



Cofides' new impact measurement model

🗨️ José Luis Curbelo, Chairman and CEO, Cofides

Impact investing is gaining momentum worldwide, while generalized fiscal scarcity demands accountability from state-owned financial institutions. Within this context, it is essential to set up efficient ways to measure the impact of the private sector in development finance. Cofides' new impact measurement model (MIP) has been designed to facilitate the future accountability of our institutional mandates, as well as to bring transparency, credibility, and discipline to the impact investing market.

AN ARTICLE BY

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Jose Luis Curbelo has been Chairman and CEO of Cofides since July 2018. Prior to this appointment, he held various positions, including Deputy Chairman for development strategies and public policies, Chief economist at the CAF-Development Bank of Latin America, CEO of the Basque Institute of Competitiveness, and Head of the Small Business Development Unit for the Multilateral Investment Fund (MIF) with the Inter-American Development Bank (IDB). His academic background in the field of economics includes a PhD from the University of California-Berkeley, a master's degree from the University of Wisconsin-Madison, and he has completed courses at Harvard University, among others.

How could we best define the term 'Impact Investing' and why has 'Impact Investing' gained so much relevance over recent years? The answers to these questions probably explain why at Cofides we have recently decided to design and implement our own impact measurement tool.

Impact investments must provide financial returns, positive environmental results, and socially positive effects. In short, they are an intermediate point between philanthropy and traditional commercial investments.

In the current context of budgetary constraints, while developed economies accumulate trillions in public debt, financing for achievement of the Sustainable Development Goals (SDGs) cannot be afforded with public resources alone. The United Nations has calculated the investment deficit to meet the 2030 Agenda at \$2.5 trillion.

Cofides adhered to the "Operating Principles for Impact Management" initiative, led by the International Finance Corporation (IFC), in May 2019, becoming one of 60 initial investors to adopt a market standard that seeks to generate positive impacts for society, alongside financial returns, in a disciplined and transparent way.

THE IMPACT FORUM INITIATIVE

At a domestic level, for more than a year now the 'Impact Forum' (Foro Impacto) initiative has been under development in Spain. This initiative from the private sector, openly supported by Cofides, fosters collaboration between economic actors from the public and private sectors, along with civil society. A salient objective of the initiative is the development and consolidation of an impact investing ecosystem in Spain.

With such ambitious policy goals at international and domestic levels, it seems obvious that

there is a clear need for effective tools that will contribute to aiding accountability for public resources and for financiers. For national DFIs, this is especially challenging since evaluating the role and contribution of the private sector to the SDGs needs to rely on effective and comparable methodologies. Therefore, DFIs need to make advances on a consensual definition of such comparable methodologies and standards.

As part of this overall strategy, during 2020, Cofides adopted a completely new impact model, adapted



to its own needs and policy objectives. The PIM (Project Impact Measurement) tool is aimed at aligning investment performance and outcomes with Cofides' corporate strategic objectives.

Cofides' corporate values, reflected in the 2019-2021 Strategic Plan, include sustainability, impact, and commitment to the Sustainable Development Goals as its main drivers. By the same token, Cofides is committed to the social, environmental, and economic sustainability of all its investments. Within the Spanish context, we like to talk about "the Cofides standard".

IMPACT MEASUREMENT TOOL

The need to design an impact measurement tool arose from the following two main causes: the absence of a reference framework to measure, in a unified and comparable manner, the impact on the SDGs of the different investments structured by Cofides, independently of the funding source;¹ and a wish to combine the various measurement tools previously used by the company which, although having similar foundations, did not allow for a comparison, nor for aggregation at the level of the overall portfolio.

PIM is a further step in the implementation of the IFC's Operating Principles for Impact Management, namely principle numbers 4, 5 and 6, which involve: analyzing the expected impact of each investment using a systematic approach; identifying, addressing, monitoring, and managing potential negative investment impacts; and monitoring the progress of each investment with regard to the impact achieved against the expected one.

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The PIM tool will also be able to unify impact measurement for all the activities carried out by Cofides under its dual policy mandate (the internationalization of Spanish business abroad as well as further development in developing economies and emerging markets).

PIM will introduce ex-ante baselines and expected results. The methodology is based on a set of key performance indicators (KPIs) grouped into five blocks of impact targets (employment, environment, domestic income, market development, and gender and social inclusion). These indicators are aligned with good practices and specific sectorial methodologies and initiatives – such as HIPSO, IRIS+, 2X Challenge and others – adopted by most EDFI members, including Cofides.

As Chairman of Cofides, it is a pleasure to announce that this new tool is already a reality, aimed at bringing greater transparency, credibility, and discipline to the impact investing market. ■

FOCUS COFIDES

As a development finance institution, Cofides endeavours to promote the internationalization of the economy and of Spanish companies and contribute to the sustainable development of developing and emerging countries. Cofides provides financing for viable private investment projects in emerging markets and developing economies. Cofides is an accredited entity for the indirect management of the European Union budget and is also accredited to the Green Climate Fund (GCF). It is a founding member of EDFI, the association of European Development Financial Institutions.

¹ Cofides invests, structures and manages operations, funded not only from its own balance, but also against the balances of third parties (the most important are FLEX, FONPYME and FONPRODE, funds from the Spanish Development Cooperation Agency, AECID)