven and male-dominated industry, which has led donors, governments and governing bodies to step in. At a national level, these indicators should include

<sup>2</sup> According to data from Pitchbook.

<sup>3</sup> The 2X Challenge, a G7 DFI gender-lens investing initiative, has minimum criteria an investment must meet to be considered GLI, such as at least 51% ownership of business by women, 20–30% women in senior management or board, 30–50% share of women in the workforce, products or services that specifically benefit women or, in the case of investments in financial institutions, 30% of financial services must be for women clients.

metrics that track the prevalence and growth of initiatives that incentivise women's high-level participation, such as public policy actions and shareholder and board measures that mandate or incentivise women in leadership and management positions. The prevalence and growth of dedicated mentoring networks for women-owned or managed funds, such as that created by the South African Venture Capital and Private Equity Association and MiDA Advisors with INVEST support, also contribute to women's participation and success in the investment sector.

### **Context and cost matter in choosing GLI-friendly firms and sectors**

GLI also considers gender diversity at the investee firm level and within the value chains, customers and communities it serves. Some generally accepted GLI measurements at the firm level include: women's representation in leadership as founders, co-founders and senior management; a gender-diverse workforce; corporate practices that promote gender equity (i.e. recruitment, pay, retention, advancement, family-friendly policies); offering and designing products or services that consider the distinct needs of women and girls and/or disproportionately benefit them (i.e. energy, water, healthcare); screening to ensure operations do no harm to women in the community; and working in gender-inclusive value chains. Most investors prefer to limit data collection and reporting on high-level gender disaggregated data regarding founders, owners and workforce, which is consistent with the 2X Challenge criteria.

The assumption that certain economic sectors are more GLI 'friendly' than others is common and used for GLI targeting. Top-line metrics such as the number of female employees at a firm or

sector level may mask persistent inequities if not considered relative to the sector as a whole and women's positions and remuneration. Healthcare in many countries is female dominated and could be scored as a GLI-friendly industry. However, the high presence of women as entrepreneurs or employees may result from the negative consequence of societal gender-sorting away from other professions and serve as an indicator of underemployment and low pay rather than opportunity. Investing in firms within industries where women are under-represented that offer higher average pay and mobility – and tracking gender diversity improvements – may be as meaningful for GLI.

Investors often face obstacles and resistance to collecting human resource policies and find the analysis is time consuming, costly and likely to expose structures or trends that companies (and investors) prefer to ignore. Within a firm's value chain there are likely significant and widespread positive gender-related human impacts through sourcing from women-owned businesses or serving women clients. Such measurements are costly and difficult to assess in the absence of industry-wide data for comparison. Creating such industry-level gender-disaggregated data sets at the sector or industry levels to allow for benchmarking sectors and firms within sectors is one of the gaps that donors, governments and non-governmental organisations are well-positioned to fill.

### **More women lead to more and better GLI**

International Finance Corporation (IFC) research conducted in 2019 found that PE and VC funds in emerging markets with gender-balanced senior investment teams generated up to 20% higher

returns compared with other funds (Oliver Wyman et al., 2019). Additionally, the companies in which these funds invested that had gender-balanced leadership teams increased in value by as much as 25% more than those with non-diverse teams (ibid.). The Credit Suisse Research Institute concludes gender diversity at the board and management levels is good for business; family-owned companies with at least 10% women executives have out-performed companies with all-male leadership by around 410 basis points per year since 2014 (Kersley et al., 2020). In fact, ‘where women account for the majority in the top management, the businesses show superior sales growth, high cash flow returns on investments and lower leverage’ (Dawson et al., 2016).

## Conclusion

While simple, a recurring finding across the research and DAI’s own portfolio is that the

presence of women in ownership and meaningful leadership and management roles appears to be strongly correlated with GLI focus and the overall performance of investors and investment portfolios. Fortunately, traditional measures of investment and firm-level financial performance are adequate to measure this if data are disaggregated by gender in regard to ownership, leadership and management (CDC Group and IFC, 2020). Therefore, the authors’ conclusion is simple – the level and rate of growth in female participation in funds and firms in ownership, leadership and management should be priority indicators for both financial and social performance. Indicators related to specialised GLI funds or those based on assumptions that certain sectors or value chains are ‘GLI friendly’ may have value, but need to be contextualised to ensure that they are not a reflection of the gender-sorting that is endemic in many economies and societies.

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## 4 Discovering outcomes in gender-lens investing

**Juho Uusihakala, Finnfund ; Ilona Mooney, Work Ahea ; and Nilah Mitchell, 60 Decibels**

### Abstract

Gender-lens investing has quickly become a priority for many development finance institutions (DFIs). The 2X Challenge initiative has resulted in increased DFI investment in women. Importantly, the 2X Challenge has also defined what constitutes a gender-smart investment. It has introduced investors to a solid framework, which can help assess the level of gender equality in their potential investments, and monitor the progress over time in their portfolio companies.

While this is all vital in building the foundation for assessing an investment's gender potential, the next obvious step is to start looking beyond the numbers to better capture the impact of companies on women. This will not only help companies to adjust their products or programmes to better answer the needs of women, but importantly, switches focus from observing numbers to actually listening to what women have to say. This essay provides an overview of two studies that attempt to go beyond the numbers and evaluate outcomes.

### Introduction

Gender equality and women's economic empowerment are critical in achieving most Sustainable Development Goals. Studies (e.g. Moodley et al., 2019; World Economic Forum, 2019) have shown that inequality and exclusion

of women from economic activities are robbing economies of billions of dollars every year and slowing down social development by decades.

In 2018, the G7 DFIs launched the 2X Challenge initiative to mobilise investments for women's economic empowerment. The initiative now has 14 members and the original mobilisation target of \$3 billion has been surpassed. An important part of the 2X Challenge has been the agreement of what constitutes a gender-sensitive investment. The 2X Challenge developed a concise list of criteria (2X Challenge, n.d.) that soon became standardised and a harmonised set of indicators for what 'investing in women' means. The indicators have also been included in the leading metrics catalogues IRIS+ and HIPSO.

The indicators mark an important step towards a harmonised and transparent approach in understanding the impacts of investment in women. The investee companies can readily report on the indicators, enabling the investor to track their progress over time.

But to design better products and make more impactful investments, we need to look beyond the numbers to better understand and capture the pathways on how the specific programmes, products or services that are thought and designed to specifically benefit women, actually function in practice. Do women benefit, and if yes, what is the causal mechanism? What are the main

impacts? To answer these questions, we need better data to go beyond the direct, output level metrics and to try to capture the outcomes of investments in women.

This essay discusses two cases of evaluating gender impact with novel data by Finnfund's collaborators Work Ahead and 60 Decibels.

## Measuring gender impact among smallholder suppliers

Smallholder farmers in Africa face many challenges, many of which are more severe for women (Muzari, 2016). Mobile surveying technology provider Work Ahead helped New Forests Company (NFC), an East African forestry company, to gather data and assess the impact of their cooperation with smallholders. Work Ahead prepared a 10-minute visual video survey of 50 questions that the company's local teams administered to almost 200 people in two weeks. The team had six mobile phones, which the respondents used independently to view the questions and record their responses. The mobile survey was anonymous, available in two languages, and required no literacy skills. The company described the process as 'fairly painless'.

The main objective of the survey was to understand if the company positively impacted women. Were women smallholder farmers poorer than their male counterparts? Were men and women both benefiting from the support services provided by the company? How did women's and men's opinions differ? Each question was assessed to determine whether women and men responded differently and if this difference was statistically significant. The key findings include:

- An impressive 97% of respondents saw at least partial progress in women's empowerment.<sup>1</sup> The data strongly validates that in the smallholders' perception, the company has a positive impact on women.
- Assessed with the Poverty Probability Index, women's headed households were not likely to be poorer than men, even though there were some significant differences within the poverty probability questions: male headed households were more likely to have tables, and women's had better roofs.
- Women and men had significantly different opinions as to which income diversification project was most useful for their household. This information can be used to ensure equal resourcing for projects most useful to both genders.
- Many men said they earned more because of the company, while almost half of the women did not know if they did. This result is likely due to women having less access to the household finances, which can be alleviated with company communications and activities.
- Almost all women believed that a complaint or worry about the company would get resolved, while fewer men believed so. This information points to women having very trusting relationships with the company's local teams.
- A fifth of men believed that children coped with studying and working at the same time, while almost all women thought working affected schooling.

Work Ahead's technology allowed NFC and Finnfund to measure gender impact and identify gender variance of perceptions. The findings provided actionable insights for the company to advance their work, for example to ensure better

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<sup>1</sup> Participants were asked if they would say that women are now more empowered, compared to the time before the company's presence in the village – 78% answered yes, 19% partially, 2% no, and 1% that they didn't know.

targeting for women in impact diversification activities. In addition, the technology and methodology themselves contributed to gender equality. Typical household surveys are carried out with the head of the household. Inviting both women and men to participate in the rapid survey set an example of gender equality.

In addition to obtaining valuable information on impacts on women, for Finnfund the survey provides a meaningful way to cooperate with NFC, and other portfolio companies, for better informed impact on women.

## Capturing customer insights on clean energy products

We have bright lighting in our house and for my children – who are students – they are not affected by smoke when studying. (Female, 32, 60 Decibels Lean Data study).

Between 2009 and 2018, the percentage of sub-Saharan Africa's population with access to electricity increased from 33% to 48% (World Bank, n.d.). Despite this gradual increase, women disproportionately suffer from energy poverty. In 2020, impact measurement company 60 Decibels conducted a study for an organisation primarily targeting women in its distribution of clean energy products in Kenya. Using a 50-question survey tool, 60 Decibels' research assistants interviewed 264 low-income customers via phone in their local language of Kiswahili. The interviews took approximately 18–20 minutes and were completed over the course of four weeks.

The aim of the study was to capture customer feedback, their perceptions of the product, and self-reported outcomes as a result of using the clean energy product to inform the company's

ground-level data-driven decision-making. In collecting and analysing gender-disaggregated data, and identifying significant differences or patterns, 60 Decibels was able to make recommendations on how the organisation could actively use the data (e.g. in marketing and messaging) to reach new (e.g. poorer) customer segments, reduce challenges and explore new opportunities.

Some of the study's key findings included:

- Two-thirds of the survey respondents were women – significantly higher than the 60 Decibels Energy Benchmark of 32% for female respondents.
- Among female customers, 85% were accessing their clean energy product for the first time.
- These data points reflect both the company's success in reaching a traditionally underserved customer segment as well as its potential for further reducing barriers to product access for women.
- In terms of quality of life, 74% of respondents reported that it had very much improved, with no significant difference between male and female customers.
- A qualitative follow-up to this question indicated that some of customers' top outcomes were access to reliable lighting within their household and how the product made household tasks easier.
- Female customers were more likely to rate their product's value for money to be 'very good' (53%) compared to male customers (41%). This question was used to gauge whether customers felt the product is a good use of the money they spent on them.

Such data and insights, for a company with a clear strategy to benefit women, can help the organisation assess whether it is achieving the

reach and impact it had set out to. And the more companies that do this, the more benchmarks we will have to judge whether a ‘product or service disproportionately benefits women’. In this instance the company is serving more women than men, and women seem to value the product the same or more than men, so it’s a clear win for gender impact. But what about a product that serves fewer women, but those women report a greater impact than their male equivalents (or the other way around)? Such data and the transparency it brings is a critical step towards reducing gender inequality and in demonstrating to gender-smart investors the ground-level and very real outcomes that they can help generate.

## Conclusion

Results from the above cases are very encouraging. Three findings stand out. Both cases yield insights on the socioeconomic profile of the female customers and stakeholders and generate analytical data on outcome-level impacts on women with clear action points for companies. The tech-enabled data collection methods are cost efficient and provide nearly real-time data for companies to inform their management decisions. For DFIs such as Finnfund, the tech-enabled surveys offer much-needed evidence on the impacts of gender-lens investing. Finally, the data collection method enables women’s voices to be heard and acts as a vehicle for empowerment.

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# 5 Development finance institutions and the care economy: opportunities for greater involvement

Jessica Espinoza Trujano, DEG, and Anne-Marie Lévesque, FinDev Canada

## Abstract

The past few years have seen the rise of women's economic empowerment and gender-lens investing as an area of focus for development finance institutions (DFIs). The issue of women's unpaid work and the care economy remains however largely unexplored for most DFIs. This essay analyses the potential transformative effects of private sector investments in the care economy by DFIs to help build more resilient and gender-equitable economies.

## Introduction

While there has recently been an increasing interest among DFIs and other private sector investors in gender-lens investing (as evidenced by the success of initiatives such as the 2X Challenge), the issue of women's unpaid work and the care economy<sup>1</sup> has not been a key focus. Yet, as the disproportionate effects of the Covid-19 crisis on women are emerging, it has become clear that the issue of care is central to a sustainable and inclusive recovery. As a result

we are likely to see increased demand for care services and the emergence of new business models which need financing. This presents business opportunities for DFIs to invest in the care economy.

## DFIs and the care economy: the current picture

Dfi investments in the private sector already have the potential to recognise, reduce and redistribute care work in various ways.

## Promoting enabling workplace policies and practices

DFIs often provide non-financial advice and support to private companies in addition to their investment, which can be leveraged to promote care-enabling workplace policies and practices. Good practices DFIs have been promoting among their investee companies include paid parental leave,<sup>2</sup> flexible working arrangements (including staggered start time, job sharing, home office, part-time work), on-site childcare

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1 Care work can take many forms, starting with the direct care of persons, such as children, the elderly, persons with illnesses or disabilities, and others. Care work also encompasses activities that do not entail face-to-face personal care, such as cleaning, cooking, laundry, fetching water and fuel, and other household maintenance tasks (also referred to as 'domestic work') (Razavi, 2007). The 'care economy' refers to the value of both paid and unpaid care work (Chopra and Sweetman, 2014).

2 Globally, only around 40% of women in employment are covered by maternity protection, and 830 million women do not have adequate maternity protection (ILO, 2017 cited in OECD, 2019).

facilities and other care-related services. Several DFIs offer technical assistance<sup>3</sup> to enable this, although this is not always proactively offered to investees. A noteworthy initiative in this area is the International Finance Corporation's Tackling Childcare Initiative, which offers extensive research on the business case for employer-supported childcare and other enabling policies and practices by country and sector, in addition to research on policy frameworks, and care-related demand and supply (IFC, 2019, 2020).

### Direct investments in the care economy

DFIs' investments in the formal care sector have been limited, with some notable exceptions in the healthcare and education sectors. While some multilateral development banks have invested in private sector providers of childcare, and elderly and disability care in Europe, investments in emerging markets have been limited to some DFIs' projects with concessional funds to support local care providers. Other DFIs have also made investments in innovative care providers indirectly through private equity funds. A notable challenge impeding greater DFI investments in this area is the lack of information about the market opportunity in the care sector in their regions of focus.

### Direct investments in sectors with transformative potential for the care economy

Research (OECD, 2019) suggests there is an untapped potential for infrastructure investments

to have a significant impact on women's economic empowerment<sup>4</sup> by reducing and redistributing unpaid care work. Time- and labour-saving technology has the potential to reduce drudgery and women's time poverty. There is also evidence that men engage in more unpaid care work when time- and labour-saving devices are available, suggesting potential for the redistribution of unpaid care work at household level (OECD, 2019). However, a strong gender lens in project design and implementation is required for this potential to be realised: gender-blind investments in infrastructure may even exacerbate the unequal distribution of unpaid care work and further entrench gender inequalities (World Bank, 2010).

DFIs have traditionally had a strong investment focus on the infrastructure and energy sectors, suggesting this might be a promising area for DFI involvement in the care economy. A key challenge is that DFIs usually come on board as investors at a later stage in the process, which limits their influence on early project design. Another challenge is that DFIs rarely consider time-use data in their investment approaches, although some DFIs are currently exploring this.

### Opportunities for DFIs' engagement in the care economy

Covid-19 is provoking a change of perspective on the relationship between the private sector and society, extending to the role of DFIs. There is a growing expectation that companies have a duty to provide a range of care economy support to their workforce and potentially even to the

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3 Technical assistance can be defined as the transfer, adaptation, mobilisation, and use of services, skills, knowledge, technology, and engineering for developmental purposes (World Bank, 1996).

4 For example, the International Energy Agency estimates that clean cooking would save over 100 billion hours of women's time collecting fuelwood per year, which would free up time equivalent to a workforce of 80 million people, while reducing air pollution preventing 1.8 million premature deaths per year (IEA, 2017; OECD, 2019). Furthermore, data on 25 countries in sub-Saharan Africa (representing 48% of the region's population) shows that women collectively spend at least 15 million hours each day on fetching water alone (Fontana and Elson, 2014).

communities in which they operate. This will likely lead to increased demand for care service providers and encourage the emergence of innovative care-related business models that require financing. In line with the ‘5R Framework’,<sup>5</sup> there are key considerations for future involvement in the care economy by DFIs and other investors.

## Recognise

A first step is for DFIs to *recognise* care in their interventions. This starts with data collection and analysis of care-related indicators, such as time-use data. The same applies for technical assistance projects supporting investees to implement care-enabling policies and practices.

Greater recognition of care should also enable DFIs to better understand and measure the impact of their investments on caregivers in developing countries, especially women. Some of the ‘positive’ impacts of women’s economic empowerment, such as labour force participation, access to leadership and entrepreneurship opportunities, can be accompanied by additional stress and exhaustion, compromising the quality of care, and decreasing their well-being and sense of empowerment at the same time.

