Disclosure Statement
Operating Principles for Impact Management

U.S. International Development Finance Corporation
June 24, 2020

U.S. International Development Finance Corporation ("DFC") is a founding Signatory to the Operating Principles for Impact Management (the "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 Principles, as currently stated. Total Assets Under Management in alignment with the Principles is $27.7 billion as of 3/31/2020.

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June 24, 2020

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."). DFC's Chief Development Officer develops the Agency's development strategy, strengthening 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.

- DFC's IQ tool establishes development objectives for each project in collaboration with the client and DFC early in the process. Each project is evaluated based on its expected impacts on the following broad, cross-cutting development objectives: economic growth (scale), inclusion (beneficiary profile), and innovation. The evaluation considers the country context and is adjusted for environmental, social, and development risks. The IQ process ensures that development impact is considered at every decision milestone in the project approval process, including screenings, credit committees, investment committees and Board of Director meetings.

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 mission is to invest with private sector partners to advance the interests of the American people through development in emerging markets. 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 evaluation 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, irrespective of the project’s size, country or sector, or the DFC financial tool to be employed.

- 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 BUILD Act mandates that DFC prioritize investments in low income and lower middle-income countries or investments that benefit the poorest populations of upper middle-income countries. The CDO will utilize IQ and other portfolio tracking tools to monitor the DFC’s development performance *vis-à-vis* its other mandates, such advancing U.S. foreign policy and generating positive returns to U.S. taxpayers.

- DFC’s Development Strategy, which remains in development, will establish specific metrics across priority development sectors and cross-cutting themes.

- It is anticipated that relevant performance metrics of staff will be linked to the advancement of DFC's Development Strategy.

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.
- With the passage of the BUILD Act, DFC has been granted authority to develop a technical assistance program. This technical assistance program 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 economists and origination teams collaboratively determine the project's possible core impacts and preliminary IQ assessment, with the goal of having this information at the time of screening 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 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 methodology, project impacts that directly address an identified development challenge in the host country are evaluated on a higher scale than those in which there is no evidence of a development challenge. In this way, the IQ assessment 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 evaluation accounts for risks that are not fully mitigated as well as whether the DFC partner adopts measures that will increase the project's development impact.

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") articulates 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 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 evaluation. The IQ assessment 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 is developing a new results framework, called the Development Impact Measurement Summary ("DIMSUM"), which will facilitate DFC's ability to capture each project's baseline metrics, 5-year projections, and annual development data provided by the DFC client through the Development Outcomes Survey.

- Under the new system, DFC will monitor and assess the impacts identified as "Core" to the project on an annual basis. DFC will identify projects that may need additional support or glean lessons from the ones that are exceeding expectations. DFC may revise the IQ assessment if the original objectives are no longer realistic.

- The identified "Core" impacts are included in a Side Letter to the legal agreement that DFC signs with the client prior to project execution, so that DFC and the client are in alignment on the project's developmental objectives and expectations. All site access and data collection requirements, including instructions for completing the Development Outcomes Survey, 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, including consent from E&S and Economic Impact Managers. 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 BUILD Act, DFC has been granted authority to make direct equity investments. In developing these guidelines, DFC will consider incorporating policies and procedures to enhance the sustainability of positive impacts upon exit.

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, DIMSUM. 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 performance evaluations on selected projects to facilitate learning that will aid in the design of future projects and improve IQ framework. The performance evaluation results will be documented in a written Ex-Post IQ Assessment, which will be uploaded to DFC's information management system.

Principle 9: Publicly disclose alignment with the 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 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 was officially launched in December 2019, and has been piloting the IQ since that time, with a final launch anticipated in the future. Many other relevant DFC processes, systems, strategies, metrics, policies, and hiring actions remain in development.

- DFC is currently assessing different options and the optimal timing for the independent verification of IQ's alignment with the Principles. The goal is to secure the independent verification by April 2021.