

J.P.Morgan



Development Finance Institution

J.P. Morgan DFI Methodology 2023

METHODOLOGY

The J.P. Morgan Development Finance Institution (JPM DFI) worked with leading development banks, particularly the International Finance Corporation (IFC), to create a framework to assess the anticipated development impact of the firm’s corporate and investment banking transactions. Our methodology, based on core principles of IFC’s anticipated impact measurement and monitoring framework (AIMM), was shared with other development banks and international organizations to incorporate their perspectives as well as the guidance of leading experts in the field. The JPM DFI methodology has been refined since its launch in January 2020 to incorporate lessons from our experience and evolving industry best practice.

The methodology uses a structured process (summarized in the chart below) to assess the anticipated development impact of transactions executed by J.P. Morgan’s Corporate & Investment Bank (CIB) and provides those with anticipated impact a development intensity score of none, low, moderate, high or very high. The ex-ante assessment also identifies the transactions’ contributions towards the United Nations Sustainable Development Goals (SDGs) and their related targets.



¹ The majority of SDG indicators have a one-to-one relationship with a corresponding SDG target. For the few SDG indicators that correspond to multiple SDG targets, a determination is made on which targets are relevant based on the context of the transaction.

ASSESSMENT PROCESS

The JPM DFI methodology is applied to CIB transactions, which de facto conform with J.P. Morgan's existing risk frameworks, including those related to credit, market, environmental and social, regulatory requirements and customer onboarding processes (e.g., KYC).

1. SECTOR FILTER

The methodology does not assess transactions in sectors that are commonly excluded by leading development institutions.

SECTOR EXCLUSIONS LIST: THE JPM DFI WILL NOT ASSESS ANY TRANSACTION SUPPORTING:

- **Weapons and munitions:** Entities that produce or procure weapons and munitions
- **Modern slavery and child labor:** Entities where there is evidence of modern slavery, such as forced labor and human trafficking, or child labor
- **Illegal wildlife trafficking:** Entities where there is evidence of illegal wildlife trafficking
- **Illegal logging:** Entities where there is evidence of harvesting, transporting, processing or selling timber in violation of national laws
- **Uncontrolled fire:** Entities where there is evidence of uncontrolled or illegal use of fire in their forestry, plantation or extractive operations
- **Tobacco:** Entities that produce or trade tobacco or tobacco products
- **Drift net fishing:** Entities that employ drift net fishing in the marine environment using nets more than 2.5 km long
- **Development in World Heritage Sites:** Development within UNESCO World Heritage Sites unless there is prior consensus from both the host government authorities and UNESCO
- **Private prison operators:** Private sector entities engaged in managing and/or operating correctional institutions under government contract
- **Prescription opioid manufacturers and distributors (majority business):** Pharmaceutical companies engaged in the research, development, manufacturing, wholesalers, distribution or marketing of opioids as a majority portion of their business
- **Upstream oil:** Greenfield or brownfield oil exploration and production activities
- **Coal mining, including mountaintop mining:** Greenfield or brownfield activities
- **Coal-fired power plants:** Providing financing to any new or existing coal-fired power plants

2. GEOGRAPHY FILTER

The JPM DFI's objective is to spur capital toward financing the SDGs in emerging economies, which account for most of the gaps to achieve the 2030 Agenda for Sustainable Development. Therefore, the transaction must support the projects or activities for:

- A private enterprise or state-owned enterprise in a [World Bank-eligible borrowing country](#) (these include emerging economies under the IDA, Blend and IBRD lending groups)
- A sovereign in a World Bank-eligible borrowing country
- A multilateral development bank or any other development finance institution with the mandate to invest in World Bank-eligible borrowing countries
- A corporate or investor from a developed country whose transaction will support projects or activities in a World Bank-eligible borrowing country

3. PRODUCT FILTER

Given the diversity of products offered by J.P. Morgan's CIB, the table below describes which products are in or out of scope of the JPM DFI methodology based on the principle of either facilitating raising capital (financing or refinancing) or assisting clients in risk management.

