

Operating Principles for  
Impact Management

# Disclosure Statement 2022





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Crafters, Paraguay

## **This Disclosure Statement affirms Kiva Capital Management's alignment with the Operating Principles for Impact Management.**

This Disclosure Statement applies to the two funds managed under Kiva Capital Management, the Small Business Resiliency Fund and the Kiva Refugee Investment Fund.

The total value of covered assets under management equals \$58.6M as of December 31, 2022.



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# Principle 1

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.*

## About Kiva Capital Management

Unapologetically impact-first, Kiva Capital leverages the impact mission, network, and global brand of Kiva to provide catalytic private debt investments to expand financial inclusion globally. Launched in 2019, Kiva Capital Management (KCM) is a private asset manager with the goal to activate impact-first capital to address challenges faced by communities often left out of traditional capital markets, such as women, refugees, and small business owners. As a wholly-owned subsidiary of Kiva, KCM operates as a part of Kiva's larger network, leveraging its 15 years of operations and community of over 200 partners.

## Impact Objectives

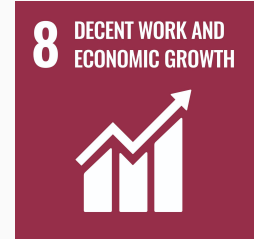
The overarching objective of Kiva Capital is to expand financial access to help underserved communities thrive.

The corresponding investment strategies deliver on the objective to expand financial access by means of providing capital to sustainable financial service providers or intermediaries, with the goal to support the growth and strengthen the capacity of these organizations or institutions in their provision of financial services to their clients.

The investment strategies also deliver on the objective to reach underserved communities by investing in financial service providers or intermediaries that operate in low- to lower-middle income countries where access to financial services is low or provide services to underbanked or unbanked populations with insufficient access to appropriate financial services. Each fund under Kiva Capital has their own ultimate outcome tied to a specific target population, described on the next page.

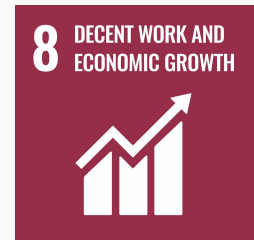
## Small Business Resiliency Fund

*Targeted outcome:* Small businesses and other borrowers in targeted countries recover and are resilient to COVID and other crises.

