U.S. International Development Finance Corporation

Disclosure Statement
Operating Principles for Impact Management

U.S. International Development Finance Corporation

July 14, 2022

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 $33.2 billion as of 3/31/2021.[1]

Elizabeth Boggs Davidsen

Digitally signed by Elizabeth Boggs Davidsen
Date: 2022.07.20 12:39:20 -04'00'

Elizabeth Boggs Davidsen
Vice President, Office of Development Policy
U.S. International Development Finance Corporation
July 14, 2022

[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 sharing arrangements).

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), or other widely accepted goals. 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-owned U.S. Government 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"). DFC's Chief Development Office develops DFC's development strategy and strengthens linkages with the U.S. Government's Agency for International Development ("USAID"), Millennium Challenge Corporation ("MCC"), and other U.S. Government agencies for a "whole-of-government" approach to U.S. international development activities. The strategy focuses on priorities including climate (SDG 13), health (SDG 3), and gender equity and equality (SDGs 5 and 10).

- The Office of Development Policy oversees the implementation of the Impact Quotient ("IQ"), DFC's impact management framework that provides a standardized methodology to assess and monitor the Corporation's progress to achieving its development goals. The IQ incorporates a standard set of indicators and metrics organized across three broad pillars: Economic Growth, Inclusion, and Innovation. These themes are prevalent in DFC's founding legislation.

- 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, and enterprises that create jobs, local income, and macroeconomic fiscal benefits. The development objectives align with several Sustainable Development Goals, such as: Zero Hunger (SDG 2), Good Health and Well-Being (SDG 3), Quality Education (SDG 4), Clean Water and Sanitation (SDG 6), Affordable and Clean Energy (SDG 7), Decent Work and Economic Growth (SDG 8), Industry, Innovation, and Infrastructure (SDG 9), Sustainable Cities and Communities (SDG 11).

- 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 Sustainable Development Goals: 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 and mobilizing private capital. It includes the following indicators: 1) market and energy diversification; 2) innovative financial structures/business models that are intended to mobilize private capital; and 3) transfer of knowledge and technologies. The development objectives in this pillar align with the following Sustainable Development Goals: 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). DFC will be incorporating revisions to this Pillar next fiscal year that clarify the indicators and incorporate new metrics that align with DFC's climate goals.

- In addition to aligning DFC's development strategy and IQ pillars with the global Sustainable Development Goals, DFC is strengthening its policies and procedures to further align each project to specific SDG targets. This is enhancing DFC's ability to demonstrate its contribution to achieving the Global Goals.

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.

- The IQ provides a flexible, but standardized, approach to impact scoring that enables DFC Management to assess the development performance of DFC's diversified portfolio. Each project is analyzed based on its contribution to Economic Growth, Inclusion, and Innovation.

- DFC's Chief Development Officer's ("CDO") role is to guide DFC in ensuring that its portfolio remains on track to meets its development mandate at the strategic level. The CDO establishes the Corporation's development strategy that prioritizes sectors, geographies, and cross-cutting development objectives, such as climate and gender equity. IQ is used for portfolio tracking to monitor and report on DFC's progress in achieving its development goals.

- DFC will consider aligning staff incentive systems with the achievement of impact as best practices emerge and to the extent that it is feasible within U.S. federal salary guidelines.

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 any available financing or political risk insurance is not a viable option.
- DFC's financial 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. DFC is in the process of developing a framework to incorporate an assessment of DFC's non-financial additionality, as well.
- With the passage of the BUILD Act, DFC was granted authority to develop a technical assistance program. Technical assistance may be deployed to increase the development impact for select transactions.

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 enables DFC to estimate 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 largely aligned with the Harmonized Indicators for Private Sector Operations ("HIPSO") and the Global Impact Investing Network's ("GIIN") "IRIS+" catalogue of metrics.

- The IQ tool helps inform project selection and establish the development objectives of each investment under consideration. 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 and adjusted upward for if the DFC partner adopts measures that will increase the project's development impact.

- The IQ framework utilizes proxies to estimate 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.

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 ("ESPS") 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 ESPS is in the process of being updated this year.

- 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, Special Consideration) assists in determining project eligibility, decision making during the project approval stage, and in the allocation of resources for monitoring during the construction and operational phase.

- Projects that are likely to have significant adverse E&S impacts that are sensitive, diverse, or unprecedented in the absence of mitigation measures are disclosed to the public for comment period of 60 days on DFC's website, including the environmental and social impact assessments. The results of DFC's E&S due diligence for every project are made publicly available in the form of the "Information Summary for the Public" link on the DFC website https://www.dfc.gov/our-impact/all-active-projects.

- 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. In addition, DFC staff may engage technical assistance funds to assist in closing any gaps.

- 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 probably of E&S risk where the demonstrated capacity or commitment to fully mitigate these risks is weak. 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.

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 twice a year through an electronic, comprehensive data survey called the Development Outcomes survey and through shorter, focused IQ Results Tables. This facilitates DFC's ability to assess each project's impact results compared to the projected impacts.

- DFC collects development impact data in the IQ Results Table from clients six months after a project becomes active and through a Development Outcomes Survey (DOS) annually a year after the project is active. The IQ Results Table is focused on the specialized short set of metrics that were identified and scored on IQ during the project approval stage. The IQ Results Table enables DFC to engage with clients early in the project lifecycle on the reporting of impact results and is complementary to the data gathered through the DOS.

- The DOS provides a more comprehensive set of impact data from DFC supported projects. DFC uses this data to further understand development impact of every project as well as for aggregated portfolio analysis and reporting.

- Through its biannual data collection, DFC identifies projects that may need additional support or gleans lessons from the ones that are exceeding expectations. DFC may revise the IQ score if the original objectives are no longer realistic.

- The identified metrics that are 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 for monitoring and evaluation activities are included as covenants in the legal documentation.

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 have been intrinsically implemented during the tenor of DFC's involvement, which should, therefore, continue after exit. There may not be, however, a legal requirement for such.

- Under the IQ framework, investments that are close to maturity are prioritized for project performance evaluations to the extent feasible. DFC is developing policies and procedures to conduct these evaluations, but the intention is that these "close-out" evaluations will 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 is in the process of developing its results management system and building a team of impact management specialists. The goal is for DFC to assess each project's Core impacts and indicate whether the project is on track to meet its development objectives. The goal is to utilize the data 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.

- DFC conducts impact performance evaluations on selected projects to facilitate learning that will aid in the design of future projects and improve the IQ framework. The performance evaluation results are uploaded to DFC's information management system.

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 Disclosure Statement and will be updated in June 2023.

- 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.

- DFC intends to undertake the next independent verification in 2024.