

INVESTMENT POLICY AND GUIDELINE

June 2025



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 Impact Linked Fund Manager hence forth referred as Facility Manager.

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)

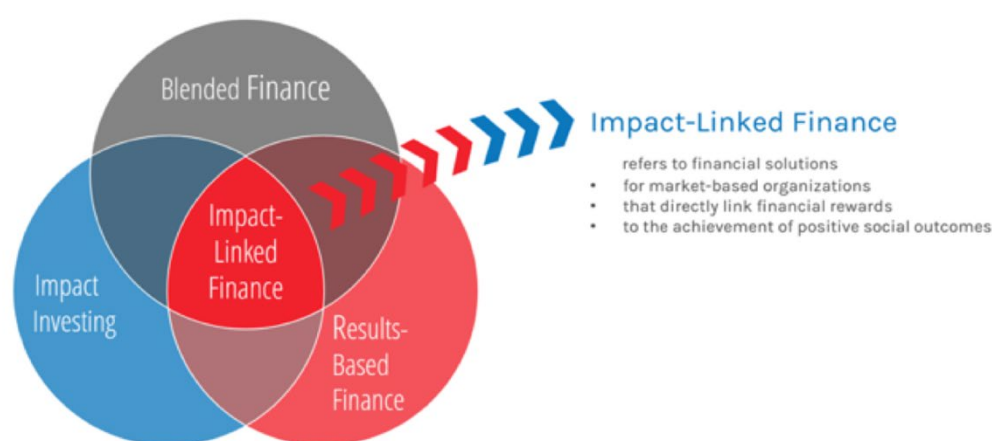
The Foundation aims to enable private sector investment for high-impact opportunities by improving the risk-return profile of selected enterprises, funds and organizations by (partly) enhancing their financial return and/or mitigating their risk, thereby mobilizing additional resources and catalysing 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 Design Principles for Impact-Linked Finance in order to ensure the most effective use of funding. The Design Principles for Impact-Linked Finance are published in its latest version on the website of Roots of Impact.

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 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 appropriate 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?

The Thematic Investment Committee decides on the final selection of investees. Depending on the financing window, various assessments are carried out in advance in accordance with the respective Specific Investment Guidelines.

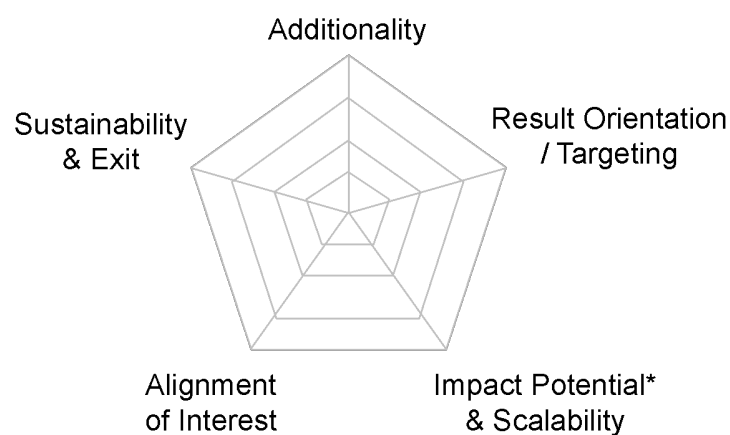
Financial instruments

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, Impact Ready Matching Fund, 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?










* 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 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 except sectors on the exclusion list (see Appendix B)
	Target investees	<ul style="list-style-type: none"> • 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 <p>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.</p>
	Profitability	<p>The Foundation and the Facility Managers managing the funding windows measure its success by its development impact and efficient use of capital not on the financial performance.</p> <p>When appropriate, the Foundation aims to partially recycle and re-invest repayments made by the impact enterprises, 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.</p>
	Ticket size	Depending on requirements and definitions in the respective Specific Investment Guidelines
	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

