

GroFin Environmental, Social and Governance (ESG) Information Booklet



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1. ABOUT GROFIN

GroFin is a development finance organisation specialising in the small and growing business (SGB) sector in Africa and the Middle East. GroFin, an entrepreneur-led business, was formally established in 2004. It has originated from the RAPS Group of Companies that has been investing in small and medium enterprises (SMEs) since 1999.

GroFin currently manages eight (8) funds on behalf of twenty five (25) international investors, development funders, banks, corporate and family foundations with committed capital in excess of USD400 million. We have on-the-ground local teams in thirteen (13) offices across twelve (12) countries in Africa and the Middle East and have done around five hundred and sixty (560) investments in local small and growing businesses so far, creating more than eighteen thousand (18,000) jobs.

Our innovative business model is based on the provision of patient capital and hands on pre- and post-investment business support to passionate entrepreneurs. Entrepreneurs are identified through our proprietary Viability Model and screening process. Our efficient approach entails applying commercial finance principles and in-depth knowledge of the challenges facing SGB businesses across a variety of sectors in the countries we operate. This leads to consistent monetary and verifiable positive socioeconomic returns for our investors.

2. INTRODUCTION TO ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG)

ESG refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing, including ESG, is among several related concepts and approaches that influence and, in some cases govern, how fund managers invest portfolios. At GroFin we believe in high standards of corporate responsibility. Consequently, our investment process always takes ESG issues into account.

In developing our ESG policy, processes and systems, we have given consideration to a range of codes and standards, including the International Finance Corporation (IFC) Sustainability Framework; IFC Performance Standards on Environmental and Social Sustainability; IFC Environmental, Health, and Safety General Guidelines; the Equator Principles; the United Nations supported Principles for Responsible Investment (PRI); and the United Nations Global Compact.

ESG factors offer investment and portfolio managers added insight into the quality of a company's management, culture, risk profile and other characteristics. By taking advantage of the increased level of scrutiny associated with ESG analysis. Investment managers seek to identify companies that:

- Are better managed and are more forward-thinking
- Are better at anticipating and mitigating risk
- Meet positive standards of corporate responsibility
- Are focused on the long term

Our ESG policy, processes and systems define our approach to integrate and consider ESG risks and value creation opportunities into all investments made as a fund manager. We are committed to consider material ESG issues in the course of our due diligence and in the monitoring of portfolio investments to the extent reasonably practical under the circumstances, subject, in any

event, to the provisions of any Shareholders/Partnership Agreements of the respective funds.

3. AIM OF OUR ESG POLICY, PROCESSES AND SYSTEMS

The aim of our ESG policy, processes and systems is to ensure that GroFin:

- complies with all applicable ESG laws;
- as appropriate, minimises adverse impacts and enhances positive effects on the environment, workers and all stakeholders;
- commits to continuous improvements with respect to management of the environment, social matters and governance;
- works over time to apply relevant international best practice standards, with appropriate targets and timetables for achieving them; and
- employs management systems which effectively address ESG risks and realise ESG opportunities as a fundamental part of GroFin's value

4. THE ENVIRONMENT

With specific reference to the environment, our objectives with our ESG policy, processes and systems are as follows:

- Reduce adverse impacts and enhance positive effects on the environment, as relevant and appropriate, from the businesses in which we invests in;
- Encourage the businesses in which we invests in to make efficient use of natural resources and to protect the environment wherever possible; and
- Support the reduction of greenhouse gas emissions which contribute to climate change from the businesses in which we invests in

We require the following from the businesses in which we invests in:

- As a minimum, operate in compliance with applicable local and national laws;
- Assess the environmental impact of their operations as follows:
 - Identify potential risks and appropriate mitigating measures through an environmental impact assessment where business operations could involve loss of biodiversity or habitat, emission of significant quantities of greenhouse gases, severe degradation of water or air quality, substantial solid waste or other significant negative environmental impacts; and consider the potential for positive environmental impacts from business activities; and
- Take appropriate actions to mitigate environmental risks, amend environmental damage and enhance positive effects as follows:
 - Where an activity is assessed to present significant environmental risks, work over time to apply relevant policies and guidelines with appropriate targets and timetable for improvements; and
 - as appropriate, work over time towards international environmental best practice standards

5. SOCIAL MATTERS

5.1. Labour and working conditions

With reference to labour and working conditions, our objectives with our ESG policy, processes and systems are as follows:

- The businesses in which we invests must treat all their employees and contractors fairly and to respect their dignity, well-being and diversity; and
- The businesses in which we invest are encouraged to work over time towards full compliance with the International Labour Organisation (ILO) Fundamental Conventions and with the United Nations (UN) Universal Declaration of Human Rights.

