IMPACT-LINKED FINANCE FUND

INVESTMENT POLICY AND GUIDELINE

June 2024

1. Purpose

The Stichting Impact-Linked Finance Fund, hereinafter referred to as the "Foundation", is a Dutch foundation 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 organized in dedicated funding windows managed by selected Facility Managers.

In addition to its 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 advocates for applying this approach to other areas of business, policy and finance, too.

The Foundation represents a financing vehicle and platform 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, 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 (including compensating them for providing concessional finance linked to positive outcomes)

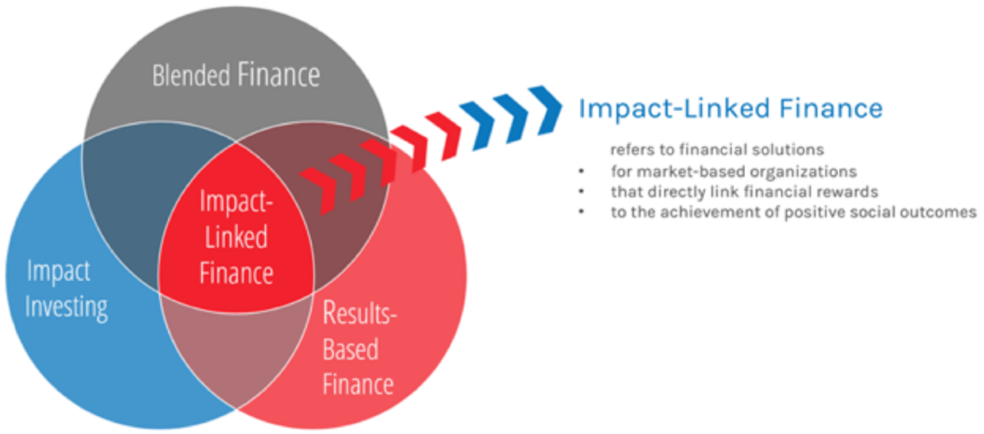
The Foundation aims to enable private sector investment for high-impact opportunities by improving the risk-return profile of selected enterprises, funds and organizations by (partly) enhancing their financial return and/or mitigating their risk, thereby mobilizing additional resources and catalysing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

The Foundation has 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. These funding windows are managed by selected Facility Managers. 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 and their Facility Managers.

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).

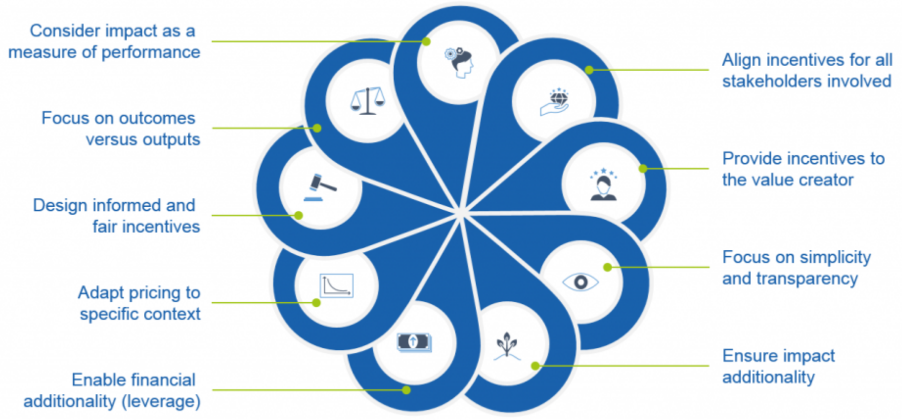


The Foundation will closely follow and apply the following Design Principles for Impact-Linked Finance in order to ensure the most effective use of funding:

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 and its Facility Managers 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 and its Facility Managers adhere 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.

Transparency: We apply high 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 respective Investment Committees of the funding windows 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 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 repayable capital, instruments such as payments for results and payments 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 will be assessed according to 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 unique service provider?

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

Financial instruments

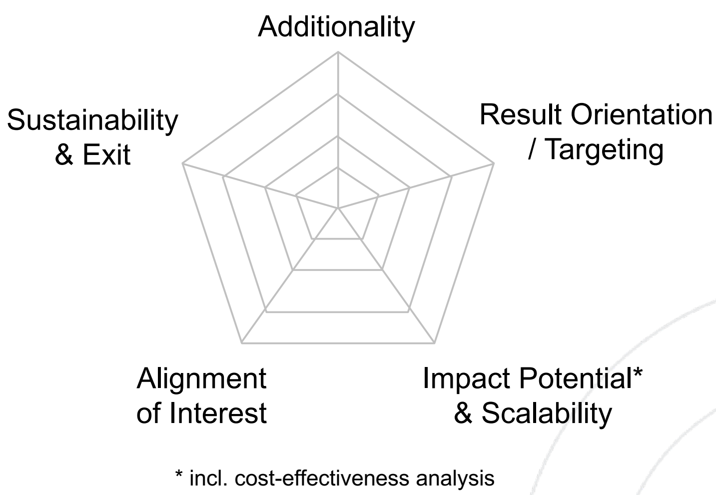
The Foundation can use a variety of non-repayable and repayable financial instruments that link financial terms to realized outcomes including:

