



Impact Principles Disclosure 2023

MCE Social Capital (“MCE”) is a signatory to the Operating Principles for Impact Management (“the Impact Principles”). The Impact Principles provide a reference point against which the impact management system of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

MCE hereby affirms its status as a Signatory to the Impact Principles. This Disclosure Statement applies to the Financial Service Provider portfolio and the Small and Growing Business portfolio. The total covered assets in alignment with the Impact Principles is USD \$64.8 million as of June 30, 2023.

Signed:  _____ Date: Oct 23, 2023

Camilla Nestor
CEO
MCE Social Capital
cnestor@mcesocap.org

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.*

MCE’s theory of change, or impact thesis, is that if MCE invests flexible and appropriate capital in enterprises committed to generating sustainable livelihoods, with a focus on women and environmental and climate action, these enterprises can scale and better serve their customers, their employees, and their communities, generating sustainable and inclusive economic growth.

MCE seeks to accomplish its theory of change by making loans to Financial Service Providers (FSPs) and Small and Growing Businesses (SGBs) in the developing world that are determined, after proper diligence, to be financially viable, creditworthy and socially impactful.

FSPs must have a properly articulated social mission related to the generation of sustainable livelihoods for people in underserved communities throughout the developing world, and this mission should be exemplified by its product offerings and client base. MCE has developed



FSPs must have a properly articulated social mission related to the generation of sustainable livelihoods for people in underserved communities throughout the developing world, and this mission should be exemplified by its product offerings and client base. MCE has developed an impact rating model to determine the social impact of each FSP, based on quantitative and qualitative indicators across the following themes: impact on women, service to clients in rural populations, additional financial products offered, non-financial products and services offered, compliance with the Client Protection Principles or similar customer-centric frameworks, and environmental impact.

SGBs must have a business model that clearly involves or leads to the creation of sustainable livelihoods for people in underserved communities of one or more developing countries, and operate in one or more of the following sectors: agriculture value chain, water and sanitation, clean energy. MCE has developed an impact rating model to determine the social impact of each SGB, based on the following themes: scale, impact on women, social performance, MCE additionality, environmental impact.

For both SGBs and FSPs, a potential borrower's compliance with the social impact criteria above is used to determine a risk-weighted social impact score. This social impact score is used by MCE alongside other criteria documented in due diligence.

In line with its desired impact, MCE will invest in companies through two strategic lenses, which complement best practices for environmental and social responsibility:

1. Investing in a Thriving Environment: MCE invests in companies that increase farmer productivity, enhance resilience to environmental stressors and climate change, manage climate risks, and reduce emissions.
2. Investing in Women: MCE investment activities prioritize a focus on women and the enhancement of gender impact by examining gender balance at the end beneficiary- and Investee-level.

MCE's investment strategy most closely aligns with five of the UN Sustainable Development Goals ("SDGs"), including SDG 1 (No Poverty), SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), SDG 12 (Sustainable Consumption and Production Patterns), and SDG 13 (Climate Action). MCE gender lens investment targets were developed in line with the categories established by the 2X Challenge Criteria: Entrepreneurship, Leadership, Employment, and Consumption. MCE environmental impact targets were established with reference to all standard metrics developed by the Council on Smallholder Agricultural Finance.

According to this framework, the social and environmental impact of MCE investees is evaluated in detail throughout the initial appraisal and due diligence stages of investment research, and monitored on an annual basis through an annual impact survey. Beginning in 2023, independent verification of MCE adherence to the Impact Principles will take place on a triennial basis.

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.*

MCE portfolio impact is evaluated and documented by the portfolio team and verbally presented to the investment committee along with the written initial assessment memo and due diligence investment memo. Investment memos include a section dedicated to describing qualitative and quantitative aspects of the social and environmental impact characteristics of the company across the following categories:

- For Financial Service Providers: focus on women, focus on rural, additional financial products, additional non-financial services, client protection, environmental impact
- For Small and Growing Businesses: gender, social, environment, additionality, scale

MCE incorporates any required action items identified during environmental and social due diligence into its loan documentation with the borrower, as well as any remedial action items to ensure compliance. Additionally, investees are contractually obligated to report on mutually established social and environmental impact metrics on an annual basis via MCE's annual impact survey.

Impact metrics reported by the investee are customized to the sector and context of operations and include: sex-disaggregated data for end beneficiaries, staff, management, and board members; sector-, gender-, and geography-disaggregated data on microloan value, volume, and active borrowers; socioeconomic data on end beneficiary household income level and changes over time; end beneficiary data on additional financial and non-financial services received; scale of agricultural production; regenerative agricultural and environmentally friendly practices employed; payments made to employees and smallholder farmer suppliers; metric tons of CO₂ sequestered; and other pertinent data.

