

Disclosure Statement Operating Principles for Impact Management

IDB Invest
April 7, 2021

The Inter-American Investment Corporation (IDB Invest) is a founding signatory to the Operating Principles for Impact Management (the Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This Disclosure Statement affirms that IDB Invest's core/client business are managed in alignment with the Principles. The core/client business includes (a) impact management systems; (b) policies and practices; (c) financing; (d) guarantees; and (e) third-party mobilization funds. Total assets under management in alignment with the Principles is US\$15.7 billion¹as of December 31,2020.^{2,3}



James Scriven
IDB Invest General Manager
April 7, 2021

¹ Includes the following amounts:

- Gross development related investments portfolio of loans, purchased debt securities, and equity investments, excluding allowance for development related investments losses: \$4.4 billion as of 12/31/2020.
- Guarantees outstanding exposure: \$107.3 million as of 12/31/2020.
- Outstanding exposure for non-sovereign guaranteed guarantee of the Inter-American Development Bank (IDB) managed by IDB Invest: \$431.4 million as of 12/31/2020.
- IDB Invest's mobilization of third-party funds from commercial banks, financial institutions, IDB and donors through participations and co-financing arrangements: \$8.7 billion as of 12/31/2020.
- Total undisbursed commitments for IDB Invest and IDB NSG: \$2.1 billion as of 12/31/2020.

² Excluding liquidity management.

³ The sole purpose of this Disclosure Statement is to fulfill IDB Invest's obligations pursuant to Principle 9. This document shall not constitute and should not be construed as an offer, solicitation or invitation to buy or sell any securities, financial instruments or services whether described herein or otherwise, or as any prospectus or investment-related advice in relation thereto, nor is it intended to form the basis of a decision to participate in any investment. IDB Invest makes no guarantee or other promise as to any outcomes, including any financial or development impact results that may be obtained from the practices disclosed in this statement. While past performance may be analyzed in this Disclosure Statement, past performance should not be considered indicative of future performance. Accordingly, IDB Invest shall not have any liability to any of the recipients of this Disclosure Statement, nor to any other party in connection with or arising in any way from, or in relation to, the information or any opinions expressed in this Disclosure Statement, and IDB Invest does not accept any responsibility whatsoever for any action taken, or omitted to be taken by any party on the basis of any matter contained in, or omitted from, the Disclosure Statement.

Principle 1 - Define strategic impact objective(s), consistent with the investment strategy: The Manager shall define strategic impact objectives¹ 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.

- IDB Invest, a member of the Inter-American Development Bank (IDB) Group, is a multilateral development bank committed to promoting the economic development of its member countries in Latin America and the Caribbean through the private sector. IDB Invest finances sustainable enterprises and projects to achieve financial results that maximize economic, social, and environmental development for the region.
- The IDB Group's Institutional Strategy² provides the framework that guides the activities of the IDB Group to promote economic growth, poverty reduction, and social inclusion in Latin America and the Caribbean. The implementation of the Institutional Strategy is monitored through the IDB Group's Corporate Results Framework (CRF), which sets institutional targets that map directly to the Sustainable Development Goals (SDGs).³ The IDB Group prepares Country Strategies⁴ with each of its borrowing member countries to define development challenges and priority areas to address.
- The Group's vision anchors IDB Invest's own strategic framework, the first component of which is the Renewed Vision reflecting the Governor's long-term mandate for the institution. To address the short to medium-term, IDB Invest develops Action Plans and three-year Business Plans. Additionally, IDB Invest reports on the progress achieved towards impact and institutional goals through comprehensive quarterly operational, financial, and institutional presentations.
- Every IDB Invest operation in the active portfolio has been mapped to the corresponding SDG targets to which it is expected to contribute. The expected contributions of projects to specific SDG targets will be updated annually during project supervision.
- Through its Impact Management Framework⁵—which includes an end-to-end series of tools and practices to support the full project lifecycle from deal origination and structuring to monitoring, evaluation, learning, and knowledge dissemination—IDB Invest actively selects projects based on their potential to generate measurable development impacts alongside financial sustainability, focusing on targeted country and sector development gaps.⁶

¹ Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (www.oecd.org/dac/).

