

# Verifier Statement

## Independent Verification Report

Prepared for Proparco: April 25, 2023

### Introduction

As a signatory of the Operating Principles for Impact Management (the Impact Principles)<sup>1</sup>, Proparco engaged BlueMark to undertake an independent verification of the alignment of Proparco's impact management (IM) system with the Impact Principles. Proparco's assets under management covered by the Impact Principles (Covered Assets) totals \$7,527 million<sup>2</sup>, for the year ending 12/2022.

### Summary assessment conclusions

BlueMark has independently verified Proparco's extent of alignment with the Impact Principles. Key takeaways from BlueMark's assessment are as follows:

*Principle 1:* Proparco clearly identifies three overarching impact pillars of planet, inequality, and sustainable economy, which are supported by sector-level impact theses. To advance, Proparco should build out the links between its strategy-level impact narrative and sector-level theories of change, ensuring that underlying assumptions are backed up by a credible and well-documented evidence base.

*Principle 2:* Proparco's Sustainable Development (SD) ex-ante rating system provides a framework allowing comparability across the portfolio. To further advance, Proparco should explore options to align staff incentives with impact performance.

*Principle 3:* Proparco outlines its expected financial and non-financial contribution to each investment, with particular attention to PROPULSE, the organisation's extensive technical assistance facility providing tailored support to clients.

*Principle 4:* Proparco has a structured approach to assessing the impact of each investment, beginning with SD pre-scoring and standardised impact ex-ante assessment templates. Impact metrics are aligned with HIPSO and IRIS+. To improve, Proparco should formally document consideration of impact risks and potential negative impacts of its investments.

*Principle 5:* Proparco's approach to monitoring E&S and Corporate Governance considerations across investments, consists of a systematic risk screening and categorisation process that is aligned with industry standards where relevant.

*Principle 6:* Proparco collects impact data annually from portfolio companies and compares this against the 5-year impact projections prepared ex-ante. To improve, Proparco should formalise a policy for managing impact underperformance.

*Principle 7:* Proparco does not consider impact in its approach to conducting exits. To improve, Proparco should develop a responsible exit framework to encourage the long-term sustainability of impact in a variety of common exit scenarios.

*Principle 8:* Proparco reviews portfolio-wide impact performance annually, comparing expected versus actual impact across sectors and themes. Based on this review, Proparco documents areas for improvement and corresponding actions.

<sup>1</sup> Principle 9 states that signatories "shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact 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."

<sup>2</sup> Assets under management figure as reflected in Proparco's draft 2023 Disclosure Statement as of 06/30/2022. BlueMark's assessment did not include verification of the AUM figure.

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### Detailed assessment conclusions

The chart below summarizes findings from BlueMark's verification of Proparco's extent of alignment to the Impact Principles, using the following four ratings: <sup>3</sup>

- Advanced (Limited need for enhancement);
- High (A few opportunities for enhancement);
- Moderate (Several opportunities for enhancement); and
- Low (Substantial enhancement required).<sup>4</sup>

Principle	Alignment
1. Define strategic impact objective(s), consistent with the investment strategy	HIGH
2. Manage strategic impact on a portfolio basis	HIGH
3. Establish the Manager's contribution to the achievement of impact	ADVANCED
4. Assess the expected impact of each investment, based on a systematic approach	HIGH
5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED
6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	HIGH
7. Conduct exits considering the effect on sustained impact	LOW
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	ADVANCED

<sup>3</sup> The scope of BlueMark's assessment procedures does not include the verification of the resulting impacts achieved. BlueMark's assessment is based on its analyses of publicly available information and information in reports and other material provided by Proparco. BlueMark has relied on the accuracy and completeness of any such information provided by Proparco. The assessment results represent BlueMark's professional judgment based on the procedures performed and information obtained from Proparco.

<sup>4</sup> The decision to publicly disclose the results of BlueMark's detailed assessment, and the specific ratings assigned to each Principle, is left to the sole discretion of Proparco.

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### Assessment methodology and scope

Proparco provided BlueMark with the relevant supporting documentation for the policies, processes, and tools related to the IM system applicable to the Covered Assets. The scope of BlueMark's work was limited to processes in place related to the Covered Assets as of April 2023. BlueMark's assessment of the IM system included an evaluation of both the system itself and supporting documentation, as well as the consistency of the draft disclosure statement with the IM system. BlueMark believes that the evidence obtained in the scope of its assessment is sufficient and appropriate to provide a basis for our conclusions.<sup>5</sup>

BlueMark's full assessment methodology, based on its professional judgment, consisted of:

1. Assessment of the IM system in relation to the Impact Principles, using BlueMark's proprietary rubric, and examining processes and policies against the following criteria:
  - *Compliance* of the IM system with a threshold level of practice;
  - *Quality* of the IM system's design in terms of its consistency and robustness; and
  - *Depth* of sub-components of the system, focused on completeness
2. Interviews with Proparco staff responsible for defining and implementing the IM system;
3. Testing of selected Proparco transactions to check the application of the IM system; and
4. Delivery of detailed assessment findings to Proparco, outlining areas of strong alignment and recommended improvement, as well as BlueMark's proprietary benchmark ratings on the extent of alignment to each of the Impact Principles.

### Permissions

This statement, including our conclusions, has been prepared solely for Proparco in accordance with the agreement between our firms, to assist Proparco in fulfilling Principle 9 of the Operating Principles for Impact Management. We permit Proparco to disclose this statement in its entirety online, or to furnish this statement to other interested parties to demonstrate Proparco's alignment with the Operating Principles for Impact Management. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Proparco for our work or this statement except where terms are expressly agreed between us in writing.

### About BlueMark

BlueMark, a Tideline company, is a leading provider of impact verification services in the impact investing market. BlueMark was founded with a mission to "strengthen trust in impact investing" and to help bring more accountability to the impact investment process. BlueMark is a wholly owned subsidiary of Tideline Advisors, LLC, a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, working with leading asset owners and managers to design and implement impact management systems.

BlueMark has conducted this verification with an independent and unconflicted team experienced in relevant impact measurement and management issues. BlueMark has implemented a Standard of Conduct requiring our employees to adhere to the highest standards of professional integrity, ethics, and objectivity in their conduct of business activities.

BlueMark has office locations in London, UK; New York, NY; Portland, OR; and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA. For more information, please visit [www.bluemarktideline.com](http://www.bluemarktideline.com).

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