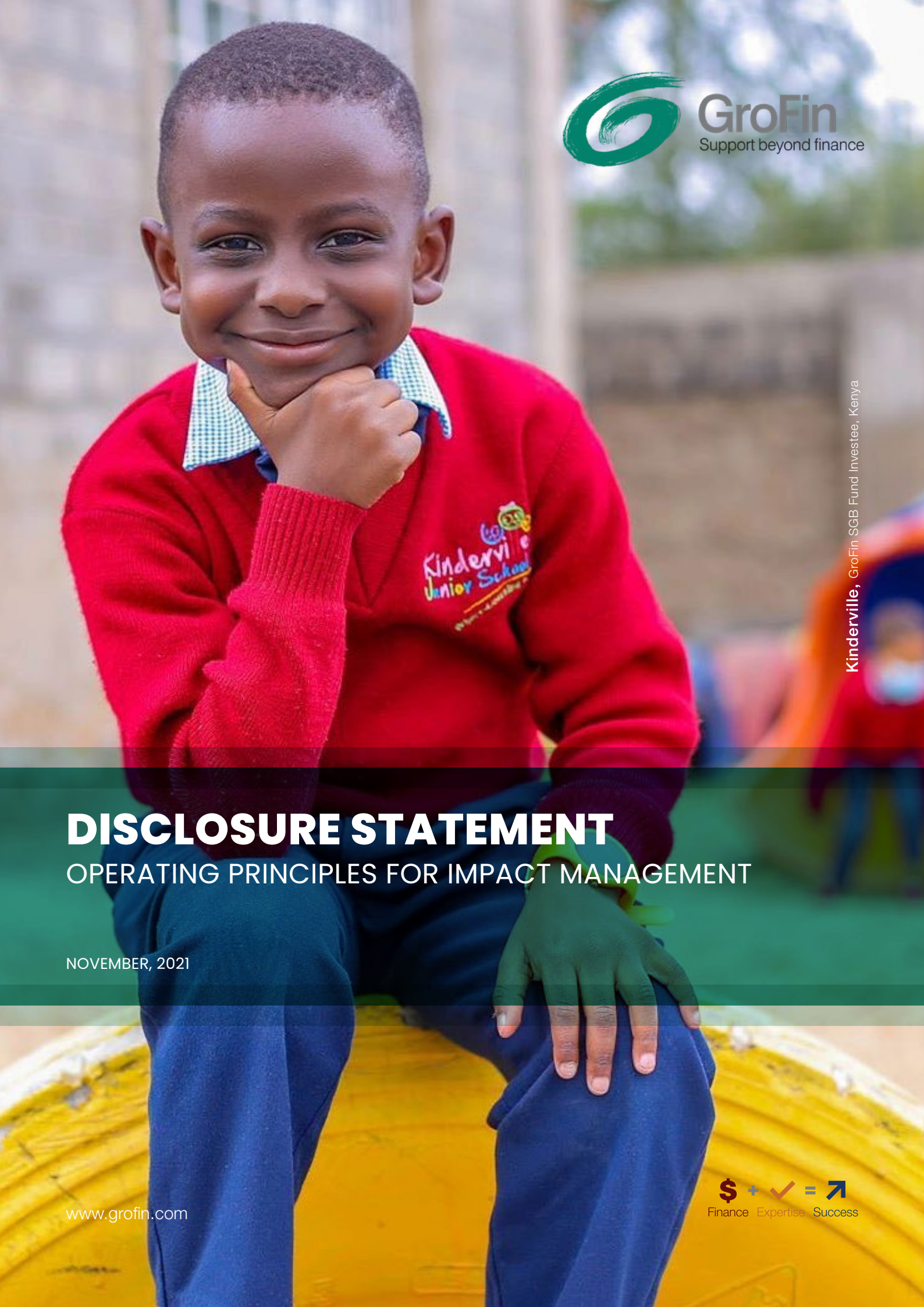

GroFin
Support beyond finance

Kinderville, GroFin SGB Fund Investee, Kenya

DISCLOSURE STATEMENT

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

NOVEMBER, 2021

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Finance Expertise Success

DISCLOSURE STATEMENT

GroFin Managers

Disclosure Statement
Operating Principles for Impact Management ("Impact Principles")

November 2021

GroFin Managers ("GroFin" or the "Signatory") hereby affirms its status as a signatory to the Operating Principles for Impact Management (the "Impact Principles").