² See: www.iadb.org/en/about-us/strategies.

³ See: <https://crf.iadb.org/en/sdgs>.

⁴ See: www.iadb.org/en/about-us/country-strategies.

⁵ For a detailed description of IDB Invest's Impact Management Framework see: www.idbinvest.org/impact.

⁶ See footnote 5.

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.

- IDB Invest's Impact Management Framework is rooted in a portfolio approach ("Portfolio 2.0") that systematically integrates development impact and financial management into investment decision-making and portfolio management. This process aims to construct a portfolio that delivers on IDB Invest's mission to maximize development impact and ensure long-term financial sustainability.
- Portfolio 2.0 is comprised of two critical tools: the Development Effectiveness Learning, Tracking, and Assessment tool (DELTa), which scores the ex-ante development impact potential of each transaction; and the Financial Contribution Rating (FCR), which measures the financial contribution of each transaction to IDB Invest, based on the risk-adjusted return on capital (RAROC). Proposed investments need to meet certain impact and financial contribution rating thresholds in order to advance. These "hurdle rates" are on a sliding scale, with decreasing financial contribution requirements for highly impactful projects.
- In concert with the DELTA, the Strategic Selectivity Scorecard helps IDB Invest target origination efforts by identifying country private sector investment needs by industry and sectors where the development gaps are relatively deeper. This tool helps to guide project selection across the portfolio in line with institutional priorities, including a focus on priority countries; micro, small and medium-sized enterprises; climate change; gender equality, and diversity.
- The DELTA also monitors impact performance across the portfolio by tracking the achievement of investment results during execution on an annual basis. Impact results achieved during supervision are aggregated at the portfolio level annually in the CRF and reported in the Development Effectiveness Overview (DEO)⁷, which is the IDB Group's annual report on results and impact.
- IDB Invest's Compensation and Rewards strategy includes incentives and recognition programs designed to reward the performance of employees at the individual and team levels in relation to the annual objectives that are linked to the impact of IDB Invest.

⁷ See: <https://publications.iadb.org/en/development-effectiveness-overview-deo-2020>.

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.⁸ The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- IDB Invest evaluates both the expected development impact and “additionality”⁹ of each investment as part of the project structuring and approval process using the DELTA scoring system. DELTA scores are combined with project financial contribution ratings to make investment decisions (i.e., the portfolio approach as described in Principle 2). The DELTA score captures project impacts, systemic effects on market creation and sector development, as well as how IDB Invest adds value to the project through its financing (i.e., terms and conditions and resource mobilization) and non-financial support in areas such as environmental and social standards, corporate governance, and gender equality and diversity, among others.
- “Additionality,” which is central to the mandate of IDB Invest and is embedded in its founding documents,¹⁰ refers to the added value that IDB Invest must contribute to a transaction beyond what is available in the market from commercial sources on reasonable terms – or is otherwise absent from the market – and does not crowd out the private sector.^{11,12}
- Under IDB Invest’s additionality framework¹³, all projects are assessed and scored in terms of their financial additionality and non-financial additionality following explicit guidelines in the DELTA tool.¹⁴ IDB Invest’s contribution to the achievement of impact is reflected in the DELTA project score assigned to each transaction, which is a combination of the additionality and development outcome scores.

⁸ For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher corporate governance and operational standards.

⁹ See footnote 5.

¹⁰ The [Agreement Establishing the IIC](#), Article III, Section 3, that established, among other Operating Principles, that the Corporation (c) shall provide financing on term and conditions which it considers appropriate taking into account the requirements of the enterprises, the risks assumed by the Corporation and the terms and conditions normally obtained by the private investors for similar financings; and (g) shall not undertake any financing for which, in its opinion, sufficient capital could be obtained on adequate terms.

¹¹ See footnote 5.