CIB PRODUCTS IN SCOPE OF THE JPM DFI

| PRODUCT CATEGORY | PRODUCTS INCLUDED | PRODUCTS EXCLUDED |
|-----------------------------|--|--|
| CORPORATE FINANCE | Equity underwriting, debt underwriting, M&A advisory, credit (syndicated & bilateral loans) | Buybacks, dividend recapitalizations |
| MARKETS TRANSACTIONS | Securitized products, derivatives (foreign exchange, rates, commodities); fixed-income financing | Market-making trades; cash/spot transactions; prime services; global clearing |
| PAYMENTS | Trade loans, export letters of credit, standby letters of credit, revolving credit facilities | Payables, receivables, FX transaction services, commercial card, payment tech |
| SECURITY SERVICES | None | Agency securities lending, collateral management, commercial paper, depository receipts, custody & fund services |

4. SDG CONTRIBUTION

Transactions that pass the three filters above are then evaluated for their expected contributions toward the SDGs based on the information provided by the client in conjunction with the transaction. The SDG contribution analysis is conducted based on the client's disclosed intentions to make incremental progress on any of the 231 unique SDG indicators (or other metrics that approximate them) and has presented quantifiable targets to advance such indicators. The SDG indicators are then mapped to the corresponding SDG targets and goals accordingly.²

5. DEVELOPMENT INTENSITY ASSESSMENT

TRANSACTIONS WITH SOVEREIGNS AND CORPORATE ENTITIES

Transactions with sovereigns and corporate entities (private or state-owned enterprises) are evaluated for their development intensity using a process that is a function of a quantitative assessment of the development gap (i.e., the magnitude of the development challenge in the relevant sector in the country) with a qualitative assessment of the investment contribution (i.e., the degree to which the client has provided specific and measurable targets on its intentions to address the development gap).

- 5.a. **Development gap assessment:** The country's statistics for the SDG indicators identified in Step 4 are compared with those of other countries eligible to borrow from the World Bank Group to determine the relative magnitude of the country's development gap. A development gap score (low, medium, high or very high) is provided depending on whether the indicator falls in the first, third, second, or fourth quartile of the distribution.³ If multiple development gap indicators are in scope, an average of the gap scores for each indicator is used for the overall development gap assessment. A weighted average score may be assessed if the client has disclosed the relative allocation of its anticipated development impact; otherwise, a straight average is used.
- 5.b. **Investment contribution assessment:** This assessment measures how the transaction,⁴ directly or indirectly, is expected to address the development gaps (sector-specific and cross-cutting), while accounting for policies and practices the client has in place to minimize any negative impacts and the market development effects resulting from the transaction. This information must be disclosed in conjunction with the transaction. The investment contribution assessment is comprised of three dimensions:

² The majority of SDG indicators have a one-to-one relationship with a corresponding SDG target. For the few SDG indicators that correspond to multiple SDG targets, a determination is made on which targets are relevant based on the context of the transaction.

³ This is the process for development indicators that denote a positive attribute (e.g., access to clean water). For development indicators that denote a negative attribute (e.g., unemployment), the gap score will correspond to the statistic's placement in the distribution in descending order (i.e., a development gap score of low is assigned to if the country's statistic falls in the first quartile of the distribution)

⁴ For M&A transactions where J.P. Morgan is acting as a sell-side advisor, the JPM DFI evaluates the development impact of the assets that are being offered for sale (over a determined forecast period), including the impact of any proposed value creation plans that may be in scope.

i. Positive output & outcome targets: This dimension evaluates the client's disclosure on their intentions to target positive development outputs and outcomes over the course of the transaction. In this analysis, we evaluate:

- Sector-specific outputs and outcomes: Sector-specific forward-looking targets related to addressing sector gaps (e.g., access to electricity)
- Cross cutting: Cross-cutting forward-looking targets in relation to environmental sustainability, job creation, gender and diversity, and institutional governance

ii. Mitigating negative impacts: This dimension evaluates the client's operational policies and practices to ensure that the development outputs and outcomes specified in the previous section are undertaken in a responsible, inclusive and sustainable manner, regardless of the sector of operations. In assessing this dimension, we leverage emerging best practices and standards around measuring "principle adverse indicators" and standards of "do no significant harm," such as those referenced under the IFC Performance Standards and the Sustainable Finance Disclosure Regulation in Europe.

iii. Impact on market development: This dimension evaluates the spill over effects of the transaction on society and the broader economy, including:

