Disclosure Statement
Operating Principles for Impact Management
International Finance Corporation
October 4th, 2019

The International Finance Corporation (IFC) 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 IFC's core/client business, including (a) impact management systems; (b) policies and practices; and (c) investment services (including debt, equity, trade and supply chain finance, asset management, syndications, derivatives and structured finance, and blended finance instruments) are managed in alignment with the Principles. Total assets under management in alignment with the Principles is US$82,790 million[1] as of June 30, 2019.[2] [3]

Philippe Le Houérou
IFC Chief Executive Officer
October 4th, 2019

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[1] Includes the following amounts:
- Portfolio exposure (includes debt, equity, trade and supply chain finance, derivatives, and structured finance in IFC's own account investment portfolio; exposure is defined as the sum of the (i) committed exposure for IFC's debt investments, (ii) fair market value of IFC's equity investments, and (iii) total undisbursed equity commitments): $58,847 million as of 6/30/2019;
- Syndications third-party investor portfolio (includes B Loans, agented parallel loans, Managed Co-Lending Portfolio Program loans, A Loan participations, unfunded risk participations, and credit insurance policies): $15,787 million as of 6/30/2019;
- IFC Asset Management Company (composed of equity assets under management): $7,000 million as of 6/30/2019; and
- Blended finance (includes blended finance resources applied to investment projects): $1,156 million, as of 6/30/2019.

[2] Excluding liquidity management.

[3] The sole purpose of this Disclosure Statement is to fulfill IFC'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. IFC 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, IFC 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 IFC 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 objectives[4] 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.

- IFC – a sister organization of the World Bank and member of the World Bank Group (WBG) – is the largest global development institution focused exclusively on the private sector in developing countries. The WBG has set two goals it aims to help the world achieve by 2030: end extreme poverty and promote shared prosperity in every country.

- Through direct investment services, IFC provides private sector solutions that lay the foundation for sustainable and inclusive economic growth.

- IFC formulates country strategies to define areas of focus and deployment of resources to address development challenges in individual countries. IFC also develops global sector strategies to inform how the Corporation engages in specific sectors in general, which then informs how IFC focuses on these sectors at the country level. Underlying these country and sector strategies are a suite of country and private sector diagnostics and analytical work, which focuses on identifying constraints to private sector investment and operations.

- Throughout the investment decision-making process, the delivery of development impact is a key factor in IFC's project selection and design criteria.[5] Specifically, IFC's development impact rating system, the Anticipated Impact Measurement and Monitoring (AIMM) system, helps IFC consider the quantum of impact expected from a prospective investment decision in the context of the relevant development gap the country faces.

[4] 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/).

[5] See Footnote 3.

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.

- IFC pursues a "portfolio approach" that guides project selection and design. The portfolio approach allows IFC to achieve its development objectives and maintain financial sustainability, recognizing possible trade-offs between these objectives across projects. The AIMM system is an integral tool for IFC to pursue the portfolio approach.

- IFC manages its performance through a corporate scorecard which is cascaded into departmental scorecards and objectives for Vice Presidents, Directors, Managers, and staff. The scorecard includes targets for portfolio financial and impact performance, the latter measured by average AIMM scores. Departmental awards are linked to the achievement of scorecard targets. Corporate performance awards provide additional incentives for delivering high-impact transactions.

- To further align IFC's investment processes with Principle 2, IFC will rate a representative sample of its portfolio using the AIMM system. By combining AIMM scores – which measure impact – with financial return data, IFC will be better positioned to utilize an asset allocation model, strengthening its capacity to pursue the portfolio approach.

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

- All IFC investment operations must demonstrate "additionality,"[7] which refers to the unique contribution that IFC brings to a private investment project that is not typically offered by sources of finance that pursue only commercial objectives. This additionality may take financial and/or non-financial forms. Together with the assessment of potential impact through the AIMM system, this establishes IFC's contribution to the achievement of impact.

- Additionality is a threshold condition for IFC involvement in a project, it is not a policy or an objective, but rather a requirement embedded in Article III of IFC's Articles of Agreement,

[6] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, assisting with further resource mobilization, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.
[7] See footnote 3.

which states that "the Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms."[8] [9]

- IFC has developed a framework to promote rigor and candor in IFC's assessment and articulation of additionality[10], which is central to fulfilling IFC's mandate under Article III of its Articles of Agreement. IFC follows explicit guidelines in the assessment of additionality, which is a key part of project documentation reviewed by the IFC board.