## Reduce

Care is an integral part of human life and it would be neither realistic nor desirable to expect it can be entirely eliminated. Rather, the objective is to *reduce* the amount of time and effort dedicated to these tasks, to limit the burden on women and girls. DFIs can contribute to the reduction of care by

investing in time- and labour-saving technologies and infrastructures, including clean energy, water and sanitation, safe and gender-smart transport, and the production and distribution of time-saving devices. This requires an intentional integration of care considerations and gender analysis into the design, implementation and evaluation of investments, as evidence suggests that the mere fact of financing such projects does not in itself lead to positive outcomes for women (World Bank, 2010). DFIs should signal that this intentionality is critical to attract their investments, to incentivise project developers to incorporate a gender analysis from the outset. There is also a need to invest in better evidence-gathering and research around the impact of these investments on women’s care burden.

A promising example is an investment of two bilateral DFIs in a pay-as-you-go solar energy company in Kenya. The company launched a pay-as-you-go solar fridge product with the explicit aim of providing affordable cost- and time-saving technology with a gender lens to millions of households. The company intentionally engaged both male and female consumers equally throughout the product development and user testing phase. Time saving potential is estimated at two hours per week per household, accruing primarily to women (CDC Group, 2019).

## Redistribute

DFIs are well positioned to make a positive contribution to the *redistribution* of care work from households to the state and marketplace. DFIs can help redistribute certain care obligations to the private sector through promoting both

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<sup>5</sup> According to Esquivel, ‘a transformative approach to care means radically changing care provision (and possibly, care benefits’ accrual) by recognising, reducing, and redistributing care: The Triple R Framework’ (2014: 434). The ILO (Addati et al., 2018) later added reward and representation to this conceptual framework, turning it into the ‘5R Framework’.

demand (by encouraging their investees to offer care support solutions to their employees) and supply (through direct investments in care providers or through financial intermediaries) for market-based care solutions.

Furthermore, DFIs can indirectly contribute to the redistribution of care work by incentivising changes in gender norms, so care responsibilities are shared equally between women and men. This can be done by ensuring that care-friendly policies and practices implemented by investees are offered to both men and women employees, or by challenging stereotypes about care occupations being women's jobs through the promotion of equal opportunity and workplace diversity initiatives with their investees.

## Reward

Jobs in the paid care economy, especially those performed by women, are characterised by low pay and poor working conditions. DFIs with investments in paid care sectors should be working with investees to ensure the work of care workers is valued and therefore *rewarded* (i.e. paid) appropriately.

DFIs can also 'reward' care work through incentives to investees that encourage care-related improvements. Given the important signalling role of DFIs, they can stimulate the supply of innovative care solutions by making their interest in long-term investments in the care economy explicit. This signalling can encourage local entrepreneurs to establish new models of care. Importantly, early-stage investors are also

more likely to support emerging care providers in the startup phase when they have the confidence that DFIs are there to support the following rounds of financing as these companies grow.

## Representation

Finally, in order to promote the *representation* of care work and care workers through their operations, DFIs should, at a minimum, ensure that investee companies comply with International Labour Organization conventions on freedom of association and collective bargaining. DFIs should also use their convening and signalling power to ensure women and care workers are meaningfully represented in decision-making around care work within their own institutions as well as in the various initiatives they participate in.

## Conclusion

The growing momentum of gender-lens investing and the gendered impact of the Covid-19 pandemic have raised interesting questions about the role of DFIs and the care economy. Our research finds untapped potential for DFIs to approach investments with a more strategic gender and care lens and to make meaningful contributions to the recognition, reduction, reward, redistribution and representation of care work.

*All personal information that would allow the identification of any person or persons described in the essay has been removed. This excludes any information obtained through publicly available information.*

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# 6 The nexus between climate finance and gender-smart investing

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## Abstract

Recent research has shown the promise of the nexus between gender-smart investing and climate finance: Project Drawdown, one of the most influential and comprehensive research studies on climate, cited educating girls and family planning to be two of the 10 most effective ways to reduce carbon emissions. Within development finance institutions (DFIs), promising initiatives are underway to consider climate and gender as interrelated investment lenses. This essay proposes a new strategic engagement framework for DFIs to capitalise on the opportunities presented by this nexus, focused on four pillars: financing, mobilising, reforming policies and creating markets, and capacity building, aligned with the G20 Charter for Engagement on Women Leading Climate Action signed in June 2019.

## Introduction

Women are disproportionately affected by climate change. Around 80% of current climate refugees are women, and women are 14 times more likely to die than men during climate-related disasters. But they also play an extremely important role in combating climate change. DFIs can play a

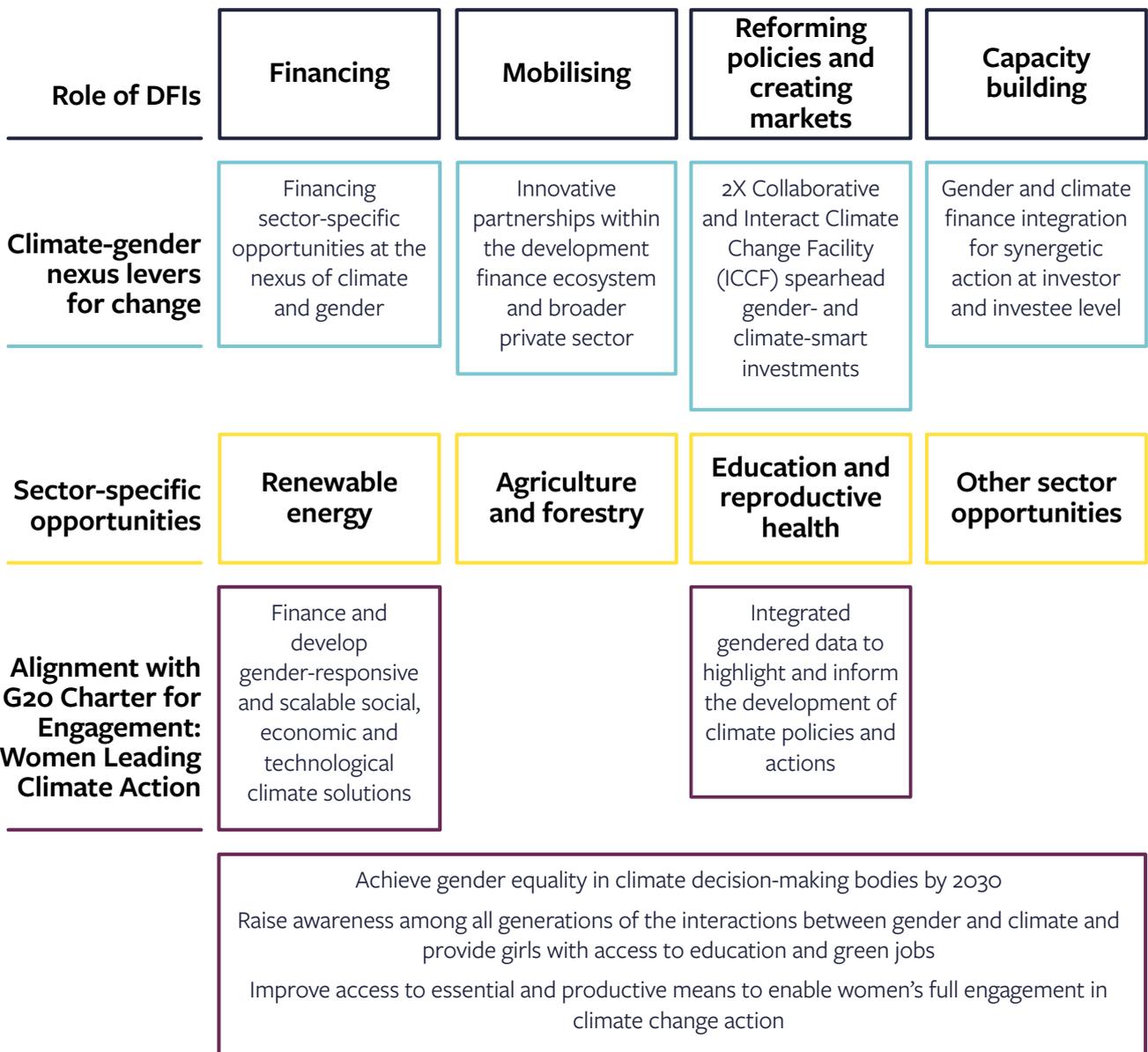
highly important role in realising this potential by investing at the intersection of climate finance and gender. Research shows that climate investments are more effective with a gender lens, and gender finance is more impactful with a climate lens. However, this can be a challenge for DFIs as climate and gender are two highly specialised teams in most DFIs, which tend to speak different languages.

With this essay, we hope to inspire DFIs to pursue opportunities at the nexus of climate and gender more proactively and deliberately to maximise development impact. There are already promising DFI initiatives underway to integrate climate and gender as interrelated investment lenses, which can be enhanced under a coherent strategy. In order to conceptualise how best DFIs can leverage the climate-gender nexus, we have proposed an engagement framework. It builds on the G20 Charter for Engagement on Women Leading Climate Action<sup>1</sup> and the value-add of DFIs focusing on four pillars: financing, mobilising, reforming policies and creating markets, and capacity building. For each pillar, we have identified levers of change at the nexus of climate and gender (Figure 3).

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<sup>1</sup> The G20 Charter for Engagement on Women Leading Climate Action was signed by major mainstream financial institutions and corporates in Japan, in June 2019, initiated by the Women's Forum for the Economy and Society. Private sector companies commit to five actions to realise gender equality within climate action.

**Figure 3** Engagement framework for DFIs at the climate-gender nexus



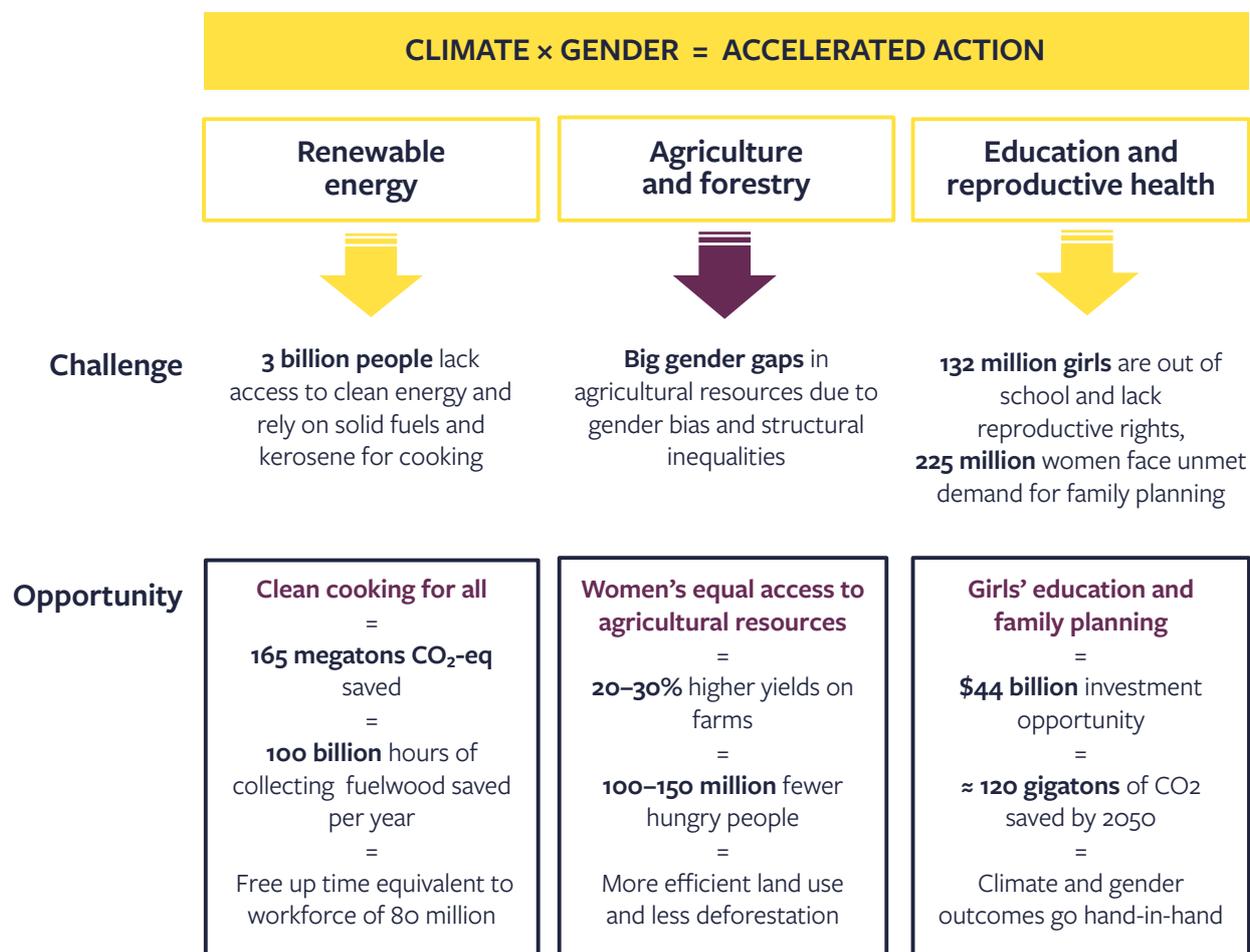
Source: Authors’ creation based Women’s Forum for the Economy & Society, 2019

### Investment approaches for DFIs to leverage the climate-gender nexus

DFIs’ primary role is to provide finance for private sector projects in developing countries. Here we have highlighted the key investment areas,

which comprise the three sectors with the highest number of nationally determined contributions<sup>2</sup> under the Paris Agreement (IFC, 2019), combined with the greatest climate action levers identified by Project Drawdown (Hawken and Ravenhill, 2014), as summarised in Figure 4.

2 Nationally determined contributions embody the commitments by each country to reduce its emissions and adapt to climate change under the Paris Agreement.

**Figure 4** Sector-specific opportunities at the climate–gender nexus

Note: CO<sub>2</sub>-eq, carbon dioxide equivalent.

Source: Authors’ graph based on FAO, 2011; UNFPA, Guttmacher, 2014; Hawken and Ravenhill, 2014; IEA, 2017; OECD, 2019

## Renewable energy

DFIs’ environmental and social (E&S) risk management approaches have typically considered women and girls as vulnerable groups from a ‘do no harm perspective’, and overlooked their potential contribution. In the clean energy sector, especially in relation to off-grid energy solutions, women have proved to be agents of change. This is primarily due to the gendered patterns of energy use.

Several DFIs have pioneered investments into the production and distribution of clean cookstoves, which can be even more catalytic for climate action when women’s bargaining power is enhanced.

Within the off-grid solar sector, women make up a large share of solar energy consumers and are also represented in senior leadership positions of companies like PEG Africa, Greenlight Planet, and MKopa, which are direct or indirect (through funds) DFI investees.

## Agriculture and forestry

The agriculture sector is the foundation for food security and an important economic pillar in many developing countries. Project Drawdown identified equal access to resources for female farmers as one of the most effective climate actions in the agriculture sector.

An investment opportunity at the nexus of climate and gender is the EcoEnterprises Partners III, LP, a women-led private equity fund investing in pro-biodiversity small and medium-sized enterprises in sustainable agriculture, forestry and ecotourism in Latin America. BIO, the European Investment Bank (EIB), FMO, FinDev Canada and Norfund recently invested in this fund.

## Education and reproductive health

Girls' education and reproductive healthcare as a promising investment area for climate action may come as a surprise as these are not the typical sectors DFIs have considered from a climate perspective. DFIs have a track record in investing in healthcare, but not necessarily with a gender lens. This track record represents a good starting point for a stronger focus on reproductive healthcare and family planning solutions, a healthcare area significantly underfunded due to gender bias, representing an investment gap of \$9.4 billion per annum (UNFPA and Guttmacher, 2014). Finfund's investment in Kasha is a promising example of a DFI investment in this area. The e-commerce company promotes women's access to healthcare, including family planning, by enabling confidential ordering and convenient delivery of health products to urban and rural areas in Rwanda and Kenya. In education, gender-smart investing approaches may include educational innovation like

like education technology solutions at the intersection of education and technology as well as connecting adolescent girls with green jobs.

## Other sector opportunities

Many DFIs are developing strategies to accompany their investees across all sectors as they transition to clean energy, green and energy-efficient business models. However, strategic thinking around the just transition approach has been largely gender-blind and there is a risk that future green jobs entrench rather than tackle gender inequalities.

Efforts to address this include the EIB's recently launched SheInvest, a €1 billion initiative aimed at supporting the economic empowerment of women across Africa. SheInvest funding targets gender-responsive projects across sectors, including investments in women's access to clean water, sustainable infrastructure and digital innovation. The Asian Development Bank (ADB)'s experience with gender-smart investments in water resource management, climate-smart transportation and other infrastructure projects also offers insights into other sectors at the climate-gender nexus.

Investment opportunities at the climate-gender nexus also extend to financial institutions and funds. An example is the European Bank for Reconstruction and Development (EBRD) (2019) Green Economy Financing Facility in Tajikistan promoting access to green technologies for women farmers and entrepreneurs. Future investment avenues to explore for DFIs and their financial institution clients include the pooling of small-scale projects at the climate-gender nexus and raising finance through green gender bonds.

## Other value-add by DFIs and the way forward

### Mobilising

DFIs play a key role in mobilising commercial investment capital for private sector projects. Especially in climate-relevant sectors like renewable energy, DFIs have spearheaded blended finance solutions, combining commercial with concessional finance (from donors and the public sector) to enhance the risk-adjusted return of projects in frontier markets where it has been challenging to attract long-term commercial capital. This experience of combining finance from investors with different risk appetites can be expanded to future investment opportunities at the nexus of climate and gender.