These metrics were developed with reference to industry frameworks established by the UN Global Indicator Framework for Sustainable Development Goals (SDG Indicators), the Global Impact Investing Network's Impact Reporting and Investing Standards (IRIS), and the ESG Principles of the Council on Smallholder Agricultural Finance (CSAF), and the 2X Challenge.

To evaluate and monitor at the portfolio level, MCE aggregates impact data collected from all investees, tracked in spreadsheet format, and reports that information to its stakeholders through its [annual impact report](#), which is made publicly available on MCE's website. While mandatory quantitative impact benchmarks have not been established to date, potential investments are screened such that new additions to the portfolio will strengthen or potentially add to the overall impact of MCE's loan disbursements. In addition, for existing clients, MCE routinely offers discounts to interest rates, depending on, among other factors, the continuous and sustained positive impact created by the investee in the communities in which it operates.

MCE does not currently have staff incentives, however they may be considered as best practices emerge within the impact investing community.

Principle 3 - Establish the investor'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.*

MCE strives to support the most impactful projects through client relationships that enable stable operations and strategic growth in sectors that serve end beneficiaries at the bottom of the pyramid. By providing senior and subordinated debt to entities that are either proven or have the potential to be highly impactful, MCE contributes to the success of socially- and environmentally-minded enterprises. Funding provided by MCE is typically used for capital expenditures and/or working capital for agricultural procurement for SGBs, and for offering additional credit and financial services to clients of FSPs.

Achievement of impact is evaluated in greatest depth at the time of initial due diligence for a loan and during a loan renewal, and is documented in-depth in the investment memos. During the life of the loan, impact trends and achievement are monitored through quarterly financial and operational metrics (gender- and geographic-disaggregated end beneficiary statistics), and on a qualitative basis through monitoring calls (covering strategic and operational developments), site visits (including end beneficiary interviews), and annual impact surveys (covering specific impact policies and strategy implementation). MCE

assesses the contribution to the achievement of impact by looking at the specific uses of funds and its identified contribution to the organizations' growth and development.

Principal 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.*

The expected impact and risk factors that could inhibit expected impact outcomes for each MCE investment are identified and presented before MCE's investment committee, particularly with regard to each investment thesis and structured risk analysis. The investment thesis is meant to identify how MCE's investment would contribute to MCE's desired impact targets, including identification of end beneficiaries and the significance of the investee's contribution to improved outcomes among those identified. The structured risk analysis is a detailed review of internal and external credit risks (and associated mitigants) that may affect the investee's ability to achieve expected social and environmental impact.

Additionally, social and environmental impact expectations are thoroughly identified pursuant to an impact analysis. Trends in impact performance are monitored throughout the life of each loan, and an analysis of time series impact data is central to the due diligence performed in the case of loan renewal.

Principal 5 - Assess, address, monitor and manage the potential risks of negative effects 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.

Because MCE seeks to invest in clients with a positive social and environmental impact, risk of negative impact is largely reduced through careful and attentive investment pipeline development, for which positive impact is an initial screen. Still, MCE maintains a list of activities that it cannot invest in (see below). During the initial assessment and due diligence process, MCE carefully evaluates potential borrowers for any connection to these activities explicitly forbidden by our [Environmental and Social Policy](#). In cases where negative harm is avoided, but there is room for improvement in strategy and practice, MCE may choose to work with a potential client to develop a more sophisticated impact strategy or set specific targets.

Prohibited activities include:

1. Conversion or degradation of critical forest areas or forest-related critical natural habitats.
2. Leasing or financing of logging equipment, unless an environmental and social impact assessment indicates that; (i) all timber harvesting operations involved will be conducted in an environmentally sound manner which minimizes forest destruction; and (ii) the timber harvesting operations will produce positive economic benefits and sustainable forest management systems.
3. Construction of dams that significantly and irreversibly: (a) disrupt natural ecosystems upstream or downstream of the dam; or (b) alter natural hydrology; or (c) inundate large land areas; or (d) impact biodiversity; or (e) displace large numbers of inhabitants (5,000 persons or more); or (f) impact local inhabitants' ability to earn a livelihood.
4. 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 phase-outs or bans such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls and other hazardous substances, wildlife or wildlife products regulated under the Convention on International Trade and Endangered Species of Wild Fauna and Flora, and trans-boundary trade in waste or waste products.
5. Any impact on natural World Heritage Sites http://www.unep-wcmc.org/protected_areas/world_heritage/index.htm unless it can be demonstrated through an environmental assessment that the project (i) will not result in the degradation of the protected area and (ii) will produce positive environmental and social benefits.
6. Any impact on areas on the United Nations List of National Parks and Protected Areas http://www.unep-wcmc.org/protected_areas/UN_list/index.htm unless it can be demonstrated through an environmental assessment that the project (i) will not result in the degradation of the protected area and (ii) will produce positive environmental and social benefits.

