Disclosure Statement:

Operating Principles for Impact Management

U.S. International Development Finance Corporation
June 25, 2024

U.S. International Development Finance Corporation ("DFC") is a founding Signatory to the Operating Principles for Impact Management (the "Impact Principles").

This Disclosure Statement affirms that DFC's impact management system, policies and procedures, and investment services (debt, political risk insurance, equity, and investment guaranties) are designed with the intent to align with the Impact Principles, as currently stated. Total Assets Under Management in alignment with the Impact Principles is $40.5 billion as of 3/31/2024.[1]

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[1] Assets Under Management is the DFC's total portfolio exposure, including direct and guaranteed debt (outstanding and undisbursed) and political risk insurance policies (maximum contingent liability, net of risk.

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs) and the Net Zero Initiative. The impact intent does not need to be shared by the Investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- DFC is a wholly U.S. government-owned corporation that was established under the “Better Utilization of Investments Leading to Development Act of 2018” (the “BUILD Act”) to mobilize and facilitate the participation of private sector capital and skills in the economic development of less developed countries and countries in transition from nonmarket to market economies.
- DFC advances the international development objectives of the United States of America (“U.S.”) and the global Sustainable Development Goals (“SDGs”). The strategy focuses on cross-cutting priorities including climate (SDG 13), inclusion, and equality (SDGs 5 and 10), and specific priority sectors, including agriculture and food security, energy, infrastructure, health, and small business support.
- To guide this strategy, DFC set agency-wide impact targets aligned to the SDGs for each of its priority sectors and cross-cutting themes. These targets reflected the annual pace of change DFC wishes to see from its portfolio in specific development areas (such as new energy connections supported or patients provided quality healthcare products and services), as aligned with the pace of change needed to achieve the corresponding SDG target.
- DFC also defines impact objectives for each individual project, consistent with this overarching strategy, including by:
    - Aligning projects to DFC’s impact theses, which describe DFC’s sector and sub-sector priorities, theories of change, high-level impact objectives, and alignment to the SDGs;
    - Supporting investment officers in performing preliminary project-specific development impact analysis during pre-decisional investment screening stages; and
    - Assessing expected impact through DFC’s impact management framework, the Impact Quotient (“IQ”) – and setting project-specific impact targets accordingly.
- The IQ incorporates a standard set of indicators and metrics organized across three broad pillars aligned to DFC’s founding legislation: Economic Growth, Inclusion, and Innovation.
    - The Economic Growth Pillar measures “how much” impact will be derived from investments that increase factors of production (e.g., infrastructure and other critical inputs to economic growth), human capital development (e.g., investments that provide basic human needs), access to finance, jobs, local income, and macroeconomic fiscal benefits. The development objectives of this pillar align with several SDGs, such as Zero Hunger (SDG 2), Good Health and Well-Being (SDG 3), Clean Water and Sanitation (SDG 6), and Affordable and Clean Energy (SDG 7), among others.
    - The Inclusion Pillar measures “who” will benefit from the impacts. This pillar consists of the following indicators: 1) inclusive customer base; 2) inclusive workforce; and 3) inclusive supply chains. These development objectives align with the following SDGs: No Poverty (SDG 1), Gender Equality (SDG 5); and Reduced Inequalities (SDG 10).
    - The Innovation Pillar describes “how” the impacts will be achieved. This includes the investment’s contribution to strengthening market resilience, supporting competitive markets, mobilizing private capital, and benefitting the planet and communities. The development objectives in this pillar align with the following SDGs: Affordable and Clean

Energy (SDG 7), Industry, Innovation, and Infrastructure (SDG 9), Responsible Consumption and Production (SDG 12), Climate Action (SDG 13), and Partnerships for the Goals (SDG 17).

Principle 2: Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- DFC's goal is to advance U.S. development and/or foreign policy objectives, while operating at no cost to the U.S. taxpayers. As such, DFC adopts a portfolio approach to project selection that recognizes possible trade-offs among these objectives.
- DFC has produced sector-specific strategies which consider development impact need, alongside other indicators, to prioritize deal sourcing and business development efforts. These strategies leverage third-party data – such as World Bank indicators – to identify markets with outsized development challenges.
- The IQ provides a flexible, but standardized, approach to impact scoring that enables DFC Management to assess the anticipated development performance of DFC's diversified portfolio. Each project is analyzed based on its contribution to Economic Growth, Inclusion, and/or Innovation.
- Additionally, DFC conducts annual analysis to ensure that its portfolio remains on track to meets its development mandate. In alignment with DFC's impact theses and development impact targets, DFC analyzes data from its annual Development Outcomes Survey ("DOS") to understand project- and portfolio-level progress toward achieving DFC's development goals. This annual assessment includes determining whether projects are underperforming or outperforming relative to their respective impact projections; understanding how the portfolio as an aggregate is performing relative to the global needs described in the SDGs; and identifying opportunities to further enhance development impact.
- DFC additionally sets targets for specific teams and personnel regarding the share of projects in low- and lower-middle income countries and that receive scores in the top two IQ tiers in an effort to incentivize staff toward building a high-impact portfolio.