Climate and gender are both major trends in the global investment scene, and DFIs are uniquely positioned to bring together the spectrum of investors – from impact-driven foundations and public funds to major international investment banks and pension funds – to combine different risk–return tranches. An example of this may be an innovative partnership between DFIs mobilising commercial investors and development aid actors, such as the United States Agency for International Development (USAID)’s Feed the Future signature programme. Growing momentum in gender-smart investing and climate finance has generated an unprecedented demand for new partnerships to bring these parties together in order to scale private sector investments at the climate–gender nexus.

### Capacity building

Capacity building and innovative technical assistance play a key role in all of the aforementioned investment areas – from the

just transition of investee companies to the green economy, to co-financing of carbon-sink projects, all the way to partnering with local financial institutions on green-gender bonds. A major area for capacity building is pathways for youth, especially adolescent girls, from education to green jobs. DFIs can invest in the creation of green jobs, and offer technical assistance and co-financing to design and run vocational training programmes with this focus.

### Reforming policies and creating markets

There are opportunities for DFIs to engage in policy dialogue on the climate–gender nexus or align strategies with development banks that are supporting policy reforms. Green multilateral funds, notably the Green Climate Fund (GCF) and the Climate Investment Fund (CIF), which both have a gender policy, are a particularly useful reference. For EBRD, for example, the gender policy of the GCF has been a powerful lever to integrate gender into the entire spectrum of climate investments. Similarly, the CIF has been a useful climate–gender framework for ADB’s investments (ADB, 2016). For the European DFIs, there is an opportunity to incorporate a gender lens into the Interact Climate Change Facility.

As the 2X Challenge is reaching scale and being recognised by a broad spectrum of investors, and as the private sector globally strives to build back better after the Covid-19 crisis, there are unprecedented opportunities for DFIs and their investees to drive innovation at the climate–gender nexus across sectors and geographies.

## Conclusion

DFIs can lead by example by putting in place front-runner measures to manage portfolios with gender-smart investing and climate

action objectives. A good starting point are the Global Impact Investing Network (GIIN)'s IRIS+ indicators widely adopted by DFIs. Currently, there are nine IRIS+ metrics that relate to both gender and climate finance, focused on capturing gender disaggregated data of stakeholders, including employees, suppliers, distributors and clients. Growing momentum on the climate–gender nexus leading up to the United Nations Climate Change Conference of the Parties (COP26) and the recent launch of the 2X Gender and Climate Taskforce present an opportunity to bring gender- and climate-related impact metrics together in impact management frameworks.

Guidance from the UN Environmental Programme (2019) recommend indicators at the climate–gender nexus around four priority areas: right to land, natural resources and biodiversity; access to food, energy, water and sanitation; climate change, sustainable production and consumption, and health and well-being; and women in environmental decision-making at all levels. This offers the opportunity for DFIs and the GIIN to

further develop the IRIS+ metrics on climate and gender, as part of the broader efforts towards harmonisation.

Emerging DFI investment practices focus on the climate–gender nexus in three key areas: (1) adaptation and resilience; (2) mitigation; and (3) just transition. DFIs and multilateral development banks have pioneered investment approaches in these areas to different extents. Bringing these good practices and lessons together can move the dial on catalytic and integrated gender- and climate-smart investing strategies across the DFI community.

Climate and gender are crucial in the Covid-19 recovery. 'We have a framework for action – the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change. We must keep our promises for people and planet,' says UN Secretary General António Guterres (2020), highlighting our responsibility to recover better than from previous crises. Gender equality is a precondition for all other Sustainable Development Goals, especially for climate action.

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# 7 Harmonisation for speed and efficiency: choice and voice in measuring women's job quality

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## Abstract

This paper focuses on the issue of the quality of women's employment, the significance of which is more frequently recognised in post-pandemic economic recovery efforts, to illustrate how impact management and measurement of blended finance deals can be harmonised and streamlined. Six steps in this process include: (1) integrating the theory of change; (2) amplifying the voices of women workers; (3) choosing core indicators that are comparable, cost-effective and streamlined; (4) moving from policy presence to verifiable performance; (5) selecting an evaluation methodology that is fit for purpose; and (6) containing and sharing costs. To get started, recent work on aligning the criteria of the 2X Challenge with Global Impact Investing Network (GIIN) IRIS+ metrics could be built upon by an expanded collaborative that should include other intermediaries, and multilaterals and major private investors.

## Introduction

Even when they are thoughtfully and comprehensively harmonised, slow, bulky and expensive impact management systems are certain to drive capital away from blended finance deals rather than into them. Harmonisation built on impossibly long and unfocused menus of indicators and interminable, indulgent methodological procedures will, and should, be dead on arrival. With less than a decade to fully implement the

Sustainable Development Goals (SDGs), the field of blended finance urgently needs harmonised impact management and measurement (IMM) strategies that are smart and agile and, especially, affordable tools that will engage and attract private investors, not repel them.

## Context

As always, context matters. Not only does the harmonisation process need to integrate and streamline a wide range of guidelines and indicators – among them the SDGs, IRIS+, the World Economic Forum (WEF)'s common metrics for measuring stakeholder capitalism (2020), the International Finance Corporation's Operating Principles for Impact Management (2019), and more – it also must learn from the experience of the Covid-19 pandemic from which the global economy is struggling to recover. Among many other things, the past year has underscored the crucial role played by women as essential workers and care providers – and how inadequate and too often exploitative their conditions of work are.

Pre-pandemic, gender-lens investing (GLI) was gaining momentum worldwide, mobilising an increasing quantum of capital in private and public capital for women-owned/-led small and medium-sized enterprises (SMEs) and businesses with women-positive workplace and human-resource practices. A recent Wharton School study identified nearly 140 funds worldwide focused on gender and managing almost \$5 billion in assets

(Hunt and Biegel, 2020). The 15 development finance institutions (DFIs) participating in the 2X Challenge (2021) have exceeded their collective objective of \$3 billion, committing \$4.5 billion for financing women entrepreneurs and women's economic empowerment in developing and emerging markets.

While this is only a toehold into a much larger potential market, GLI continues to grow and innovate. Yet the virus has taught us that, as important as directing more capital to women entrepreneurs is, the quality of employment for women workers is also critical. As such, women's job quality can provide a useful aperture through which to better understand the imperatives and possibilities of impact-management harmonisation.

### **Six steps to harmonising the measurement of the quality of women's employment**

Six steps toward harmonisation are worth considering. Voice and choice are at their centre.

#### **1. Interrogating the theory of change**

Financial institutions, funds and companies all have implicit or explicit theories of change (ToC), or investment theses, which set out how key impact results are expected to be achieved (Jackson, 2013). While current ToCs in blended finance are generally more realistic and discursively modulated than, say, a decade ago, hyped rhetoric and over-promising in investment and business models persist. Moreover, broadly, the field views owners and senior management of funds and companies as the main vectors of change; the role of employees and their conditions of work are too often subordinated elements in ToCs, or invisible altogether. This need not, and should not, be the case.

#### **2. Amplifying the voice of women workers**

Stakeholder engagement at all stages of blended finance investments is an essential practice in building effective IMM systems, though sustained interactions with downstream 'beneficiary' participants in deals and firms are still too rare. However, combining mobile telephony and other technology solutions (e.g., videoconferencing, sensors, drones, big data) with face-to-face methods (such as household interviews, focus groups, citizen-led action-research) can yield valuable insights. Who knows better how to judge performance on job-quality indicators, and what those metrics should be, than women workers themselves? In egregiously misogynist environments, the physical security of women who participate in such processes, and the total confidentiality of their responses, is an imperative duty of care of IMM professionals. Failure to ensure this could be a matter of life or death.

#### **3. Choosing core indicators that are comparable, cost-effective and streamlined**

Working with women employees, senior company management and board, and investor representatives, IMM teams can develop a set of core indicators of women's job quality that can be tracked and reported from investment design and due diligence through implementation and monitoring to exit. As with all environmental, social and governmental (ESG) indicators, these metrics should be material to significant business risks and opportunities, and their financial implications integrated into analysts' discounted cash flow projections, of investee companies and investment portfolios alike. Practical starting points include earlier work on framing decent work and quality jobs (e.g., ILO, 2009; PCV

InSight, 2016), efforts to create common metrics across a variety of ESG standards and guidelines (notably, World Economic Forum, 2020), as well as relevant SDG indicators and the IRIS+ catalogue of metrics (2020). Moreover, tools for gendered ESG analysis, such as the Gender Empowerment Mainstreaming Framework (MEDA, 2018), add an important dimension to this exercise.

Table 2 lists an illustrative set of indicators aimed at measuring women's job quality in blended finance investments. Adapted from a basket of relevant guidelines and metrics, these indicators

go beyond most systems currently in use and call for frequency or percentage counts in reporting on actual performance, as opposed to simply checking whether there is a policy or system in place. Furthermore, these indicators also require that an assessment be made of the nature and application of enforcement of policies for good job quality for women as well as concrete remedies for lack of adherence by the investee company or project to such policies. These indicators would require further refinement and streamlining in terms of, among other things, data availability, comparability and cost-effectiveness.

**Table 3** Illustrative indicators of women's job quality

Indicator	Policy/ system	Frequency/ percentage	Enforcement/ remedy	Sources
1 Average hourly earnings of female and male employees	✓	✓	✓	WEF, SDGs, IRIS+
2 % of employees provided with a living wage, by sex	✓	✓	✓	WEF
3 Number and percentage of female employees promoted, by job category	✓	✓	✓	IRIS+, SDGs
4 Average hours of training per year by sex and employee category	✓	✓	✓	WEF, GRI, SASB
5 Number of discrimination and harassment incidents, status and action taken	✓	✓	✓	WEF, GRI, SASB
6 Frequency of fatal and non-fatal reported injuries by sex and migrant status	✓	✓	✓	SDGs
7 Access to non-occupational medical and healthcare facilities, by sex	✓	✓	✓	WEF
8 Percentage and number of children ages 5–17 years engaged in child labour, by sex and age	✓	✓	✓	SDGs
9 Compliance with labour rights (freedom of association and collective bargaining)	✓	✓	✓	SDGs, ILO
10 Number and % of operations subject to a human rights review, by country	✓	✓	✓	WEF, UN

Note: For expansion of acronyms, see the Acronyms list.

Source: Author's adaptation of indicators from various systems and guidelines

#### 4. Moving from policy presence to verifiable performance

Another pivotal choice point involves verification. That is, many guidelines and indicator menus require that investee companies have key policies in place on, for example, wage equity, anti-harassment measures and occupational health and safety standards. The problem with this, of course, is that the presence of a policy does not demonstrate whether that policy is applied or enforced, nor does it track the actual performance on relevant indicators over time. But both these conditions must be satisfied for the indicators to be used effectively. Moreover, in a fully developed IMM system, actual performance should be verified by another crucial actor: a qualified third party that is independent from the investee firm or investment fund. In fact, a recent global study of multistakeholder corporate responsibility initiatives reports that the most effective third-party verification practices are those that also mandate an enforcement role and, even better, enable peer-to-peer worker education on their workplace rights (MSI Integrity, 2020).

#### 5. Selecting an evaluation methodology that is fit for purpose

Beyond the short- and medium-term data generated by IMM systems to inform adaptive management by entrepreneurs and investors to optimise impact, there is a further requirement for periodic impact evaluations that investigate results in more depth, particularly for causation or attribution. Here there are no perfect choices, nor particularly inexpensive ones. On one side, advocates for randomised controlled trials (RCTs) make the case that counterfactual experiments (or quasi-experiments through statistical measures) are the best approach for determining causation of outcomes. However, critics challenge the ethics

of RCTs and their ‘miniaturist’ focus on outcomes and failure to examine larger theoretical models (Heckman, 2020).

On the other side, proponents of theory-based impact evaluations argue that their approach, by definition, probes larger theories and nuanced perspectives. Yet systematic, theory-based methods such as process tracing, causal-mechanism analysis or comparative case analysis must address response bias and have been found to be complicated, time-consuming, and can be as expensive as some RCTs. The task for IMM teams and their sponsors, therefore, is to assess the relevant trade-offs and select the impact evaluation strategy that will best fit the purpose of more deeply understanding how and why improved performance on women’s job quality is (or is not) achieved and how and why movement on core indicators influence business and investment performance as well as the well-being of individual workers and their households.

#### 6. Containing and sharing costs

Private-sector actors among investors and companies may be willing to contribute to the backbone costs of the IMM system and to the ongoing collection of data on a limited set of core indicators. However, the additional costs of participatory engagement with women workers, working with other ecosystem players to build common and comparative metrics, commissioning third-party verifiers, and designing and executing impact evaluations will almost certainly require grants from donor agencies, foundations and others. Indeed, it makes good sense for these components to be undertaken collectively by consortia of institutions on a cost-shared basis at the level of country or sector ecosystems for blended finance and impact investment. Another means of cost-sharing involves mutually beneficial

community-university research partnerships. Higher education institutions are incentivised to collaborate with investors and businesses that can utilise the real-world research potential of their faculty members and students (Jackson and de Morais Sarmiento, 2021).

## Getting started

A possible starting point for harmonising and streamlining indicators on women's job quality is to build on a recent report of the CDC Group, 2X Challenge, GIIN and IRIS+ (2021), which provides guidance aligning the four main investment criteria of the 2X Challenge with IRIS+ metrics. The four criteria for direct and intermediated investments are: entrepreneurship (share of women owners or founders), leadership (share of women in senior management or on the board of directors), employment (initiatives for advancement of women in the workplace), and consumption (benefits of product/service to women). In terms of employment, IRIS+ provides firm-level and portfolio-level metrics on, for example, policies to address sexual harassment, gender discrimination and wage inequality, and to promote fair compensation and career advancement for women. The original collaboration could, and should, first, be expanded to include other key parties among

DFIs outside the 2X Challenge membership, multilateral organisations like the International Labour Organisation (ILO) and Organisation for Economic Cooperation and Development (OECD), intermediaries such as Convergence, as well as private-sector asset owners and investment managers. Second, the measurement system should be deepened to integrate ESG indicators and include time-series performance data and evidence of verification of policy enforcement and remedies for grievances. This group of actors would be well-positioned to further harmonise, refine and streamline the set of indicators and to pilot their application across a range of investors, investments, sectors and geographies, all of which would offer rich opportunities for ongoing learning and improvement.

## Conclusion

Enhancing women's job quality is, appropriately, becoming an important strategic focus of international efforts to rebuild more equitable post-pandemic economies. For many good reasons, actors in the blended finance space should embrace its significance not only as a priority for the final 10 years of SDG implementation, but also as an instructive window on the vital task of harmonising impact management and measurement for speed and efficiency.

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# 8 Measuring gender impact: suggestions to build on 2X Challenge progress

**Samantha Attridge, ODI, and Matthew Gouett, International Institute for Sustainable Development**

## Abstract

Development finance institutions (DFIs), as members of the 2X Challenge, have demonstrated their commitment to supporting investments that benefit women. The latest step in this commitment has been the establishment of the 2X Challenge indicators. We suggest that these indicators can be enhanced by underpinning them with a rigorous theory of change (ToC), by having them measure the marginal change for women that results from DFI investment, and by conducting in-depth ex-post impact analysis that fully understands how investments that meet 2X Challenge criteria actually contribute to reducing gender inequalities in the investee companies and the wider communities in which they are made.

## Introduction

At the 2018 G7 meeting in Charlevoix, Canada, the DFIs of the G7 countries announced the 2X Challenge and the goal to invest and mobilise by 2020 \$3 billion for investment in business activities that will benefit women (2X Challenge, 2018). The initiative was created to unlock resources to help advance women as entrepreneurs, as business leaders, as employees and as consumers

of products and services that enhance their economic participation. As of January 2021, the 2X Challenge (n.d.) had added an additional seven DFIs as members, the European Investment Bank as an adopter, and had mobilised over \$4.6 billion in commitments. This success, along with the creation of the 2X Challenge indicators (Figure 5) by the Gender Finance Collaborative,<sup>1</sup> the 2X Challenge and the Global Impact Investing Network (GIIN), means that the breadth of gender impact reporting will widen. This widening was reinforced in October 2020 when the Association of European Development Finance Institutions (EDFI) members approved a proposal specifying that member institutions should report to EDFI on all 11 indicators of the 2X Challenge for new commitments undertaken in 2020 and beyond. While these developments are great steps forward for gender-lens investing (GLI), we suggest three improvements that we believe would enhance the understanding of the impact of DFI gender investments. These suggestions include: developing a robust ToC for gender investments; measuring the ways in which DFI investment changes women's lives; and conducting ex-post evaluations of these investments to see actual impact on gender equality.

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<sup>1</sup> The Gender Finance Collaborative was launched by CDC Group in 2018. It brought together 15 DFIs to develop shared gender-smart financing principles, definitions and methodologies that promote the integration of 'gender-based' decision-making into DFIs' investment processes and internal operations (CDC Group et al., 2020).

