

Operating Principles for Impact Management



Finance in Motion (the “Signatory”) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Principles”).

This Disclosure Statement applies to the following assets (the “Covered Assets”) under Finance in Motion’s Advisory:

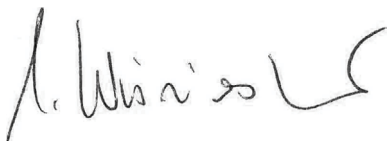
- European Fund for Southeast Europe
- SANAD Fund for MSME
- Green for Growth Fund
- eco.business Fund

This Disclosure Statement applies to the following assets (the “Covered Assets”) under Finance in Motion’s Management:

- Arbaro Fund

The total assets under advisory/management in alignment with the Principles is USD 2.31 billion as of 31 March 2020.

The information contained in this Disclosure Statement has not been verified or endorsed by International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of International Finance Corporation, the World Bank or any member of the World Bank Group. None of International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.



Sylvia Wisniwski
Managing Director

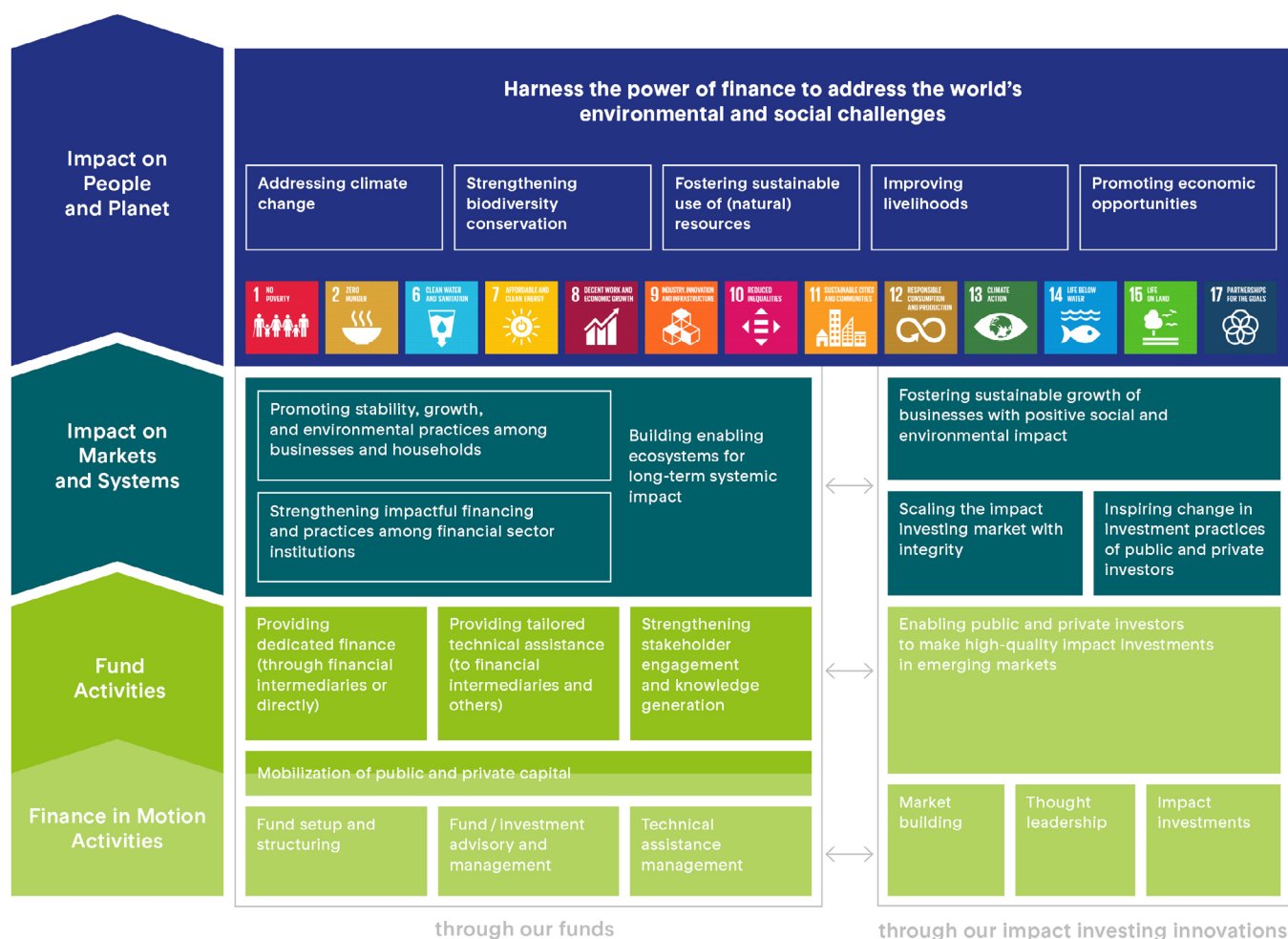
Define strategic impact objective(s), consistent with the investment strategy

