

Finnfund Development Effect Assessment Tool (DEAT) – Scoring and definitions

Categories	3 points	2 points	1 point	Bonus +1
A. Strategic relevancy (40%)				
A1. Country category	Fragile state	LDC/LIC	LMIC	
A2. Sector			Finnfund priority sector	
A3. Inclusive business		Identified and quantifiable	Identified	Main target (+1)
A4. Climate change	Significant positive effect	Positive effect	Some effect	Negative effect (-1) Biodiversity (+1)
A5. Gender marker		Principle	Significant	
A6. CSR / Community development	Benefit sharing	Community involved	CSR policy in place	
B. Correcting market failures (40%)				
B1. Customers and end-users (see below for qualifying criteria)		Three	One or two	
B2. Local producers		Services/goods are bought from local producers in significant amounts	Services/goods are bought from local producers	
B3. Local competition & market development (see below for qualifying criteria)		Three or four	One or two	Challenges existing market structure (+1) Exports (+1)
B4. Payments to government		Significant positive effect	Positive effect	
B5. Direct job creation		Significant positive effect	Positive effect	
C. Additionality (20%)				
C1. Financial	No other investors	Only DFIs or impact investors	Also other private investors, but Finnfund has better terms	Mobilization / Catalyzation (+1)
C2. Value (see below for qualifying criteria)			Finnfund is anticipated to have significant positive impact on some of these fields	

Definitions

A. Strategic relevance

A1. ODA status of project country: [Classification of Fragile and Conflict-Affected Situations](#) and [DAC list of ODA recipients](#). If the project is located in various countries, assess according to the DAC classification of the country/countries where most of the activities are located.

- 3 points – fragile states
- 2 points – least developed country or low income country
- 1 point – lower middle income country
- 0 points – upper middle income country

A2. Sector relevance: Promoting economic activities in strategically relevant sectors. The priority sectors are defined in Finnfund's Strategy 2022-2025

- 1 point – Priority sector. Project is either in forestry, renewable energy, financial institutions, agriculture or digital infrastructure and solutions
- 0 points – Not a priority sector

A3. Inclusive business: Inclusive development. Assess the project's effect on people in the low-income segment of the population or in a vulnerable position.

The project is expected to promote inclusive development, if it i) generates employment, income, business opportunities or other forms of livelihood for those with relatively low incomes or in a vulnerable position, including vulnerability to climate change; ii) provides goods or services that were previously unavailable or scarce to low-income or vulnerable groups; iii) provides goods or services at affordable prices or for free to low-income or vulnerable groups.

The effect need not to be exclusive.

- 2 points – Identified positive effects that are quantifiable and verifiable
- 1 point - Identified positive effects that are not explicitly or directly quantifiable or verifiable
- 0 points – No effect. The project is not expected to have any quantifiable or verifiable positive effect

A3 (bonus). Inclusive business as the main target of the project

- 1 point – One of the project's main targets is to have a positive effect on low-income or vulnerable groups
- 0 points – Effect on low-income or vulnerable groups is not the main target of the project.

A4. Climate change - Assess the project's or the financed activity's effect on climate change mitigation and/or adaptation.

Mitigation

3 points – significant positive effect; counts towards Finnfund's climate finance commitments. The average annual avoided emission or emission removals are above 1000 tCO₂ per invested million € (accounted according to the IFI TWG instructions or FRESOS calculator).

- climate change mitigation
 - Renewable energy production
 - Significant carbon capture through afforestation, reforestation, forest and/or cropland management, avoided deforestation
 - Methane/GHG capture or avoidance projects

2 points - positive effect; counts towards Finnfund's climate finance commitments. The average annual avoided emissions or emission removals are less than 1000 tCO₂ per invested M€ and / or minimum of 30% energy efficiency reduction rate. Often these are energy efficiency projects that result in emissions, but positive effects on the climate in absolute terms can be demonstrated. E.g. project resulting in an increase in energy efficiency; solar-hybrid solutions, manufacturing of long-living products or equipment for the generation of renewable

energy; alternative energy projects (e.g. from waste streams); energy generation with cleaner fuels, etc.

1 points - minor contribution; does not count towards Finnfund's climate finance commitments. The company has a clear strategy in place to reduce their carbon footprint even though the net impact of the strategy is small.

0 points - No positive effects on climate change mitigation

-1 points – Negative effect. The project results in emissions (with no significant energy efficiency or emission reduction targets)

Adaptation

3 points - significant positive effect; counts towards Finnfund's climate finance commitments. The company's product/services specifically improve clients' adaptive capacity (e.g. early warning system technology; irrigation as a service; plant breeding for drought resistant varieties; climate resilient water systems; insurances for climate risks etc.) OR The project's operations significantly and directly improve resilience in the neighbouring communities/society/at system level (e.g. reforestation to stabilize slopes; fire management improvement against increased wild fires; more resilient energy production technologies such as run-of-the-river hydropower, microloans for climate resilient agriculture, etc.)

2 points - positive effect; counts towards Finnfund's climate finance commitments. Climate risk assessment reveals business-related climate risks in the project's operating environment which would be mitigated with the support of Finnfund funding (improvement of project's/company's adaptive capacity; e.g. construction of flood walls; transition to alternative, more resilient technology). The project's operations indirectly improve resilience in the neighbouring communities/society/at system level as defined for example in the respective Nationally Determined Contribution (e.g. telecom services to new/unserved areas, or cheaper services)

1 point - minor contribution; does not count towards Finnfund's climate finance commitments. The company has some specific activities in place, for example under the CSR programme, which contribute to adaptation and resilience, but they are not linked to company's core business.

