STICHTING IMPACT-LINKED FINANCE FUND – INVESTMENT POLICY AND GUIDELINE

Date last reviewed: May 2021

1. Purpose

The Stichting Impact-Linked Finance Fund, hereinafter referred to as the "Foundation", is a Dutch foundation set up by Roots of Impact and iGravity providing finance to high-impact organizations that directly rewards these organizations for positive outcomes generated through their business activities. The funding is provided by donors and other catalytic funders (including corporations, foundations, public donors, philanthropists, and similar) and used in a revolving manner in order to fulfil the mission of the Foundation.

In addition to its direct funding activities the Foundation promotes incorporating impact considerations into the provision of finance leading to lower financing cost and/or better financial terms for creating measurable positive impact. It actively advocates for applying this approach to other areas of business, policy and finance, too.

The Foundation represents a financing vehicle that is able to provide innovative finance in multiple forms to projects and organizations independent from their geography and legal form, incl. (recoverable) grants, outcomes-based premium payments, impact-linked loans and equity, as well as other impact-linked financing instruments - in any case providing rewards for positive social and environmental outcomes. It is designed to facilitate a concerted effort between the private sector, non-profits, and the public sector to provide financing for social and impact enterprises, impact-driven SMEs and NGOs with market-based activities. It also provides funding to intermediaries that provide financial and/or technical support to these organization (e.g. by compensating them for providing concessional finance linked to positive outcomes)

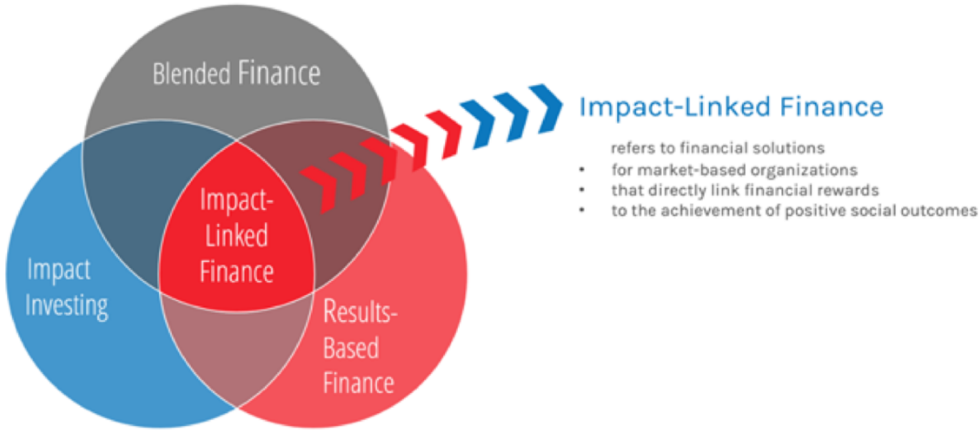
The Foundation aims to catalyze private sector investment for high-impact opportunities by improving the risk-return profile of selected enterprises, funds and organizations by (partly) enhancing their financial return and/or mitigating their risk, thereby mobilizing additional resources and catalysing deeper impact, while improving the effectiveness and efficiency of development financing as well as impact investment.

The Foundation envisages having ring-fenced funding windows related to specific themes, programs and/or geographies, allowing donors and funders to earmark their contributions as well as to participate (if wished) in corresponding investment decisions. Supplementary investment guidelines might be implemented for these funding windows. However, the guiding principles of this investment policy and guideline apply for all funding windows.

The purpose of this document, which complements the Articles of Association, is to outline the philosophy, objectives and criteria guiding the investments and the management of the Foundation.