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

As a leading impact asset manager, Finance in Motion focuses exclusively on developing and advising funds whose purpose is to generate positive social and environmental impact alongside a financial return. In addition to the impact to which we contribute through the funds, we, as a company, work towards impact by building the impact investing market.

Founded in 2009, Finance in Motion is a **long-standing member of the impact investing community**. In addition to being a signatory of the Operating Principles for Impact Management, Finance in Motion is a signatory to the UN Principles for Responsible Investment, a member of the GIIN Investors' Council, and has been selected among the ImpactAssets 50 several times, most recently in 2020.

Figure 1: Finance in Motion's Pathway to Impact



The funds we advise and manage apply a **two-pronged strategic focus** to investments:

- **Regional focus:** The funds we advise and manage are active exclusively in low and middle-income countries across five continents.
- **Thematic focus:** Our funds target sectors with a high potential to positively contribute to addressing social and environmental challenges. Their activities are clustered around two thematic categories:
(i) Promoting a green economy: channeling capital to green sectors, including sustainable agriculture, sustainable forestry and renewable energy; and
(ii) Promoting entrepreneurship and livelihoods: channeling capital to local businesses and low-income households.

The “**what, why, and how**” of achieving impact are **defined right in the funds’ strategy documents**, including the issue documents, investment guidelines, and business plans. Specifically, the funds work towards:

- Strengthening biodiversity conservation
- Addressing climate change
- Fostering the sustainable use of natural resources
- Improving livelihoods
- Promoting economic opportunities

In order to achieve their impact objectives, the funds provide debt or equity financing to financial intermediaries and companies within their target region, which in turn are required to use the capital in line with the funds’ respective impact goals. A large part of investments are accompanied by technical assistance initiatives. In the case of the debt funds, for example, the technical assistance builds capacities required to sustain and scale the financing beyond the funds’ investments for deep, long-term, systemic impact.

The funds’ **impact investment strategies draw on documented evidence** to substantiate their contributions towards the respective impact objective, including:

- The set-up of new funds is accompanied by careful and extensive market studies and stakeholder mapping to ensure a tailored approach to local needs and realities.
- The strategic approach of providing dedicated finance through financial intermediaries is considered particularly effective in building outreach, strengthening local systems, and creating impact at scale.
- In selecting measures to be financed, the funds draw on documented evidence (including from external sources) that supports, for example, the positive effect that access to finance has on promoting economic development or that sustainable forestry has on CO₂ sequestration, which is again recognized as an important contribution to addressing climate change.

The funds’ impact objectives and strategies are **aligned with key international development targets**:

- By providing solutions to important social and environmental challenges, they contribute to the Sustainable Development Goals (SDGs). In order to determine their contributions, the funds’ activities have been mapped against SDG targets.
- By supporting activities that promote CO₂ storage and sequestration and reduce energy consumption as well as CO₂ emissions, three of the funds work towards the climate goals set out by the Paris Agreement.

Figure 2: Contribution to the Sustainable Development Goals



Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Impact achievement is managed based on a holistic approach, mitigating potential negative risk and enhancing positive impact. The funds' impact management endeavors to align with international standards and good practices, including the Operating Principles for Impact Management, the IFC Performance Standards, and core responsible finance frameworks, as applicable.¹