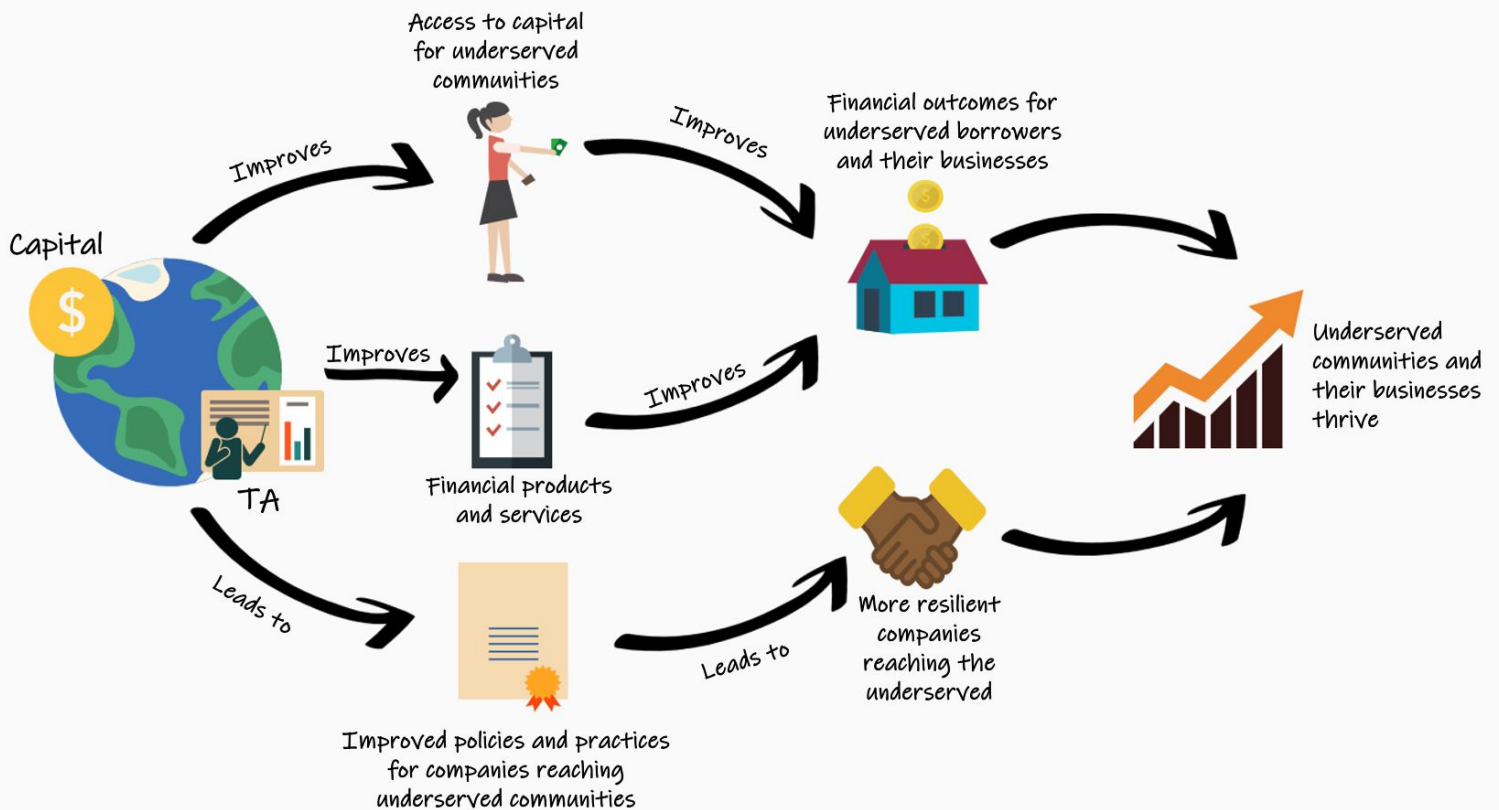


## Kiva Refugee Investment Fund

*Targeted outcome:* Displaced persons and their communities are financially included and those at risk for forced migration and their communities are financially included.



The pathways through which Kiva Capital's investments will contribute to these goals are outlined through fund-specific theories of change. A high level, overarching Kiva Capital theory of change has been developed to show how the provision of capital and technical assistance ultimately leads to expanded financial access that helps underserved communities thrive.



**Figure 1: Overarching Kiva Capital Theory of Change**

By offering debt financing to Financial Service Providers (FSPs) that have tailored products, services, and terms that support financial access for underserved communities, and by providing technical assistance to FSPs to improve existing products, services, policies, and practices, Kiva Capital contributes to improved financial outcomes for underserved borrowers and their businesses and more resilient FSPs, leading to thriving underserved communities and businesses.

Each fund-specific theory of change is supported by existing evidence and research linking the investment strategy to the ultimate outcome. These evidence-based pathways to change have informed each fund's investment strategy, including focus countries for investment. Alignment with a fund's theory of change is considered before each investment decision. Through quarterly and annual impact monitoring, the Funds are able to determine if the investments are in fact contributing to the intended outcomes set forth in the theory of change and determine if the assumptions in the theories of change hold true. Targets set for each outcome are proportionate to the fund size and deal size. Progress against targets is reviewed on an annual basis. Based on this data, criteria under our investment strategies are refined as necessary.

## Principle 2

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.*

Kiva Capital manages impact by assessing the breadth and depth of investments on a quarterly basis. An internal tracking tool allows us to monitor the impact performance of the investments at a portfolio level.

Breadth is assessed by predicting the total number of people reached through each investment. Each fund and Kiva Capital broadly has an annual breadth target. Progress towards this target is tracked quarterly and is taken into consideration in the continual iteration of each fund's investment strategy. Portfolio Managers are expected to meet the breadth of impact targets as part of the measurable performance goals under their individual Objectives and Key Results (OKR) framework.

Depth is assessed using Kiva's proprietary Impact Scorecard, assigning each investment to one of three Impact Bands. Kiva Capital has an annual target of maintaining 80% of investments in the two highest impact bands. Progress against this target is tracked quarterly and is taken into consideration in the continual iteration of each fund's investment strategy. Portfolio Managers and Investment Managers have a depth target in their individual Objectives and Key Results (OKRs) of 80% in Bands 2 and 3 for their respective portfolios.