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 impact[11] 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?[12] 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[13] and follow best practice.[14]

- The AIMM system is IFC's project impact assessment tool which allows IFC to estimate the expected development impact of its interventions at their initial stage, when they are still being developed.[15] This approach gives IFC the capacity to set ambitious yet achievable targets, select projects with the greatest potential for development impact and financial sustainability, and optimize project design.[16]

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[8] See: https://www.ifc.org/ArticlesOfAgreement
[9] See footnote 3.
[10] See footnote 3.
[11] 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.
[12] Adapted from the Impact Management Project (www.impactmanagementproject.com).
[13] Industry indicator standards include HIPSO (indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (b-analytics.net/giirsfunds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.
[14] 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.
[15] See: https://www.ifc.org/AIMM
[16] See footnote 3.

- Each new IFC investment is assigned an ex-ante AIMM score that reflects the project's potential for delivering development outcomes. The assessment requires IFC investment teams with support from dedicated sector economists to articulate the extent of the development challenge to be addressed, the associated intended impact of the proposed investment, the parties that are affected by such impact, and the intensity of the effects that flow from the intervention.

- The AIMM system assesses impact along two dimensions: project- and market-level effects; and assigns to each an estimate of the likelihood of achieving impact.

- The AIMM impact assessments also take into consideration country and market context. IFC situates all development impact claims against defined development gaps or stage of market development (i.e., the relative size of the development challenge that IFC is seeking to address with its intervention). The overall potential impact assessment is anchored by this context determination.

- The AIMM system also connects IFC's ex-ante assessments with a results measurement system that tracks actual impact during implementation. By using project and market indicators identified ex-ante, IFC measures progress against the achievement of project- and market-level claims.

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)[17] 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.[18] 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.

- IFC's Sustainability Framework[19] articulates IFC's approach to environmentally and socially sustainable development and is an important component in the effort to achieve positive development outcomes in IFC investment activities.

- The framework includes a Sustainability Policy that specifies the role and responsibilities assumed by IFC and eight Performance Standards ("PS")[20] that define IFC's clients' responsibilities for managing the environmental and social (E&S) risks of their operations.

- It also includes the Access to Information Policy ("AIP") describing IFC's commitment to transparency and disclosure. In support of these policies, IFC's environmental and social risk management system includes guidance and procedures.

- IFC undertakes E&S due diligence on all its investments, assessing the client's ability and commitment to achieve E&S outcomes consistent with the PSs over a reasonable period.

- IFC uses a categorization system (e.g. A, B, C: F1, F2, F3) to reflect the potential magnitude of E&S risks of its investments and to allocate resources and approval levels according to risk. E&S project due diligence is subject to multiple elements of quality control.

- For financial institution (FI) investments, due diligence requires the review of the existing portfolio and prospective business activities of its FI clients to identify those that could entail serious E&S risks and defines requirements for managing them. IFC reviews the implementation capacity of FI clients as well as their E&S management system.[21]

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[17] 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.

[18] Examples of good international industry practice include: IFC's Performance Standards (https://www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (http://www.ifc.org/cgmethodology) , the United Nations Guiding Principles for Business and Human Rights (https://www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

[19] http://www.ifc.org/sustainabilityframework

[20] www.ifc.org/performancestandards

[21] See footnote 3.

- The results of IFC's E&S due diligence at project appraisal are made publicly available in the form of an E&S Review Summary (ESRS). Where relevant, client agreed action plans to address the gaps between their plans and IFC requirements are also disclosed. These are reflected in an E&S Action Plan, which is monitored and progress reported on by the client.[22]

- Internally, category A and B investments (and F1, F2 for FIs) are scored at the end of appraisal and then during supervision using the Environmental and Social Risk Rating (ESRR), an internal tool designed to indicate the project's relative level of E&S risk. This indicates the level of E&S risk management performance of IFC clients and updates this over time. Portfolio performance is monitored and reported to senior management.

- IFC's Corporate Governance (CG) methodology considers a company's commitment to corporate governance, the structure and functioning of its board, its control environment, its treatment of minority shareholders, and its transparency and disclosure. IFC recently updated its CG Methodology to also include the governance of stakeholder engagement.

