Disclosure Statement
Operating Principles for Impact Management
CAF – Corporación Andina de Fomento
August 20, 2020

CAF (Corporación Andina de Fomento), 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 and, through certain flexibility, allow for impact investors to apply their own impact management systems in accordance with said best practices of reference.

This Disclosure Statement affirms that CAF's processes and practices are aligned with the Principles. The total portfolio of active equity investments in alignment with the Principles is USD 632 million as of 31 December 2019.[1]

Luis Carranza Ugarte
CAF Executive President

[1] This Disclosure Statement is exclusively intended to declare CAFs observance and comply with the principles established herein. This document shall not constitute and should not be construed as an offer or invitation to participate in any financial services, transaction or investment, including but not limited to equity investments in ventures, enterprises and private equity funds, and it should not be taken as an opinion, advise or bases for a decision to participate in any investment. CAF makes no assurance or guarantee as to any results or outcome that may be obtained from the performance or practices described herein. Under no circumstances does CAF assume any responsibility for actions or omissions of third parties in relation to the content of this Disclosure Statement.

General Note – On our operations:

- As a multilateral development bank, CAF offers a variety of financial services that include equity investments in ventures, enterprises and private equity funds. This is when CAF acts as a shareholder in its direct investments and as an investor / limited partner in investment funds (venture, growth, equity, among others). In line with CAF´s mission, the investments are made with the purpose of supporting the public and private sectors of our Members Countries and promoting sustainable development and regional integration. For clarity, these investments will be referred to in this Disclosure Statement as Investments.

- All Investments by CAF are impact driven, aligned with ESG principles and oriented towards sustainable development. In order to strengthen the alignment of CAF´s future Investments with the Principles, CAF is working on certain supplementary internal procedures which will streamline the ex-ante assessment and management of the impact of our Investments, will emphasize on the Principles and will improve measurement and monitoring of the impact of our investments.

- As per the document "Investing for Impact: Operating Principles for Impact Management Reporting Requirements and Template for Annual Disclosure Statement" prepared by IFC, we hereby represent that the information contained in this Disclosure Statement has not been verified or endorsed by the International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the International Finance Corporation, the World Bank or any member of the World Bank Group. None of the International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

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.

- CAF is committed to promoting sustainable development and the economic integration of its members countries by providing financial services and technical cooperation to public and private sector clients, which include the Investments.

- CAF´s strategic objectives are aligned with the Sustainable Development Goals (SDG) and our internal regulations link each of our goals / objectives to one or more SDG (as provided in CAF´s Management Policy and explained in our annual Sustainability Report, available at https://www.caf.com/en/currently/news/2019/09/caf-management-policy-update/ and at https://scioteca.caf.com/handle/123456789/1594, respectively). In fact, our internal regulations, driven by sustainable development, provide a set of tools to monitor (pre- and post-investment) alignment of our strategic plans with the SDG.

- The Investments in our active portfolio are impact driven and are generally aligned with ESG principles and oriented towards sustainable development. Impact funds that are part of our active portfolio have adopted impact monitoring methodologies and are providing applicable reports.

- On an annual basis and based on CAF´s Corporate Results Framework (CAF´s CRF), we monitor our operations (including our Investments) *vis a vis* the institutional targets and goals which, as stated above, are directly mapped to the SDG.

  To assure CAF´s strategies are consistent with its impact objectives and vice versa CAF conducts: (i) ESG due diligences to determine applicable ESG conditions for its operations; (ii) the identification of a set of indicators tied to development goals to measure and monitor the outcome of the projects; and (iii) evaluations and reports on the contributions generated by the relevant investment to sustainable development.

- In order to further align our future Investments with the Principles, CAF is working on certain supplementary instruments aimed at adding certain objective criteria / indicators that will be mapped to the Principles and the SDGs and will allow us to monitor alignment of the future Investments with our internal ESG indicators and our goals towards sustainable development.

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.

- CAF has a private sector corporate strategy as well as a country by country strategy, all of which are updated periodically to assure that our operations are consistent and aligned with the SDG (collectively, our Corporate Strategy). Our Investments and potential Investments are covered by the Corporate Strategy and oriented towards the achievement of said development goals.

- CAF pursues a portfolio approach that guides our project selection and investment process. The portfolio approach is designed to achieve the development objectives and maintain financial sustainability, recognizing possible trade-offs between these objectives across projects. While Investments are analyzed and monitored individually, the results are consolidated and integrated at a corporate level.

- As part of our internal approval processes, our committees assess and evaluate the potential contribution that each Investment will have on sustainable development in the corresponding member country or region.