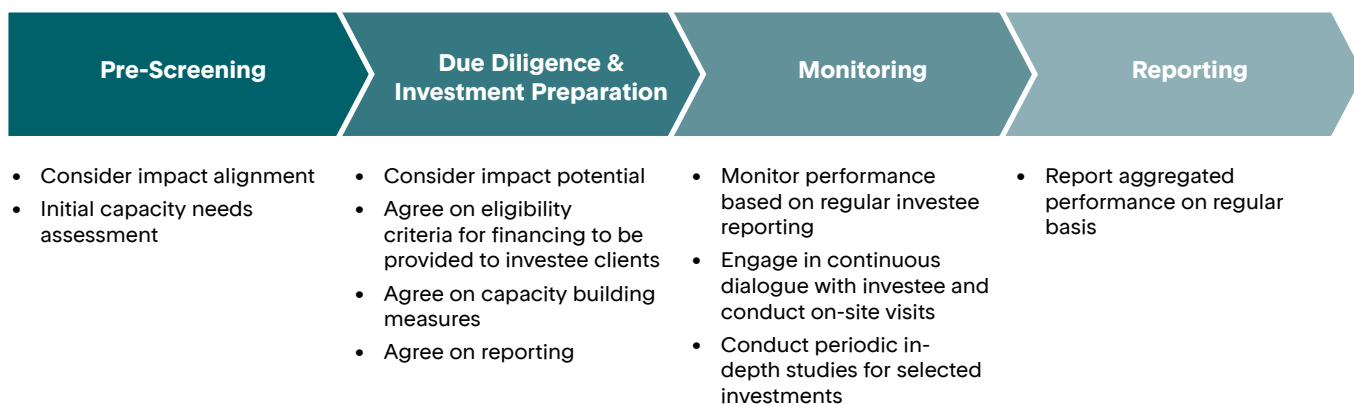
Impact management is integrated into every step of the investment cycle. When it comes to selecting investments for our funds, the potential for development impact is a key factor. During the due diligence process, the alignment of an investment with the fund's strategic impact orientation is carefully reviewed. Only if an investment meets the requirements for financial return and development impact potential, as well as key environmental and social requirements, will it proceed. Pre-investment assessments also provide an opportunity to identify areas for improvement for which tailored technical assistance is then deployed to strengthen capacities and deepen impact. Impact performance and results are measured and reported across all funds.

Each fund's impact management approach is aligned with its respective impact objective. For the evergreen funds, for example, the respective **impact objective is operationalized through annual fund performance targets**. These consider both financial and impact targets of quantitative and qualitative nature. Progress is then continuously monitored and reported on a quarterly basis to the funds' stakeholders. Quantitative and qualitative impact performance is further communicated through regular publications on the funds' websites and in annual public impact reports.

We are currently **developing a new impact scoring tool** for our funds under advisory to further strengthen systematic impact assessment and support impact management on a portfolio level. This new tool will be aligned with industry frameworks, such as the Impact Management Project's dimensions of impact.

Managing and meeting the strategic impact goals of the funds under advisory is important to us as a company. As a fund advisor, our **performance fee** is based on our funds' development impact performance, in addition to meeting financial targets.

Figure 3: Impact Management in Investment Process



¹The following refers to the management of positive impact. For details on the approach to managing negative risk, please refer to Principle 5.

Establish the Manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.² The narrative should be stated in clear terms and supported, as much as possible, by evidence.

As a **Fund Manager**, we regard our contribution to the **funds' impact** to include:

- **Fund setup and concept development:** We play an active role in setting up funds, developing concepts and continuously driving strategy and innovation (for example, by developing a share class to enhance local currency financing) to facilitate investments in emerging markets.
- **Investing in impact:** In addition to our own investments in entities that share our values and vision, Finance in Motion has itself invested in all funds under our advisory/management.
- **Engaging in long-term partnerships:** Finance in Motion's geographical presence across the investment regions not only results in a strong market understanding, but also facilitates a continuous dialogue with the funds' current and potential investees.
- **Sector and regional expertise:** Finance in Motion's team brings to the table specialized expertise, ranging from energy and resource efficiency to sustainable agriculture and financial inclusion. This expertise is applied throughout the investment cycle and, along with the strong local knowledge of our regional presence, enables us to fine-tune strategies and provide targeted support to our partners.

At the fund level, the **funds contribute to the**

achievement of impact through both financial and non-financial channels, including:

- **Blending public and private capital:** Utilizing public capital to mobilize additional private funding for emerging markets allows the funds to achieve impact with scale.
- **Combining targeted investments with customized technical assistance:** In addition to advising and managing debt and equity funds, Finance in Motion manages technical assistance facilities to support investees in strengthening their capacities.
- **Building enabling ecosystems:** Financing is crucial but not in itself wholly sufficient for markets and individuals to thrive. The funds therefore aim to support the systemic factors that contribute to development, such as a conducive regulatory environment, sector knowledge-sharing, availability of support organizations, and sustainable industry practices.