¹² For more on additionality see: “MDB Harmonized Framework for Additionality in Private Sector Operations”. (<https://www.idbinvest.org/en/publications/report-multilateral-development-banks-harmonized-framework-additionality-private>).

¹³ For more information on IDB Invest’s additionality framework, see the 2018 DEO (p.14-15): (<https://publications.iadb.org/en/development-effectiveness-overview-deo-2018>).

¹⁴ See footnote 5.

Principle 4 - Assess the expected impact of each investment, based on a systematic approach: For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete positive impact¹⁵ 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?¹⁶ 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 standards¹⁷ and follow best practice.¹⁸

- IDB Invest's systematic approach to assessing the expected impact of each investment is centered on the DELTA, a rigorous, fact-based impact scoring system. The DELTA is used throughout the project cycle from the ex-ante assessment to the ex-post evaluation to track and measure progress against the achievement of impact targets.¹⁹
- Embedded within the DELTA project score is an approximation of the economic and social rate of return (monetization) of each investment, complemented by a stakeholder analysis to ensure that the most important direct and indirect effects are considered; a sustainability assessment to ensure that the project is financially sustainable and meets environmental, social, and corporate governance (ESG) requirements; and an assessment of the additionality that IDB Invest brings to the project. The DELTA also includes an evaluability score to assess whether the project is designed in a way that allows development impact to be evaluated and verified ex-post.
- The DELTA is accompanied by a results matrix that includes output and outcome indicators with yearly targets that are tracked throughout project implementation. These indicators are aligned, to the extent possible, with industry standards, including the Harmonized Indicators for Private Sector Operations (HIPSO) and IRIS+, and best practices (SMART).

¹⁵ Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

¹⁶ Adapted from the Impact Management Project (www.impactmanagementproject.com).

¹⁷ Industry indicator standards include HIPSO (indicators.ifipartnership.org/about/), IRIS (iris.thegiin.org), GIIRS (b-analytics.net/giirs-funds), GRI (www.globalreporting.org/Pages/default.aspx), and SASB (www.sasb.org), among others.

¹⁸ International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely) and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

¹⁹ See footnote 5.

Principle 5 - Assess, address, monitor, and manage 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)²⁰ 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.²¹ 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.

- IDB Invest's Sustainability Framework sets the criteria, policies, and standards that enhance the environmental and social sustainability of the investment projects financed by IDB Invest.
- The Framework includes an updated Environmental and Social Sustainability Policy²² ("Sustainability Policy"), effective December 15, 2020, IDB's Invest's Access to Information²³ Policy, and a new Exclusion List.
- The Sustainability Policy describes core responsibilities and requirements both for IDB Invest's clients, and for the institution itself during environmental and social appraisal and supervision. The updated Sustainability Policy reflects changing circumstances, new and emerging priorities, and lessons learned over the last few years. It references the IFC Performance Standards on Environmental and Social Sustainability and the World Bank/IFC Environmental, Health and Safety (EHS) General and Industry Guidelines,²⁴ which establish the specific client requirements for E&S safeguards and are widely accepted standards in the international finance community.
- IDB Invest's Access to Information Policy reflects IDB Invest's commitment to enhancing transparency and accountability in its activities, aspects that the institution considers necessary and fundamental to fulfill its sustainable development purpose. IDB Invest discloses the project's Investment Summary, E&S Review Summary and E&S Action Plan on its website²⁵ at least 30 days prior to Board approval. For high-risk projects, the client's E&S documentation is disclosed at least 60 days prior to Board approval and the E&S Action Plan is updated annually on the website.
- IDB Invest undertakes E&S due diligence on all projects, assessing the client's ability and commitment to achieve E&S outcomes consistent with the Sustainability Policy.
- IDB Invest assigns each project an E&S categorization to reflect the level of E&S risk (i.e., for direct investments: A, B and C; and for financial intermediary investments: FI-1, FI-2, and FI-3). IDB Invest E&S specialists conduct the E&S due diligence and prepare an E&S Review

²⁰ The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

²¹ Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethology).