- CAF´s CRF is a tool to monitor the alignment of our Investments to the SDG. CAF´s CRF provides a set of indicators to measure the effective contribution to sustainable development of those operations. There are indicators for the following spheres of impact (and the associated strategic objectives): (i) Efficiency; (ii) Equity; (iii) Sustainability; (iv) Institutionality; and (v) Integration.

- In order to further align our future Investments with the Principles, CAF is working on certain supplementary instruments aimed at including additional objective criteria / indicators that will be mapped to the Principles and the SDGs and will allow us to monitor alignment of the future Investments with our internal ESG indicators and our goals towards sustainable development.

- CAF´s employees compensation system includes incentives and recognition programs designed to reward the performance of employees. Performance is measured with respect to CAF´s annual goals and objectives which are aligned with our mission of contributing to sustainable development as well as with our Corporate Strategy. In the case of our private equity team, each member has specific corporate goals and associated metrics related to pursuing investments that have direct contributions to sustainable development and are in line with the SDG.

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.

- Based on our internal regulations (including our Credit and Investments Manual) we apply the following criteria to analyze the eligibility and priority of our Investments (and other operations):

    - Contribution to Development: Investments must favorably contribute to the sustainable development of the corresponding member country. Applicable indicators to the Investment are to be selected.

    - Risk Factors: Risk factors of the Investments that could impact the environment, including ESG aspects in general, are identified and addressed.

    - Additionality: It refers to the value that CAF adds to a certain transaction by going beyond pure financial assistance (i.e. direct financial contribution) in order to contribute to each transaction elements such as: (i) promotion and structuring of the transaction; (ii) technical assistance; (iii) other non-financial contributions such as improving the cost of capital, getting active shareholder engagement, providing capacity building to the investee, among others.

    - Catalytic role: CAF should aim to further mobilize resources to each transaction from other sources.

- We ensure that our operations are environmentally sustainable and socially responsible and follow our recommendations to further align their corporate governance (CG) systems with applicable best practices. Moreover, all of them have to clear our strict compliance filters and are constantly monitored by our compliance experts to assure that red flags are addressed on time.

- In order to further align our future Investments with the Principles, CAF is working on certain supplementary instruments aimed at including additional objective criteria / indicators that will be mapped to the Principles and the SDGs and will allow us to monitor alignment of the future Investments with our internal ESG indicators and our goals towards sustainable development.

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 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.

- As part of the approval process of each Investment, CAF´s internal committees evaluate the potential contribution to sustainable development of the specific investment as well as its E&S and CG aspects. For these purposes, applicable indicators provided in the CAF´s CRF are analyzed and the results drive the investment decision. Contribution to sustainable development and regional integration are the core of this analysis which also considers indirect and systemic impacts. Moreover, conclusions and recommendations derived from our E&S and CG due diligences are included in the internal documents for further monitoring.

- We generally involve specialists on each investment industry from other CAF´s teams in order to have a comprehensive analysis of the potential impacts and the recommendations that we issue to assure fluent monitoring.

- The set of indicators provided in CAF´s CRF and selected for each operation allow us to estimate the contribution to development of our Investments. The set of indicators is reviewed periodically by our experts in order to determine whether updates or supplements are needed. CAF must ensure that the applicable indicators are monitored throughout the life of the Investment for which purposes the deal documentation should reflect the monitoring scheme to be followed. The results of said monitoring (i.e. indicator tracking information) will be included in the Corporate Results Framework as well as on the ex-post analysis and report that we prepare upon divestment / termination of the corresponding Investment.

- CAF´s CRF is spread all the way through CAF´s private sector investment teams with strong support from dedicated sector economists to analyze and address the development challenge of each Investment as well as the intended impact of the proposed investment.

  It also considers country and market context of the relevant member country and tracks progress of the indicators applicable to the Investment and of the relevant context.

- Each Investment has its own risk matrix that helps to monitor potential risks that could deviate the impact of the investment from the sustainable development estimations that are done ex-ante. In order to manage those risks, we have a variety of tools that are used on a case by case basis and that may include our involvement in the corporate bodies of the targets of our equity investments.

- Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- In order to further align our future Investments with the Principles, CAF is working on certain supplementary instruments aimed at including additional objective criteria / indicators that will be mapped to the Principles and the SDGs and will allow us to monitor alignment of the future Investments with our internal ESG indicators and our goals towards sustainable development.

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) 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.