**Figure 5** 2X Challenge indicators

<b>2X direct criterion</b>	<b>2X direct sub-criterion</b>	<b>2X challenge indicator</b> (applied to direct and indirect investments)
<b>1. Entrepreneurship</b>	1A. Share of women ownership	1A. Percent of female ownership
	1B. Business founded by a woman	1B. Percent of company founder(s) who are female
<b>2. Leadership</b>	2A. Share of women in senior management	2A. Percent of senior management who are female
	2B(i). Share of women on the Board	2B(i). Percent of Board who are female
	2B(ii). Share of women on the IC	2B(ii). Percent of IC who are female
<b>3. Employment</b>	3A. Share of women in the workforce	3A. Percent of employees (FTE) who are female
	3B. Quality indicator beyond compliance	3B. Investee has initiative in place to specifically advance women in the workforce (Y/N)
<b>4. Consumption</b>	4. Product or service specifically or disproportionately benefits women	4A. Investee's product or service specifically or disproportionately benefits women (Y/N)
		4B. Percent of customers who are female
<b>5. Indirect investments (investments through financial intermediaries)</b>	5. Financial intermediary meets one of the direct 2X criteria	5A. Share of FI's portfolio that meets at least one of the direct 2X criteria
		5B. Share of Fund's portfolio that meets at least one of the direct 2X criteria

Note: IC, investment committee; FI, financial institution; FTE, full-time equivalent.

Source: CDC Group et al., 2020

## A theory of change for gender investments

A ToC refers to a model that specifies the underlying logic, assumptions, influences, causal linkages and expected outcomes of a programme or project; or, in the case of DFIs, how an investment will lead to desired impacts (Jackson, 2013). Having this basis from which to work allows stakeholders to critically engage with the logic to ensure that supporting investment policies and strategies also align with targeted outcomes

(Vogel, 2012). Preferably, a ToC serves as a first step and overarching guide to the investment process; a tangible mission statement that underpins why DFIs do what they do. It is also important that ToCs evolve and respond to societal and political imperatives; sometimes by becoming more specific in their causal linkages and expected outcomes. The current state of gender equality and potential associated with a more equal future speak to the imperative of having a gender-specific ToC.

**Figure 6** FinDev Canada’s theory of change from its gender equality strategy



Note: WEE, women’s economic empowerment; GoC, Government of Canada.

Source: FinDev Canada, 2019

In this respect, the 2X Challenge and many of its members have not yet publicly articulated a ToC of how investments that meet the 2X Challenge criteria will actually help advance women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation. The 2X

Challenge articulates very clearly the business case for investing in women and it has been successful in driving investment towards this issue, but theoretical and observable explanations regarding how specific investments lead to gender equality in the communities in which they take place remain a gap. Bringing more resources to bear to

confront gender inequality is great, but how those resources will transform the lives of women needs to be better explained.

FinDev Canada and DEG both have a publicly available gender-specific ToC, which serve as preliminary examples. FinDev Canada's Gender Equality Strategy (2019) outlines its ToC and how it views its contribution to women's economic empowerment and gender equality (Figure 6). The ToC serves as the backbone of FinDev Canada's gender equality strategy paper. DEG's recent women's empowerment evaluation provides an overview of DEG's approach to GLI, its gender-specific ToC and how DEG can work with its investees to improve gender equality (DEG, 2020). Work is underway to develop this further to capture the transformative potential of GLI and address issues such as social norms, unpaid care work, gender-based violence and reproductive empowerment.

It is our suggestion that the 2X Challenge and its individual members develop ToCs for their 2X Challenge investments that explain how their investments will impact women. Most DFIs already have ToCs and DFIs such as Finfund and Norfund have demonstrated through their sectoral ToCs a strong ability to be transparent and specific. Defining clearer pathways between investment and impacts, both direct and indirect, underwritten by academic and policy evidence would enhance the ways in which stakeholders engage and understand the 2X Challenge and its

members' conceptualisations of investing for gender equality.<sup>2</sup>

## Measuring the change created by gender investment

DFIs, to various extents, had already been measuring how their investments were impacting women. For example, Swedfund, a leader among DFIs in providing information regarding its impact on gender equality of its portfolio, annually published the proportion of women employed by its investees, the proportion of women in management positions, and the number of women on boards of directors since 2014 (Swedfund, 2016). As mentioned above, the 2X Challenge indicators (Figure 5) go beyond these metrics, so it is expected that EDFI members will be reporting on even more gender-related impacts going forward.

With this progress in mind and as DFIs consider the next phase of the 2X Challenge, it will be important to capture the marginal improvements in gender equality because of DFI investment. As currently constructed, the metrics, and the 2X Challenge more broadly, recognise companies that are already undertaking operations that align with gender equality goals. This is a static measure of what an investee has already accomplished. Given that an investment that meets the 2X Challenge criteria at the point of investment may not meet that same criteria as the investment ages, the guidance note also suggests follow-on assessments

2 Any gender-specific ToC should be well grounded in the academic and policy literature as well as being very explicit regarding concepts and terms employed. The literature on how issues such as economic justice and rights, unpaid labour, bodily autonomy and sexual and reproductive health and rights, gender-based violence, education, skills and training, and infrastructure and technology impact women's economic empowerment is vast. Disclosing how DFIs engage and understand these issues will provide credibility and exhibit that their ToCs are well thought out and not simply based on a belief that creating new job opportunities for women will lead to gender equality. Comprehensive works by UN Women (2015), Oxfam's Women's Economic Empowerment and Care Programme (2020), and International Development Research Centre's Gender Equality Programme (2020) provide solid bases from which to work.

of gender impacts during the investment. The 2X Challenge also encourages progress. An investee who does not yet meet the criteria can qualify if they have clear and resourced commitments to meet one or more of the 2X Challenge metrics. However, the current collective reporting does not distinguish between those that meet the criteria and those that do not but have made commitments to meet them, nor does it capture progress within these two categories. As the 2X Challenge criteria and the proposed metrics iterate, we suggest a greater focus on capturing progress and supplementing the current alignment metrics with impact metrics, informed by gender-specific ToCs. This advancement will be even more informative and particularly instructive for those looking to assess and garner lessons on how transformative for women the 2X Challenge can be.

### **Ex-post assessments of impacts on gender equality**

With clear articulations of ToCs and more data being collected, an important final step is to conduct ex-post assessments to confirm or disconfirm the ToCs. The evidence that DFI investment leads to job creation for women is mixed; and the evidence base on the impact of DFI investment on gender equality is non-existent (Attridge et al., 2019). The claim that gender-focused investment will lead to gender equality rests on critical assumptions about social and political environments that are complementary to this type of progress. We suggest that determining whether these assumptions are appropriate would provide meaningful feedback that DFIs could incorporate into their gender-focused investments and the ex-ante expectations of these investments. Without this further information, the 2X Challenge indicators may only weakly correlate with gender equality and undermine the perception of DFI effectiveness.

Finally, it is important that while most DFIs discuss aligning their investments to the various Sustainable Development Goals (SDGs), DFIs are clear that SDG 5 on gender equality covers a wide array of issues for which DFI investment may not be appropriate. Apart from SDG 5.5, ensuring women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political – economic and public life – it is unclear how DFI investment should be applied to address SDG 5. To maintain credibility, it is important that DFIs engage with this issue and acknowledge that their investments are not intended to address every element of SDG 5 and be forthright regarding the impacts they can make, ensuring that their investment does not have unintentional negative impacts on SDG 5 and that it contributes more broadly to positive change around this SDG. It is also important that if DFIs are to claim that they are addressing SDG 5 through their investments that they show how they are doing so. Creating more jobs for women does not make it a fait accompli that these women are being offered full and effective participation in their respective economies, nor does it mean that they will receive equal opportunities to pursue leadership. Gender equality is a multifaceted issue and while DFIs have made significant progress they need to be upfront about their own limitations.

### **Conclusion**

DFIs have made great first steps in their GLI journey. As DFIs continue to sharpen their GLI it will be important to move beyond metrics that 'screen' and 'count' to metrics that focus on outcomes and impacts of GLI, informed by ToCs and to build the evidence base of the impact of their investment on advancing women's economic empowerment and gender equality.

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## Part 2

Climate finance  
impact and related  
developmental concerns

## 9 How are DFIs tackling climate change?

**Alberto Lemma, ODI**

### Abstract

Development finance institutions (DFIs) are now engaging in the climate change challenge. The majority have now adopted clear climate change and sustainability strategies to help them meet Sustainable Development Goal (SDG) and Paris Agreement commitments made by their respective countries. They have also begun to harmonise their methods to assess their climate change impacts, increased their climate impact disclosure commitments and agreed to significantly reduce investments in fossil fuel energy. However, DFIs could take a more proactive approach to finding and targeting green growth investment opportunities particularly in growth-supporting sectors such as manufacturing.

### Introduction

The planet is on track for a 3°C rise in global average temperature (UNEP, 2019), which is likely to trigger a series of large-scale climate shocks that will disrupt economies and development. Negative impacts are expected to be particularly pronounced in developing countries. Vulnerable livelihoods are already being threatened in Africa (Carabine and Lemma, 2014a) and South Asia (Carabine and Lemma, 2014b), whilst further unavoidable losses are expected in the coming decades. Least Developed Countries and Small Island Developing States are particularly vulnerable, with the top 15 climate-vulnerable countries all falling within these two categories (UN, 2019).

Global climate change mitigation and adaptation efforts are emerging. Following climate targets set

out in SDG 13, the 2015 United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement (also known as COP21) kickstarts a process of concrete commitment to limit global warming to 2°C above pre-industrial levels (UNFCCC, 2021).

Climate change is an unavoidable challenge for multilateral and bilateral DFIs. Its impacts pose significant developmental and financial risks, requiring adaptation and mitigation strategies that should ensure that the long-term sustainable development impacts of DFI investments are not jeopardised.

There are three broad issues. The first is from a strategic perspective. DFIs will need to ensure that investments do not contribute to further climate change and that their investments are resilient to climate shocks, avoiding the risk of stranded assets. The second is from an international commitment perspective. DFIs will need to align their investment portfolios with Paris Agreement and SDG 13 targets, as financial flows need to be consistent with low greenhouse gas (GHG) and climate-resilient development pathways. Finally, stakeholder and public scrutiny of DFI activities means that they need to present themselves as positive contributors to climate change.

### Why are DFIs engaging in climate change?

Given the risks posed by climate change, looking at why DFIs have chosen to engage helps understand what their overall goal is. There are two broad explanations. The first sees climate change action

as necessary to achieve their objectives through the mitigation of climate risks, the second sees climate change action as necessary because of international obligations. DFIs tend to act on both issues, using international and national obligations as a baseline upon which their greater climate and investment strategy is built.

Most DFIs tackle climate change as they see it as a necessary action to achieve and safeguard their investment goals. Multiple examples are available. Norfund posits that its investments in clean energy will lead to increased access to energy, hence growth and poverty reduction (Norfund, 2020). The CDC Group sees climate change as a tangible threat to the achievement of its goals (CDC Group, 2020). Finnfund has decided to focus on key sustainable development sectors such as clean energy and forestry (Finnfund, 2018).

Other DFIs cite their commitment to the SDGs and COP 21 and how these also push them to orient their investments towards climate change mitigation. For example, FMO states that SDG 13 and its own sustainability pledge to contribute to COP 21 goals spur it to tackle climate change (FMO, 2021). Proparco acknowledges that its efforts to tackle climate change are undertaken to speed up the implementation of COP21 (Proparco, 2017).

These positions work in symbiosis. DFIs can be undertaking climate change activities as part of their international commitments whilst also contributing to the achievement of their strategic objectives, e.g. energy generation or poverty reduction. Likewise, the alignment of strategic and climate change objectives can help DFIs adhere to (and attempt to exceed) international commitments, such as the SDGs.

## **What are DFIs currently doing about climate change?**

DFIs consider the wider developmental impacts of their investments, such as employment creation, energy provision and, ultimately, poverty reduction. These impacts are fundamentally intertwined as energy leads to growth, in turn leading to jobs and income security. Climate change means that DFIs will have to strike a balance between mitigating and adapting to climate change and other significant development impacts.

DFIs need to balance different goals without access to infinite resources, which means that they may not be able to apply these additional filters to their investments. Those DFIs that are actively pushing their investment strategies to either mitigate or consider the impacts of climate change have tended to formulate theories regarding the role that their investments would play to help them achieve their most critical goals. The focus on climate change action has increased over time and now DFIs are either adapting their overall investment strategies to tackle the impacts of climate change or they are formulating climate change-specific investment strategies to guide their approach.

For example, COFIDES's current strategic plan places emphasis on catalytic investments to address climate change concerns (COFIDE, 2019) whereas BIO's current investment strategy dedicates capital to climate change mitigation and adaptation (BIO, 2019). Some DFIs do not have their own climate change strategies but fall under their parent organisation strategies. DEG has not made public a climate change strategy, however KFW, its owner, does provide an overall climate strategy (KFW, 2021). Proparco falls under

the Agence Française de Développement climate change strategy, which commits the organisation to full compliance with the Paris Agreement (Proparco, 2017).

Finally, member DFIs of the Association of European Development Finance Institutions (EDFI) have decided to take a more concerted approach to climate change as well as provide a clearer vision for external stakeholders on the effective commitment of DFIs to tackle the issue. For example, this will be achieved through the EDFI Statement on Climate and Energy Finance, which commits EDFI members to several climate change actions, including the alignment of all new investments with COP21 by 2022; achieving a net zero GHG portfolio by 2050; excluding coal and fuel oil financing for any new commitments and limiting fossil fuel investments by 2030; and improved disclosure of climate change finance and transparent progress on climate targets (EDFI, 2020).

These climate change strategies are a mixture of investment strategy and international commitment adherence. Some are more explicit, explaining the strategic methods they will apply to target investments in climate change, particularly on how individual investments will be screened and chosen. Others are higher-level strategies that illustrate the overall goals that the DFI aims to achieve in terms of its climate change impacts.

### **How are DFIs measuring their climate change impacts?**

Due to increasing amounts of stakeholder scrutiny from government, NGOs, media and so on, DFIs are quite explicit about the development impacts that their investments are contributing towards. Traditionally there are three main impact metrics

that DFIs assess: jobs created (directly and indirectly), energy generated (in megawatts) and tax revenues generated for host countries. The measurement of climate change impacts by DFIs is, on the other hand, a relatively new component of their development impact metric suite.

Initial DFI impact measurement revolved around the calculation of GHG emission avoidance and GHG emissions generated by portfolio activities. Climate change impact methodologies varied by DFIs. Some relied on third party evaluation tools to calculate their carbon emission impacts – for example, for carbon accounting (e.g. avoidance or emissions) they could use the GHG Protocol, the IFC Performance Standards or the IFI Technical Working Group – while a minority of DFIs formulated their own impact accounting methodologies or guidelines.

However, DFIs are now moving ahead with the integration and harmonisation of wider climate change-relevant metrics within their impact assessments. In October 2020, EDFI members approved a proposal to increase the degree of harmonisation of their climate change impact measurement activities. The aim of the agreement is to introduce joint EDFI reporting on aggregate GHG emission reductions (based on a baseline) for EDFI member investments beginning in 2020 (EDFI, 2020).

### **What challenges are DFIs facing?**

Thirty years after the initial work of the Intergovernmental Panel on Climate Change (IPCC), DFIs now include climate change within their investment strategies. There are two broad approaches DFIs are following to tackle the climate change challenge. The first is based on ‘exclusion’ criteria – that is, ensuring that

investments are not negatively contributing to climate change through commitments (e.g. no coal or fuel oil investments). The second approach is strategic – that is, targeting individual investments and aligning investment portfolios towards climate change proactive activities. Most DFIs tend to use a mixture of both approaches, the first as a screening tool, the second as a strategic decision-making tool.

Currently DFIs are taking a low-risk approach to climate change, targeting relatively low-hanging fruit such as renewable energy, which are closely aligned with their pre-existing investment strategies. DFIs are naturally proactive in seeking development impact opportunities so an effective DFI response to the climate change challenge should be possible. There may be a required paradigm shift in the way DFIs invest as they will need to target not only transformative firms or sectors but green transformative firms and sectors. There is therefore an opportunity for DFIs to consider investments in additional areas that present some strong opportunities to tackle climate change. Looking for mitigation and adaptation opportunities in growth-supporting sectors such as transport, poverty-

relevant consumption sectors such as housing and construction or productivity-enhancing sectors such green manufacturing could be the way forward. Currently these sectors are not generally present in DFI climate change strategies, but they should be given greater consideration moving forward. In addition, DFIs have had experience investing in these sectors in the past so could leverage their existing knowledge networks, as their potential climate change impacts make them more relevant than ever before in terms of potential development impacts. This paradigm shift will present unavoidable financial risks, hence DFI owners will need to acknowledge these and be prepared to back DFIs when necessary.

## Conclusion

Good progress is being made. The majority of DFIs have now adopted clear climate change and sustainability strategies to help them meet SDG and Paris Agreement commitments and efforts are underway to harmonise measurement of climate change impacts. In the future, DFIs should take a more proactive approach to finding and targeting green growth investment opportunities.

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# 10 Capturing adaptation opportunities

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## Abstract

The Intergovernmental Panel on Climate Change (IPCC) definition of climate adaptation highlights two dimensions of adaptation: avoiding harm as well as exploiting beneficial opportunities. However, to date, private sector approaches to adaptation finance have been dominated by the avoidance of harm and management of risk with less attention being paid to capturing opportunities. We argue that capturing the ‘upside’ of adaptation can (1) boost resilience and (2) mobilise private sector expertise and finance for adaptation activities.

In this article we describe the approach Finnfund has been developing to capture both dimensions of climate adaptation in its investment process. In the future, the approach will benefit from rigorous practical testing and sharing experiences with peer organisations. For now, however, it is hoped that the approach will bring methodological clarity and enhanced understanding on how to increase adaptation finance, especially for adaptation opportunities.

## Introduction

Impacts of climate change are creating new challenges for both people and ecosystems (Ripple et al., 2019). While waiting for countries to submit new and updated national climate plans (called the nationally determined contributions) ahead of the COP26 climate negotiations of the United Nations Framework Convention on Climate Change (UNFCCC), it is clear that the current

mitigation pledges are inadequate to meet the targets set in the Paris Agreement (Jeffery et al., 2018). Even if the ambitious target of limiting global temperature increase to 1.5°C is achieved, we are bound to live with the impacts of ongoing climate change. This results in an increased need for climate adaptation efforts.