Although potential breadth and depth are assessed for each prospect, not every investment is optimal in both breadth and depth. Viewing the impact of the portfolio as a whole allows for investments with varying strengths in their depths and breadths to contribute to the overall impact objectives of the Fund.

## Principle 3

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 . The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

Each investment is assessed for additionality as part of their overall Impact Score. This takes into account the total funding ratio of each investment, assessing the percentage of a company's total capital that comes from Kiva's investment. This allows each Fund to understand and document Kiva's potential contribution to the impact achieved by the portfolio company.

The additionality portion of the Impact Score also considers how each investment will use the capital from Kiva. Investment Managers select one or more options from the list displayed on the right, each corresponding to a different point value depending on the potential for impact.

Higher additionality scores lead to higher overall impact scores, which are used in investment decision-making.

**Table 1: Use of Capital Options for Additionality Score**

To develop or pilot a new loan product
To scale an existing loan product
To continue operations through increased liquidity
To improve the quality of SPM (social performance management) systems
To substitute funding from another source that is more costly
To grow operations and reach more clients
To reach more marginalized clients
To improve the quality of client protection
To reduce the borrower cost of a loan product
To demonstrate their credibility and attract other funders

Kiva Capital's contribution is also demonstrated through our evidence-based, fund-specific, theories of change, depicting how the provision of capital ultimately contributes to the achievement of intended impact. The theory of change sets forth a detailed blueprint for how immediate outcomes achieved through our work contribute to intermediate outcomes, and how these intermediate outcomes contribute to the ultimate outcome. It identifies key assumptions and articulates causal mechanisms to demonstrate how each investment strategy contributes to the changes the fund seeks. Our impact monitoring processes allow each fund to test the assumptions in these theories of change to see if they hold true. As these assumptions hold true over time, an evidenced path to impact demonstrates Kiva's contribution.



# Principle 4

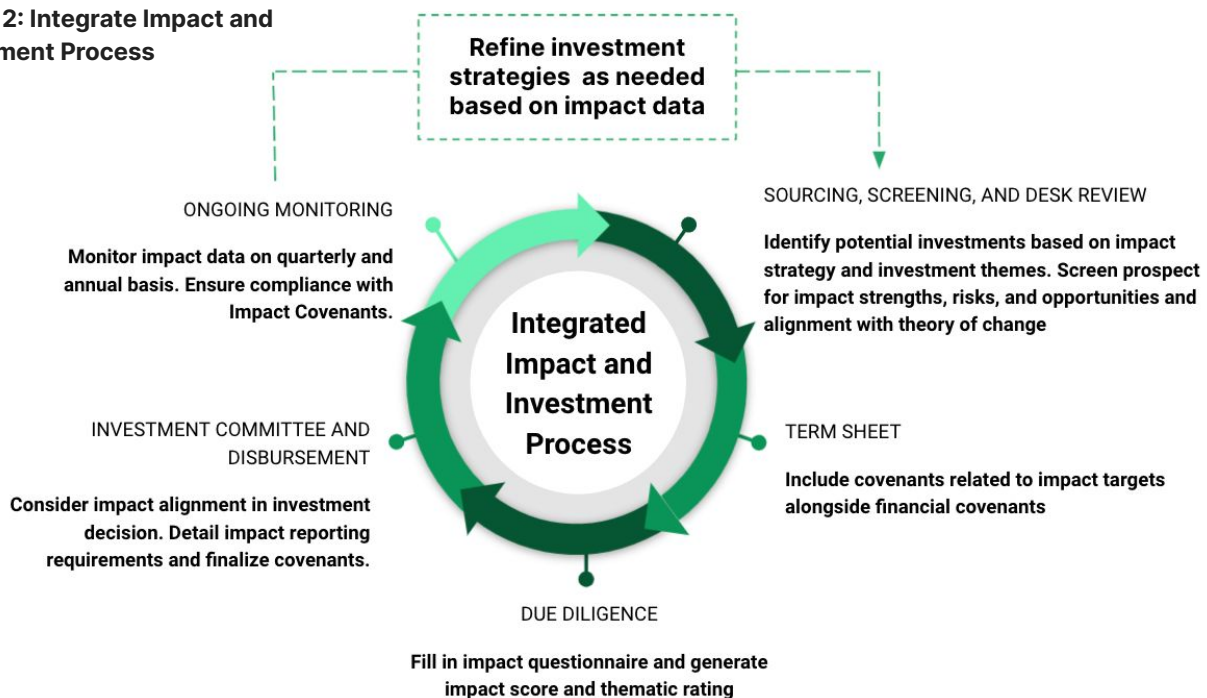
Assess the expected impact of each investment, based on a systematic approach.