- IFC's CG due diligence focuses on these six key aspects of CG, and where concerns are identified, a CG Action Plan is agreed to with the client. In most cases, CG diligence is considered by the investment team leading the transaction, with higher CG risk projects benefiting from inclusion of a CG specialist on the investment team.

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 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.[23] The Manager shall also seek to use the results framework to capture investment outcomes.[24]

- IFC's results measurement system comprises four building blocks: diagnostics to inform investment decisions, a rating tool – the AIMM system – to assess impact claims prior to project approval, a monitoring system (currently DOTS, to be replaced by the AIMM system during the current fiscal year) to measure progress against claimed effects, and an evaluation

[22] See footnote 3.
[23] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.
[24] 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/).

mechanism to promote learning and accountability. While IFC has employed a range of tools to measure impact through the years, development impact has always been at the center of its business.

- IFC uses monitoring indicators that are aligned with indicator usage practices and performance metrics catalogued by the Harmonized Indicators for Private Sector Operations (HIPSO) and IRIS – to measure the development results of IFC's investment services.

- As part of its investment service agreements with clients, IFC outlines data collection, methodologies, and responsibilities prior to the beginning of supervision activities and requires that its clients report on key monitoring indicators each year. This helps IFC report on its own performance in ways that reinforce public trust and expand IFC's "license to operate".

- Changes in project ratings inform investment managers of progress in delivering development outcomes. Portfolio officers and managers, through periodic client visits, assess progress against development outcomes and work with clients to take remedial action in cases where development outcomes are at risk.

- As noted above, IFC will be unifying its ex-ante project rating and results measurement system over the coming year by replacing DOTS with AIMM monitoring.

Principle 7 – *Conduct exits considering the effect on sustained impact:* When conducting an exit,[25] 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.

- IFC considers the effect on maintaining development impact when making exit decisions in its equity portfolio. This can affect the timing, structure, and choice of who to sell to. Most debt and guarantee investments are self-liquidating without exit decisions.[26]

- IFC documents equity exit decisions through sales memoranda, which provide rationales for exits.[27]

[25] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.
[26] See footnote 3.
[27] See footnote 3.

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.

- IFC, along with other WBG entities and the Independent Evaluation Group (IEG)[28] has developed an evaluation framework which stipulates the role of independent and self-evaluations to inform operational strategy and policy.

- IEG undertakes fully independent evaluations of WBG operations[29], policies, and strategies, and reports directly to the Board of Executive Directors. These IEG evaluations may be around broad development themes, strategies, specific sectors, or specific mandates that the WBG entities are charged with delivering. The evaluations include recommendations, for which Management develops and commits to an action plan, which is monitored on an annual basis.

- IFC conducts mandatory self-evaluations on a representative sample of investment and advisory operations once they have reached operational maturity (or closure in the case of advisory operations). These self-evaluations are done typically five years following approval and are validated by IEG. The aggregate results are reported to the Board annually and disclosed publicly.

- IFC also conducts demand-driven evaluations to fill knowledge gaps related to assessment of project performance and meet demands of external stakeholders for performance evaluation. IFC is currently reformulating the evaluation strategy and plans to introduce more formality and rigor in the process of selecting evaluation topics and the conduct and review of these evaluations. Demand-driven evaluations are conducted according to principles designed to ensure independence, particularly when they are conducted primarily for external stakeholders such as with donors who have provided funds for advisory programs or blended finance.

[28] http://ieg.worldbankgroup.org

[29] See footnote 3.

Principle 9 – *Publicly disclose alignment with the Principles and provide regular independent verification[30] 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.

- This Disclosure Note re-affirms the alignment of IFC's procedures with the Principles and will be updated annually.

- The independent assurance report on the alignment of IFC with the Operating Principles for Impact Management is available at https://www.ifc.org/DevelopmentImpact/OPIM. The verification will be replicated every year.

- In addition, as part of its annual reporting practices, IFC seeks both an independent assessment of the effectiveness of its impact measurement approach and an independent verification of the resulting impacts achieved. The conclusions of the auditor are disclosed in IFC's Annual Report (see: https://www.ifc.org/AnnualReport).

- Information on the current independent verifier is as follows:

Name and Address:	EY & Associés Tour First 1 place des Saisons TSA 14444 92037 Paris La Défense Cedex France
Qualifications:	"EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities. EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com."
Most Recent Review:	October 4th, 2019

[30] 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.

Next Planned Review: October 2020