



MK
Global Kapital

Theory of Change Impact Framework

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1. Glossary

EU	European Union
ESG	Environmental, Social and Governance, a general term to evaluate a firm's behaviour in terms of sustainability and responsibility
Financial Product	In the case of MK Global Kapital, the non-regulated Special Purpose Vehicles (SPVs) (Alternative) established by MK Global Kapital in accordance with the provisions of the Luxembourg law of 22 March 2004 on securitization or any other investment vehicle managed by MK Global Kapital including financial organizations that receive investment proceeds from said securitization funds
GRI	The Global Reporting Initiative (GRI) is a widely recognised framework for sustainability reporting that helps organisations report on their economic, environmental, and social impacts.
IRIS+	<u>RIS+ is an impact measurement and management system created by the Global Impact Investing Network (GIIN) to support impact measurement and inform management decisions.</u>
MFI	<u>Microfinance Institution</u> , a type of financial services that targets private persons and small businesses that do not have access to conventional banking services; MK Global Kapital's MFIs provide lending and leasing services to entrepreneurs and small businesses only
MK Global Kapital	MK Global Kapital Sarl
Portfolio Companies	Companies that are invested by a SPV or any other investment vehicle.
SASB Standards	The SASB (Sustainability Accounting Standard Board) Standards play an important role in the first two IFRS Sustainability Disclosure Standards IFRS1 General Requirements for Sustainability related Disclosures and IFRS2 Climate-related Disclosures. The International Sustainability Standards Board (ISSB) of the IFRS Foundation assumed responsibility for the SASB Standards.
SFDR	<u>Sustainable Finance Disclosure Regulation</u> (EU 2019/2088 of the European Parliament and of the Council)
Sustainability Factors	Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
SDGs	The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

2. Purpose and Definition

This document sets out the guidelines on determining the impact of its investments. These guidelines serve as a framework to evaluate the impact of investments, ensuring that they contribute positively to society and the environment. The document has been prepared to align with global sustainability standards and best practices, reflecting ALTERNATIVE's commitment to responsible investing.

ALTERNATIVE's methodology for identifying responsible investments is grounded in a comprehensive framework that leverages established sustainability metrics from the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Sustainable Finance Disclosure Regulation (SFDR) and EU Taxonomy for sustainable activities. In addition to these recognised standards, we have developed proprietary impact indicators tailored to our specific investment strategy. Our thresholds for responsible investment are meticulously crafted in alignment with industry, market, and country-specific benchmarks, ensuring that our assessments are both relevant and robust.

MK Global Kapital's investments aim to have a positive impact on the environment and on society. MK Global Kapital assesses its investments (equity and debt) into its microfinance business as sustainability low risk investments.

3. Theory of Change

The core element to making our impact strategy actionable is the Theory of Change. A Theory of Change is a model describing the pathways to create intended impact based on underlying assumptions.

The model explains MK Global Kapital's intended path to impact by outlining short, intermediate, and long-term outcomes based on underlying assumptions. A visualization of MK Global Kapital's Theory of Change can be found in the annex.

Our investment portfolio

The impact pathways described in our Theory of Change are based on business categories in our investment portfolio.

Our direct investment portfolio broadly consists of the following categories:

- Carsharing companies providing cars to individuals,
- Microfinance and leasing companies offering financial services to MSMEs.

Problem: What we want to resolve

Micro, Small and Medium Enterprises (MSMEs) represent a significant part of the world economy and are one of the strongest drivers of economic development, innovation and employment. Access to finance is frequently identified as a critical barrier to growth for MSMEs.

The finance gap from formal MSMEs in low- and-middle income countries is valued at USD 5.2 trillion. This in turn amounts to 1.4 times the current level of MSME lending in these countries.

MK Global Kapital contributes with its business model to narrow this financial gap in its 9 countries of operations in Eastern Europa & Central Asia with 10 operational companies.

Activities: What we do

MikroKapital, through its securitization funds, primary objective is to acquire risks linked to the financing of micro, small and medium enterprises, promotion of access/sharing economy and other impact investments, either directly or through one or more other entities. This way SMEs get access to affordable, fast, and flexible debt capital to grow their businesses.

Affordable and flexible capital from professional investors to businesses in emerging markets directly contributes to sustainable financial inclusion, creating social impact and financial returns for our investors.