In 2018, annual climate finance stood at nearly \$600 billion (CPI, 2019). However, a great majority of the climate finance has been directed to mitigation efforts and only 5%, approximately \$30 billion, was directed to adaptation (CPI, 2019). The United Nations estimates that by 2030, the global climate change adaptation costs may range from a staggering \$140 billion to \$300 billion per annum and could rise to between \$280 billion and \$500 billion per annum by 2050 (UNFCCC, 2019).

To close the adaptation finance gap, the role of the private sector will become increasingly important. The billion-dollar question now is, how to increase private sector financing for adaptation and resilience building?

## Investing in adaptation is good business

The case for longer-term profitability of adaptation is compelling. In its 2019 report, the Global Commission on Adaptation notes that the overall rate of return on investments in adaptation financing leading to improved resilience is very high: investing \$1.8 trillion globally in five key adaptation areas (from 2020 to 2030) could generate \$7.1 trillion in total net benefits, through a

combination of avoided losses and environmental, social and economic benefits' (Global Commission on Adaptation, 2019).

In addition to the net benefits and necessity to survive, there is another, more positive side to climate change adaptation that is not sufficiently explored. Shocks bring out weaknesses and vulnerabilities that reveal needs for improvement. But there is scientific evidence that shocks and crises can also lead to more risk-mitigating innovations such as improvements in, for example, governance and management systems, and can facilitate invention and adoption of new technology (Miao and Popp, 2014). In this way climate change can be a driver for innovative solutions and business models.

## Common definitions and rules to facilitate financing

To increase adaptation financing from the private sector, it is essential to better define what constitutes adaptation finance. In addition to the IPCC definition of adaptation to encompass avoidance of harm and/or exploring opportunities, the EU Taxonomy for Sustainable Finance defines two different types of economic activities that contribute to adaptation (EU, 2019):

1. economic activities that make substantial contribution based on their own performance (adapted activities)
2. economic activities that by provision of their products or services enable substantial contributions to be made in other activities (adaptation enabling activities or systemic adaptation).

In other words, adapted activities aim at strengthening an asset or economic activity to withstand identified physical climate risk over its lifetime. Adaptation-enabling activities aim to reduce vulnerability and build resilience of a wider system or systems such as a community, ecosystem or city.

A key characteristic to adaptation is that it is context and location specific. Therefore, it is not possible to produce stand-alone, exhaustive lists of activities that could be considered adaptation finance. Instead, there is a need to develop a process-based approach to determine if an activity is itself adaptation or adaptation-enabling and contributes to wider system-level climate resilience.

## The Finnfund approach for managing climate risks and building resilience

Finnfund, Finland's DFI, with the help of the authors of this essay, has been developing an approach that would identify private-sector investments with potential climate risks and/or opportunities for creating resilience benefits from very early stages of the investment process. When seeking first approval – Clearance in Principle (CIP) – to prepare an investment, the adaptation assessment would begin with a context- and sector-specific climate risk assessment using common online risk assessment tools, such as ThinkHazard<sup>2</sup> or ND-GAIN.<sup>3</sup> The risk assessment is followed by an assessment that screens whether the economic activity (or part of it) has the potential to increase adaptive capacity in the company or in its operating environment, thereby bringing resilience benefits. In the first phase

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1 The five areas considered for the estimate included early warning systems, climate-resilient infrastructure, improved dryland agriculture crop production, global mangrove protection, and making water systems more resilient.

2 <https://thinkhazard.org/en>

3 <https://gain.nd.edu>

this assessment would be done with the help of general typologies or lists such as those presented in the EU Taxonomy Technical Annex.

In the case that climate risks – and therefore adaptation need and potential – are identified, and a CIP is obtained, a more thorough assessment will be conducted during the due diligence phase. This would entail a more detailed and location-specific climate risk assessment typically conducted by a specialised consultancy. In addition, some primary data collection from local stakeholders may be necessary to understand if and how they experience the climate change impacts. This more detailed assessment is followed by an analysis of the company's capacity to adapt and respond to the identified climate risk. In the case that shortcomings are detected, further requirements and support could be agreed upon before the investment decision or could be included in the Environmental and Social Management Action Plan.

In the case that economic activity is anticipated to create resilience benefits for the company, its stakeholders or wider community, it is necessary to understand how exactly these benefits are created. In defining this, during due diligence it would be useful to explore the five impact dimensions as introduced by the Impact Management Project:<sup>4</sup> What is the economic activity and how is it building adaptation? Who will benefit from the good/service? How many are they and how much will they benefit? What would happen otherwise and what are the risks? Obtaining data on the above questions will provide a useful baseline against which progress in adaptation can be monitored and documented.

## **Forest First Columbia case study: combined mitigation and adaptation**

Forest First Colombia is a forest plantation company operating in remote areas of Eastern Colombia, by the Meta River in Vichada Province. The company establishes fast growing, sustainable tree plantations to produce low-cost wood fibre.

The climate risk assessment for Vichada forecasts increased flooding, wildfires and extreme heat; these risks are already an everyday challenge to Forest First and the surrounding communities. However, an in-depth analysis revealed that the Forest First core business and their forest management practices contribute not only to climate change mitigation via afforestation but also to climate change adaptation.

One of the main livelihoods in Vichada has been extensive cattle grazing. For decades, grasslands have been burnt frequently to renew grass in the cattle pastures. Frequent burnings have changed soil properties and created a hard cover on the topsoil, a so-called 'crust', which deteriorates soil water-absorption capacity and further increases flooding. Burnings may also escape and cause significant harm as wildfires, and heat waves make the wildfires even more intense than before.

Tree plantation establishment requires soil preparation, which helps to revert soil properties and improves water absorption. Furthermore, Forest First plays a key role in managing fires in their operational areas, to protect not only their plantations but also nearby communities and the unique, protected 'Morichal' river gallery forests.

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4 <https://impactmanagementproject.com>

A more detailed assessment of adaptation needs and responses will be conducted at a later stage, possibly using the tech-enabled survey methods that have been successfully used in gender-lens investing.

## **Conclusion**

The Association of European Development Finance Institutions (EDFI) Statement on Climate and Energy Finance calls for the development of practical guidance and initiatives for increasing financing for adaptation and resilience to climate change, particularly reducing vulnerabilities of communities and natural ecosystems to climate impacts.

Tools and skills for assessing and identifying feasible adaptation measures to manage physical climate risks within the private sector are rapidly increasing. The potential for capturing the opportunities of adaptation and resilience building remains, however, largely unexplored. This ‘upside’ of adaptation can be seen as a market opportunity. The capacity to define, monetise and monitor context-specific resilience benefits is still in its early stages and should be actively promoted. DFIs, with their track record of managing risks while creating impact, can play an important role in increasing financing for adaptation and in further developing tools for resilience building.

It is also expected that with the beneficial opportunities better identified, financing from private sector is likely to follow.

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# 11 Navigating the development impact and Paris alignment of investments in gas power

**Paddy Carter, CDC Group**

## **Abstract**

Reliable and affordable power is essential for economic development and the eradication of poverty. Development finance institutions (DFIs) must help countries meet the demand for power and honour their commitments under the 2015 Paris Agreement. In exceptional circumstances, investments in new gas power are both necessary and Paris aligned. CDC Group has developed a tool to help investors identify those circumstances.

## **Introduction**

Knowing when to support an investment in new gas-power generation is one of the hardest decisions for a DFI to take. European DFIs have committed to ending new fossil fuel financing by 2030 (with any exceptional cases clearly identified, justified and disclosed), which is a reasonable estimate for when technologies will have matured enough to render new investments in gas power largely unnecessary. Until then those DFIs that are interested in helping countries with large unmet power needs build out their supply of reliable and affordable electricity must find a way to make these decisions.

We are all keenly aware of the climate emergency and of the harms that higher temperatures and changing weather patterns impose on the people in the countries where we invest. We can all see the tremendous and continuing cost reductions for solar, wind and batteries. Many DFIs have climate-related strategic objectives. We also face a weight of public opinion opposed to any fossil financing.

And yet, anyone familiar with the realities of power networks across the developing world and attuned to the importance of reliable and affordable electricity for economic growth and poverty reduction will recognise the necessity of some selective and time-bound investments in gas power.<sup>1</sup> Most African countries are in no position to deviate far from least-cost technical solutions, because they cannot afford to pass higher costs on to users or cover them from general taxation.

## **Paris alignment**

The 2015 Paris Agreement recognises that least-developed countries can be expected to see their greenhouse gas emissions grow in the near term, before declining towards net zero in 2050, as reflects the imperatives of economic

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<sup>1</sup> The development case for grid power rests more on the needs of commerce and industry than extension of household access outside urban centres, where mini-grids may be more appropriate. For evidence of the impact of reliable power on productivity, see Cole et al. (2018); Fried and Lagakos (2017, 2020); and Kaseem (2018) and Mensah (2018). Eberhard, Dyson and Uttamchandani (2020) review the evidence for investing in power more generally.

development. The first principle of effective development cooperation is country ownership, but on this issue, for better or worse, a position of supporting whatever decisions about power generation the country in question has taken is not tenable. Under intense public scrutiny, DFIs must form their own view of whether a proposed gas-power investment is justified and aligned with the goals of the Paris Agreement and be prepared to defend it.

Paris alignment requires a shift in thinking. In the past, many climate considerations stopped at assessing relative emissions, which would reward gas for displacing coal. Of course, phasing out coal is hugely important but it is not enough. We must also ask whether the gas replacement is compatible with a country's pathway towards net zero by mid-century, and we cannot simply assume gas will play the required minimally transitory role.

CDC has developed and published the CDC Gas Guidance note for assessing the alignment of gas power with the Paris Agreement, which we hope will help other impact investors take these difficult decisions (CDC, 2020). Its main purpose is to determine whether a potential investment in a natural gas power plant can be considered consistent with 1.5°C emissions pathways, and whether there is a substantial level of 'transition risk' associated with the investment opportunity (if anticipated future revenue streams are vulnerable to changes in policy, technology or market conditions).

## Why gas is sometimes still needed

These decisions would not arise unless gas power sometimes offered power system planners

attributes that they cannot currently get at a comparable cost from alternative technologies, so it is worth briefly surmising what those are. The first are reliability and flexibility – natural gas power plants can provide a range of services to electricity grids, including reliable baseload and 'peaking' power at times when supply would otherwise fall short of spikes in demand. This helps integrate high levels of intermittent sources of renewable energy into the grid.<sup>2</sup> The flexibility of gas power means it can also perform a range of ancillary services, including keeping grid frequency and voltage within the required range, which is important to maintain grid stability. In more mature markets gas is already migrating from providing baseload power to providing less frequently used services, and in time the combination of renewables and energy storage will push gas out from these niche roles too. But in less advanced markets, gas is still sometimes the lowest-cost option to provide 24-hour, year-round baseload. In many countries the urgency of improving the reliability of grid-supplied electricity is heightened by the need to displace private diesel generators that firms, and households that can afford them, use to respond to frequent blackouts.

Wind and solar power are now often the cheapest solution in many contexts, and DFIs must do everything we can to accelerate their adoption, but despite rapidly falling prices long-discharge energy storage is still relatively expensive and gas is still significantly cheaper for some roles. In countries that lack low-carbon 'firm' sources of power that can be relied upon to deliver power when demanded, such as reservoir hydro or geothermal, building a power network that is capable of reliably supplying power whenever it is needed entirely with wind, solar and

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<sup>2</sup> Verdolini et al. (2018) study variable renewable energy (VRE) integration between 1990 and 2013 across 26 Organisation for Economic Co-operation and develop countries, and find that fast response gas generation accelerates the adoption of VREs.

batteries would be much more expensive than supplementing renewables with some gas, at least until storage price has fallen further.<sup>3</sup> There are other economic considerations too, such as more easily met land requirements.

These attributes explain why gas is part of modelled optimal sustainable transition pathways. The Sustainable Development Scenario published by the International Energy Agency, for example, is intended to be consistent with a two-thirds probability of limiting the temperature rise to 1.8°C, and an even chance of limiting the temperature rise to 1.65°C. It features natural gas providing 13% of Africa's total power generation in 2040, and 19% of India's. Other academic studies that account for the need to achieve carbon neutrality by mid-century whilst rapidly expanding electricity generation for economic development confirm the need for investments in a mix of generation technologies over the medium term. Under the most ambitious and stringent climate change control scenario, modelled by van der Zwaan et al. (2018) the electricity power capacity additions in Africa between 2030 and 2050 are solar (24 gigawatts (GW)), wind (20 GW) and gas (18 GW). Schwerhoff and Sy (2019) review five highly detailed, well-documented energy-economic models that allow for Africa to rapidly develop its economy (a several-fold increase in energy production) whilst respecting a 2°C target.

From this context, we draw three main implications for gas investments. First, plants that will continue to emit carbon beyond 2050 are not Paris aligned. The small remaining global carbon budget implies a globally limited role for new gas plants, transitioning from providing baseload and mid-merit power to lastly peaking capacity

and system services. The timing depends on the individual starting points. Hence, secondly, we consider gas plants to be Paris-aligned if they are the only viable option for providing essential supply and system services in a context where low-carbon technologies are being pursued to the fullest extent. Thirdly, investments in gas-fired power plants carry transition risks, which must be identified and managed, and investors must be prepared for risks to materialise.

The CDC Gas Guidance tool sets out a series of questions, which, when answered, will help investment committees determine whether a proposed investment can be considered aligned with the 1.5°C temperature goal and whether there are likely to be acceptable levels of transition risks. These questions, or indicators, are grouped into four parts:

1. Asset level indicators focus on the specific characteristics and circumstances of the generator, including the existence of lower-carbon alternatives, and whether the timescales, operational regime and contractual terms are consistent with a transitory role.
2. System-level indicators focus on whether a jurisdiction understands and is committed to a low-carbon pathway for its electricity system, and whether the role for gas power plants is understood in this context.
3. Transition risk indicators draw on the preceding system and asset-level assessments, and provide an indication of the exposure to policy, market and technology risks.
4. What is the development case, and what difference will the investment make to economic development and poverty reduction?

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3 See Sepulveda et al. (2018) on the importance of 'firm' generation as electricity grids reach very high levels of renewable penetration. Ziegler et al. (2019) estimate how low storage costs would have to fall, before a 100% renewable system is cost-competitive.

Most countries have submitted nationally determined contributions, under the Paris Agreement, setting out emissions targets, but these generally do not extend beyond 2030. These are insufficient to assess whether a gas power investment is consistent with a net zero emissions pathway. Longer-term strategies are expected at the COP26 conference this year, and ambitions must be ratcheted upwards. Once countries publish their longer-term decarbonisation plans, decisions will be able to place more weight on whether the gas investment is part of a government's strategy.

The ultimate decision about Paris alignment should draw on the aggregate assessment of all the indicators used, and in the absence of country strategies or decarbonisation plans it will involve some element of subjectivity. In many cases, the information upon which a decision is based will itself be a matter of judgement. But

we believe that this indicator framework and accompanying scoring matrix will help us make better decisions, and provide us with a clear rationale and transparent presentation of how we have approached these often contentious and momentous questions.

## **Conclusion**

The task that confronts DFIs is to help countries rapidly expand the supply of reliable, sustainable and affordable electricity to meet their urgent development needs, while keeping greenhouse gas emissions as low as possible along the path to net zero by mid-century. To do that, DFIs must be able to identify the exceptional circumstances in which investments in new gas generation are the right decision. We have developed the CDC Gas Guidance to help us take those decisions, and we hope that other DFIs and impact investors will find them similarly useful.

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# Part 3

Harmonisation of  
impact management  
and reporting

# 12 Operationalising impact management and measurement of SDG-related investments: DFIs' role in promoting best practice and harmonisation

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## Abstract

This essay presents key findings from a forthcoming Organisation for Economic Co-operation and Development (OECD) paper on how development finance institutions (DFIs) manage and measure the impacts of their investments. Using the logic of an earlier scoping paper (Boiardi, 2020), we examine how DFIs operationalise the different impact management and measurement (IMM) tools and initiatives proposed by the various industry-led harmonisation efforts, or roll out their own proprietary frameworks. This mapping enables us to draw broad conclusions for other investors operating in a development context. Namely, it is possible to both harmonise broad sets of agreed values (principles) and standardise metrics and indicators. At the same time, the paper shows that it is not useful to converge towards a 'one-size-fits-all' measurement framework. Ultimately, the different contexts and geographies DFIs operate in, as well as their different stakeholders and shareholders, necessitate framework flexibility. Nevertheless, we assert that convergence around underpinning standards of practice is vital to produce transparent, consistent and comparable data on impact.

## Introduction

Encouraging investors to demonstrate the positive social and environmental impact of their investments can help us 'build forward better' and address the estimated \$4.2 trillion funding gap in developing countries that official development assistance (ODA) alone cannot fill (OECD, 2020). IMM practices can help achieve the 2030 Agenda by: (1) channelling finance to areas with the highest needs; (2) providing evidence as to which policies are most effective for different contexts; and (3) holding public and private stakeholders to the same degree of accountability when it comes to achieving the Sustainable Development Goals (SDGs).

While accepted evaluation criteria for the use of ODA exist, there is no such equivalent for private investments. The current most high-level initiative seeking to harmonise IMM practices is the Impact Management Project (IMP). Since 2016, IMP has made significant progress in leveraging different existing market initiatives,<sup>1</sup> as well as aligning investors and enterprises behind overall accepted IMM norms (IMP, 2020). Nevertheless, this effort masks an underlying alphabet soup of IMM approaches that continues to mushroom.