This Disclosure Statement serves to fulfil GroFin's obligations pursuant to Impact Principle 9 of the Impact Principles and affirms alignment of the following GroFin managed funds (the "Covered Assets") with the nine Impact Principles:

(i) **GroFin SGB Fund Limited Partnership**
(ii) **Nomou Iraq Fund**
(iii) **Northern Iraq Investments**
(iv) **Nomou Jordan Fund**
(v) **Nomou Oman Fund**
(vi) **Aspire Growth Fund**

The total value of the Covered Assets in alignment with the Impact Principles is USD 145m, as of 30 September 2021.

BRIENNE
VAN DER WALT
CHIEF EXECUTIVE OFFICER

26 NOVEMBER 2021

Katon Industries
GroFin SGB Fund Investee, Uganda

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

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

IMPACT 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.

Agasaro
GroFin SGB Fund Investee, Rwanda

About GroFin

Established in 2004, GroFin is a pioneering development financier specialising in financing and supporting small and growing businesses (SGBs) across Africa and the Middle East.

Operating in the development finance market, our vision is to enable committed entrepreneurs and local business people who have viable businesses or ideas to access the funding and support they require to succeed. In doing so, they drive economic and social empowerment in their societies. We combine medium-term loans/capital and specialised business support to grow emerging market enterprises. We believe in providing SGBs with 'support beyond finance' and use our wealth of business knowledge to help our clients achieve their vision. We make strategic investments and form partnerships to enhance our support our clients and further encourage the growth of their businesses.

By generating employment, strengthening value chains, and building markets, our investments bring about inclusive growth and improved living conditions in the communities our clients operate in. Our objective is to achieve verifiable socio-economic impact based on real outcomes. This includes creating jobs by providing appropriate finance and business support to help SGBs overcome the unique challenges that prevent them from growing and expanding. By the end of December 2020, we had helped to sustain more than 84,570 jobs in the 15 countries where we operate. GroFin have managed funds and programmes on behalf of more than 30 international development finance institutions, development organisations, large companies, and private and have raised more than USD 540m in capital and grants. Our offices are staffed with over 120 employees with 19 different nationalities.

