Disclosure Statement

Operating Principles for Impact Management

Compañía Española de Financiación del Desarrollo, COFIDES, S.A., S.M.E.

July 8th, 2020

COFIDES (Compañía Española de Financiación del Desarrollo, COFIDES, S.A., S.M.E.) 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 COFIDES's investments and processes are managed in alignment with the Principles. Total Committed Portfolio in alignment with the Principles is EUR 990.71 million[1] as of December 31st, 2019.

José Luis Curbelo
COFIDES Chairman and Chief Executive Officer
July 8th, 2020

[1]This sum is equivalent to USD 1,112.96 million on 31.12.2019 and corresponds to:

- EUR 886.08 milllion (USD 995.42 million) committed in direct finalist investment projects through (i) COFIDES' own resources and (ii) third-party fund resources managed exclusively by COFIDES and,
- EUR 104.63 million (USD 117.54 million) committed to microfinancing projects through (iii) third-party fund resources to which COFIDES provides management advice.

Specifically,

- Total committed portfolio is calculated as the total portfolio plus the sums committed but pending outlay.
- Total portfolio reflects, for formalized operations, the balance between the amounts actually disbursed and those reimbursed.
- The committed portfolio includes only projects identified by COFIDES, and/or in which COFIDES leads project monitoring and assessment.

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.

- COFIDES, Compañía Española de Financiación del Desarrollo, is a state-owned company created in 1988. It provides medium and long-term financing for viable investment private projects that contribute, based on profitability criteria, both to the development of the countries receiving the investments and to internationalization of the Spanish economy and companies.

- COFIDES is an economic player with different activity roles: (i) finance institution that operates with its own resources, (ii) public fund manager, (iii) advisory entity for fund management, (iv) delegate entity to manage other budgets and funds, and (v) bilateral development finance institution.

- The COFIDES 2019-2021 Strategic Plan contemplates sustainability as one of the Company's four strategic lines. This Plan is the main framework for action for COFIDES in this three-year period.

- Within the Strategic Plan, the Board of Directors of COFIDES approved a Sustainable Financing Strategy based on three pillars: (i) culture and governance, (ii) incentives, and (iii) business model.

- The main SDGs steering COFIDES in the performance of its activities are the following: (i) Impact SDGs: Decent work and economic growth (SDG 8); Industry, innovation and infrastructure (SDG 9), Climate action (SDG 13) and (ii) Operating SDG: Reduced inequalities (SDG 10); Partnerships for the goals (SDG 17).

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.

- The three elements supporting impact management in projects are (i) Environmental and Social Policy in alignment with the international standards of development finance institutions, (ii) Development Policy pivoting on the methodology and impact rating of operations, and (iii) Gender Policy for investments that values WID (Women in Development) and GAD (Gender and Development) approaches in investments.

- For every funding, COFIDES implements an impact assessment tool that is regularly updated and expanded for different financial products. In 2019 and 2020, we have been working to unify the aggregate impact of the various products and funds, with the aim of improving impact management.

- COFIDES began to set annual corporate impact targets in 2019, linking their achievement to salary incentives for COFIDES employees, having an effect across all the areas of the Company.

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.

- COFIDES promotes the establishment of partnerships with the private sector to finance projects which, according to their characteristics, are associated to the creation of value and the generation of positive and lasting effects on the development of the host countries.

- To this end, COFIDES provides a wide range of financial products and services with which we contribute to the achievement of impact, by supporting primarily the private sector. Financing offered by COFIDES is conducted under commercial terms, with advantages such as long-term structures and extensive grace periods, providing equity products additional to market ones in emerging and developing countries, or enhancing financial support for SMEs.

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.

- Measurement of project impact involves an ex-ante assessment, to analyze the estimated impact of a project and how significant said impact is prior to making the investment effective.

- At an operational level, the project managers are responsible for collecting data on expected impact at the initial stage of the investment. These data are requested from the client.

- Since September 2019 to the present date, we have been gradually including the contribution of each project to the Agenda 2030 for sustainable development in the corresponding analysis or monitoring report.

- The new revised tool, to be implemented by COFIDES in replacement of the existing one and which is currently being tested, allows linking impact assessment to the contribution to various SDGs, and it includes impact indicators that have been harmonized by the Association of Bilateral European Development Finance Institutions (EDFI) and other international standards (HIPSO, IRIS, 2X Challenge).

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.