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<sup>1</sup> See the list of 'Structured Network Partners' here: <https://impactmanagementproject.com/impact-management/structured-network>.

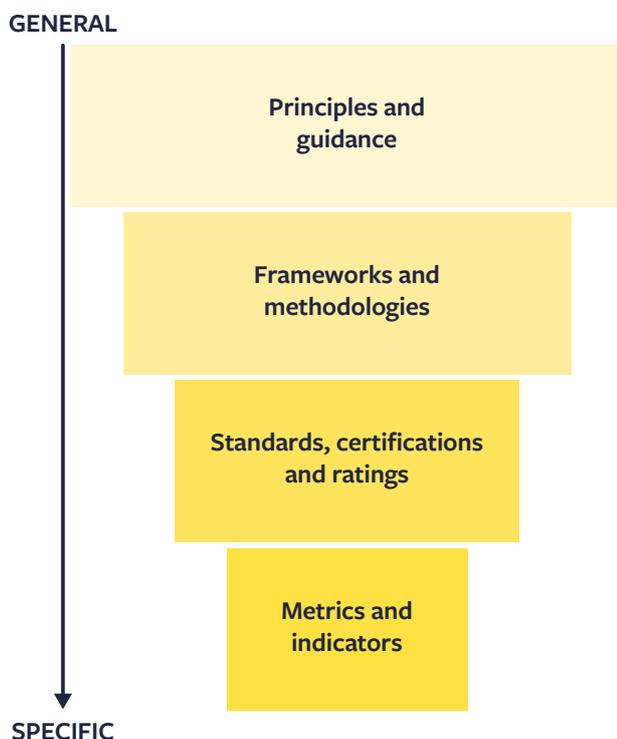
The result is heightened confusion, reduced transparency and, in extreme cases, ‘SDG-and-Impact washing’ (Boiardi, 2020).

An OECD scoping paper (ibid.) mapped the existing IMM harmonisation initiatives along two axes:

- **Function:** whether the initiative targets impact management or impact measurement
- **Category:** the paper considers four different (non-exclusive) purpose categories: (1) principles and guidance; (2) frameworks and methodologies; (3) standards, certifications and ratings; and (4) metrics and indicators.

This results in the inverted pyramid presented in Figure 7, going from general (principles) to specific (metrics) initiatives.

**Figure 7** Inverted pyramid of categories



Source: Boiardi, 2020

## DFIs are harmonising their IMM practices

With a dual mandate to achieve sustainable development impact while generating positive financial returns, DFIs are at the forefront of sustainable investment. In recent years, DFIs have spearheaded development community efforts to harmonise IMM initiatives in pursuit of the SDGs. A notable example is the 2019 International Finance Corporation (IFC) co-creation of the Operating Principles for Impact Management (OPIM), now an independent secretariat and a major industry effort (IFC, 2019). In the same year, the European Development Finance Institutions (EDFI) launched a harmonisation initiative to define key impacts of private sector development and joint reporting (EDFI, 2019a).

Hence, by analysing DFI practice, it is possible to draw both broad conclusions about the status of the IMM market in 2021, and propose recommendations applicable for other investors active in development cooperation contexts.

We examined how DFIs operationalise (1) principles and guidance, (2) frameworks and methodologies, (3) standards, certifications and ratings, and (4) metrics and indicators proposed by the various harmonisation initiatives outlined in the IMM mapping paper (Boiardi, 2020).

We conducted detailed desk research drawing upon a wide range of available material. The sources used include DFIs’ annual reports, development reports, sustainability reports and disclosure statements, and resources from the organisations leading IMM harmonisation initiatives. We selected 24 major bilateral and multilateral DFIs – based on the OECD principal

DFI list – and examined their relationship with 22 impact initiatives (seven in impact management and 16 in impact measurement).

## The rise of common principles

In the impact management function, we observe a strong DFI trend towards common principles, defined in the scoping paper as ‘broad sets of agreed values that provide a common ethic’ (Boiardi, 2020). While a large number of principles have been mushrooming over the past couple of years, our analysis indicates that DFIs have coalesced around the IFC-incubated OPIM (18 out of 24 in the sample) (IFC, 2019). Likewise, all the European DFIs align with EDFI Principles for Responsible Financing of Sustainable Development (EDFI, 2019b).

While the OPIM and the EDFI Principles represent important steps towards DFI harmonisation on IMM, they remain very high level, and do not always allow third parties to discern the depth and quality of the evidence base that investors use to link their investment strategy and the impacts they target (Tideline, 2020). In the absence of alignment regarding underpinning standards of practice and transparency, principles do little to facilitate external differentiation between those DFIs merely conceptualising existing management practices in order to align publicly, and those updating their implementation practices to improve the contribution of their investments towards the achievement of the SDGs.

## Harmonisation of indicators

Our initial scoping paper defines metrics and indicators as ‘standardised quantitative factors used to measure, track or compare investments’ (Boiardi, 2020). Our research finds evidence

of increasing DFI use of harmonised impact indicators, with a view to providing reliable, comparable data on SDG contribution. The most popular indicators used by DFIs are the Harmonized Indicators for Private Sector Operations (HIPSO) (19 out of 24 DFIs in the sample) and the Global Impact Investing Network (GIIN) IRIS+ (14 out of 24 DFIs in the sample) (HIPSO, 2013; GIIN, 2020). While our evidence suggests that a number of DFIs are using both the HIPSO and IRIS+ indicators, the two organisations themselves are committed to avoiding duplication and strengthening their alignment. A testament to this, EDFI and the GIIN recently launched the Joint Impact Indicators (JII), a subset of HIPSO and IRIS Catalogue of metrics (one component of the IRIS+ system) with a focus on jobs, gender and climate (GIIN and HIPSO, 2021). Complementary, qualitative research indicates that these three areas identified by the JII appear to be the most relevant for DFIs to track and report on. However, it remains to be seen to what extent the JII will become the primary DFI reference point for jobs, gender and climate metrics.

The launch of the Joint Impact Model (JIM) in 2020 by a group of DFIs and Steward Redqueen also suggests DFI commitment to disclosing not only the direct but also the indirect impacts of their investments. For instance, Proparco is currently using the tool to estimate jobs and value added by country at the project level, as well as for ex-ante assessment during the due diligence stage of an investment. Elsewhere, CDC uses the tool to estimate the number of jobs supported at the portfolio level (JIM, 2020). While it is not yet clear whether the JIM will be the prevailing model across all DFIs, it underlines increasing DFI efforts to engage in the alignment of their indirect impact reporting.

## The challenge of aligning frameworks

Under the management function, frameworks provide a suitable structure to facilitate the practical implementation of principles and guidance (Boiardi, 2020). Despite a number of attempts – the IMP’s ABC system perhaps being the most famous (IMP, 2018) – our research indicates the majority of DFIs do not implement a harmonised impact management framework. Certainly, frameworks are more complicated to harmonise; unlike principles, they need to be tailored to the size of the DFI, the sectors it is active in, the type of projects and investees it supports, and its internal processes. Consequently, any attempt at harmonisation is debatably too high-level and even runs the risk of allowing investors to backward-engineer impact in a tagging exercise.

Rather than harmonise, our findings indicate that in order to set impact objectives ex-ante, monitor results and assess ex-post, a growing number of DFIs prefer to roll out proprietary frameworks, (Tideline, 2020).

Although it is not possible to develop one development impact framework that works for all DFIs, it is important to converge around underpinning standards, based on best practice. This is vital to produce transparent, consistent and comparable impact data.

In this context, the OECD and the United Nations Development Programme (UNDP) jointly developed the Impact Standards for Financing

Sustainable Development (IS-FSD). Recently adopted by the OECD Development Assistance Committee, the standards help donors, DFIs and asset managers find a common language and integrate impact management into investment practices and decision-making, with a view to assessing both positive and negative effects on people and the planet. IS-FSD embeds the IMP shared norms, helps operationalise high-level principles (such as the OPIM) and provides an operating system for the application of existing tools and frameworks, including metrics (IRIS+ and HIPSO), taxonomies and reporting frameworks. Through alignment, all development finance actors can show their intention to contribute positively to development and achieving the SDGs. Pilot projects throughout the course of 2021 will offer evidence and examples of best practice on investing for impact.

## Conclusion

Through the mapping, we find that it is possible to both harmonise broad sets of agreed values (principles), as well as standardise quantitative factors (metrics and indicators). At the same time, the paper shows that it is not useful to converge towards a ‘one-size-fits-all’ measurement framework. Ultimately, the different contexts and geographies DFIs operate in, as well as the different stakeholders and shareholders they cater for, necessitate framework flexibility. Nevertheless, convergence around underpinning standards of practice is vital to produce transparent, consistent and comparable data on impact.

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# 13 Impact management – what do public disclosures tell us about the state of practice?

**Neil Gregory, International Finance Corporation<sup>1</sup>**

## Abstract

Although there may be more than \$2 trillion in assets managed with an intent for impact, only \$500 billion is managed using clearly identifiable impact management processes. What do we know about the quality of these practices? Disclosure statements by signatories to the Operating Principles for Impact Management allow us to identify aspects of impact management where there is convergence towards emerging good practices, and areas where further progress is needed.

## Introduction

The growing interest in impact investing has led to increased attention to the practice of impact management (IFC, 2019). Formerly the preserve of development finance institutions (DFIs), this has now become a shared practice with the managers of private investment funds seeking to contribute to impact. We have identified three key elements that distinguish public and private impact investors from other types of sustainable investor (ibid.):

1. Intentionality in selecting assets for impact

2. Contribution of the investor to the impact achieved by the underlying firm – either through financial contribution or other forms of engagement
3. Measuring impact performance.

In comparison, the wider category of environmental, social and governance (ESG) investors (for example those following the United Nations Principles of Responsible Investing) manage ESG risks to either improve financial performance or to meet norms of responsible behaviour, but not necessarily to contribute to measured impact.

The Impact Management Project (IMP) has done much to clarify the different dimensions of impact, and the ways investments may contribute to it (Impact Management Project, n.d.a). The establishment of the Operating Principles for Impact Management (n.d.) in 2019 crystallised the essential components of a robust impact management system capable of integrating impact considerations into the investment process at all stages, and generating meaningful impact reporting. Several initiatives, including by the United Nations Development Programme (n.d.) and the Organisation for Economic Co-operation

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<sup>1</sup> I acknowledge the contribution of Alan Lukoma who prepared an analysis of disclosure statements by signatories to the Operating Principles for Impact Management, which this essay draws on. I also thank Deepa Chakrapani for comments on an earlier draft. The findings, interpretations and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of the International Finance Corporation, or those of its executive directors or the governments they represent.

and Development (n.d.), have built on these principles to develop more detailed guidance on best practices in impact management for different types of investors (e.g. private equity, DFIs), based on consultations with market participants. As the industry moves towards consensus on what good impact management looks like, how far have participants come in implementing good impact management systems?

## Bringing transparency

Until recently, it was impossible to attempt an answer to this question. Impact management systems were effectively a ‘black box’ – DFIs and impact fund managers would frequently disclose their impact objectives, and in some cases disclose some data on impact results, but how they managed their investments to achieve these results was not disclosed. In 2019, the International Finance Corporation (IFC) estimates that of around \$2 trillion managed for impact by DFIs, development banks and private impact funds, only a quarter (\$505 billion) had identifiable impact management systems in place, including the \$300 billion managed by the DFIs using the Harmonized Indicators for Private Sector Operations (HIPSO) impact metrics (IFC, 2020).

This matters to asset owners considering investing in these funds or co-investing with DFIs with a motivation to achieve impact. They seek assurance that the institutions they are investing with have a robust system in place to deliver impact. Over time, asset owners may be satisfied with examining the impact performance track record of institutions, but this is not sufficient yet: as a young and growing industry, many fund managers do not have a track record long enough to demonstrate the achievement of impact. It may take a couple of years from a fund’s launch

for it to be fully invested, and it may take four to five years for the impact of each investment to become measurable, so there will be a lag of six or seven years, or more, before a fund can start to demonstrate actual impact. In the meantime, asset owners can draw comfort from the existence of good impact management practices.

The Operating Principles for Impact Management address the transparency problem by placing two requirements on signatories: first, an annual public disclosure, which describes how their impact management system aligns with the principles; and second, a periodic independent verification to assure that the signatory is following the impact management system that it describes in its disclosure statement. Together, these requirements provide transparency and assurance to asset owners on the impact management system’s quality. They also generate dynamic benefits: by publicly disclosing this information in a consistent way for a wide range of institutions, they allow for benchmarking of practices, learning from each other’s practices, and generating peer pressure to improve practices lagging behind benchmark institutions.

So, what can we learn from the first batch of public disclosure statements? This paper draws on a comparison of the first 62 disclosure statements published by signatories to the Operating Principles and insights from surveys of signatories by IFC. The 62 disclosure statements consist of 34 from asset managers, six from multilateral DFIs, 15 from bilateral DFIs and seven from asset owners (pension funds, foundations, insurance companies).

The disclosures show that on each of the three key elements of impact investing – intentionality, contribution and measurement – investors have clear processes in place.

## Intentionality and contribution

All of the disclosures show clear intentionality for impact in setting the investment strategy, with 85% of strategies targeted at contributing to the Sustainable Development Goals (SDGs). The others show intent for impact in relation to specific impact themes, but do not relate them to the SDGs. Half of the disclosures identify specific SDGs, with decent work/economic growth and gender equality the most frequently identified. All the disclosures show that investors seek to establish and document a credible narrative for their contribution in each investment to the achievement of impact. In all cases, this involves identifying a financial contribution to the impact of their investee firms. That is, by providing debt or equity on terms or in amounts not otherwise available to the firm, they enable the firm to expand its impact. Two-thirds of investors also seek to identify contributions through non-financial means such as technical assistance and shareholder engagement.

## Impact measurement

Almost all (97%) of the disclosures show that the investor has a system in place to monitor and report on the impact performance of their investments, using a results framework. Half of them use the IMP framework to assess impact along five dimensions (Impact Management Project, n.d.b). All but one report that they assess expected impact in advance, and 79% review actual impacts achieved ex-post. Two thirds monitor progress in between, at intervals varying from quarterly to annually.

Half of the investors assess the likelihood of achieving the intended impact, which is an

emerging good practice. This encourages explicit consideration of the trade-offs between a risky investment with a high potential impact and a less risky investment with more limited impact potential. Taking into account the likelihood of achieving impact can lead to better choices of investments, and can motivate investors to seek ways to mitigate risks to impact achievement, so improving the expected impact.

Unlike ESG investing, which is plagued by diversity of measurement frameworks, the disclosures reveal substantial convergence towards using consistent impact measurement frameworks, with 58% of the investors using industry standard metrics. The most frequently used metrics (used by 78% of the investors) are the HIPSO and/or IRIS+ indicator sets, with a couple of disclosures reporting use of Sustainability Accounting Standards Board (SASB) metrics. Many of the indicators in IRIS+ are aligned with HIPSO. This alignment is expected to increase over time, so a core set of impact metrics that is used by most impact investors – housed in HIPSO/IRIS+ as a set of Joint Impact Indicators – seems to be within reach.

However, there is more to do to make impact measurement generate meaningful information. Only a third of disclosures report that investors measure the size of the impact from an investment relative to the social or environmental challenge/gap that is being addressed. And only 11% mention taking scale of impact relative to need into account in the asset selection process. This is an area where there is scope for collaboration between investors: a shared effort to measure the size of achievement gaps against SDGs in different countries and communities could provide a common basis for comparing expected impacts against these gaps.

## ESG risks

A past weakness of impact investing was the lack of any requirement to assess and manage ESG risks alongside the pursuit of positive impact. The Operating Principles for Impact Management marked a step towards integrating ESG and impact practices by requiring signatories to assess and manage ESG risks. Almost all disclosures report that the investor has a systematic process in place to assess ESG risks, and 78% report using this assessment to avoid risks, presumably by screening out high-risk investments. More constructively, 69% report using the assessment to manage and mitigate ESG risks, and 68% report engaging with investees to address ESG risks. This suggests that many impact investors are taking a proactive approach to engaging with ESG risks, not just avoiding these risks in their asset selection.

However, there is some way to go in convergence around a common framework for assessing these risks. Although 68% of the disclosures report using ESG standards, the majority of those investors define their own. Those using external standards refer to several different frameworks, including IFC Performance Standards, World Bank environmental and social guidelines, SASB, UN Global Compact and UN Principles for Responsible Investment (PRI) frameworks. Greater convergence towards using the same framework would improve comparability of performance across funds, and strengthen investor confidence in impact investors' management of ESG risks. While almost all disclosures show that investors assess ESG risks up front, only two-thirds have systems in place to monitor ESG risk during the investment period.

## Conclusion

The first set of disclosures is not necessarily representative of the impact management practices of all the signatories to the Operating Principles or the wider impact investing industry. There is good reason to believe there is some positive selection bias – only those investors with robust impact management systems will feel comfortable committing to follow the Operating Principles and disclosing their alignment. Hence, the patterns presented here should be seen as indicative of where the leading edge of the impact investing industry is going. There is work to be done to bring others up to emerging industry good practices.

The disclosures suggest that such good practices are emerging, demonstrated by convergence in several key areas:

1. Using SDGs as a reference point for defining impact goals
2. Considering contribution to impact in investment decisions, with financial contribution at the core
3. Considering five dimensions of impact
4. Defining expected impacts and likelihood of impact upfront, then monitoring progress against these targets at regular intervals
5. Using common impact metrics to measure impact, based on HIPSO and IRIS+
6. Integrating ESG risk assessment and management into the impact management system.