We require the following from the businesses in which we invests in:

- As a minimum, comply with applicable local and national labour laws;
- Do not employ or make use of forced labour of any kind;
- Do not employ or make use of child labour;
- Pay wages which meet or exceed industry or legal national minima;
- Treat employees fairly in terms of recruitment, progression, terms and conditions of work and representation, irrespective of gender, race, colour, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status;
- Allow consultative work-place structures and associations which provide employees with an opportunity to present their views to management; and
- As relevant, for remote operations involving the relocation of employees for extended periods of time, ensure that such employees have access to adequate housing and basic services.

5.2. Health and safety

With reference to health and safety, our objectives with our ESG policy, processes and systems are as follows:

- Attain safe and healthy working conditions for employees and contractors of the businesses in which GroFin invests in; and
- Safeguard the health and safety of all those affected by the businesses in which GroFin invests in.

We require the following from the businesses in which we invests in:

- As a minimum, comply with applicable local and national health and safety laws;
- As relevant, assess the health and safety risks arising from work activities; and
- As relevant, take appropriate actions to eliminate or reduce risks to health and safety as follows:
 - where an activity is assessed to present significant health and safety risks, work over time to apply the relevant IFC policies and guidelines, even if these are more stringent than local legislation, with appropriate targets and timetable for improvements; and
 - as appropriate, work over time towards international best practice standards for health and safety

5.3. Other social matters

With reference to other social matters, our objectives with our ESG policy, processes and systems are as follows:

- Be objective, consistent and fair with all stakeholders of the businesses in which we invests in; and
- Recognise and, as appropriate, promote the social development impact from the businesses in which we invests in.

We require the following from the businesses in which we invest in, where relevant:

- Take into account their impact on employees, contractors, the local community and all others affected by their operations as follows:
 - identify potential adverse effects and appropriate mitigating measures through a social impact assessment in cases involving resettlement, critical cultural heritage, indigenous peoples, nonlocal labour or other issues where the negative impact could be significant; and
 - consider social development contributions; and
- Take appropriate actions to mitigate risks, amend negative impacts and enhance positive effects.

6. GOVERNANCE

Corporate governance is a key element in improving economic efficiency and growth as well as enhancing investor confidence. With reference to good corporate governance and business integrity, our objectives with our ESG policy, processes and systems are as follows:

- Ensure that we, and the businesses in which we invests in, exhibit honesty, integrity, fairness, diligence and respect in all business dealings;
- Enhance the good reputation of GroFin; and
- Promote international best practice in relation to corporate governance in the businesses in which we invests in.

We require the following from ourselves and the businesses in which we invests in:

- Comply with all applicable laws and promote international best practice, including those laws and international best practice standards intended to prevent extortion, bribery and financial crime;
- Uphold high standards of business integrity and honesty;
- Deal with regulators in an open and co-operative manner;
- Prohibit all employees from making or receiving gifts of substance in the course of business;
- Prohibit the making of payments as improper inducement to confer preferential treatment;
- Prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest;
- Properly record, report and review financial and tax information;
- Promote transparency and accountability grounded in sound business ethics;
- Use information received from its partners only in the best interests of the business relationship and not for personal financial gain by any employee;
- Clearly define responsibilities, procedures and controls with appropriate checks and balances in company management structures; and
- Use effective systems of internal control and risk management covering all significant issues, including environmental, social and ethical issues.

6.1. Code of Ethics and business integrity compliance programmes

In many of the countries where we invests, corruption and questionable business practices are common. GroFin considers business integrity issues carefully when undertaking due diligence on prospective portfolio companies.

GroFin has adopted a Code of Ethics, which include the key elements of business integrity. GroFin promotes the implementation of a Code of Ethics to its portfolio companies. GroFin has also implemented a business integrity compliance policy

and procedures which include guidelines on the prevention of anti-money laundering, prevention of terrorist financing, anti-corruption compliance programme; and a Know Your Customer (KYC) compliance programme to be utilised in connection with due diligence performed on potential clients.

Background searches, performed in-house, includes a comprehensive search of publicly available data using WorldCheck.