0 points - Identified climate risks in the operating environment not mitigated with the support of Finnfund funding AND the products/services produced by the project/ company do not enable CC adaptation by its clients

A4 (bonus) **Biodiversity**. Assess if the financed activity significantly contributes to one or more of the following: Biodiversity conservation/enhancement through CSR activities, Nature-based solutions in use (e.g. erosion control, (waste) water management), Biodiversity benefits from business (e.g. REDD+, carbon credits from set-aside and restored areas)

1 point –Positive effect

0 points – No or minimal effect

A5. **Gender marker** - The project's effect on gender equality. Scoring points in this part requires a completed gender assessment (including Gender Annex). The project only scores points if it is an eligible 2X project (see www.2xchallenge.org)

2 points – Gender equality is the main objective and fundamental in the project design and expected results.

1 point – Gender equality is an important and deliberate objective, but not the principal reason for undertaking the project.

0 points – No specific focus on gender.

A6. **CRS / Community development programs** - Assess to what extent the investee company directly promotes local community development with activities and projects in the health and education sectors, infrastructure development, and in the protection of the environment and of cultural heritage as part of their CSR activities.

- 3 points – CSR policy and profit-sharing plan. The company actively supports the local community and has set up a profit-sharing plan which gives the local community a share in the profits of a company
- 2 points - CRS policy and local participation. The company actively supports the local community by applying the company's CSR policies in a permanent, sustainable and predictable manner. The local community participates in the identification, selection and design of projects and activities, and in their implementation. The company allows external evaluation and verification of the projects and makes the report publicly available.
- 1 point - Company supports local communities. The company actively supports the local community development as described above.
- 0 points – Company does not have any community development activities.

B. Correcting market failures

B1. Effect on customers and end-users. Assess the effect of the financed activity on: i) the availability of previously scarce or unavailable products and services through increased or new access to customers and end-users; ii) the reliability of the products or services delivered through increased quality, stability and frequency of supply; ii) the affordability of products or services through lower prices to customers and end-users.

- 2 points – all three
- 1 point – one or two
- 0 points – none

B2. Effect on local producers/suppliers. Assess to what extent the financed activity will generate additional income and economic activity for local producers / suppliers of inputs (i.e. raw materials) and services and of complementary products and create positive incentives for producers / suppliers to increase availability or quality of the provided inputs and services in the project country or in other emerging markets.

- 2 points – Identified positive effects that are quantifiable and verifiable.. *For example, a third of inputs are sourced locally or from other emerging markets or the effect on local services is positive.*
- 1 point – Identified positive effects that are not explicitly or directly quantifiable or verifiable. For example, some inputs are sourced locally or from other emerging markets or the effect on local services is positive
- 0 points – No effect.

B3. Effect on local competition and market development. Assess to what extent the financed activity will have an effect on local competition in the project country or in emerging markets through possible demonstration effects, for example i) improvements in or adoption of new technologies and processes; ii) Improving or expanding market linkages, or creating jobs indirectly; iii) Building skills and capacity that are scarce in the market; iv) Pioneering in a non-existent or nascent market; v) Increasing productivity of the sector or economy; iv) Enabling policy/regulatory reforms.

- 2 points – Three or more of the above
- 1 point – One or two of the above
- 0 point – None of the above

B4. Exports / balance of payments. The financed activity is likely to have a positive effect on the country's balance of payments; any negative effects during the investment stage are clearly outweighed by positive effects in the operational stage, either through the generating or the saving of foreign exchange. The average net annual contribution to the balance of payments is over EUR 100,000 per EUR million invested.

- 1 point – yes
- 0 points - no

B5. Payments to the government. Assess the effect of the financed activity on the government revenues of the project country, thereby enabling government expenditures with a positive development effect.

2 points - A significant positive effect. The company's contribution to annual net government revenues is over EUR 50,000 per invested EUR million.

1 point - Positive effect. The company's contribution to annual net government revenues is EUR 20,000-50,000 per invested EUR million.

0 points - No effect. The company is granted extensive tax holidays, it operates in an Export Processing Zone or the company's contribution to annual net government revenues is under EUR 20,000 per invested EUR million

-1 points - Negative effect on government revenues, because it is dependent on investment subsidies or tariff protection.

B6. Direct job creation / direct employment. Assess the effect of the financing activity on direct employment of the company and how much additional productive and permanent direct employment will be created once the project is fully operational.

2 points – Significant and demonstrable positive effect. The number of new direct jobs created per million EUR invested is 10 or more.

1 point - Positive effect. The number of new direct jobs created per million EUR invested is between 1 and 10.

0 points - No effect. No new jobs created

-1 points - Negative effect. Jobs destroyed – the net effect of the investment on the number of jobs is negative.

C. Additionality

C1 Finance – Finnfund has a mandate to invest in underserved geographies, sectors and segments and invest where others don't. Assess the degree of additionality of the capital Finnfund is offering to the client company.

3 points – No other financier (other than the sponsor)

2 points - Only DFIs or other impact investors (in addition to the sponsor)

1 point – Also private financiers but FF has better terms

0 points – No effect. Private capital is readily available

C1 (bonus) Catalytic role of Finnfund. Assess if Finnfund has a catalytic role in mobilizing additional financing for the project from third parties, including other development finance institutions and commercial financiers.

1 point – Yes

0 points - No

C3. Value – Assess to what extent Finnfund's organizational experience with respect to a specific sector, country or project type can contribute in a demonstrable and significant manner to the completion and realization of the project through support to company's

- Environmental and social management
- Gender work
- Impact management
- Climate work
- Corporate governance
- Human resources / training
- Community development / CSR
- Resource and energy efficiency
- Process management (reporting, financial, supply chains)
- Strategy development

2 points - Three or more of the above

1 point – One or two of the above

0 points – None of the above