- **Demonstration effects:** The launch of novel technologies, products or business models that demonstrate feasibility in a market and may be replicated by others
- **Supply chain effects:** Increasing the quantity and quality of the demand through the supply chain, including applying transparent and sustainable sourcing policies, local content requirements, etc.
- **Knowledge development:** Investments in education, training or novel technology adoption, which endures even when workers leave the entity and permeates through the economy
- **Global standards:** Adherence to standards beyond the national requirement, which may elevate local market standards
- **Market connectivity:** Connecting producers and consumers through hard or digital infrastructure, thereby stimulating economic activity
- **Market competitiveness:** Increasing market participants or their rivalry (e.g., through divestments, privatizations, antitrust measures, sharing intellectual property), thereby boosting market competition
- **International trade and investment:** Increasing imports or exports, foreign direct investment, and international payments, which may bolster cross-border commercial relations
- **Financial innovation and complexity:** The complexity and innovative elements of the financial transaction

A score of none, low, moderate, high or very high is assigned to each of the three dimensions of the investment contribution analysis, according to the rubric below. The scores for the various dimensions of the investment contribution assessment are then averaged to obtain the overall investment contribution score.

- **None:** Client provides no disclosure on how the transaction will support the investment contribution dimensions
- **Low:** Client discloses programs, policies or practices that are expected to advance some of the investment contribution dimensions, but does not address all such dimensions nor does it provide any specific and measurable development outputs or outcomes associated with its disclosure
- **Moderate:** Client discloses programs, policies or practices that are expected to support several of the investment contribution dimensions, with at least one specific and measurable development output associated with the disclosure
- **High:** Client discloses programs, policies or practices that are expected to support most of the investment contribution dimensions, with specific and measurable development outputs associated with most of its disclosure
- **Very High:** Client discloses programs, policies or practices that are expected to support most of the investment contribution dimensions, with specific and measurable outputs and outcomes associated with each item in its disclosure

5.c. The combination of the values assigned to the development gap assessment and investment contribution assessment will provide the overall development intensity score, as illustrated below.

| | | DEVELOPMENT GAP | | | |
|-------------------------|-----------|-----------------------------------|----------|-----------|-----------|
| | | LOW | MODERATE | HIGH | VERY HIGH |
| INVESTMENT CONTRIBUTION | VERY HIGH | High | High | Very High | Very High |
| | HIGH | Moderate | High | High | Very High |
| | MODERATE | Moderate | Moderate | High | High |
| | LOW | Low | Moderate | Moderate | Moderate |
| | NONE | No Sustainable Development Impact | | | |

TRANSACTIONS WITH OFFICIAL DEVELOPMENT INSTITUTIONS (ODIs)

ODIs are defined as public-sector entities that have a mandate to support sustainable development, including bilateral development banks (e.g., DEG, FMO), multilateral development banks (e.g., IFC, EBRD), and international development agencies (e.g., USAID, FCDO). Given their mandate, transactions supporting the general corporate purposes of ODIs are assessed to have development impact. These transactions are typically assigned a low development intensity score, due to the lack of information on the specific outputs and outcomes associated with the transaction. However, these transactions can obtain higher development intensity scores if they are denominated in an emerging markets currency or have disclosures on the themes they are intended to support (e.g., green bond issuances).

Transactions with ODIs that have disclosure on the country and sector which will be supported by the transaction will be assessed using the same process described above for sovereign and corporate entities.

6. REPORTING

J.P. Morgan's CIB is primarily an intermediary in banking and capital markets. Like other financial intermediaries, J.P. Morgan's business model is to originate and structure financial instruments for distribution to syndication with ultimate investors or lenders. As such, the ultimate lender or investor would be responsible for ex-post monitoring and evaluation of the asset.

By providing the ex-ante impact metrics and targets associated with the transaction, the JPM DFI development impact assessment provides a framework for ongoing impact measurement. Clients that engage the JPM DFI as their development finance structuring agent are provided a report of the development impact assessment, which includes an ex-post reporting template that lists all the indicators that were included in the investment contribution analysis. Clients may voluntarily use this template to report their annual progress on the indicators.

The JPM DFI may perform ex-post monitoring on assets that J.P. Morgan retains on its balance sheet, on a selective basis, to refine its ex-ante development impact assessment methodology.

The JPM DFI publishes an annual report that include a summary of its activities, with aggregated information on the volume, development intensity scores, product types, economic sectors, and geographies of its assessed transactions.