- Our mission is fully aligned with ESG principles and with the SDG. We do assess the potential environmental and social (E&S) and CG risks and associated impacts of each Investment. Based on CAF´s CRF we monitor alignment of our Investments with our ESG goals, objectives and indicators on a regular basis. For these purposes we follow compliance with ESG requirements throughout the life of our Investments.

- CAF´s Investments are expected to comply with applicable environmental and social laws and regulations of the relevant country as well with our Environmental and Social Safeguards (which include the Equator Principles and the IFC Performance Standards on Environmental and Social Sustainability and are available at https://www.caf.com/es/lineamientos-y-salvaguardas-ambientales/).

- CG also plays an important role in our decision-making process. Our CG methodology is aligned with the global Corporate Governance Development Framework (adopted by CAF and several other DFIs).

- CAF´s CRF describes our approach to ESG sustainable development, and it is key in our effort to contribute to sustainable development in our private equity activities.

- Monitoring potential risks that could deviate the impact of the investment from the sustainable development estimations are based on the Investment´s risk matrix referred to in Principle 4.

- In order to further align our future Investments with the Principles, CAF is working on certain supplementary instruments aimed at including additional objective criteria / indicators that will be mapped to the Principles and the SDGs and will allow us to monitor alignment of the future Investments with our internal ESG indicators and our goals towards sustainable development.

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. The Manager shall also seek to use the results framework to capture investment outcomes.

- As stated above, the set of indicators of CAF´s CRF is our main tool to monitor progress of our Investments towards expected impact on sustainable development. Internal regulations require us to monitor applicable indicators to each Investment and progress of each of them on an annual basis.

- Regular feedback to our clients includes ESG performance. CAF also offers various business support services (technical assistance) to assist clients in improving their ESG performance and their contribution to sustainable development.

- As part of our monitoring activities, we may require that managers of the Investments report periodically their progress in delivering development outcomes. CAF may take certain actions when material deviations from our development expectations are found. Those actions, analyzed by our committees on a case by case basis, may include engagement with the investee, early exits from the investments and implementation of certain remedial actions to further align results with expected contributions to substantiable development.

- CAF portfolio´s performance is closely monitored and regularly reported to senior management.

- Moreover, in line with our Collegiate Bodies Protocol, we pursue our additionally goals and monitor our Investments through diverse corporate measures including our direct and disciplined participation in and involvement with, the collegiate bodies of our Investments.

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.

- Our Investments may include (i) direct investments in targets; (ii) investments in private equity funds (funds of funds, venture, growth, equity, debt, impact, among others); and (iii) investments in quasi-equity, mezzanine, subordinated loans, among others.

- In connection with the direct investments in targets:

    - CAF does consider the effect which the timing, structure, and process of its exits will have on the sustainability of the expected contributions to development of the corresponding investments. The decision to exit these investments tends to be in our field.

    - When exit decisions are in our control, CAF thoroughly documents the underlying rationale behind each of them along with the support of the applicable internal approval. CAF´s internal committees consider the effect that the relevant exit may have on the expected contributions to sustainable development. Moreover, we do analyze said impact when choosing the exit structure, negotiating the exit terms and conditions and selecting the buyer.

- In connection with our investments in private equity funds, decision making process related to the exit strategy relies entirely on the managers. Moreover, the funds tend to be close-end vehicles that do not allow for early divestments by investors / limited partners. In connection with the impact funds of our portfolio, managers generally mind the effects of their exists with respect to the impact objectives and targets.

- CAF is working on the design of certain provisions to be included in private equity funds documentation in order promote and incentivize that the sustainable development goals traced for the corresponding Investment are pursued and protected even after CAF´s participation in the Investment is over.

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.

- CAF conducts a mandatory final evaluation on each Investment in its active portfolio once it reaches early operating maturity. This evaluation compares the expected and effective contribution to sustainable development of each Investment through a systematic assessment of relevant metrics. The evaluation includes and documents the main lessons and the evolution of the key indicators related to contributions to sustainable development.

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.

- This Disclosure Statement affirms CAF´s status as a Signatory to the Operating Principles for Impact Management. This Disclosure Statement re-affirms the alignment of CAF’s investment policies and procedures with the Principles and will be updated annually.
- CAF is currently assessing different options for performing an independent verification of CAF’s management system´s alignment with the Principles as part of our sustainability reporting procedures. The independent valuator will be a company with solid and structured capabilities in the field. We aim to provide an independent verification on the date in which we submit our next Disclosure Statement, on April 2021. In the meantime, CAF´s internal Impact Evaluation Department is engaged in providing recommendations and suggesting applicable amendments to CAF’s policies and procedures to ensure further alignment of our systems with the Principles.