*For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact 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? 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 standards and follow best practice.*

## Impact Framework

Kiva Capital has built on Kiva.org’s impact measurement and management practices and tools to design an impact framework that integrates impact into every stage of the investment process, from sourcing to ongoing monitoring.

**Figure 2: Integrate Impact and Investment Process**

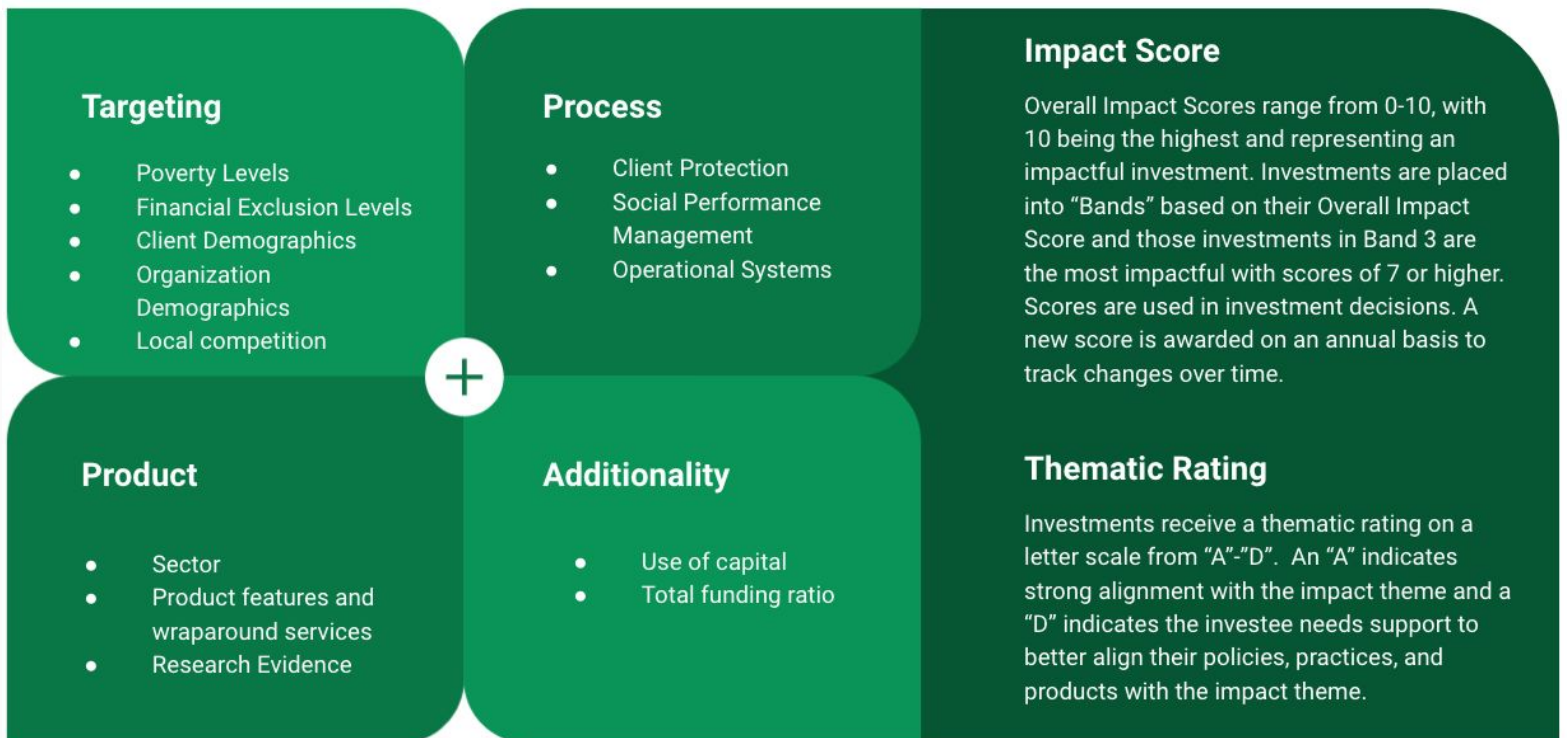


Kiva Capital’s impact frameworks enable the Funds to predict, monitor, and evaluate the impact of their investments.

### Predict

Each potential investment is assessed for expected impact using Kiva’s proprietary Impact Scorecard, which generates an impact score and thematic rating. The Impact Scorecard has been tested and used to assess impact across more than 200 of Kiva’s existing partners. It examines impact across four categories: (1) Targeting: Who is the investment reaching? What is the extent of their financial exclusion? (2) Process: What are the policies and practices in place that will contribute to or hinder the potential for impact? What risk factors are there to potential impact? (3) Product: What types of products or services are being offered by a portfolio company and are these evidence-based? What interest rates does the portfolio company offer? (4) Additionality: Would this impact have occurred in the absence of Kiva’s investment?

Figure 3: Impact Score Components



Thematic Ratings enable funds to pull out dimensions of impact that are important to the objective of the fund and that have been identified as a key priority area across Kiva's portfolio more broadly. These letter ratings will support the Investment Committee in easily seeing the strength of each investment through a thematic lens. Kiva Capital currently has four Thematic Ratings: (1) Gender Rating; (2) Resiliency Rating; (3) Refugee Rating; and (4) Prevention of Forced Migration Rating. By pulling out these themed dimensions of impact, Kiva Capital is able to examine gaps and weaknesses that a portfolio company has through a more targeted lens. The identification of these gaps and weaknesses enables the funds to work with portfolio companies to improve in a specific impact area through Technical Assistance, sharing of best practices, and other means. Through these consolidated ratings the fund is able to more easily track a portfolio company's improvement over time in areas that align to the fund's objectives. The fund is also able to track changes over time at a portfolio level.