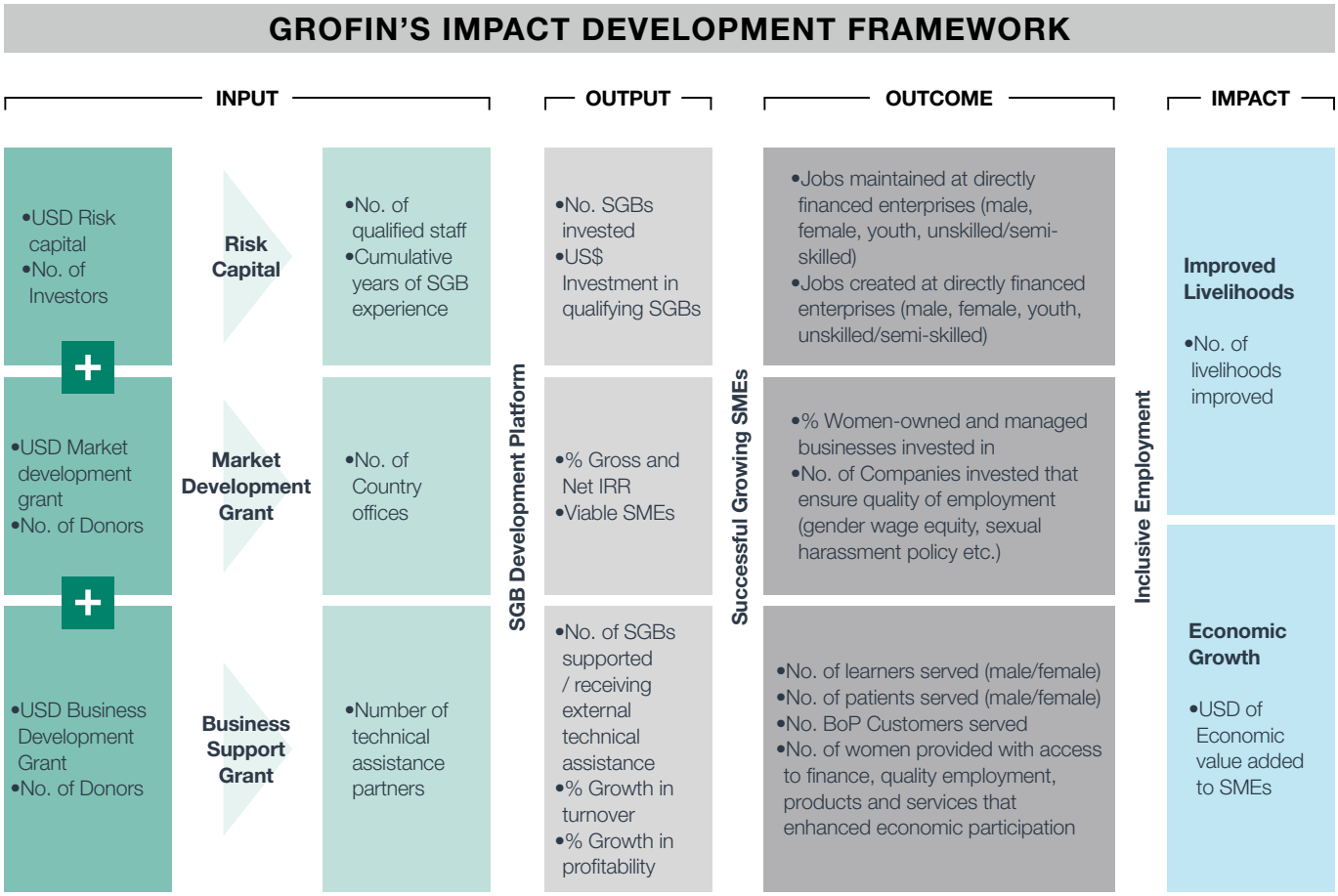
GroFin's Impact Framework.

GroFin strives to produce sustainable returns on capital for its investors – not only returns on financial capital but also returns on human and environmental capita. GroFin operates in the SGB sector in developing markets where there is high human capital growth (including sustainable job creation), good potential for sustainable positive impacts on local economies – especially those at the base of the pyramid – and relatively low environmental risk exposure. In accordance with the framework developed by the Impact Development Project[1] (2016), the impact strategy and impact considerations for GroFin's managed funds consist of the following measurable dimensions:

1. **What:** What outcomes and impact does GroFin aim to achieve
2. **Who:** Who are the key actors that GroFin seeks to influence and how underserved are they in relation to the outcome
3. **How Much:** How many of GroFin's stakeholders experienced the outcome
4. **Contribution:** Did GroFin's financial and business support result in outcomes that were likely better than would have occurred
5. **Risk:** What is the likelihood that GroFin's impact will be different that expected.

GroFin's Impact Thesis

GroFin's impact thesis centres on the belief that SGBs are under-utilised engines of growth in emerging markets. Above all, SGBs at the base of the pyramid have tremendous potential for growth that can benefit the most vulnerable of populations. Compared to microenterprises, SGBs tend to create more and better paying jobs in the formal sector and which offer greater continuity and benefits. When compared to medium and large companies, they are the principal business segment which provides goods to low-income populations in emerging markets and links them to markets.