Outputs: What happens because of our activities

Through its portfolio companies MK Global Kapital is investing directly in businesses of its countries of operations providing small working capital loans to their SME clients in a broad range of sectors. *Gender lens investing* is a key focus area in our impact strategy to promote gender equality by investing in women-owned or women-led enterprises, in businesses that promote workplace equity or businesses offering products or services that substantially improve the lives of small entrepreneurs.

Outcomes: What our output means

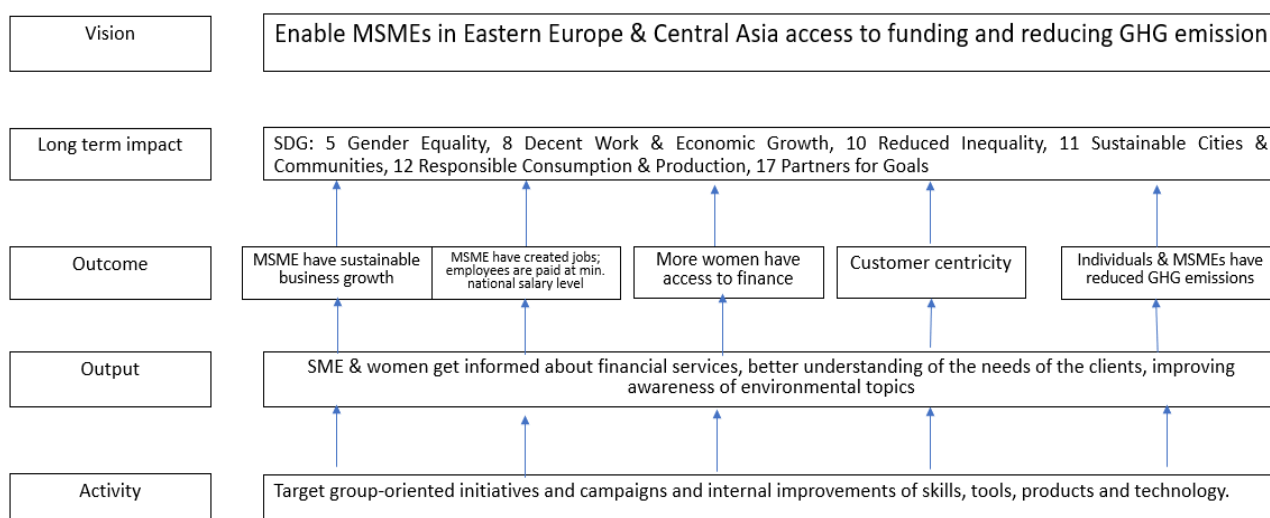
Our investments in SMEs have immediate output, which contribute to outcomes. We assume investing in SMEs via our MFIs, contributes to business growth and job creation, which should create a pathway for more sustainable growth and decent work. Investments in agricultural companies contribute to either providing more smallholder farmers having access to agricultural products and services allowing them to increase their yields or providing smallholder farmers the opportunity to sell more crops.

We assume this contributes to enhanced income generation at intermediate outcome level. Investments in leasing equipment provide MSMEs with access to the latest technological development mostly around agricultural equipment creating a pathway for building a sustainable business or improved livelihoods. Our car sharing investment makes cities cleaner, contributes to new mobility concepts of cities, enables our users the access to mobility as a service and consequently save money. As a long-term impact, the GHG emissions will be reduced.

Impact: The long term, big picture change

Our intended longer-term impact is change at the level of beneficiaries, the economy, and the environment. We aim to contribute to inclusive economic growth, improved livelihoods, and climate change mitigation in Eastern Europe & Central Asia. Impact at this level cannot only be attributed to our activities but is also influenced by many other factors.

This explains why high-level impact is not easy to measure and requires scientifically validated impact evaluation methods. The core element to making our impact strategy actionable is the Theory of Change. A Theory of Change is a model describing the pathways to create intended impact based on underlying assumptions. The model explains MK Global Kapital's intended path to impact by outlining short, intermediate, and long-term outcomes based on underlying assumptions.



4. Impact measurement framework

We have aligned our impact measurement and monitoring framework among others with the IRIS+ system developed by the Global Impact Investing Network (GIIN). This is the most commonly used and leading framework in the impact investing industry. The standards has been developed to support the practice of impact investing and promote transparency, credibility, and accountability in the use of impact data for decision making across the impact investment industry.