### Monitor

A comprehensive results framework has been developed for each Fund that aligns with the fund-specific theory of change. Each output and outcome included in the theory of change has at least one associated indicator to measure progress towards the output or outcome. Where possible, without compromising the rigor of the results framework, we have worked to align indicators with existing frameworks, such as IRIS+ and the Joint Impact Indicators. Alignment is important in ensuring reporting is less burdensome on partners and investors are able to compare results across portfolios.

The results frameworks also indicate where the data will be collected from (Data Source) and the reporting frequency. Data sources include the annual impact questionnaire, investee quarterly and annual impact and financial reporting, and impact studies. Outputs are reported on a quarterly basis and outcomes are reported on an annual basis. All data is gender disaggregated.

The Impact Team reviews this data each quarter and at the end of each year. The data is analyzed to determine if either the theories of change or investment strategies need to be revised. Results are shared with portfolio managers, investors, and other key stakeholders.

### Evaluate

Kiva Capital evaluates the impact of investments through impact studies, including lean data studies conducted by third-party vendors or the Impact Team and technical assistance case studies. These studies allow the funds to collect outcome-level data that cannot be collected through portfolio company reporting.

## Principle 5

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) 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. 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.*

It is Kiva Capital's belief that our initial diligence standards, when combined with ongoing monitoring, enable Kiva to anticipate, identify, and resolve issues that would negatively impact the communities being served.

As part of the impact scorecard, impact risks are assessed. Given Kiva Capital's investment focus in financial inclusion, social and governance risks are most relevant for the funds. Factors such as prevention of client overindebtedness, client complaint mechanisms, implementation of other client protection principles, and internal staff policies are assessed for all potential investees. To mitigate the risk of causing negative social or environmental impacts, the Manager applies an exclusion list to all its investments under the loan agreements. This list follows restrictions in line with international standards set forth by development finance institutions like the DFC.

Investment Committee decisions are made to prioritize both impact and financial returns, including mitigating any potential risks.