These policies and procedures are updated on a regular basis to ensure that they comply with relevant laws and reflect international best practice. Employees also receive regular training.

6.2. Prohibited Transactions or Relationships

We will not finance any activity, production, use, distribution, business or trade involving:

- A transaction contravening environmental law or leading to damage/pollution.
- A transaction known to be related to animal testing/live exports/fur trade.
- A transaction known to be related to human rights abuses (e.g. child labour/oppression).
- A relationship with a party known to be related to unconventional gambling (e.g. internet gaming).
- A relationship with a party known to be associated with extremist political or religious groups/cults.
- A transaction where the primary motivation for the customer is the achievement of a particular tax, accounting or regulatory outcome.
- A transaction that has no obvious economic benefit for the client.
- Production or activities involving forced labour or child labour.
- Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- Production of or trade in weapons and ammunitions or of any other equipment primarily designed or designated for military purposes.
- Production of or substantial trade in tobacco or related products.¹
- Production of or substantial trade in alcoholic beverages (excluding beer and wine).²
- Pornography or prostitution or the provision of products or services of a substantially similar nature.
- Gambling, casinos, and equivalent enterprises or substantial involvement in these.³
- Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species (CITES) of Wild Fauna and Flora.
- Production of or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment where the radioactive source is considered to be trivial and/or adequately shielded.
- Production of or trade in or use of unbonded asbestos fibres. This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

¹ Where there is, or reasonably may be, any doubt as to whether or not a portfolio company is "substantially trading" in this activity, the matter shall be referred to the investment committee or equivalent body responsible for approving a Fund's investments.

² Where there is, or reasonably may be, any doubt as to whether or not a portfolio company is "substantially trading" in this activity, the matter shall be referred to the investment committee or equivalent body responsible for approving a Fund's investments.

- Cross-border trade in waste and waste products unless compliant to the Basel Convention and underlying regulations.
- Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests.
- Production of or trade in products containing polychlorinated biphenyls (PCBs). A group of highly toxic chemicals, PCBs are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.
- Production of or trade in pharmaceuticals subject to international phase outs or bans.
- Production of or trade in pesticides/herbicides subject to international phase outs or bans.
- Production of or trade in ozone-depleting substances (ODS) and other hazardous substances subject to international phase-outs or bans.
- Large scale production, trade or storage of significant volumes of hazardous chemicals, or commercial-scale use of hazardous chemicals.
- Drift net fishing in the marine environment using nets in excess of 2,5 (two comma five) kilometres long.
- Significant conversion or degradation of critical habitat.
- Production and distribution of racist and anti-democratic media.
- Significant alteration, damage, or removal of any critical cultural heritage.
- Relocation of indigenous peoples from traditional or customary lands.
- Speculative real estate development.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples.
- Projects involving the construction of large 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.
- Projects that require resettlement of 5000 or more persons.
- Projects in or impacting natural World Heritage Sites (Areas of significant ecological value that have been internationally recognized as necessary for strict protection by members of the World Heritage Convention) 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.
- Projects in or impacting areas on the United Nations List of National Parks and Protected Areas 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.
- Extraction or infrastructure projects in or impacting: protected area Categories I, II, III, and IV (Strict Nature Reserve/Wilderness Areas and National Parks 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. Natural Monuments and Habitat/ Species Management Areas), as defined by the International Union for

³ Where there is, or reasonably may be, any doubt as to whether or not a portfolio company is "substantially involved" in this activity, the matter shall be referred to the investment committee or equivalent body responsible for approving a Fund's investments.

the Conservation of Nature. Projects in IUCN Categories V (Protected Landscape/Seascape) and VI (Managed Resource Protected Area) must be consistent with IUCN management objectives. Areas protected by the Ramsar Convention are considered within the appropriate IUCN Category to which they are assigned.