Impact metrics

For each impact theme, IRIS+ has developed strategic goals with underlying core metrics at output and outcome level. Based on our Theory of Change we selected the relevant metrics from the IRIS Catalogue (version 5.3). In addition to IRIS+, we have also selected impact metrics from those proposed by GRI, SASB and SFDR. These standardized and evidence-based metrics will support us to better measure the effects of our investments. Most of these metrics are also aligned with the UN's Sustainable Development Goals.

Our impact measurement framework on the next page consists of the indicators from the Theory of Change at output, immediate, and intermediate outcome level translated into metrics. Each indicator has one or multiple metrics, which are aligned with the IRIS impact themes and SDGs. We have only included those indicators that are measurable through routine data collection from our portfolio companies. We have used proxy metrics for effects that cannot be measured directly (e.g. improved lives). A proxy indicator may not always be precise but is used under the presumption that it gives at least approximate evidence on performance. Indicators at intermediate and impact level that are not included in the framework require more complex measurement methods.

Data collection and monitoring

The impact measurement framework allows us to monitor the realized outputs and outcomes of our investments and if we are still on track to contribute to our intended impact. It will also provide insight for business adjustments to be made ongoing, thereby increasing the impact over time.

We integrated our impact metrics into the periodic financial monitoring of our portfolio companies. Collected data provides investment decision information, supports us to learn and pivot when necessary, and strengthens our investment portfolio and investment strategy performance. This learning process will clarify which indicators are more difficult to measure by routine monitoring and might need other data collection methods.

Challenges

Measuring and monitoring impact is not always as easy and simple as it may seem. We have encountered the following challenges along the way:

- Data quality and reporting of our investees differs, which makes it more complicated to harmonize and analyze data at an aggregated level.
- It is harder to get immediate outcome data on SMEs financially supported by our MFIs.
- Impact attribution is more complicated for our portfolio companies that have multiple external financiers.
- Impact categories can deliver positive social or environmental effects.

We need to gain more insight into the negative and unintended consequences of our investments.

Impact reporting and communication

Our aim is to improve evidence-based impact communication to support decision-making, accountability, transparency and managing for results. We want to report our progress towards expected outputs and outcomes by comparing what we expected to achieve with what we have achieved and explaining the variation between the two. This evidence will include the data collected on the performance indicators identified in the impact measurement framework to measure these outputs and outcomes.

At this moment we report estimated impact on our website both on aggregated and project level. The impact estimates are based on input from our portfolio companies and our own initial estimations. Further, we are

actively sharing impact related articles on our blog page providing context, but also inspiring stories on the impact our portfolio companies are creating on the ground.

Based on our impact measurement framework, we are collecting data from our portfolio companies on their realized impact.

5. Impact ambition and roadmap



Our ambition is to provide an additional 500 million EUR of debt funding to SMEs in our markets by 2030. We also want to foster gender equality and aim to increase the share of women-led businesses in our investment portfolio to 50% by the end of 2030. Further milestones are to be found in the annex.




A sustainable financial ecosystem for SMEs will catalyse local economic growth, gender equality, reduction of GHG emission, and improve wellbeing for all.


To reach our ambitions, there are several steps needed to operationalize our impact framework:

- Further embedding our framework into all stages of the investment journey.
- Use learnings from the impact data collection and monitoring to pivot our measurement framework if needed.
- External evaluation and validation on the effectiveness of our work at portfolio level and selected case studies to understand and act on the negative and unintended impact of our business.