²² <https://idbinvest.org/en/sustainability>

²³ <https://www.idbinvest.org/en/access-information-policy>

²⁴ See: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines.

²⁵ See: <https://www.idbinvest.org>

Summary describing the project's key impacts and mitigation measures, and, where relevant, an E&S Action Plan listing the actions required by the client to comply with IDB Invest's E&S policy requirements.²⁶

- In relation to corporate governance (CG), risks are assessed according to the IDB Invest Corporate Governance Guidelines, which describe the IDB Invest Corporate Governance Methodology, risk-based priorities and assessment responsibilities and requirements throughout the investment process and supervision. The IDB Invest Corporate Governance Guidelines are in line with the global Corporate Governance Development Framework²⁷, a common platform for evaluating and improving governance practices adopted by 35 development finance institutions in the world.
- IDB Invest conducts CG due diligence in each and all projects, assessing five key CG attributes: (1) the company's commitment to good CG; (2) structure and functioning of the Board of Directors; (3) control environment and processes; (4) transparency and disclosure; and (5) shareholders rights and treatment.
- IDB Invest assigns each project a CG risk assessment (high, medium or low) to reflect the level of CG risk and development opportunity in the project. IDB Invest CG specialists may prepare a CG Review Summary describing the project's risks and mitigation measures, and, where relevant, a CG Action Plan can become a contractual commitment or recommendation.²⁸
- IDB Invest supervises the client's' compliance with E&S and CG requirements and conditions on a regular basis, commensurate with the level of impacts and risks.
- The client's level of compliance with ESG requirements is also factored into the development outcome component of the DELTA project score at project approval.
- IDB Invest's Independent Consultation and Investigation Mechanism (MICI) provides a mechanism and process to investigate allegations of harm as a result of IDB Invest's failure to comply with its Sustainability or Access to Information Policies. IDB Invest is committed to implementing the project related recommendations approved by the IDB Invest's Board of Executive Directors and considers the lessons learned from MICI cases in an ongoing effort to improve and continue to strengthen the supervision and implementation of its Sustainability Framework.

²⁶ See footnote 5.

²⁷ See: <http://cgdevelopmentframework.com/>

²⁸ See footnote 5.

Principle 6 - Monitor the progress of each investment in achieving impact against expectations and respond appropriately: The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts, including social or environmental 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.²⁹ The Manager shall also seek to use the results framework to capture investment outcomes.³⁰

- IDB Invest's Impact Management Framework is grounded in a portfolio approach that integrates impact and financial sustainability to steer investment decision-making and portfolio management. The framework comprises an end-to-end series of tools and practices to support the complete project lifecycle, including: (1) the Strategic Selectivity Scorecard to identify areas with the highest potential development impact within a given sector/country; (2) the DELTA impact scoring system to assess ex-ante impact potential, which is analyzed in combination with a rating to measure the financial contribution of each transaction to IDB Invest; (3) the DELTA in supervision system to monitor project impact performance against targets; (4) an analytics system to capture data and produce portfolio-level insights; and (5) evaluations and studies to generate knowledge and lessons learned and foster accountability.
- IDB Invest monitors the progress of each investment in achieving impact against expectations. The DELTA tool is used to measure progress on outcome and output indicators against expected targets set in the results matrix at project approval. The DELTA project score is updated annually to reflect actual performance, and each project is classified as "satisfactory", "alert" or "problem". The monitoring process identifies opportunities for portfolio and development effectiveness officers to work with clients that may not be achieving impact targets according to expectations so they can pursue remedial action, as appropriate. Changes in project DELTA ratings are monitored and factored into the tracking of portfolio progress toward delivering development outcomes. Similarly, the expected SDG contributions of each project in supervision are updated annually as part of the monitoring process, allowing for more precise accounting of SDG impact.
- Each investment contains a Monitoring and Evaluation Plan that specifies: (i) how often data will be collected; (ii) the method for data collection; (iii) data sources; and (iv) responsibilities for data collection and analysis. These aspects are agreed with the client and described in the project documentation, ensuring mutual understanding of reporting requirements for tracking impact performance.