2. Design Principles for Impact-Linked Finance

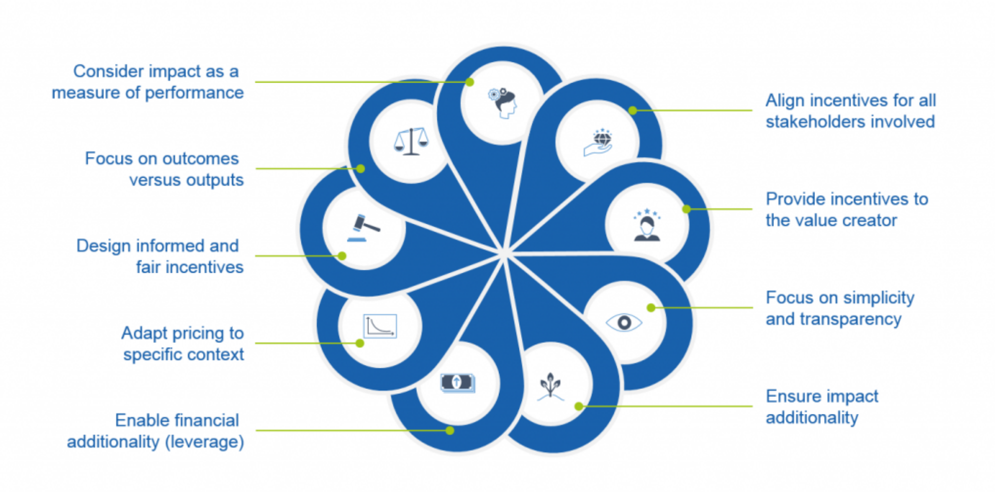
In partnership with the Boston Consulting Group (BCG), Roots of Impact in 2018 defined the concept, characteristics and potential of **Impact-Linked Finance**. It represents a growing portfolio of financial instruments and design principles that incentivise private investment to support high-impact organizations in scaling up their impact. It is an effective way of aligning positive impact with economic viability and lies at the intersection between Blended Finance, Impact Investing, and Results-Based Finance. Impact-Linked Finance emphasizes additionality in the sense that financial rewards incentivize organizations to deliver additional outcomes and deepen their impact. Impact-Linked Finance does not necessarily focus on enterprises that are commercially less attractive – it enables and incentivizes market-based enterprises to accelerate and deepen their positive impact by generating additional outcomes (e.g. serving lower income customers, in particular women, or focusing on more rural areas).



The Foundation will closely follow and apply the following Design Principles for Impact-Linked Finance in order to ensure the most effective use of funding:

1. **Consider Impact as a measure of performance:** Social and environmental impact should be seen as a measure of performance that can be tracked, managed and optimized. Thus, incentives should be relative if feasible, rather than rewarding achievement of fixed targets or milestones (granularity according to the organization's state of development).
2. **Align incentives for all:** Impact-linked financing solutions have to equitably balance risks and returns to provide aligned incentives for the major stakeholders in terms of social, environmental and economic value. Seek alignment of incentives with the enterprise's business strategy.
3. **Provide incentives to the value creator:** Rewards have to be directed to the actor who is most central in the value creation process.
4. **Focus on simplicity and transparency:** Avoid complicated models. Incentives have to be easy to understand by all stakeholders, with straight-forward and transparent rewards and processes.
5. **Ensure additionality:** Incentives and rewards should be provided for additional outcomes that would not have happened anyway.
6. **Enable financial additionality (leverage):** The incentives should have a link to investment and enable leverage/scaling of resources. This does not mean that higher leverage is always better. Leverage has to be appropriate for the context, and financial resources are a means to create developmental additionality.
7. **Adapt pricing to context:** The pricing of rewards should be based on objective criteria, but the incentive levels set should maintain some flexibility in order to fit to a given context.

8. **Design informed and fair incentives:** The level of incentives should be high enough to attract interest from enterprises, but also represent the best value possible for the funder.
9. **Focus on outcomes vs. outputs:** Wherever feasible, incentives should be based on outcomes or robust proxies for outcomes, not on input or output. Ensure measuring performance is in line with international principles supported by SVI and IFC.



In addition to the design principles the Foundation will consider the Principles of Social Value, Operating Principles for Impact Management and the OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs.

3. Guiding Values

The Foundation adheres to the following guiding values:

Effectiveness: We strongly believe that the impact performance of an enterprise can be affected by the way in which it is financed. We apply the Design Principles for Impact-Linked Finance in order to ensure maximum additionality and promote the most effective use of funds and engage in further development of these principles and its broader application in the field.

Transparency: We apply highest transparency standards across the whole process from selection, structuring of financial transactions and outcomes to verification. We regularly share information and relevant indicators with the Supervisory Board and the Investment Committee(s) in order to get guidance and support.

Verification: The verification of impact will go beyond process validation of outcomes and include the contribution of the financing for the enterprise and the broader impact of its activities including unintended effects whenever possible and feasible.

Innovation: We believe in the idea of "better terms for better impact" and advocate for applying this approach across business, policy and finance. We are committed to contribute to the field by sharing lessons learned and good practice as well as providing support to other actors engaging in Impact-Linked Finance.

Inclusiveness: We actively seek input and feedback from our stakeholders, in particular beneficiaries and organizations supported by the Foundation.

4. Investment Strategy

The Foundation understands and uses the term "investment" in a wider sense that includes, next to debt and equity, instruments such as payments for results and grants made conditional on the attainment of specific outcomes.