- Social Impact Incentives (SIINC), a funding instrument that rewards high-impact enterprises raising investment with time-limited premium payments for achieving social impact and enable them 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, etc.
- Technical Assistance Funding 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 make 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?



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 in combination with 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 instruments as direct impact investment).

Portfolio parameters

The Foundation and its Facility Managers 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 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 USD, exceptions possible
Financial instruments	Impact-linked financing instruments across the whole spectrum plus technical assistance funding
Time Frame	Case dependent
Currencies	All currencies possible
Risk	Impact-first, open to high risk taking

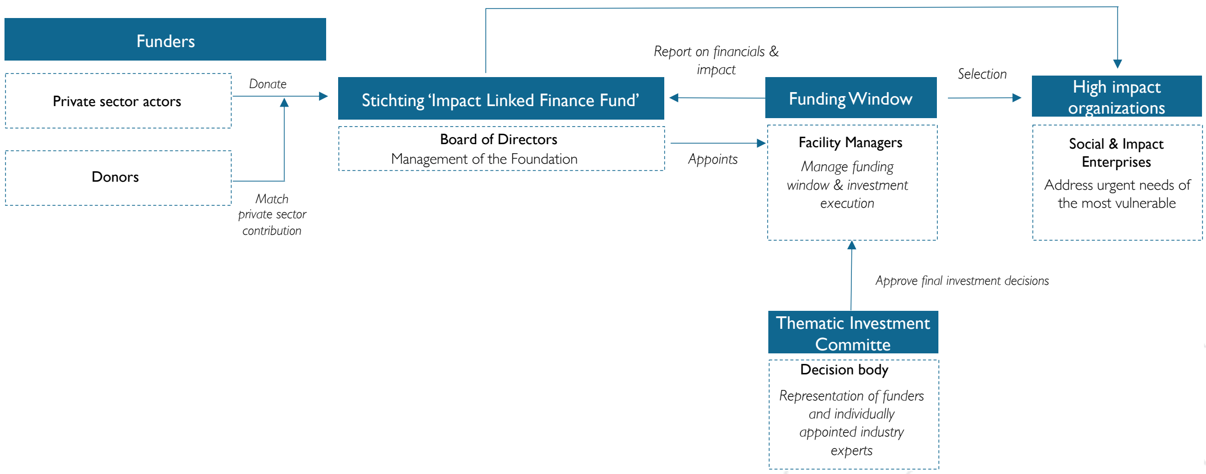
5. Structure and Governance

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 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) but not the individual funding windows. The BoD appoints members of the Thematic Investment Committees in coordination with the funders of the respective funding window.
- 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, if appropriate, 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 managing the dedicated funding window(s) including research and due diligence of new investments, structuring of transactions according to the design principles, investment management and monitoring as well as risk management, etc.

The chart below illustrates the structure:



The investment process and decision making is defined in the Specific Investment Guideline for each funding window.

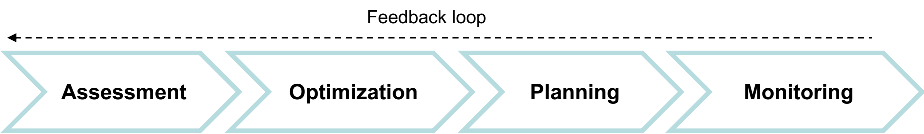
6. Impact Measurement

The Foundation's and its Facility Manager'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



Assessment	Optimization	Planning	Monitoring
• Assessment of impact management system in place • Scorecard-based initial impact assessment - input for due diligence	• Improvement/ establishing of impact management system if necessary (capacity building via co-financed TA grants) • Potential implementation of impact optimization measures (capacity building via TA grants)	• Target setting / planning • Potentially linkage of financial instruments to impact (if appropriate)	• Ongoing measurement, monitoring and management • Independent 3rd party verification (level of rigor dependent on instrument, size of enterprise and volume of support) • Reporting on target achievement

- 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 impact 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 individual, bottom-up 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.

7. Reporting and Knowledge Sharing

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