(i) The Impact Scorecard highlights areas where an investee may be weak in targeting clients appropriately, protecting clients, and offering the most impactful products for clients. Based on these scores, if an Investment Committee member feels the investment would have any material negative impacts, they would vote to not invest in the company.

(ii) Investments with a greater potential for impact receive a higher impact score. These scores are used in Investment Committee decision making. Therefore, all decisions made by the Investment Committee are made with impact-related opportunities in mind.

When gaps in Client Protection or other risks are identified, Kiva Capital works with select investees through technical assistance to improve in those areas and eliminate potential impact risks.

Reporting on Kiva Capital's impact is a clear mandate of each fund. We therefore would discuss any identified positive and negative impacts with investors on a quarterly and annual basis. Impact reports would also include negative impacts as applicable.

## Principle 6

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. The Manager shall also seek to use the results framework to capture investment outcomes.*

Progress against the results framework described in Principle 4 is monitored on a quarterly and annual basis. Data is collected by several parties:

- Portfolio Company: Required to report on a set of output indicators on a quarterly basis and a set of outcome indicators on an annual basis. These reporting requirements are included in the portfolio company's loan agreement. Portfolio companies are also required to submit an updated Impact Scorecard questionnaire on an annual basis.
- Investment Managers: Review Impact Scorecard questionnaire and submit final version. Ensure portfolio company compliance with impact covenants.
- Impact Team: Conduct or manage a third-party vendor conducting impact studies, results from which are used to report against outcome-level objectives.

Progress against outputs are shared on a quarterly basis with investors. Progress against outcome results are shared with investees and investors on an annual basis. Following the first full year of disbursements for a fund, portfolio companies will receive a scorecard report on an annual basis, showing how they have changed over time in the four key areas of the Impact Scorecard. For both KRIF and SBRF this process will begin in 2023.

On an annual basis, each portfolio is reviewed for achievement of intended impact and data is used to adjust investment strategy and technical assistance strategy for each fund as necessary.

## Principle 7

Conduct exits considering the effect on sustained impact.

*When conducting an exit, 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 invest through debt financing, most commonly in the form of a bilateral loan with the borrower. Most of these investments have fixed maturities and/or amortization schedules. The terms around the timing and structure of exiting these investments are hence determined during the underwriting phase of the investments, based on our assessment of the projected financial performance including the asset liability structure, liquidity and repayment capacity of the prospective investees, as well as the intended impact and use of proceeds of the specific investments. Furthermore, our bilateral loan agreements include clauses that cover use of proceeds, change of control, etc. to allow for early exits from the investments, where warranted, in case of material adverse change in the expected impact of the investments.

As our Funds are still in the early phases of their initial deployment periods, we have not yet entered into the reinvestment phase with our investees. It is in our Fund's goal to maintain long-term financing relationships with the investees that continue to align with our Funds' investment objectives. The Fund will reconsider whether an investee is suitable for subsequent investments post debt repayments by taking into considerations their compliance of non-financial covenants, where applicable, over the prior investment period, in addition to the applicable scope of investment analyses required for all new or repeated investments.

## Principle 8

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.*

Impact data is reviewed annually at the portfolio level to understand progress towards expected results. Targets are established for each indicator after the establishment of a baseline. A baseline is established after the first quarter for output targets and after the first year for outcome targets. Annual reviews determine where targets were met and where the fund fell short. This review enables the fund to generate lessons learned and better understand what is working and not working in the achievement of impact goals. Trends across companies are used to adapt investment strategies to more efficiently and effectively achieve intended outcomes. These lessons learned are also shared back with investee companies to advance the relevant impact field.





## Principle 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

*The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for an 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.*

Kiva Capital is committed to publicly disclosing our alignment on an annual basis. This disclosure statement asserts the alignment of Kiva Capital's impact procedures to all nine principles. Kiva Capital will submit a disclosure statement annually and publish the statement to our website.

Kiva Capital is also committed to engaging an independent verifier to verify the statements made in this disclosure statement indicating our alignment and will share results publicly, beginning in 2023. The verification will state how Kiva Capital's policies, processes, and tools align to each of the Impact Principles. We commit to commissioning an independent verification every four years.

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