- COFIDES considers that sustainable development is essential to achieve sound business management. Therefore, since 2001 it has had an Environmental and Social Policy that establishes (i) principles of responsibility in this matter[2], and (ii) the procedure for environmental and social assessment that is part of the due diligence of operations.

- During the preliminary analysis of projects, COFIDES verifies that investments are not in the exclusion list of activities and industries. We reject applications for operations in this exclusion list.

- COFIDES conducts an environmental and social assessment of all the projects, resulting in the establishment of environmental and social safeguards to control and mitigate risks.

- All operations, regardless of the origin resources, are submitted to a social and environmental analysis.

- Social and environmental risks are classified according to EDFI harmonized categories (A, B+, B, C for direct investment and for funds). Socio-environmental classification is conducted at the preliminary and analysis stages, prior to financing the project.

- Once the project has been financed, monitoring of environmental and social performance of investments is an essential part of the project management program. COFIDES monitors the highest risk operations and those with any specific issues to be reviewed, in order to verify compliance with the contractual requirements established and to evaluate adequate progress of the project throughout the investment period.

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[2]These Principles include compliance with the social and environmental legislation of the country receiving the investment, as well as with recognized international standards in these areas, should application of local regulations not be enough to ensure adequate socio-environmental management. COFIDES applies Fundamental Social Rights and Principles to its operations, as well as standards, such as:

- UN Universal Declaration of Human Rights
- International Labour Organization (ILO) Conventions
- OECD Guidelines for Multinational Enterprises
- EDFI Principles for Responsible Financing
- UN Global Compact Principles

- Environmental and social analysts are responsible for assigning the project a socio-environmental rating, as well as of conducting the socio-environmental analysis and monitoring of the projects.

- Ex-ante environmental and social assessment of the operation is included as an element of the operation approval report.

- Regarding Corporate Governance, since 2018 COFIDES applies an analysis methodology aligned with EDFI, which classifies its clients as (i) Advanced Stage, (ii) Intermediate Stage or (iii) Initial Stage. The elements assessed by the investment analysts are: (i) commitment to Corporate Governance, (ii) structure and functioning of its board, (iii) process control, (iv) transparency and disclosure, and (v) shareholders.

- COFIDES provides information on the aggregate results of environmental, social and corporate governance aspects in its Sustainability Reports.

- In recent years, COFIDES has passed strict auditing procedures that took into account issues related to the Operating Principles for Impact Management. In 2016 and in 2018, COFIDES passed audits to become a certified entity and thereby be able to operate with EU budget and UN Green Climate Fund resources.

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

- The impact analysis tool associated to a project also has an ex-post phase, to monitor project performance in terms of impact once the investment has been materialized.

- This annual monitoring is conducted for each project, and project managers are responsible for collecting all impact data.

- Annual monitoring of environmental and social performance of projects allows to verify the level of compliance with the requirements contemplated in applicable policies in this area and to adopt any relevant actions in the event of non-compliance, which may even include cancellation of the project, although the aim is to redirect management of the operation.

- Environmental and social performance results are included in the project monitoring reports.

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.

- For equity investments, exit is carried out taking into account the future outlook of the business and its durability.
- Most projects financed with debt mature automatically with no exit decisions. However, long-term investment horizons allow including good practices in the projects to ensure their sustainability beyond the financing period.
- A feature of project financing is that it includes flexible mechanisms. The financial novation and refinancing processes are subject to prior environmental and social evaluations before said refinancing is extended.

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 full project portfolio is reviewed annually, updating the monitoring reports of all the projects, which have started to include information on the main contributions to SDGs. These monitoring reports are approved by the Operations Committee, as well as by the respective decision-making bodies based on the origin of the funding resources.

- COFIDES provides information on aggregate results of environmental, social, corporate governance and impact aspects in its annual Sustainability Reports, which are evaluated by the Steering Committee, as well as audited by independent third parties.

- From time to time, COFIDES prepares both specific impact reports for project samples, as well as industry analyses, whose results are shared with the academic and business communities, and with civil society in general.

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 re-affirms the alignment of COFIDES's procedures with the Principles, and it will be updated annually.
- The assurance report on the alignment of COFIDES with the Principles is attached to this Disclosure Statement.
- The verification has been conducted internally by the COFIDES Internal Control Division and it will be replicated every year.
- The most recent review and assurance report were issued on July 8th, 2020.