Against this framework, the **particular impact contribution of a specific investment is checked during the due diligence phase**. During the investment preparation process, we also identify and agree on opportunities to enhance our contribution to impact: for example, through technical assistance or a board seat to drive the strategy and development of equity investees.

²For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

Assess the expected impact of each investment based on a systematic approach

For each investment, the Manager shall assess in advance and, where possible, quantify, the concrete, positive impact³ potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?⁴ The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards⁵ and follow best practice.⁶

The impact assessment work is guided by each fund's impact objective and specific impact pathway, according to which **a specific set of key performance indicators** has been identified. For our funds under advisory, these impact pathways consider both the direct impact on the investee (for example, by improving capacity to serve the micro, small, and medium enterprises [MSME] sector) as well as the indirect impacts on or through the investee's end-clients (such as biodiversity conservation through implementation of green business practices). These impacts are monitored throughout the investment.⁷

Assessing the positive impact potential of an investment **starts in the pre-investment phase**:

- During **pre-screening**, the investee's alignment with the funds' requirements is assessed, including environmental and social management and

responsible finance practices as well as potential outreach to the target group. This already narrows down the investment universe.

- During the **due diligence phase**, the impact potential and opportunities to further increase the impact (such as through technical assistance) are considered. The scope of these assessments takes into account possible leverage of our contribution.

Findings are summarized in the investment proposal using a set of guiding questions. **Investment decisions** are guided and approved by the investment committees or boards of the funds under advisory. The members of these committees represent a diverse institutional and thematic backgrounds, including representatives of development finance institutions.

³ Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

⁴ Adapted from the Impact Management Project (www.impactmanagementproject.com).

⁵ Industry indicator standards include HIPSO (<https://indicators.ifipartnership.org/about/>); IRIS (iris.thegiin.org); GIIRS (<http://b-analytics.net/giirs-funds>); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

⁶ International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

⁷ See details under Principle 6.

Assess, address, monitor, and manage potential negative impacts of each investment

For each investment, the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage, Environmental, Social and Governance (ESG)⁸ risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.⁹ As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Finance in Motion takes a **holistic approach to impact management**, combining managing and mitigating any potential negative impact with enhancing the positive impacts. Compliance with a standard set of environmental and social (E&S) criteria as well as good governance and responsible finance practices are therefore key parameters when it comes to selecting investee companies. Capacities and systems are carefully reviewed during the due diligence phase and, if required, action plans and improvement measures agreed upon.

Each fund manages E&S risks through an **Environmental and Social Management System (ESMS) which is tailored to the potential risks** of the fund's activities. Core components of such ESMS are:

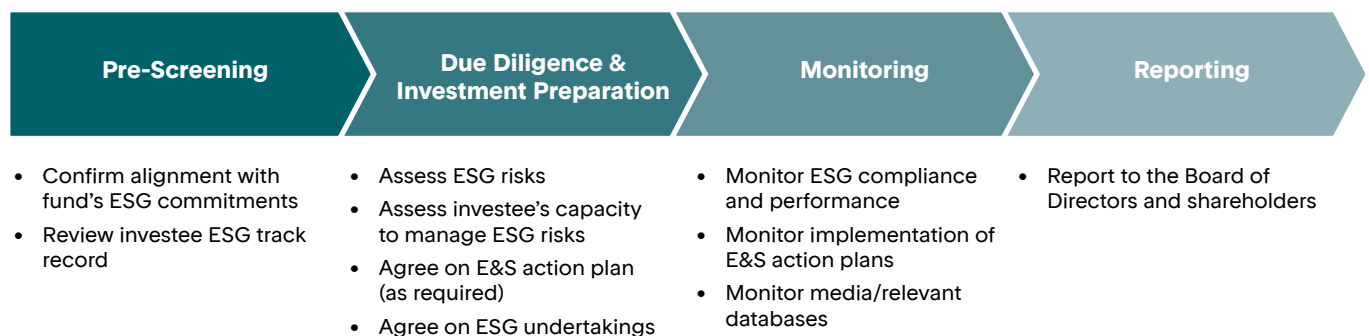
- **An E&S Policy**, which includes an E&S Exclusion List of activities that the funds will not finance

- **Procedures and tools** to support the implementation of E&S management throughout the investment cycle, such as structured due diligence and reporting questionnaires
- **Qualified staff** and clear roles and responsibilities to ensure an effective implementation

The ESMS guides the funds' investees in undertaking their activities in **a manner consistent with national and international standards and recognized frameworks**, such as IFC Performance Standards and ILO Core Labour Standards.