- Investments in projects responsible for the direct emissions of more than 100,000 tons CO₂eq per year of greenhouse gases.
- Large-scale industrial plants
- Large-scale industrial estates
- Thermal power stations and other combustion installations with a heat output of 200 megawatts or more.
- All projects that pose potentially serious occupational or health risks.
- Cement manufacturing with an annual production rate of greater than one million dry weight tons.
- Construction of motorways, express roads and lines for long-distance railway traffic 10 km or more in a continuous length; airports or airport expansions with a basic runway length of 2,100 metres or more.
- Sea ports and also inland waterways and ports for inland-waterway traffic that permit the passage of vessels of over 1,350 tons; trading ports, piers for loading and unloading connected to land and outside ports (excluding ferry piers) that can take vessels of over 1,350 tons.
- Construction or significant expansion of dams and reservoirs not otherwise prohibited.
- Groundwater abstraction activities or artificial groundwater recharge schemes in cases where the annual volume of water to be abstracted or recharged amounts to 10 million cubic meters or more.
- Industrial plants for the (a) production of pulp from timber or similar fibrous materials; (b) production of paper and board with a production capacity exceeding 200 air-dried metric tons per day.
- Peat extraction.
- Large scale quarries, mining, or processing of metal ores or coal
- Large-scale power transmission.
- Municipal wastewater treatment plants servicing more than 150,000 people.
- Municipal solid waste-processing and disposal facilities.
- Large-scale tourism and retail development.
- Large-scale land reclamation.
- Large-scale primary agriculture involving intensification or conversion of previously undisturbed land.
- Plants for the tanning of hides and skins where the treatment capacity exceeds 12 tons of finished products per day.
- Installations for the intensive rearing of poultry or pigs with more than: 40,000 places for poultry; 2,000 places for production pigs (over 30 kg); or 750 places for sows.
- All projects with potentially major impacts on people or which pose serious socio-economic risk.
- Housing developments that contain more than 2,500 residential units.
- Projects, not categorically prohibited, but located in or sufficiently near sensitive locations of national or regional importance to have perceptible environmental impacts on:
 - Wetlands;
 - Areas of archaeological significance;
 - Areas prone to erosion and/or desertification;
 - Areas of importance to ethnic groups/indigenous peoples;
 - Primary temperate/boreal forests;
 - Coral reefs;
 - Mangrove swamps;
 - Nationally-designated seashore areas;

- Managed resource protected areas, protected landscape/seascape (IUCN categories V and VI) as defined by IUCN's Guidelines for Protected Area Management Categories; additionally, these projects must meet IUCN's management objectives and follow the spirit of IUCN definitions.

7. ESG MANAGEMENT SYSTEM

We have implemented and maintain an ESG management system which effectively addresses ESG risks and realise ESG opportunities as a fundamental part of a portfolio company's value. Our ESG management system is based on ESG principles which:

- Assesses all new investments from an ESG perspective as an integral part of the investment appraisal process;
- Gives new investments a risk rating on ESG issues to determine the appropriate level of management and monitoring;
- If an investment is made despite identified shortcomings in relation to ESG issues, or if any issues arise during the investment period, we assist the portfolio company concerned to develop an action plan to address such issues, with appropriate targets and a timetable for improvements;
- Encourages the managers of portfolio companies to work towards continuous improvements in these areas, with targets for improvements as appropriate;
- Encourages the managers of portfolio companies to adopt and implement policies relating to ESG matters, particularly where businesses entail significant ESG risks;
- Monitors portfolio companies' performance on ESG matters and their progress towards relevant action plans and targets for improvements;
- Reports periodically to the different funds' governing bodies and investors on the performance of portfolio companies from an ESG perspective;
- Monitors and records incidents involving portfolio companies that result in loss of life, material effects on the environment, or material breaches of law, and promotes appropriate corrective actions and reports such incidents to the funds' governing bodies and investors;
- Considers ESG matters at the time of divestment /exit.
- Provides regular staff training on ESG principles

All our portfolio companies are required to have an ESG policy in place. Where they do not have one, we assist them in getting one drafted and implemented in their business. All portfolio companies undertake to wholly support and comply with, or exceed the requirements of current environmental legislation and codes of practice, and to act according to the following principles:

- To minimise adverse impacts and enhance positive effects on the environment and all stakeholders (including employees and the affected communities) as relevant and appropriate.
- To make efficient use of natural resources and to protect the environment wherever possible.
- To support the reduction of greenhouse gas emissions.
- To fully comply with the International Labour Organization ("ILO") Core Labour Standards and ILO Basic Terms and Conditions of Work and to respect the International Bill of Human Rights in line with the UN Guiding Principles on Business and Human Rights.
- To operate in accordance with good international industry practices.
- To recognise and, as appropriate, promote the social aspects of their development impact.
- To consider the potential for positive impacts and opportunities from business activities.