²⁹ Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

³⁰ Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

Principle 7 - Conduct exits considering the effect on sustained impact: When conducting an exit,³¹ 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.

- IDB Invest considers the status of development impact achieved at the time of exit and the effect on development when making exit decisions in its equity portfolio. This can potentially affect the timing, structure, and process of how and who to sell to.³²
- IDB Invest documents equity exit decisions and rationale through a memo approved by the corresponding approval level.³³

³¹ This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

³² See footnote 5.

³³ See footnote 5.

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.

- The IDB Group's Evaluation Policy Framework establishes the scope and principles that guide evaluations, both for self-evaluation work conducted by IDB and IDB Invest, as well as for independent evaluation work conducted by the Office of Evaluation and Oversight (OVE).³⁴
- OVE undertakes independent and systematic evaluations of the IDB Group's strategies, policies, programs, operations, activities, and systems and reports its findings to the IDB Group Boards, thereby contributing to accountability for development results and continuous learning and improvement.³⁵ IDB Group Management develops action plans to respond to the recommendations of these evaluations.
- IDB Invest conducts a mandatory final self-evaluation for each operation in the portfolio once it reaches early operating maturity.³⁶ This evaluation compares the expected and actual impact of each project through a systematic assessment of its efficiency, effectiveness, relevance, and long-term sustainability, as well as the main lessons learned. The final rating of each evaluation is validated by OVE. Aggregate performance results are reported to the Board annually and disclosed publicly.³⁷ The lessons learned from these evaluations are classified and stored in an internal knowledge management system to feed into the design of new operations. IDB Invest also has a digital platform to capture and disseminate knowledge and lessons learned from underperforming projects to foster continuous learning.
- Guided by its impact evaluation strategy,³⁸ IDB Invest conducts more in-depth studies and impact evaluations for certain projects with the purpose of learning and accountability. Impact evaluations fill knowledge gaps, inform clients and IDB Invest of how to improve operational work, and provide important insights for operational and strategic investment decisions.

³⁴ See: <https://www.iadb.org/en/ove/home>.

³⁵ See footnote 5.

³⁶ While the definition of EOM varies across project types and financial instruments, in general, EOM is defined by the date when the loan has been fully disbursed, the project has been implemented, and has started to have development impact.

³⁷ See: <https://publications.iadb.org/en/development-effectiveness-overview-deo-2020> and <https://crf.iadb.org/>.

³⁸ Impact evaluations are selected based on the following guiding principles: (1) the operation is highly representative of existing or potential business lines for IDB Invest; (2) the operation includes innovative business solutions with important development impacts that can trigger systemic effects; and (3) the operation's prominence, size, and/or systemic impact on a country or industry is substantial, warranting more precise reporting of its effects on stakeholders.

Principle 9 - Publicly disclose alignment with the Principles and provide regular independent verification³⁹ of 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.

- This Disclosure Note re-affirms the alignment of IDB Invest's procedures with the Principles and will be updated annually.
- The independent verification report on the alignment of IDB Invest with the Operating Principles for Impact Management will be available in the second quarter of 2021 at: <https://www.idbinvest.org/en/how-we-work/development-effectiveness>. The independent report will be replicated every 3 years.
- The information on the current independent verifier is:

Name and Address: Office of the Executive Auditor of the IDB
1350 New York Avenue NW
Washington, DC 20577

Qualifications: The Office of the Executive Auditor (AUG) is an independent assurance and consulting services provider guided by international professional standards. AUG is committed to influence the strengthening of governance, risk management and control processes that help the IDB Group accomplish its objectives. Integrity, professionalism, objectivity, and confidentiality in the provision of value-added services are the cornerstones of our activities.

Most Recent Review: April 8, 2020

Next Planned Review: May 2021

³⁹ The independent verification may be conducted in different ways, i.e. as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.