Throughout the investment period, **the funds also support strengthening the investees' ESG management** through tailored technical assistance and capacity-building initiatives.

Figure 4: Managing negative impacts throughout the investment cycle



⁸ The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

⁹ Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards), IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2), and the OECD Guidelines for Multinational Enterprises (<http://mneguidelines.oecd.org/themes/human-rights.htm>).

Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.¹⁰ The Manager shall also seek to use the results framework to capture investment outcomes.¹¹

Following the due diligence, **comprehensive impact monitoring accompanies all investments** alongside the financial monitoring. In order to assess progress against performance targets and gauge final impacts on people and planet, **the funds combine a number of data sources:**

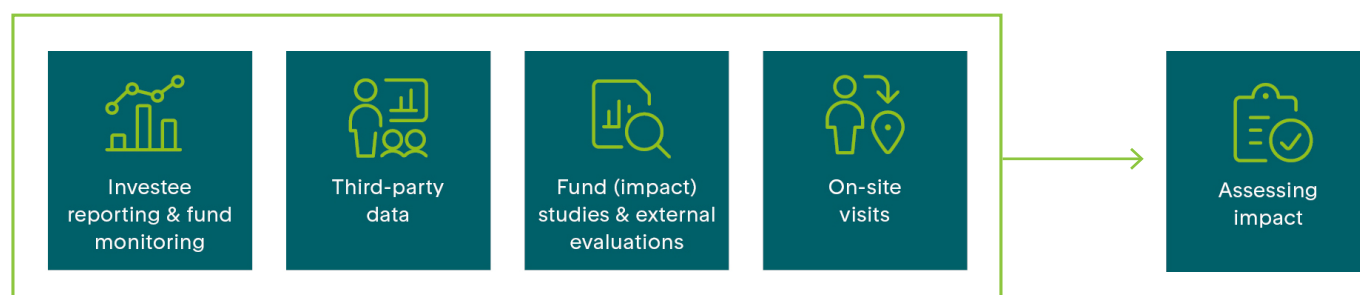
- **Fund monitoring:** Data at a fund level cover a range of data points on the funds' activities related to resource mobilization, financing, and technical assistance.
- **Investee reporting:** The funds' investees are required to report on a set of predefined indicators, on a quarterly or semi-annual basis, that allow for an understanding of how the funds are being used and who they are reaching. To collect data from almost 190 debt funds investees (largely financial institutions) on nearly 150,000 active loans that are on-lent from the funds' financing across five continents, we have developed special software solutions to facilitate collecting and analyzing the data. The requirement for regular reporting also creates an opportunity to raise awareness for funds'

key commitments and objectives and builds lasting capacities within the investees.

- **Third-party data:** External parameters and studies are utilized to inform underlying impact assumptions and model final impacts on people and planet.
- **Studies and evaluations:** The funds conduct in-depth (impact) studies and collaborate on external evaluations and assessments to collect additional quantitative and qualitative information for a deeper understanding of the funds' impact mechanisms and the scale of their final impact on people and planet.
- **On-site visits:** Finance in Motion's staff operate from 17 offices around the world. This local presence allows for regular site visits and ongoing exchange with our investees, and enables us to incorporate on-the-ground knowledge of regional market needs into the funds' investment strategies.

Throughout the investment cycle, we use this data to **confirm if financing is being used for its intended and agreed-upon purpose and to monitor impact performance.**

Figure 5: Impact Monitoring & Assessment Approach



¹⁰ Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

¹¹ Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

Conduct exits considering the effect on sustained impact

When conducting an exit,¹² the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Our funds largely provide **debt capital** to support our investees in expanding their impactful lending portfolio. As such, our exit is already built into the investment decision. In structuring the investment, however, the funds under advisory consider, for example, the tenor of the loan that would best contribute to achieving the impact objective.

In many cases, we renew and increase our financing to a

particular investee. These top-ups are done in step with the growth of our investee and its portfolio. They provide an opportunity to review the development and continued impact alignment of our investees.

For **equity investments**, impact considerations are taken into account when they reach the exit stage. Currently, none of the equity investments have reached (or will soon reach) this stage.

¹² This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

We conduct **studies on the effects of investments** on investee clients in collaboration with external research companies. These studies review effects contributed to by the funds through both quantitative and qualitative data and support the identification of lessons learned. In addition, we contribute to external evaluations, often conducted by public investors.