Target organizations and selection process

The Foundation will provide financing to organizations and enterprises committed to achieving measurable impact with a scalable business model. Targeted organizations need to fulfil the following criteria:

- **Impact focus**: Does the organization target highest impact areas - e.g. serving very low-income groups, female-led households or rural areas? How do they understand, measure and articulate their impact? Only organizations strongly committed to impact management and measurement will be funded.
- **Sustainability**: Does the organization or – in case of NGOs – specific operational models have a clear path towards financial and operational sustainability?
- **Effectiveness**: Is there data and evidence that the proposed intervention will generate the intended results? How does this compare to existing benchmarks?
- **Efficiency**: Within the same target group and/or geography, which results represent the best value per dollar of funding?
- **Scale and depth**: How many beneficiaries/clients will be reached within the next 6, 12, 18 months and at what depth of impact?
- **Critical services**: How critical are the needs being addressed? Does the organisation play a crucial role providing services or is a sole service provider?

Once a potential target organization is identified and pre-vetted, a scorecard-based assessment will be applied, which allows the Foundation to score and compare interventions addressing similar needs. The score will be used as guidance to make investment decisions and determine the appropriate size and instrument for (co-)financing.

Financial instruments

The Foundation can use a variety of non-repayable and repayable financial instruments that link financial terms to realized outcomes including:

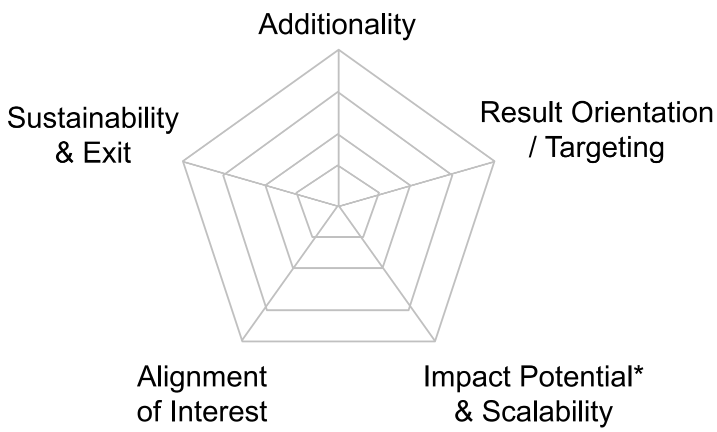
- **Social Impact Incentives (SIINC)**, a funding instrument that rewards high-impact enterprises with time-limited premium payments for achieving social impact and enable them to attract additional investment to scale.
- **Impact-Linked Loans** provide financing at concessional rates to impact organizations that are rewarded for achieving pre-agreed development outcomes. Interest rates (and potentially principal

payments) are tied to achievement of outcomes ("*better terms for better impact*"). The more impact the organization achieves over the term of the loan, the lower its cost of financing.

- Other financial innovations with rewards linked to achieving positive outcomes such as Reimbursable SIINC, Convertible SIINC, Impact-Linked Convertible Note, Impact-Linked Revenue-Share Agreement, Impact-Linked Guarantee, Impact-Linked Redeemable Equity, etc.
- Technical Assistance Grants that are provided in particular to build or strengthen the impact measurement and management practice of the investees as well as build capacity to optimize future impact and business performance

Different financing instruments come with different levels of complexity, engagement and cost. Criteria for assessment of the financing instrument and its terms will look at:

1. Additionality: To which extent does the proposed financing instrument and its terms mobilize additional private resources and makes a difference beyond what would happen anyway (or better/faster)?
2. Result Orientation / Targeting: How far is the financing instrument and its terms targeted towards those activities that are most closely linked to the intended development outcomes?
3. Impact Potential & Scalability incl. cost-effectiveness analysis: How does the financing instrument and its terms support exploiting the full potential for development impact and its scalability? What are the expected benefits compared to its cost?
4. Alignment of Interest: How far are the interests aligned between all parties involved in the financing model? Is there any risk of moral hazard or market distortion?
5. Sustainability & Exit: How does the financing instrument and its terms encourage the exit of concessional finance and financial self-sustainability of the intervention?



* incl. cost-effectiveness analysis

Another important criterion for deciding on an appropriate financing instrument is a case-by-case decision on whether and how far the investment should be primarily used to mobilize additional investment (e.g. using SIINC-type instruments for blended finance) or provide the capital from a single source (e.g. using Impact-Linked Debt or Equity instruments as direct impact investment).