The disclosures also suggest that there is still some way to go to converge towards shared good practices in a couple of areas:

1. Assessing impacts in the context of the scale of the development gaps being addressed
2. Assessing ESG risks against a common set of ESG standards.

The increased transparency provided by the disclosures may motivate impact investors to benchmark their performance against these emerging good practices, and so we may see more convergence in practices in future rounds

of disclosures. An encouraging sign of this is the active exchange of knowledge among signatories to the Operating Principles, who meet regularly to discuss implementation questions. The impact investing industry is still in the early stages of development and faces the challenge of scaling up and mainstreaming while maintaining its integrity. The signs of convergence towards good practices suggest that the industry is maturing in its impact management as it grows.

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# 14 Bringing consistency to impact management

**Paddy Carter, CDC Group**

## **Abstract**

Impact investing would benefit from harmonisation around how impact metrics are interpreted, not only what impact metrics are collected. A framework developed by the Impact Management Project has the potential to improve consistency across investors, but few development finance institutions (DFIs) have adopted it. This essay describes CDC's experience with the framework, and how we adopted it for our purposes.

## **Introduction**

The standardisation of impact data collected by DFIs and impact investors is one side of the harmonisation coin – the other side is how this data is used to manage and communicate impact.

Impact comes in many shapes and sizes, and there is no reason to expect institutions with different strategic mandates to place the same value on different varieties of impact. It is not enough to collect metrics – one cataract operation performed, one smallholder's annual income raised by \$200. To prioritise investments and describe impact at a portfolio level we must try to compare disparate impact metrics against each other. An impact management system expresses the relative values that a DFI places on different impacts, enabling the comparison of apples to oranges. We cannot expect every DFI to place the same value on different impacts, but a more harmonised approach to impact management

would help external stakeholders to better understand how each institution is prioritising impacts in line with their mandates.

For impact investors and DFIs looking to bring more structure to their impact management without attempting to place a dollar value on impact, two complementary approaches are gaining the most traction – a framework for assessing the impact of individual investments, developed by the Impact Management Project (IMP), and the Operating Principles for Impact Management, which is about an effective impact investment process (IMP, n.d.; Operating Principles for Impact Management, n.d.). The latter has already been widely adopted by European DFIs, the former less so. This essay is about CDC's experience of applying the IMP's five dimensions of impact for our day-to-day impact management. As our approach to impact has moved 'beyond jobs', we have found its coherent and structured approach to assessing impact invaluable.

## **Consistency and structure**

We should start from the purpose of impact management. From our high-level strategic development objectives, down through to our sector strategies and the sector impact frameworks – or if you prefer the theories of change behind them – with a little customisation for our purposes, the IMP framework gives us a consistent structure: what are we going to do; how does it lead to impact; what are those impacts.

Investment decisions are the engine room of a DFI, and it is here that the IMP framework helps us translate strategic development objectives to the level of individual transactions. Helping the investment committee take the ‘go/no go’ decision, by forming a view on whether the net expected impact (including risks) is commensurate with the resources to be deployed, is important. But impact investing is not simply a matter of taking yes or no decisions. Clarity around impact helps us understand how best to raise the impact of investments we have decided to proceed with.

Like all DFIs, we require an investment process that can move quickly when necessary, and nobody wants to see time and effort expended unless it results in better decisions and more impact. All this puts a premium on focusing attention on what matters most – what is this investment most about? What do we want more of and how can we get it? What are the risks that we most need to mitigate? Clear answers to these questions help direct the efforts of our teams in the most impactful areas.

The five dimensions of the IMP framework (what, who, how much, contribution and risk) have brought consistency to transaction-level impact assessments so that deal teams and investment committees have a common language in which to assess impact and become accustomed to asking the same set of questions of every transaction. We have created an ‘impact dashboard’ that summarises information about anticipated impacts and risks, organised along these five dimensions. We constrain ourselves to answering these questions for no more than three of the most material impacts of an investment, to focus attention where it matters most. Although every dimension of the framework is important, the questions of ‘who’ and ‘how much’ difference

an investment will make to people’s lives are paramount. These get to the heart of the quantity and quality of impact and can be the hardest to pin down and compare across investment opportunities.

The IMP framework puts the focus on the outcomes experienced by people and planet, and ensures we think through the steps of the chain that connects our contributions as an investor to the ultimate impacts we care about. It is all too easy for investors to stop at the concept of investing in a business. As an active impact investor, doing our job well requires us to understand where the ultimate impact comes from and how we need to manage our investments to achieve it. The fact that we often make investments where the pathways to ultimate impacts can be long and indirect led us to introduce a sixth dimension to our impact framework, which we call ‘how’. If you are investing in a business that sells clean cookstoves the route to impact is reasonably self-evident, but if you are attempting to catalyse a new market then there are links in that chain that need to be made explicit and tested for credibility before we can base an investment decision on the expectation of having knock-on effects via the behaviour of other firms and investors.

The word ‘contribution’ is used by impact investors and is closely related to additionality. We have adopted it at CDC because it changes the emphasis from the question of whether you have provided any inputs that the market would not to what difference those inputs make to development outcomes. Investor contribution is about the difference between what would happen if you make an investment and what would happen if you did not. That can be very difficult to form a clear picture of in cases where an investment of some form or other would probably go ahead in

your absence. We split the problem into two parts – the magnitude of the difference we expect our contribution to make to development outcomes, and our degree of confidence that we are doing something a commercial investor would not. This allows us to consider all these elements together – sometimes the right decision is to proceed even if we cannot be certain of our contribution, because the impact at stake is so great that it would be wrong to walk away and risk it not happening. Alternatively, we may be very confident we are offering something a commercial investor would not, but the impact is insufficient to be worth the effort.

In our impact due diligence, we gather impact-relevant data needed to take decisions. For larger direct investments that could mean commissioning studies by economists or conducting worker and customer surveys. But the decision to invest remains a matter for expert judgement. We quantify expected impacts – job creation, people reached – but there are too many disparate variables to attempt to translate these things into a quantitative impact score and then base investment decisions on whether that score is above some hurdle. The IMP helps us organise information about impact, but it is not a mechanical decision-making tool. We do use an impact score – our development impact (DI) Grid and its successor – and we use it to get a broad sense of how investments rank from higher to lower impact, and to describe and analyse impact at the portfolio level. But transaction-level decisions demand richer, more qualitative information than we want to try and pin down in a score.

## **Portfolio management and transparency**

This structured approach to assessing impact runs right through the investment cycle, and guides how we manage our portfolio for impact. A clearly articulated impact thesis and quantified expectations about such things as the number of farmers reached or jobs created helps define the right impact metrics and risk mitigants making it easier to see when investments are going off track, and what can be done about it. The IMP framework ensures we keep a view across all the dimensions of impact all the way through to our responsible exit reviews, when that time comes.

Last but not least, a clearly articulated impact thesis and statement of expected outcomes is helpful when it comes to evaluation and learning. The CDC and Foreign, Commonwealth and Development Office evaluation programme bases much of its analysis around the sector-level impact pathways that we are identifying using the IMP framework. CDC is also committed to being a leader on impact transparency, and we now publish a summary of the impact dashboard for investments that we have made using the IMP framework. However, the IMP framework is designed for detailed transaction-level impact assessment, and by itself does not lend itself to aggregating indicators on impact performance across a portfolio. It must be complemented by other impact reporting methods, such as the recently launched Joint Impact Indicators that consist of a selection of metrics from the Harmonized Indicators for Private Sector Operations (HIPSOS) and Impact Reporting and Investment Standards (IRIS).

Our approach of deliberately focusing impact management on the most material impacts does not imply that we shrink our efforts to only these things – far from it. Across the ‘impact group’ at CDC, which includes our very hands-on environmental, social and governance team, business integrity, and teams that specialise in strategic priorities such as gender and climate, we add value to our investments in many ways beyond what goes onto the impact dashboard.

## **Conclusion**

CDC has been investing to make a difference to people’s lives for over 70 years but professionalised active impact management is still a nascent industry with a long way to travel.

We are continuously strengthening our impact management and will continue to do so over the coming years. We all recognise that DFIs could do more to demonstrate their impact to their shareholders and to the general public. We believe the IMP impact framework is the right foundation to build on, and if more widely adopted by DFIs and impact investors then stakeholders would benefit from seeing analysis of the same dimensions of impact presented across transactions. The impact investment industry is still some way from speaking a common language about impact, but the Impact Management Project and the Operating Principles for Impact Management are charting a way forward that we would encourage other DFIs to align with, and to bring their own experiences and expertise to bear.

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# 15 How to make harmonisation work: lessons learned from a multi-stakeholder initiative to build the Joint Impact Model

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## Abstract

Harmonisation of impact measurement is needed to improve the transparency, comparability and learning required to achieve the Sustainable Development Goals (SDGs). Achieving this across a diverse group of organisations is challenging. A group of international finance institutions (IFIs) has joined up with Steward Redqueen to develop a harmonised tool to measure and report on indirect economic and environmental impacts of their investments. During this initiative five key elements to success were identified: develop an action plan, adopt a phased approach, put skin in the game, be flexible and do not reinvent the wheel. These learnings will assist other harmonisation initiatives moving forward as only together can we achieve ambitious global goals.

## Introduction

Together with the rapidly growing impact-investing market, demand has increased for greater accountability and transparency on how impact is achieved.<sup>1</sup> While a decade ago impact investors predominantly used proprietary systems to measure and report on their impact, adoption of industry frameworks, tools and systems is

now widespread. The most used standards among impact investors are the SDGs and IRIS+ (GIIN, 2020). Besides using standards, coalitions of organisations have set up harmonisation initiatives ‘for different metrics at different levels and at different speeds’ (Bilal and van Seters, 2019). Examples from development finance institutions (DFIs) are the Association of European Development Finance Institutions (EDFI) Harmonisation Initiative (EDFI, 2020), the Harmonized Indicators for Private Sector Operations (HIPSO) and Joint Impact Indicators (JII) (HIPSO, 2021). Furthermore, over a hundred organisations signed the Operating Principles for Impact Management (OPIM, 2021). Standards and initiatives like these aim to improve the credibility and comparability of results, promote sharing of experiences and best practices, and reduce costs (Bilal and van Seters, 2019).

Whilst these standards and initiatives typically address what to measure, they often do not address how to measure it. This is especially relevant for indicators capturing indirect impacts, which cannot be collected directly from clients. Modelling approaches can be used to obtain insights into indirect impacts, but these are often complicated and expensive, and

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<sup>1</sup> Last year, the Global Impact Investing Network (GIIN) reported that assets devoted to achieving a positive social and environmental impact alongside financial return stood at \$715 billion, compared to \$502 billion in the previous year (GIIN, 2019, 2020).

underlying methodological differences can make comparisons impossible. To help overcome some of these issues a group of IFIs joined up with specialist consultancy Steward Redqueen to build a common model to measure and report on indirect economic and environmental impacts (i.e. employment, value added, greenhouse gas (GHG) emissions). The result is the Joint Impact Model (JIM), launched in January 2021.

Currently, the JIM is freely available for impact investors in developing countries and used by more than 30 organisations.<sup>2</sup> The initiative is managed by a Governing Board of key stakeholders, including the founding member organisations as well as a group of development partners interested in contributing to the JIM. This essay shares lessons from our process to harmonise on indirect impact measurement in order to enhance effectiveness and efficiency of future harmonisation efforts. The first four lessons relate to working within the initiative, while the last is about working beyond the initiative.

## Develop an action plan

When we first discussed developing a harmonised model in early 2019, we did not only want to harmonise between the three institutions around the table (FMO, CDC and Proparco). Our final dot on the horizon was to share our methodologies with others and make the model open access. We developed a clear roadmap with different workstreams outlining how we expected to achieve this goal.

With a multifaced project such as ours, having separate work streams and making sure one does not hold up another enabled us to make progress despite areas of conflict or challenges. For example, setting up a foundation to manage

the JIM took longer than expected. However, this did not hinder us in aligning methodologies and model development. We found progress on these areas generated positivity for the project and incentivised us to resolve more complex issues.

From our experience, harmonisation benefits from having a clear goal from the start, including an action plan, the differentiation of challenges into separate work streams, and ensuring tangents and sub-work streams do not derail the overall goal.

## Adopt a phased approach

We first established a core group of dedicated people with a good understanding of the implications of propositions, before widening the circle. After reaching agreement within the core group, we moved on to a consultation phase. This included allowing stakeholders to test our model and provide feedback. Only after incorporating this feedback and creating a plan on how to manage future development did we onboard new users and development partners.

A phased approach enables the project to have an appropriate level of engagement for the stage it is in, facilitating meaningful and productive discussions and keeping the initiative moving.

## Put skin in the game

In developing the JIM, we committed to the project via a memorandum of cooperation (MoC) as well as by working together with specialist consultancy Steward Redqueen and other experts. Having knowledgeable partners that can give advice and put ideas into action helped to drive the process forward. Additionally, it required us to commit financially to the project, ensuring all in the group were fully dedicated to the project.

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<sup>2</sup> See example of use in annual reports: CDC Group (2019) and FMO (2020).

Formalising a commitment ensures buy-in is obtained from management, and time and resources are made available for the project. This could take the form of contracting experts or signing MoCs with clear objectives.

## Be flexible

When we entered the harmonisation process, some of us already had existing methodologies to quantify indirect impacts of investments. This makes it harder to harmonise than when an organisation does not yet have something in place. However, we all committed to overcoming fundamental differences between methodologies. Some examples of this in our group are FMO agreeing to remove a non-power-enabled impact multiplier, all parties aligning on regional geographies, agreeing to separate reporting on different types of indirect impacts, and aligning enabling impact translation factors. The sum of these adjustments led to significant changes in results for organisations with existing methodologies.

Despite fully harmonising on the JIM methodology, the applicability and data availability continues to be different among the users. Some organisations have detailed data for more precise modelling, others require ex-ante insights. Therefore, some level of flexibility in the application was required.

A trade-off on flexibility and full harmonisation is usually needed to make the initiative accessible to a wide group of users. Without appropriate flexibility, initiatives would likely fail. This is a small price to pay to make such big progress on harmonisation overall.

## Do not reinvent the wheel

The JIM is compatible with existing standards and harmonisation initiatives. As many IFIs use HIPS indicators to track their development results the JIM uses these definitions for IFI input data. Where HIPS indicators are not available, the JIM falls back to other international standards such as IRIS and Organisation for Economic Co-operation and Development definitions (Steward Redqueen, 2021). For GHG emissions, the JIM will adopt the harmonised GHG accounting approach of the Partnership for Carbon Accounting Financials.

Harmonisation initiatives should be considerate of outside stakeholders and strengthen each other rather than compete against each other. This will help to further the broader harmonisation efforts within development finance and ensure sustainability of each individual initiative.

## Conclusion

The JIM has been successful in bringing together some of the key advantages in harmonisation. It has created a platform for sharing methodologies in impact measurement, provided credibility via transparency and enabled comparisons between users. We are starting to enjoy these benefits, such as the benchmark study on employment, which compares results between institutions (Van den Berg, forthcoming). This success would not have been achieved without a clear action plan, the right partners at the right time, and having all members fully committed to the project.

Any harmonisation initiative must have its eyes open to its own limitations and minimise them as much as possible. Full harmonisation is difficult,

and you often have to trade off some areas to make progress overall. To onboard as many institutions as possible and enable the greatest learning opportunities, the JIM has remained flexible. This means divergence in application between institutions persists. To minimise this limitation disclosure on application of the model is encouraged. Another limitation is that the JIM requires data from investees, and in many cases new users have to add additional metrics to their data collection templates, potentially increasing client burden. This is mitigated by aligning to existing standards on input metrics and is why not reinventing the wheel is so important.

With a growing population and inequality on the rise, the poles melting, and an accelerating decrease in biodiversity, it is crucial to measure and manage impacts across all the SDGs. While the JIM has made an effort to improve insights on progress towards SDG 8 (decent work and economic growth) and 13 (climate action), there are many other areas where impact measurement can be improved. Our hope is this essay will help other IFIs in their harmonisation efforts to optimise impacts and jointly achieve the SDGs by 2030. We invite you to work with us in this process, as ultimately broad collaboration will prove to be impactful for all of us.

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# 16 Learning together: the case for a collaborative approach to conducting impact studies

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## Abstract

Impact studies aim to gather insights into the way that investments have changed lives and livelihoods, with a focus on end beneficiaries, complementing insights gathered during regular portfolio monitoring and results measurement frameworks. This essay describes the diversity of approaches taken by development finance institutions (DFIs) to impact studies and lays out some potential benefits of greater harmonisation. The authors argue that total harmonisation is neither possible nor desirable, but that harmonisation around a set of principles could help to realise many of the potential benefits. The article concludes by outlining possible steps towards greater collaboration.

## Introduction

Impact studies aim to gather insights into the way that investments have changed lives and livelihoods, with a focus on end beneficiaries, complementing insights gathered during regular portfolio monitoring and results measurement frameworks.<sup>1</sup> Impact studies can help investors, such as DFIs, to:

- **Help understand and manage impacts.** Impact studies usually test assumptions about how products and services benefit end

consumers and users. This can help DFIs and their clients to understand and thus manage their impacts on people and planet. Many DFI clients have their own explicit or implicit impact goals. Further, positive impact is often positively correlated with financial success (e.g. because customer satisfaction leads to repeat purchases), so findings can also help boost financial results.