[1] https://impactmanagementproject.com/

In line with this theory of change and impact thesis, and working closely with its investment clients, GroFin has defined five core strategic impact objectives:

1. To establish an effective, replicable working model to deliver sustainable development impacts at scale across sectors and geographies in developing countries, by supporting and growing (SGBs) in managed funds.

2. To invest in viable SGB entrepreneurs with sound business plans and long-term prospects and support them as they realise their potential, so as to nurture the sustainable development of this sector in the developing economies we operate in.

3. To invest in and support SGBs that have the capacity to create and maintain sustainable employment and generate broad-based employment opportunities, especially for women and employees at the Base of the Pyramid (BOP), so as to contribute to inclusive growth in the economies we operate in.

4. To stimulate local and national economic development, improve local supply chains, grow local markets, and help meet basic needs through providing access to employment, healthcare, education, and food.

5. To de-risk and professionalise the SGB sector in the countries we operate; so as to enhance sustainable business viability, reduce both reputational risk as an investor and the potential negative environmental and social impact of our investments.

Some GroFin funds have additional specific objectives/targets, as agreed with our investors. However, in general terms these are all aligned to the above core objectives.

GroFin systematically assesses the current and potential impact footprint of each potential deal using proprietary impact assessment tools and conducts mandatory quarterly monitoring of key impact KPIs met by its portfolio clients until their exit.

GroFin contributing towards the Advancement of United Nations Sustainable Development Goals (UN SDGs)

GroFin has adopted the UN SDGs as an overarching framework to demonstrate the relevance and scale of our impact and contributions of our investments. GroFin invests with the intention of generating a measurable and demonstrable outcome aligned with the UN SDG Goals. The 2020 GroFin Impact Report illustrates our investments' impact pathways to the applicable SDGs.

The core focus of our investments (Primary SDGs) has been towards advancing SDG 8 to promote full and productive employment and decent work by providing tailored financing and business support to SGBs. From our investments in different sectors, our investees have also been directly and indirectly contributing towards SDG 2, SDG 3, SDG 4, SDG 6, SDG 7, SDG 11, and SDG 12.

SGB GOALS ADVANCED THROUGH INVESTMENTS

IMPACT 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 recognising 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.

GroFin measures and manages impact directly at the level of each investee and at fund portfolio level. The key impact performance measures tracked for each fund relate to employment (direct jobs sustained and new direct jobs created), a disaggregation of employment (in terms of gender, age, and skill level), revenue growth, and other sectoral-related impact (education, healthcare, and agribusiness) as may be applicable.

All impact data relevant to the Fund's objectives are captured and monitored on regular basis: At time of investment (baseline data), quarterly, and annually.

Performance against key impact KPIs as per the obligations of GroFin managed funds, are tracked diligently and reported both internally and to our investors and partners. GroFin has also put in place staff incentive systems, known as 'Star of the Quarter' to reward the performance of individual staff members by considering both impact and financial returns.

GroFin's Impact Measurement & Management Framework

As an agent of impact, GroFin remains committed in its efforts to measure and manage impact though its Impact Measurement & Management Framework. We believe that this framework is a core component of impact investing as it establishes our commitment, together with that of our investors, grant funders and partners, to the socioeconomic contribution of our investees.

Over the years, we have incrementally raised the level of robustness of our impact measurement and management practices. For the development of our Impact Measurement and Management Framework, we have adhered to following international standards and frameworks:

- Global Impact Investing Network's (GIIN) IRIS+ metrics (2019)
- The United Nations' Sustainable Goals (UN SDGs)
- Five Dimensions of the Impact Management Project
- Measuring Impact and the Guidelines for Good Impact Practice developed by the Impact Measurement Working Group of the Social Impact Investment Taskforce, G8 (2014)

El Nour
GroFin SGB Fund Investee, Egypt

IMPACT 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.