Portfolio parameters

The Foundation plans to structure the portfolio using the following parameters:

Target sectors	All sectors relevant for the Sustainable Development Goals
Target investees	Social and impact enterprises Local start-ups and impact-driven SMEs NGOs with (at least partly) market-based/entrepreneurial approaches Impact investment funds and facilities, intermediaries and financial institutions Focus on entrepreneurial approaches: While targeted organizations can have different legal and operational structures, they need to follow an entrepreneurial approach to delivering critical goods and services at an efficient price point to marginalized people with a scalable business model.
Profitability	Return of capital for part of the portfolio Foundation measures its success by its development impact and efficient use of capital not on the financial performance The Foundation aims to partially recycle and re-invest repayments made by the impact enterprises when appropriate, thus reaching even more high-impact organizations over time. Financing instruments with a repayment mechanism are used with impact organizations that are profitable or on a clear path towards financial sustainability.
Ticket size	Preferably >200K, exceptions possible
Financial instruments	Impact-linked financing instruments across the whole spectrum plus technical assistance grants
Time Frame	Long-term/case dependent
Currencies	All currencies possible
Risk	Impact-first, open to high risk taking

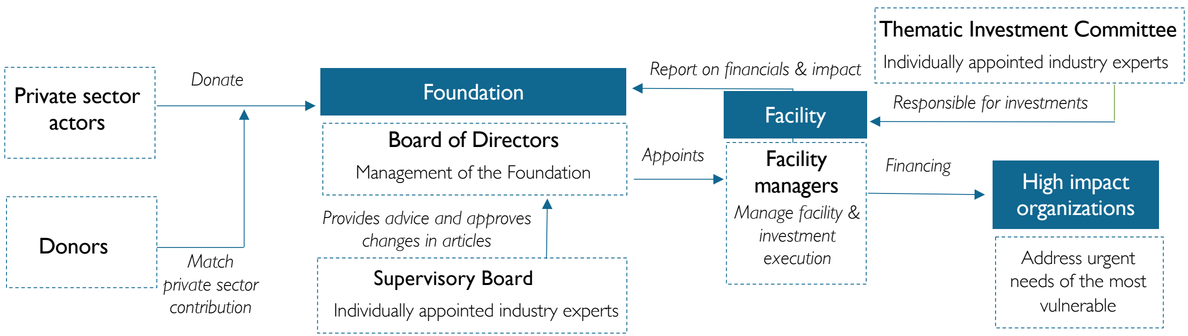
5. Structure and Governance

Overall responsibilities for the management of the Foundation rests with the Board of Directors (the "BoD") in accordance with the Articles of Association, as outlined in more detail below.

The Supervisory Board critically assesses and advises the BoD and approves the amendment of key documents such as the Articles of Association and this Investment Policy & Guideline. The BoD appoints a Facility Manager for each dedicated funding window as well as (in collaboration with funders) a Thematic Investment Committee which will take the final investment decisions based on the recommendations of the Facility Manager.

- **Board of Directors (BoD)** in charge for operational management of the Foundation (i.e. the executive team). The BoD appoints members of the Thematic Investment Committees in coordination with the funders of the respective funding window.
- **Supervisory Board** acting as a supervisory body of the BoD and comprised of independent industry experts. Responsibilities include among others to supervise and advise the BoD, approve changes in the Articles of Association as well as approve changes in this general Investment Policy & Guideline binding for all Investment Committees.
- **Thematic Investment Committee** a committee under the Articles of Association set-up by the BoD for every funding window (typically a program funded by one or more donors or catalytic funders) and representing key funders and financing and thematic experts to oversee the investment strategy and follows closely the pipeline as well as the proposed transactions. Members agreed upon by BoD and funders of relevant program.
- **Facility Manager** is responsible for research and due diligence of new investments, structuring of transactions according to the design principles, investment management and monitoring as well as maintenance of the database and deal pipeline, etc.

The chart below illustrates the structure:



6. Investment Decision Making

Within the dedicated funding windows (facilities) the respective Facility Manager is responsible for market analysis and pipeline building activities, activating its local networks (including contacts at DFIs, regional and local impact funds, banks and other lenders, transaction service providers, incubators / accelerators, local offices of large donors, government agencies, etc.) to identify organizations within their networks that meet the criteria of the Foundation.

The Facility Manager will develop a long-list of potential investees based on desk-based research, the work of local staff, and through its networks, which it will then arrange to meet remotely or through field trips to the countries. Target companies will be further vetted through direct discussions, which would lead to a 'Deal Book'. Dependent on the pre-defined process of the facility the Deal Book may be presented to the Thematic Investment Committee for preliminary feedback on company business models, potential impact, and interest in pursuing an investment.