Before we invest in any proposed portfolio company we review and investigate information available in the public domain regarding any adverse impact on local communities or the environment or adverse environmental or social performance associated with that proposed portfolio company. We also:

- Categorise the operations of the portfolio company (whether proposed or existing)
- The rationale for such categorisation; and
- Confirm that we have applied our ESG Management System in accordance with ESG requirements with respect to the proposed portfolio investment.

For all high risk activities, we adequately involve qualified (and if required, external) experts to evaluate compliance with ESG requirements and carry out a gap analysis by applying the relevant IFC Performance Standards and EHS guidelines.

We only make a portfolio investment in a proposed portfolio company if:

- any identified adverse impact or performance has been resolved in accordance with our ESG Requirements or
- the proposed portfolio company has agreed an ESG action plan to so resolve the identified adverse impacts or performance within a reasonable timeframe
- and the investment documentation includes appropriate remedies if the proposed portfolio company fails to implement the ESG action plan

Our Chief Investment Officer (CIO) is the nominated Group ESG Executive/Manager while a Group ESG Officer reports to the CIO. Both are receiving initial and continuous ad hoc ESG training.

7.1. Continuous Improvement

We are committed to, and encourage our portfolio companies to commit to continuous improvements with respect to management of the environment, social matters and governance. We work over time to apply relevant international best practice standards with appropriate targets and timetables for achieving them.

8. ESG REPORTING

For each of our Funds we prepare an annual written ESG Report, evaluating the environmental, social and governance performance for the previous financial year. The Fund ESG Reports describe in reasonable detail the implementation and operation of the ESG Management System; the environmental and social performance of portfolio companies and if applicable, compliance by portfolio companies with any applicable corrective action plans,

Our ESG Fund Reports contain relevant annual ESG data for its portfolio companies, including risk ratings on ESG (high/medium/low), assessment of the quality of each portfolio company's ESG management system (good/moderate/poor), and any ESG issues. In addition to this we publish a general report annually.

We have various investors invested in different funds, each with their own reporting requirements and expectations. It is however not practical or possible to develop and issue ESG reports for each investor separately, based on each investor's own requirements, expectations or templates.

In general though, ESG performance indicates whether we and our portfolio companies adhere to responsible investment and

business practices and whether portfolio companies over time improve upon their practices from an ESG perspective.

We also monitor and record serious incidents involving portfolio companies that result in loss of life, material effects on the environment or material breaches of law. We promote appropriate corrective actions and report such incidents with plans for corrective actions to the relevant governance bodies and investors. Where a serious incident has been reported the ESG Officer will follow up with the portfolio company as corrective actions are undertaken to ensure that adequate measures are being implemented in a timely manner. The ESG Officer follows up with the portfolio company until there are sufficient assurances that the situation has been dealt with in a satisfactory manner and that risks for reoccurrence are mitigated appropriately.

9. EVALUATIONS

Some development finance institutions (DFIs) and fund investors periodically perform in-depth evaluations of their fund investments. We collaborate with the DFIs and investors' monitoring and evaluation framework as far as possible. We assist them or their evaluation consultants with interviews, access to portfolio company records, site visits and in other ways as appropriate to provide an in-depth understanding of a fund and its investments.

Where findings from evaluations are shared with us, any agreed recommended actions are implemented as far as is practically possible.

10. OTHER GROUP POLICIES AND DOCUMENTS

Our ESG policy, processes and systems are supported by other ESG-relevant GroFin policies and documents. Some of these include our Group Compliance Policy and Manual; Group Investment Policy; Group Human Resources Policy; Group Code of Ethics; Group Enterprise-wide Risk Management Framework; and our End-to-end Investment Process

11. ESG POLICY, PROCESSES AND SYSTEMS GOVERNANCE

11.1. Annual Review

The Group ESG policy, processes and systems are subject to annual review and approval by the GroFin International Board (Board). Any proposed interim changes to the ESG Policy must be approved by the Board, after recommendation from the Leadership Team.

11.2. Ownership

Ownership of the Group ESG policy is vested in the Board.

11.3. Actions for Non-Compliance

Actions for non-compliance with the ESG policy, processes and systems are governed by the governance structure of our risk management, that is, instances of non-compliance will be reported to the appropriate level in the structure. Serious instances of non-compliance may result in disciplinary action against the parties concerned. Instances which represent significant breaches of internal control systems is also reported to our Group Risk, Audit and Compliance Committee.