Principle 3: Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- DFC is statutorily required to ensure that its activities are financially "additional" to private sector resources by mobilizing private capital that would otherwise not be deployed without its support.
- DFC requires each of its potential clients to provide information on why DFC support is necessary and complements, but does not compete with, private sector support. Specifically, each potential client is required to detail efforts to secure private sector financing or political risk insurance for the transaction -- including a list of private sector sources that the client had approached – and

provide a reason why otherwise available financing or political risk insurance is not a viable option.
- DFC's contribution – also referred to as additionality – is discussed and communicated in written documentation throughout the project approval process including in screening memos, credit committee papers, investment committee memos, and in presentations to DFC's Board of Directors.

Principle 4: Assess the expected impact of each investment, based on a systemic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- The IQ framework is DFC's project impact assessment tool that analyzes the expected development impact of its activities. This ex-ante assessment establishes each project's development objectives, contributes to decision making for project selection, and provides a tool to assess the development profile of the DFC's diversified portfolio.
- The IQ provides a systematic approach to impact assessment that is based on identifying a project's potential "core" or most important impacts. The assessment considers:
    - scale of impacts
    - the profile of the project beneficiaries and other key stakeholders
    - how the impact will occur through innovative products, services, operating practices, or financial structures
- The metrics used to measure development impact are aligned with the Harmonized Indicators for Private Sector Operations ("HIPSO"), including the Joint Impact Indicators ("JII"), and the Global Impact Investing Network's ("GIIN") "IRIS+" catalogue of metrics.
- DFC impact management specialists and origination teams collaboratively determine the project's possible core impacts and preliminary IQ score, with the goal of having this information at the time of credit and/or investment committee meetings. At the screening meetings, DFC analysts provide a general assessment of how the impacts help meet a development challenge in the host country, identify any environmental, social, and/or development risks, and convey any lessons learned from similar or existing projects. The IQ assessment and score are further refined as more information about the project is obtained through the due diligence phase and conveyed throughout the project approval process.
- Under the IQ scoring methodology, project impacts that directly address an identified development challenge in the host country are scored on a higher scale than those in which there

is no evidence of a development challenge. In this way, the IQ score incorporates the geographical context.

- The IQ framework encourages thoughtful consideration of ways to maximize the development impact of DFC projects throughout the project term. The IQ framework includes an assessment of potential development risks, as well as recommendations to mitigate those risks. The IQ score is adjusted downward for risks that are not fully mitigated.
- The IQ framework utilizes proxy metrics to incorporate indirect impacts that are not easily measurable, such as the impacts that access to finance has on downstream borrowers of DFC-supported financial intermediaries and the impacts on local suppliers of DFC-supported companies.
- The IQ framework is regularly revisited and updated to improve consistency across assessments and alignment with DFC impact priorities.

Principle 5: Assess, address, monitor, and manage the potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social, and Governance ("ESG") risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- DFC's Environmental and Social Policies and Procedures ("ESPP") articulate DFC's approach to environmentally and socially sustainable development and sets the baseline for achieving positive development outcomes in DFC-supported investments. They are largely based on IFC's Performance Standards and other international finance institutions, such as the European Bank for Reconstruction and Development and the Inter-American Development Bank. DFC's ESPP was recently revised, following a two-year revision process. The updated document can now be accessed through ESPP 2024 PDF.
- DFC's business lines work closely with DFC Environmental and Social ("E&S") analysts to determine a project's eligibility for DFC support. Each potential project is subject to full policy review and classified according to the potential magnitude of E&S risks. This classification (e.g., A, B, C, FI-A, FI-B, FI-C) communicates overall E&S risks of a given project, guides the required diligence, disclosure obligations, and the allocation of E&S resources during assessment and projected for E&S monitoring needs.
- For projects that are likely to have significant adverse E&S impacts that are sensitive, diverse, or unprecedented in the absence of mitigation measures DFC discloses an environmental and social assessment for the public for comment period of 60 days on DFC's website. The results of DFC's E&S assessment for every project are made publicly available in the form of the "Information Summary for the Public" link on the DFC Active Projects site.
- DFC's E&S experts may require changes to the investee's systems, processes, and standards, using an approach aligned with good international industry standards. These requirements are documented in the legal agreement between the DFC and the client. To provide a holistic assessment of each project's development potential, the IQ framework incorporates E&S risks (as well as potential negative economic risks) into the IQ score. The IQ Score is adjusted downward based on the degree and probability of E&S risk where the demonstrated capacity or

commitment to appropriately mitigate these risks requires improvement, or contextual risk that a specific project cannot fully address. This adjustment enhances management's awareness of potential E&S risk in decision making, where management must balance the potential for positive development impacts, financial implications on the portfolio, and other DFC priorities.
- Instances of E&S risks are additionally monitored post-investment, through the annual Development Outcomes Survey, routine desk reviews, and site monitoring.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