The impact management system provides a **constant feedback loop and allows us to gain insights and learnings to calibrate our strategy** and planning for deeper, broader impact. Priority areas and strategy going forward is also a topic for the regular meetings of the funds' committees.

Lessons learned are used, for example, to:

- **Inform portfolio composition** to address the diverse needs of our target group and work towards the full range of intended impact, our portfolio needs to include various types of investee institutions. In terms of employment support, for example, our impact studies show that small enterprises are more likely to create jobs while microenterprises are more

likely to support self-employment. Therefore, we aim to achieve a portfolio balance of institutions that support microenterprises as well as those that strengthen the SME sector.

- **Facilitate scaling of innovations across the portfolio** or the funds, as in the case of a share class specially devised for local currency financing. After launching this instrument in one fund and observing its solid impact, we worked with our investors to introduce it to two additional funds.
- **Guide expansion into new regions and activities** with an evidence-backed impact agenda. One example is financial technology: Having piloted and reviewed the potential of fintech innovations for our target groups, some of our funds under advisory now support financial institutions in identifying and implementing fintech in their operations.

In addition, **we share our lessons and insights** with a broader audience and the impact investing industry, for example through the Finance in Motion Impact Investment Report and our participation in industry working groups.

Publicly disclose alignment with the Principles and provide regular independent verification¹³ of the alignment

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the 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.

As an impact asset manager, we are **committed to transparent and accountable impact management**. This Disclosure Statement demonstrates the alignment of our impact management approach with the Principles and

will be updated annually. In accordance with the Principle requirement that signatories submit to an independent verification, Finance in Motion will complete its **first verification** in 2021.

¹³ The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.



Publisher

Finance in Motion GmbH
www.finance-in-motion.com

Disclaimer

The Funds and/or Sub-Funds advised by Finance in Motion are specialized investment funds/ limited partnerships governed by Luxembourg law and are reserved for institutional, professional or other well-informed investors as defined by Luxembourg law. The issue documents or the assets held in the Funds and/or Sub-Funds have, however, not been approved or disapproved by any authority. The information given herein does not constitute an offer or solicitation in a jurisdiction where to do so is unlawful or where the person making the offer or solicitation is not qualified to do so or where a person receiving the offer or solicitation may not lawfully do so nor does it constitute a commitment of the Fund and/or Sub-Funds to offer its shares, notes, and/or other instruments to any investor. No guarantee is given as to the completeness, timeliness, or adequacy of the information provided herein. No investment may be made except upon the basis of the current issue documents of the Funds and/or Sub-Funds.

Finance in Motion nor any of its shareholders, directors, officers, employees, service providers, advisors or agents makes any representation or warranty or gives any undertaking of any kind, express or implied, or, to the extent permitted by applicable law, assumes any liability of any kind whatsoever, as to the timeliness, adequacy, correctness, completeness or suitability for any investor of any opinions, forecasts, projections, assumptions and any other information contained in, or otherwise in relation to, this document or assumes any undertaking to supplement any such information as further information becomes available or in light of changing circumstances. The content of this information is subject to change without prior notice.

These materials do not constitute an offer to sell or an offer to purchase any securities. Any such offer regarding the securities described herein will only be made by means of a confidential private offering memorandum. These materials are not for distribution in the United States or to US Persons, except pursuant to available exemptions under the Securities Act of 1933 and the Securities Exchange Act of 1934. If these materials are distributed in the United States or to US Persons by Finance in Motion, such distribution will be in compliance with applicable US federal and state securities laws and regulations including without limitation SEC Rule 15a-6. Offers and sales to US Institutional Investors and US Major Institutional Investors, as these terms are defined in the SEC Rule 15a-6 and related interpretive guidance, are chaperoned by Global Alliance Securities, LLC ("GAS"), an SEC-registered broker-dealer and FINRA member (web: www.globalalliancesecurities.com) in accordance with the requirements of SEC Rule 15a-6.

Not for distribution in or into Canada, Japan or Australia or to any person or in any other jurisdiction in which such distribution would be prohibited by applicable law.

This document does not necessarily deal with every important topic or cover every aspect of the topics it deals with. The information in this document does not constitute investment, legal, tax or any other advice. It has been prepared without regard to the individual financial and other circumstances of persons who receive it.

© Finance in Motion 2020. All rights reserved