7. Extraction or infrastructure in or impacting: protected area Categories I, II, III, and IV (Strict Nature Reserve/Wilderness Areas and National Parks, Natural Monuments and Habitat/Species Management Areas), as defined by the International Union for the Conservation of Nature (IUCN). Projects in IUCN Categories V (Protected Landscape/Seascape) and VI (Managed Resource Protected Area) must be consistent with IUCN management objectives http://www.unep-wcmc.org/protected_areas/categories/eng/index.htm unless it can be demonstrated through an environmental assessment (i) there is no degradation of the protected area and (ii) there are positive environmental and social benefits.
8. Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to biodiversity and habitats.
9. Use of forced labor or child labor.
10. Projects or companies known to be in violation of local applicable law related to environment, health, safety, labor, and public disclosure.
11. Projects or companies that provide significant, direct support to a government that engages in a consistent pattern of gross violations of internationally recognized human rights, as determined by the U.S. Department of State.

Principal 6 - Monitor the progress of each investment in achieving impact against expectations and respond appropriately: *The Manager shall use the results framework (referenced in Impact 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.*

Please refer to Principle 4 regarding MCE’s impact assessment framework. Data is predominantly self-reported by clients with MCE validation through quarterly monitoring calls and field visits when possible. For select investments, MCE may choose to financially support the completion of a third party impact assessment with partners like 60 Decibels. Additionally, a full documentation of impact performance is generated on an annual basis through MCE’s annual impact survey. The annual impact survey consists of an online spreadsheet-format questionnaire distributed by email to impact or operations officers for each investee. The data collection process is then managed by MCE’s Impact Analyst. Survey results are shared with all stakeholders in the annual MCE Impact Report, which is typically released in the second quarter of the calendar year, and includes synthesized data



by sector on an annual basis. Impact indicators used by MCE were developed with reference to industry standards including the UN Global Indicator Framework for Sustainable Development Goals (SDG Indicators), the Global Impact Investing Network's Impact Reporting and Investing Standards (IRIS), the ESG Principles of the Council on Smallholder Agricultural Finance (CSAF), and the 2X Challenge.

If monitoring indicates that an investment is no longer on track to achieve expected impact outcomes, MCE strives to work with client organizations to remedy the financial or non-financial issue. If no strategy for resolution is achieved, MCE may deny the renewal of a loan and suspend future business relations with the client.

Principal 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.

Because MCE invests through debt instruments, any exit outside of a normal amortization schedule depends on the ability to declare an Event of Default. Events of Default are normally tied to covenants, representations and warranties, of which some may be tied to or influenced by impact related performance. When possible, it is always MCE's preference to restructure a loan versus declare a default if there is potential for the client to be successful in the long-term. Loans renewals for all clients are subject to an additional due diligence process that re-examines the clients' social mission, impact, and past performance relative to projected targets. All decisions for new loans, whether restructured or entirely new, must be approved by MCE's investment committee, which explicitly requires expected impact as an important criterion.

Principal 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.

Timing and frequency of impact performance review is as follows: MCE performs a full analysis during each due diligence, including interviews with clients; MCE collects client surveys on a yearly basis, when available; MCE collects Social Ratings performed by established rating agencies like Microfinanza, when available. Note that impact due diligence is completed for both initial investments and loan renewals.



Timing and frequency of financial and operational performance review is as follows: MCE performs a full analysis during each due diligence; MCE collects financial and operational data on a monthly basis for financial service providers, and a quarterly basis for small and growing businesses; MCE conducts quarterly monitoring calls with all clients; MCE reviews outstanding portfolio and investment pipeline status on a weekly basis.

Findings of client impact, financial, and operational performance reviews inform MCE operational and strategic investment decisions on an ongoing basis. Findings are discussed in weekly meetings with the portfolio and impact team and with the loan committee during bi-weekly meetings.

Principal 9 - Publicly disclose alignment with the Impact Principles and provide regular independent verification of the extent of 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 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.

MCE became a signatory to the Impact Principles in 2021, and publicly discloses alignment of its impact management systems with the Impact Principles as of the date this document was signed.

MCE anticipates its first independent verification of the extent of alignment to be completed and published by the end of 2023 and on average every three years after that time.

The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network ("the GIIN") 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 the GIIN. The GIIN shall not 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.