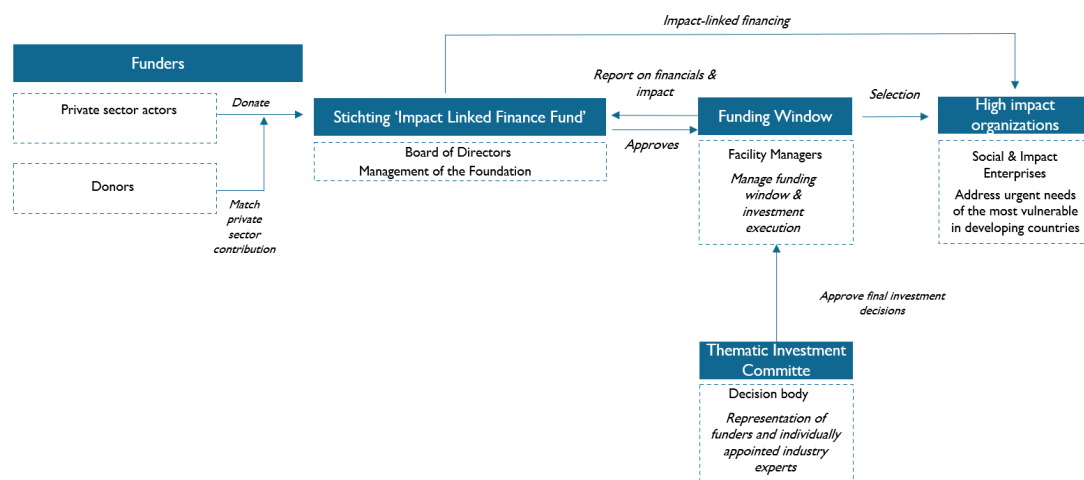
5. Structure and Governance

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 Foundation's 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) usually 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 are defined in the Specific Investment Guideline for each funding window.

6. Impact Measurement & Management

The Foundation's and its Facility Manager's approach to impact assessment and management is focused on advanced screening and continuous monitoring. The procedures and methods for this may vary depending on the funding window. Good practice is outlined in the appendix to this Investment Policy & Guideline.

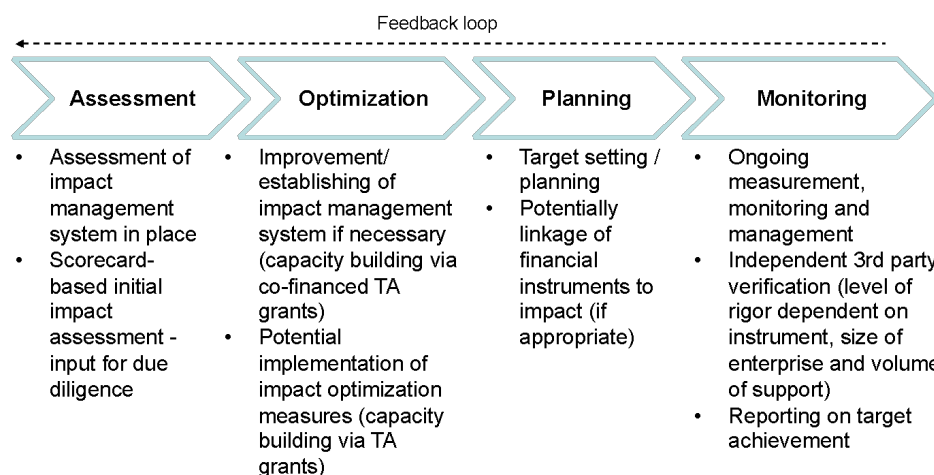
7. Reporting

On an annual basis and in agreement with the respective funders, the Facility Manager should produce 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. The Board of Directors may inspect these reports at any time and request further information from the respective Facility Manager.

Appendix A: Impact Measurement & Management Good Practice

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:** Application of 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 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, indicators should be gender-disaggregated as far as possible.



Appendix B: Exclusion list

Investees that operate in certain industries or activities will be excluded from consideration. Specifically, the exclusion list includes:

a) If any of these following products form a substantial part of a company's business activities such as production and trade (excluded goods):

- Armaments, weapons, munitions and/or their components;
- Alcohol beverages (except beer and wine);
- Tobacco; and
- Gambling, casinos and equivalent enterprises (except public lottery companies, e.g. of Swiss cantons).

b) If the company is involved in any of the following illegal, banned and harmful activities (*excluded practices*):

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as certain pharmaceuticals, certain pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls (PCBs), wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);
- Production or trade in wood or other forestry products from unmanaged forests;
- Illegal and/or uncontrolled use of fire for forest clearance;
- Involvement in activities with adverse impacts on UNESCO World Heritage Sites;
- Prostitution or pornography;
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (and measurement) equipment, and any equipment where the radioactive source is trivial and/or adequately shielded;
- Cross-border trade in hazardous waste and waste products, unless compliant with the Basel Convention and the underlying regulation⁵;
- Production or trade in unbounded asbestos fibers. This does not apply to the purchase and use of bounded asbestos cement sheeting where the asbestos content is less than 20%; and
- Drift net fishing in the marine environment using nets in excess of 2.5km in length

c) If the company participates in any of the following sectors (*critical sectors*) and (i) does not adhere to the relevant sustainability-related sectoral policies and principles and/or actively engage in initiatives fostering sector-specific sustainability stewardship practices, or (ii) this partnership does not directly or indirectly address key negative impacts of the below-mentioned sector (e.g. reduction of greenhouse gas emissions in the case of the oil and gas sector):

- Commodity trading, particularly cotton, precious metals (e.g. gold) and gemstones
- (e.g. diamonds);
- Mining, including coal, gemstones, critical and precious ferrous and non-ferrous
- metals (e.g. cobalt, rare-earth metals, etc.);
- Oil and gas, other mineral resources and extractives;
- Timber, pulp and paper, soy, palm oil;
- Garments and accessories;
- Animal testing;
- Dams;
- Fish and seafood; and
- Power generation.