- DFC collects development impact data from each of its projects annually through an electronic, comprehensive data survey called the Development Outcomes Survey ("DOS"). This survey comprises metrics aligned to IRIS+ and HIPSO and is designed to enable DFC to assess each project's impact results, compare those results to projects' original projected impacts, and track portfolio-wide progress.
- The metrics used to assess the development performance of the project are included in the legal agreement with the client prior to project execution so that DFC and the client are in alignment on the project's developmental objectives. On site access and data collection requirements, including instructions for completing the DFC's impact data surveys, are included as covenants in the legal documentation.
- Select projects may additionally be nominated to participate in the Customer Voice Technical Assistance Facility, through which 60 Decibels customer experience surveys are administered. Through this process, DFC gains additional insight into end-customers' experiences with DFC clients' products, services, and business operations. This insight complements DOS data, enables an increasingly nuanced understanding of outcomes achieved, and provides insights into specific areas for improvement.
- In addition to routine data collection, DFC's impact specialists visit select projects each year to further understand qualitative impacts, gain deeper understanding of contextual barriers or catalysts a project encounters in achieving its development impact outcomes, fill in data gaps, or identify areas where a project may be able to enhance its development impact or strengthen its impact monitoring. DFC's impact specialists identify projects for site monitoring based on a combination of thematic and performance considerations.
- Using these various tools, DFC assesses projects' performance with respect to project-specific impact key performance indicators. These assessments are available to staff throughout the organization and used to prioritize follow-on efforts and support such as the provision of technical assistance or prioritization for on-site monitoring, to inform reinvestment decisions, and to inform exit decisions including write-offs and restructuring, on a case-by-case basis.

Principle 7: Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- DFC currently supports projects through direct or indirect financing and financial guarantees. During such tenor, any change of project ownership or material involvement of initial participants generally requires DFC consent. DFC's goal is for best practices to be implemented during the tenor of DFC's involvement, which should, therefore, continue after exit.
- Additionally, in instances where a client faces financial distress, DFC's financial and impact monitoring teams may collaborate on the analysis of how to proceed. This may result in write-off decisions, restructuring, or other steps that account for the financial performance and viability of the client alongside its impact performance and future impact potential.
- DFC has implemented a pilot of project "close-out" evaluations to enable DFC to glean lessons learned from the investment, as well as assess the likelihood of the sustainability of positive impacts upon exit.
- Under the BUILD Act, DFC has been granted authority to make direct equity investments. DFC will consider incorporating policies and procedures to enhance the sustainability of positive impacts upon exit for this product, as well as other DFC products.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- DFC has significantly expanded and strengthened its impact management system. DFC assesses each project's core impacts to determine whether the project is on track to meet its development objectives to glean lessons learned for similar or repeat clients, assist in determining the development performance of the DFC portfolio, and contribute to DFC development strategy and goals.
- Further, DFC analyzes patterns and trends in impact performance at the portfolio level. For example, data from the DOS inform a series of impact performance dashboards which are available to all DFC staff. These dashboards enable both aggregated and project-level views of impact performance, comparisons between impact results and the scale of remaining global need in each sector, and comparisons between projects' results and their initial baseline and projected impact performance. As such, these dashboards share learnings of achieved and potential development impact with staff across the agency.
- Additionally, key findings from the DOS are distilled into an internal impact review for each priority sector and shared with DFC's CEO and COO to identify strategic learnings and inform future allocations strategies as well as with investment teams to inform investment selection and structuring.
- DFC conducts portfolio evaluations on selected projects to facilitate learning that will aid in the design of future projects and identify opportunities for further impact management. The performance evaluation results are uploaded to DFC's information management system and, whenever feasible, shared publicly on DFC's website. Completed portfolio evaluations are available at DFC Approach to Impact site.

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- DFC and the IQ were formally established in January 2020. Many relevant DFC processes, systems, strategies, metrics, policies, and hiring actions remain in development.
- This Disclosure Statement re-affirms the deepening alignment of IQ with the Impact Principles as the impact management framework is being implemented.
- The independent Verification Statement, conducted by BlueMark dated June 22, 2021, on the alignment of DFC's IQ framework with the Impact Principles is posted on DFC's website:
    - BlueMark is a leading provider of independent assessments to help investors understand strengths and gaps in their approach to impact investing, including alignment to the Operating Principles. Specifically, BlueMark evaluates investors' ESG approaches and impact management systems, alongside other complementary services including reporting verifications, regulatory support services, and impact-focused market intelligence. BlueMark is a wholly owned subsidiary of Tideline Advisors, LLC, which was established in 2014 to provide impact investing advisory services.
    - BlueMark registered address: 915 Battery St, San Francisco, CA 94111, USA
- DFC is developing plans for its next impact verification, expected in late 2025.