- **Demonstrate a causal relationship between an investment and its outcomes.** To demonstrate such a link, it is essential to establish a ‘counterfactual’ – a quantitative picture of what would have happened in the absence of the investment. An impact study that uses rigorous econometric techniques to establish this counterfactual is known as an impact evaluation. This is generally impossible within standard results measurement frameworks.
- **Understand how impacts vary between different groups.** Impact studies allow DFIs to deepen information on gender impacts, and understand impacts on other vulnerable or excluded groups. This information is often highly investment specific, and thus difficult to gather in results frameworks designed to cover whole investment portfolios.

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<sup>1</sup> These frameworks generally contain a set of indicators reflecting desired changes expected to occur at the output and outcome levels.

- **Quantify indirect impacts.** Results measurement frameworks generally focus on direct impacts. Impact studies are a useful complement where indirect effects, for example on the supply chain, are an important part of development impact.
- **Increase accountability and transparency.** Many impact studies involve collecting data from final beneficiaries, or analysing new secondary data sources, whereas results measurement usually relies on internal or promoter-collected data. Triangulation of the two boosts transparency. Further, impact studies are often implemented in partnership with independent experts, bringing an additional layer of independence and technical credibility.
- **Build capacity and a culture of impact measurement.** The process of carrying out impact studies can create capacity for and understanding of impact measurement inside DFIs, among DFI clients and among the external experts and organisations involved in the work, creating an impact beyond the individual studies.

An increasing number of DFIs have launched impact studies with one or more of the aims outlined above. These DFIs often co-invest in funds or companies, but the approaches they have taken to impact studies have varied widely. Would there be a value to harmonisation? What form could a more collaborative approach take, without sacrificing the specificity that is the main benefit of these studies? This essay explores these questions, drawing on lessons learnt from the European Investment Bank (EIB)–Global Development Network (GDN) impact studies programme (Fardoust et al., 2021).

## Impact studies among DFIs

Most of the multilateral development banks (MDBs) have developed a systematic approach to perform impact evaluations, focusing largely

on public sector projects (Simler, 2019). Some DFIs have carried out impact evaluations of private sector operations. For example, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V 's (FMO) worked with the University of Chicago to evaluate the impact of a bridge project in Côte d'Ivoire on end users, attempting to establish causality using quasi-experimental methods (FMO, 2021).

Some DFIs have taken a different approach, prioritising rapid insights with clear value for decision-makers – including clients. The Impact Programme, funded by the UK government, implemented a series of 'deep dive studies' of investments made by the CDC Group, stressing 'lean' methods that could both provide evidence of outcome and be useful for company decision-making. The approach is now integrated into CDC's Rapid Insights Toolbox (Simler, 2019).

Others have attempted to combine approaches. The EIB sought to explore how impact studies might address questions about causality at a relatively low cost, with a faster turnaround than most impact evaluation studies, and with an intentional capacity building element. The EIB–GDN programme engaged renowned impact evaluation experts to ensure technical quality. It aimed to produce studies within a year, and hoped to address questions of interest to both the EIB and its clients, working with 30 young African and Caribbean researchers. The programme has produced 16 impact studies of EIB investments (EIB and GDN, 2019, 2020).

## Potential benefits of more collaboration

Based on the experiences of the EIB–GDN and UK programmes, benefits to increased collaboration on impact studies could include:

- **Increased efficiency and effectiveness.**

DFIs often co-invest, and some companies receive finance from multiple funds with DFI involvement. DFIs should avoid duplicating efforts on impact studies – separate studies of the same investments should be avoided unless there is a clear distinction in the approach and the added value of each effort is clear. Furthermore, analysis of the EIB–GDN programme found that it was hard to generalise the findings of the studies because they covered different sectors, countries and financial instruments, reducing the effectiveness of the work. More collaboration would allow DFIs to coordinate the choice of investments to study in order to build a sufficient joint evidence base on key topics, while covering the range of sectors, countries and financial instruments that are relevant to their business.

- **Reduced burden on clients.** The analysis of the EIB–GDN programme confirmed that some clients view impact studies as an additional burden, on top of the monitoring and evaluation activities they are legally required to carry out. More collaboration could allow for a more client-centered approach.

- **Increased understanding and credibility.** Stakeholders seeking to understand development impact can be confused by numerous studies implemented using a variety of techniques and methods. Greater harmonisation on methods used and the way studies are presented would make it easier for DFI stakeholders to understand, compare and contextualise the information. This would ultimately make it easier for DFIs to communicate their impact. Agreement on common standards and technical oversight could further boost trust in the findings of these studies.

- **Increased technical quality.** Peer review and sharing information about the newest techniques and the practical challenges faced in carrying out impact studies could help to improve technical quality.

## Principles for a collaborative approach

Impact studies examine complex projects in varying sectors and contexts. Full homogenisation of approaches is neither possible nor desirable. However, it could be valuable to align around a set of principles. Based on the experience under the EIB-GDN programme a tentative set of principles of harmonisation could be:<sup>2</sup>

- **Bottom-up.** ‘Final beneficiaries’ are the ultimate authority on the impacts they experience. Making their voices heard, while respecting their time, should be core principles of impact research. All impact studies should aim to help investors and their clients listen to customers, communities, employees and suppliers and provide actionable insights on their needs and interests.
- **Useful.** Impact studies should address relevant questions, identified through discussion with all investors and clients about the strategic questions they face and the decisions they need to make.
- **Timely.** Studies should be designed to provide information ahead of key decision points. When studying, for example, start-ups with fast-evolving business models, the work may need to be completed rapidly for findings to be useful. For other investments, there may be a preference for a highly rigorous study that builds in time to collect detailed baseline and endline data and include a control group.

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2 This set of principles was inspired by and draws on the ‘LeanData principles’ developed by 6odecibels. More information at: [www.6odecibels.com](http://www.6odecibels.com).

- **Right-sized.** The level of academic rigour required will depend on factors including the intended use of a study, the size of the investment, and the likely magnitude of the impact. Researchers should select study methods with a sufficient level of technical rigour to provide reliable information as a basis for the intended use. The analysis of the EIB-GDN programme indicated that stakeholders saw a high level of academic rigour as particularly useful to build a social licence to operate, or to prove key causal links for accountability purposes. In other cases, stakeholders may be looking for actionable and quick insights and academic rigour may be less prized. The EIB-GDN impact studies were most likely to be successful when researchers selected methods to fit the desired use, rather than seeking to employ what they saw as ‘gold standard’ methodology.
- **Harmonised use of indicators.** Use of harmonised core indicators, backed by jointly developed data collection instruments, where possible, would facilitate generalisation of findings. Although impact studies are highly tailored, many indicators about beneficiary profile and sectoral impact might lend themselves to harmonisation. For example, many impact studies use the Poverty Probability Index as a way of estimating poverty rates (Poverty Probability Index, n.d.).
- **Creating and using local capacity to understand context.** The EIB-GDN studies were more likely to be successfully used when they were carried out by researchers with strong links to the countries that they focused on. This requires capacity on the ground, so it is essential to use capacity from both a local research community and local companies providing research and survey services.

- **Transparency and oversight on methods.**

Although methods will differ, studies should observe clear standards around discussion of results, particularly around causality and statistical significance. It could be beneficial to establish joint guidelines on the contexts where it is, or is not, appropriate to make claims about causality. Establishing strong technical oversight can both ensure and demonstrate that studies are of certified technical quality.

## Conclusion

How to move towards implementing these principles? The European DFIs actively share information about impact studies, including at planning stage. Events and webinars organised by, for example, the IFC’s Private Sector Development Research Network (IFC, 2019), GDN and the EIB also provide opportunities to share information and learning (GDN, 2020; EIB, 2021).

A further step could be the establishment of an independent and expert oversight committee across a group of DFIs. The committee could help to harmonise the approaches and provide a credible ‘stamp of approval’. It could help the DFIs to plan impact studies strategically, selecting investments and topics with the aim of filling knowledge gaps and achieving a critical mass of understanding on important questions. Collaboration between a group could also make high-level expertise accessible to smaller DFIs. It would exploit economies of scale and make involvement more attractive to renowned experts.

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# 17 Why the dual nature of DFIs makes harmonised impact measurement difficult and what can be done about it

**Suhyon Oh and Michael W. Hansen, Copenhagen Business School**

## **Abstract**

This paper aims to understand why common impact measurement practices are relatively absent among DFIs. It is argued that each DFI has its own history, mandate, ownership structure and investment strategy, and all of this leads to different approaches to measuring development impact. The variation in DFIs' approaches to impact measurement can be attributed to their inherent nature as hybrid organisations. This paper explains why DFIs' hybrid nature makes harmonisation of impact measurement difficult and outlines ways in which harmonisation nevertheless can be achieved.

## **Introduction**

Harmonising impact measurement and reporting is not a new ambition among DFIs. In 2012, DFIs created a working group in order to develop a standardised set of measurement indicators called the Harmonized Indicators for Private Sector Investment Operations (HIPSO). Now, 28 DFIs have joined the HIPSO Working Group and have agreed to take on board the harmonised definition and units of measurement proposed by the group (EDFI, 2021). These units have been categorised into 38 indicators, which were whittled down from over 400 originally observed by the DFIs (HIPSO, 2021). More than ever before, the development community requires DFIs to demonstrate their impact on development. The ambitious goals and

indicators laid out in the Sustainable Development Goals (SDGs) urge DFIs to track their collective impact from co-investments to better show their developmental efforts. Using harmonised methodology and a standardised reporting format aids DFI credibility. It not only validates their development results, but also legitimises their contribution to achieving the SDGs. However, although the harmonised measurement of the development results has great potential, many challenges remain.

## **DFIs' hybridity is a challenge**

One such challenge originates from DFIs' inherent hybrid nature. A hybrid organisation is defined as 'an organisation whose identity is composed of two or more types that would not normally be expected to go together' (Albert and Whetten, 1985). DFIs are in the unique position of pursuing the dual goals of implementing development objectives whilst simultaneously seeking to attain a profitable margin from their business activity. They are simultaneously commercial investors and development agencies. The concept of 'hybridity' can therefore work as a lens through which the characteristics of and challenges faced by DFIs are better understood.

In this regard, it is critical to understand that the degree of hybridity can vary amongst different DFIs. While all DFIs have both a social and financial mission, their expectations of financial profit and

development impact vary depending on their mandates, history, shareholders, relationships with the government and organisational structures. For instance, some DFIs, which are self-financed, may act more or less as a private financial investor investing in large infrastructure projects in middle- and upper-middle-income countries and expecting financial return on market terms. Other DFIs, who may define themselves more as mission-driven institutions serving marginalised people and communities in low-income countries, will invest mainly on concessional terms.

DFIs' expectations of development impact and financial return can be related to how closely they associate the effectiveness of their investment return with their development impact. DFIs that assess their investment effectiveness based on both financial returns and development impact are different from DFIs that mainly focus on financial returns as a criterion of investment effectiveness.

DFIs' approaches to balancing financial viability and development impact also influence their impact measurement methodology. DFIs with a strong focus on the development mission are more likely to invest in the development of sophisticated measurement methodologies than those that are more commercially driven. For instance, whilst crude quantitative indicators such as the number of direct jobs are preferred by DFIs with a strong focus on financial returns, more mission-driven DFIs will develop methodologies that seek to capture the quality of jobs created and their impact on people and communities. Another example is that commercially-driven DFIs may focus more on ex-ante assessment of impacts based on assumptions, whereas more mission-driven DFIs will engage in more costly ongoing monitoring and ex-post assessment for their main target audiences. More commercially-oriented DFIs may cater to the financial community and

prefer metrics for their development impact measurement, whereas DFIs with a strong development mission may be more interested in complementing metrics with narratives and case stories of their impact. Finally, DFIs may have very different understandings of norms for transparency and data disclosure of the evaluation of impacts. DFIs that are more commercially oriented are likely to be more sensitive to clients' and partners' confidentiality, whereas more mission-driven DFIs, which are publicly governed, may prioritise taxpayers' right to understanding the impact of their funding to a greater extent.

## Hybrid tension has increased

Recently, the challenge of DFIs' hybridity has become more important. In connection with the adoption and implementation of the SDG agenda, DFIs' role in raising capital, alone and in cooperation with private investors, has drawn significant attention from the development community. Impact investors, commercial investors and private equity firms, which were not previously major players in development finance, have increasingly engaged more with DFIs and started to co-invest with DFIs.

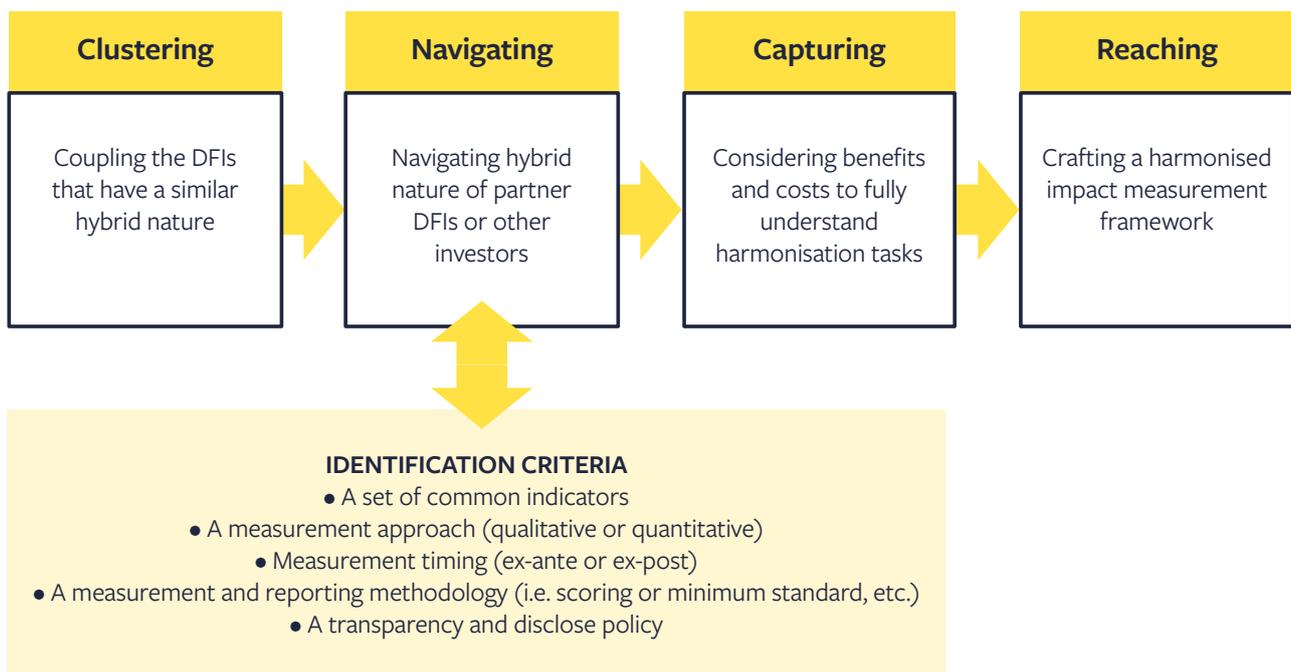
The increasing popularity of blending public money with private finance accelerates DFIs' hybridity challenge since private co-investors may have different preferences for what should be measured and how (OECD and Danida, 2018). In addition, the pressure from development agencies to demonstrate development impact has intensified as DFIs actively take on more responsibilities in development assistance. Engagement of private investors and growing expectations from development agencies may result in intensifying hybrid tension on impact measurement methodology and potentially make harmonisation more complicated.

## Ways to harmonise impact measurement in hybrid DFIs

How can DFIs enhance harmonisation on impact measurement and reporting while navigating their varying hybrid nature? Recently, DFIs have adopted a set of standardised indicators titled the Joint Impact Indicators (JII) by reconciling HIPS0 and Impact Reporting and Investment Standards IRIS+ to measure gender equality, jobs and climate (EDFI, 2020; HIPS0 and IRIS+, 2021). In 2019, the International Finance Corporation (IFC) announced Operating Principles for Impact Management to encourage DFIs and impact

investors to sign the commitment to measure both positive social or environmental impact and financial profit along the investment cycle (IFC, 2019). These two initiatives have made significant progress towards harmonised impact measurement. However, further efforts could be made to harmonise impact measurement in practice. For instance, the joint indicators now established do not identify a common minimum scope for impact reporting, key impact metrics, and adequate disclosure on information. In addition, operating principles in and by themselves do not clarify which impacts will be prioritised and how impacts will be measured.

**Figure 8** Cluster-based harmonisation of impact measurement methodology



Source: Authors

Here we suggest that a DFI clustering approach would help these joint principles and indicators to become operationalised and turned into practice (Figure 8). A clustering approach implies that the DFIs that have a similar type of hybridity are clustered and that impact measurement and reporting methodologies are developed within each cluster. Hence, a group of DFIs showing similarity in terms of their hybrid nature can join forces and develop common understandings of indicators, measurement approaches, measurement timing, and reporting and disclosure practices (navigating). Since the degree of hybridity is similar within the cluster, there may not be many adjustments required. It is crucial that benefits and costs for coordinating measurement are considered in order to extract maximum value from the initiatives (capturing). Ultimately, a final stage of the process will aim at building a

harmonised impact measurement framework within the cluster of DFIs.

## Conclusion

DFIs have made great progress toward standardising impact measurement methodologies over the last 10 years. However, having a range of standardised methodologies does not guarantee that all DFIs will apply them to their practice in a consistent manner, nor that it makes sense to do so. As harmonisation efforts of DFI impact measurement methodologies proceed, it will be critical that these efforts take into account the inherent and varying hybrid nature of DFIs and that common impact measurement methodologies are developed within clusters of DFIs that share similar hybridities.

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