7. MAINTENANCE

The JPM DFI will always have the current version of its methodology available on its website to maintain transparency on its approach. The JPM DFI will also review its methodology on an annual basis and make revisions based on lessons learned from its own experience as well as evolving industry best practices.

EXAMPLE

DEVELOPMENT IMPACT ASSESSMENT OF A CORPORATE BOND EXPECTED TO SUPPORT AGRICULTURE IN ETHIOPIA

J.P. Morgan CIB transaction—As a CIB transaction, it has already been evaluated on J.P. Morgan’s risk, credit, KYC, and environmental & social requirements

Step 1—Sector filter: The transaction benefits the agricultural sector which is a permitted sector per the JPM DFI methodology

Step 2—Geography filter: The transaction supports activities in Ethiopia, a country that is eligible to borrow from the World Bank Group

Step 3—Product filter: The transaction helps the corporate raise new capital

| Step 4 SDGs Contribution | | | |
|--|---|---|---|
| Forward-looking quantitative targets | Contribution to SDG indicators | Corresponding SDG targets | Corresponding SDG |
| Providing agricultural inputs and training to 1 million farmers to increase agricultural productivity by 30% | 2.3.1 Volume of production per labor unit by classes of farming/pastoral/forestry enterprise size | 2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment |  |
| Encouraging 50,000 households to take up agriculture as a livelihood through the farm extension program | 2.4.1 Proportion of agricultural area under productive and sustainable agriculture | 2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality | |
| Planting 1 million indigenous trees by 2025 | 15.3.1. Proportion of land that is degraded over total land area | 15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world |  |

| Step 5.a Development Gap Assessment | Step 5.b Investment Contribution | | |
|---|---|---|--|
| Comparison of relevant SDG indicators for the target country to other emerging markets | Positive output and outcome targets | Mitigating negative impacts | Market development |
| The prevalence of undernourishment is 16.2% in Ethiopia (a metric which falls in the third quartile of the distribution of all developing countries); while the cereal yield, a measure of agricultural productivity, is 2.4 tons per hectare (a metric which falls in the second quartile of the distribution of all developing countries). The proportion of land that is degraded in Ethiopia represents 29% of the country’s total land area (a metric which falls in the third quartile of the distribution of all developing countries). ⁵ | <p>Sector-specific</p> <p>Enhancing agricultural productivity & promoting sustainable agriculture: Increasing farmer yields and promoting resilient agricultural practice by providing fertilizers, seeds, irrigation technology, and training to over 1 million farmers per year until 2025. The actions are estimated to increase agricultural productivity by 30% compared to their 2021 baseline.</p> <p>Restoring degraded land: Supporting more than 1 million farmers to plant 1 million indigenous trees by 2025.</p> <p>Cross-cutting</p> <p>Jobs: Encouraging 50,000 households to take up agriculture as a livelihood through the farm extension program.</p> <p>Gender: Providing support to female entrepreneurs in communities in which the company operates.</p> | <p>Climate/environment: The agricultural inputs provided have obtained certificates that verify that they are free of toxic and hazardous chemicals. Furthermore, the tree-planting initiative is expected to mitigate environmental degradation and strengthen resilience to climate change.</p> <p>Labour: Client upholds standards of human rights, health and safety, and fair compensation in accordance with ILO conventions.</p> | <p>Knowledge development: Farmers trained in the programs may train other farmers in their communities.</p> <p>Supply chain effects: The agricultural inputs will be sourced using 80% local content, thereby indirectly supporting jobs throughout the supply chain. Company will disclose its sustainable sourcing policy.</p> <p>Financial innovation & complexity: The bond is a high-grade corporate 144/Reg S USD issuance, which is a common structure in the market. However, it is a debut bond that required the issuer to obtain audited financial statements and credit ratings for the first time.</p> |
| Development Gap Score = High | Score = High | Score = High | Score = Moderate |
| Investment Contribution Score = High | | | |

| Step 5.c Development Intensity Score |
|--------------------------------------|
| High |

⁵ The JPM DFI leverages only the indicators that are available in the UN Statistics Division SDGs Indicators Database, the World Bank’s World Development Indicators, and/or other authoritative third party sources. The most recent statistics available at the time of the assessment have been used. Developing countries refers to the 144 countries eligible to borrow from the World Bank Group

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