6. ANNEX:

SDG	Indicators	Minimum Threshold	2030 Goal	Actions
5 GENDER EQUALITY 	Share of female employees in investee companies	30%	50%	<ul style="list-style-type: none"> Promote Inclusive Hiring Practises Offer Flexible Work Arrangements Support in Maternity Leave Promote Work-life Balance
	Share of female clients in investee companies	20%	50%	<ul style="list-style-type: none"> Tailor Products and Services Inclusive Marketing Strategies Create Women-Centric Events Collaborate with Women's Organizations
8 DECENT WORK AND ECONOMIC GROWTH 	Share of permanent employees who earn more than national average pay range in the country of investee company	100%	100%	<ul style="list-style-type: none"> Regular Salary Reviews Conduct Market Research Establish a Competitive Compensation Structure
	Number of significant cases of non-compliance with social and economic legislation	0	0	<ul style="list-style-type: none"> Develop Comprehensive Compliance Processes Regular Training and Education on compliance Conduct Regular Audits and Assessments Establish Clear Consequences for Non-Compliance
	Share of end-borrowers which are MSMEs	100%	100%	<ul style="list-style-type: none"> Targeted Marketing Campaigns Partnerships with MSME Associations Tailored Financial Products Simplified Application Processes Dedicated MSME Support Teams
	Share of end-borrowers accessing a loan for the first time	30%	50%	<ul style="list-style-type: none"> Simplified Application Processes Targeted Marketing Campaigns Promotional Incentives for First-Time Borrowers User-Friendly Online Platforms Success Stories and Testimonials
	Share of end-borrowers who reported increased income	50%	80%	<ul style="list-style-type: none"> Financial Literacy Programs Business Skill Development Workshops Regular Follow-Up and Support
	Share of end-borrowers who report improved quality of life	50%	80%	<ul style="list-style-type: none"> Tailored Loan Products Enhanced Financial Education Improved Customer Service Access to Financial and Legal Counseling Flexible Repayment Options
	Share of end-borrowers who reported that our MFI helped them to achieve their financial goal	50%	70%	<ul style="list-style-type: none"> Enhanced Financial Education Tailored Loan Products Regular Client Surveys Build Community Engagement
	Share of end-borrowers who reported improved ability to manage finances	50%	70%	<ul style="list-style-type: none"> Financial Literacy Workshops Create Resource Materials Access to Financial and Legal Counseling

10 REDUCED INEQUALITIES 	Share of clients in investee companies doing business in rural areas	30%	50%	<ul style="list-style-type: none"> Enhance Local Partnerships Develop Tailored Products Implement Targeted Marketing Campaigns Open mobile offices Open offices in remote regions Develop online tools
	Share of portfolio companies who have adopted a code of ethics and other anti-discrimination practices and description of such practices	100%	100%	<ul style="list-style-type: none"> Develop a Comprehensive Code of Ethics Implement Mandatory Training Programs Establish Clear Reporting Mechanisms Promote Diversity and Inclusion Initiatives Regularly Review and Update Policies
	Number of incidents of discrimination reported in investee companies expressed as a weighted average	0	0	<ul style="list-style-type: none"> Implement Comprehensive Anti-Discrimination Policies Conduct Regular Diversity Training Programs Establish Clear Reporting Channels for Discrimination Claims Encourage Employee Feedback and Whistleblower Protections
11 SUSTAINABLE CITIES AND COMMUNITIES 	Number of registered car sharing users	-	500,000	<ul style="list-style-type: none"> Targeted Marketing Campaigns Referral Programmes Enhanced User Experience Flexible Pricing Models Customer Support and Feedback Incentives for Frequent Users
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	Size of the car sharing fleet	-	3000	<ul style="list-style-type: none"> Diversify Vehicle Types Expand Geographically More Sustainable Car Options
	Share of vehicles in the fleet which received high-level safety rating scores, i.e. at least 4-stars by the European New Car Assessment Programme („Euro NCAP“)	70%	100%	<ul style="list-style-type: none"> Conduct Safety Audits Regular Car Replacement
	Number of significant cases of non-compliance with environmental legislation	0	0	<ul style="list-style-type: none"> Regular Audits and Assessments Robust Compliance Monitoring Clear Policies and Procedures Sustainability Reporting
	Share of electric and hybrid vehicles in the fleet	1%	5%	<ul style="list-style-type: none"> Establish Partnerships with EV Manufacturers Promote Environmental Benefits
	Average car age	60 months	36 months	<ul style="list-style-type: none"> Conduct Regular Fleet Audits Regular Car Replacement

17 PARTNERSHIPS FOR THE GOALS 	<i>A public list of partnerships with local and international organisations</i>	<i>10 partners</i>	<i>20 partners</i>	<ul style="list-style-type: none"> • <i>Participation in Network at Industry Events</i> • <i>Engage in Joint Marketing Initiatives</i> • <i>Participate in International Conferences</i>
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