For the investments in which the Thematic Investment Committee indicates interest, those companies will enter in a more stringent due diligence, including corroborating interviews with company leadership, market experts, suppliers, customers, etc., an analysis of the financial statement of the company (including an independent audit, if needed), and financial and impact models detailing the impact of the Foundation's investment for presentation to the Thematic Investment Committee. The scope and depth of the due diligence is dependent on the ticket size, the available budget and the nature of the investment. In case of co-investments and using catalytic instruments like SIINC that require a lead investor who covers most of the investment risk the Thematic Investment Committee might decide to limit the due diligence to the most essential scope or focus on an impact due diligence only.

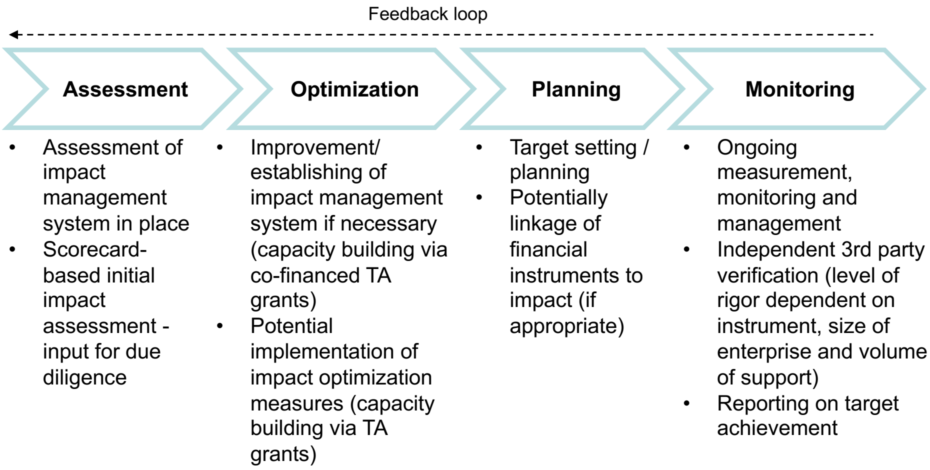
Additional potential investors will be proactively engaged at this time in an attempt to syndicate multiple investors into one impact-focused transaction. All these materials will be included in an 'Investment Memorandum', and detailed 'Term Sheet' that outlines all major terms of the investment as agreed upon with the company. The Investment Memorandum will then be submitted to the Thematic Investment Committee for consideration, which could include an absolute or conditional approval. Once approval has been granted, all supportive documents (Loan agreement, SIINC Agreement, etc.) will be executed per the terms detailed in the term sheet.

7. Impact Measurement

The Foundation's approach to impact assessment and management is focused on advanced screening and continuous monitoring and includes the following:

- Screening: An impact assessment framework that grades each investment's impact across a variety of factors. Specifically, the screening tool covers:
    - Impact performance: Performance of quantifiable impact targets
    - Commitment: Management team's commitment to achieving impact
    - Governance: Investment process and reporting procedures of the manager
    - Impact risks: Risks mitigation and no-harm strategies of company management

- Process: Each investee has to apply a consistent process consisting of assessment, optimization, planning and monitoring; learnings will be incorporated back in the process not only for reporting purpose but for optimization of impact outcomes



- Impact performance will look at:
  - Outreach, direct (and indirect)
  - Type and depth of impact: e.g. net additional income, quantifiable or qualitative criteria (livelihood improvements, proxies, PPI)
  - Distribution: poor, vulnerable, FHHs, government/overall society
  - The gender lens of impact aiming to be reached
  - Additionality and Attribution to the intervention (simplified)
  - Impact Risk: How likely is the effect different from expectations?
  - Leverage of private sector resources when applicable, e.g. guarantees, SIINC, etc.
  - Cost- effectiveness analysis - outcome for invested dollar
  - Systems change potential: indirect growth potential, replication, changing patterns
  - Time: how long will the effect pertain (and be attributable to the intervention)

- Monitoring and reporting: Ongoing monitoring and reporting of impact performance, using both GIIN's IRIS indicators and proprietary indicators (as appropriate), linked with the relevant SDGs, that tracks the investee's performance against its forecasted impact, including those indicators used in investment execution documents and linked to financing terms (when applicable). Also, gender-disaggregated as far as possible.

8. Reporting and Knowledge Sharing

On an annual basis, the Facility Manager will publish and disseminate electronically a report that includes an update of the Foundation's activities in a respective funding window (facility), any investments executed or exited, an overview of the Foundation's portfolio composition for the facility from a geographical, financial instruments, and sector perspective, and the social impact of the investees.

The Foundation is also committed to actively disseminating knowledge and sharing data through publication of case studies and other information as well as workshops/webinars in order to promote the wide use of Impact-Linked Finance.