Intentionality Risk Capital and Business Support to unlock Impact

As a development finance institution, GroFin contributes to the achievement of impact by providing SGBs financing in the form of debt. This financing enables these businesses to grow by purchasing or upgrading equipment, implementing better processes, or strengthening their working capital, amongst others. Growth in these businesses translate to higher levels of employment, leading to the achievement of impact. Funds managed by GroFin have an overarching strategy of delivering a positive social and environmental impact.

In addition to finance, GroFin also provides tailored non-financial business support to its clients, before and after investment. This support takes the form of advice on effective business planning; marketing; operations improvement; technical assistance; cash flow management; and improvement of Environmental, Social & Governance (ESG) standards; amongst others. Consequently, GroFin's client businesses experience growth and generate employment, thus achieving impact.

SNTC
Nomou Oman Fund Investee, Oman

Additionality

The additionality of GroFin's investments is that we invest in markets and businesses that are often characterised by high risks and lack of capital. GroFin's tailored business support adds value that goes beyond capital by providing training, mentorship, and assistance to entrepreneurs to improve business performance and promote environmental, social, and governance standards.

Contribution vs Attribution

GroFin acknowledges that observed and estimated impact, measured through metrics like total jobs sustained and economic value added, cannot always be wholly attributed to our interventions of providing access to appropriate finance and business support to SGBs. Even though GroFin is able to quantify with some degree of accuracy the effects (outcomes and impact) of our interventions (inputs) in the vast majority of cases, we understand that there are other factors like additional client funders, client activity, and market conditions which also contribute to the impact metrics we estimate and report on. Since GroFin plays such a crucial role in facilitating the sustainable growth of our clients' businesses, we report on 100% of the impact. However, GroFin does not claim full credit for this impact, and we use the words "contribute/s to", "sustained", and "livelihoods supported", etc. where possible to best describe the impact of our interventions.

IMPACT 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.

Assessing & Monitoring Impact

The assessment of impact is a core element of our investment process. All potential deals are screen based on their current and potential impact footprint using tools developed in-house. The impact footprint of each deal is measured against specific fund targets.

Impact data and information related to Environmental, Social and Governance (ESG) performance is captured directly at the level of investees (both at pre-investment and post investment stage) by local investment teams using GroFin's proprietary data collection tools and templates. All data captured is uploaded on GroFin's cloud-based transaction management system.

The GroFin Impact Team (Impact & ESG Manager and Impact Assistant) are responsible for the verification and validation of data captured by local investment staff. Broader socio-economic impact, such as indirect jobs created, is based on internal analysis and estimated using an impact development model developed for GroFin by independent impact consultancy firm, Steward Redqueen (https://www.stewardredqueen.com/). For the estimation of indirect jobs created, the model uses an 'input-output' methodology that traces money (investee turnover) through an economy showing how one sector depends on another, by using input-output tables that use data compiled from the Global Trade Analysis Project.

Fountain Gate Academy
GroFin SGB Fund Investee, Tanzania

IMPACT 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.

Integrating ESG in the investment process

GroFin integrates ESG risk/opportunity assessment and best practices into its end-to-end investment process as follows:

- Assesses all new investments from an ESG perspective as an integral part of the investment appraisal process.
- Assists portfolio clients to develop relevant action plans to mitigate any identified ESG risks.
- Monitors portfolio clients' performance on ESG matters and their progress towards relevant action plans and targets for improvement.
- Periodically reports on the performance of portfolio companies from an ESG perspective to the different funds' governing bodies and investors.

In developing an ESG framework, GroFin has given general consideration to a range of best practice investment codes and standards, including the World Bank's Group Environmental, Health, & Safety Guidelines and the (IFC) Performance Standards on Environmental & Social Sustainability.

As part of the investee onboarding process, all GroFin clients sign a General Facility Agreement which includes a general Corporate Responsibility Best Practice undertaking, and an undertaking that they do not engage in any of GroFin's prohibited/excluded activities (which are covered in the IFC exclusion list[2]).

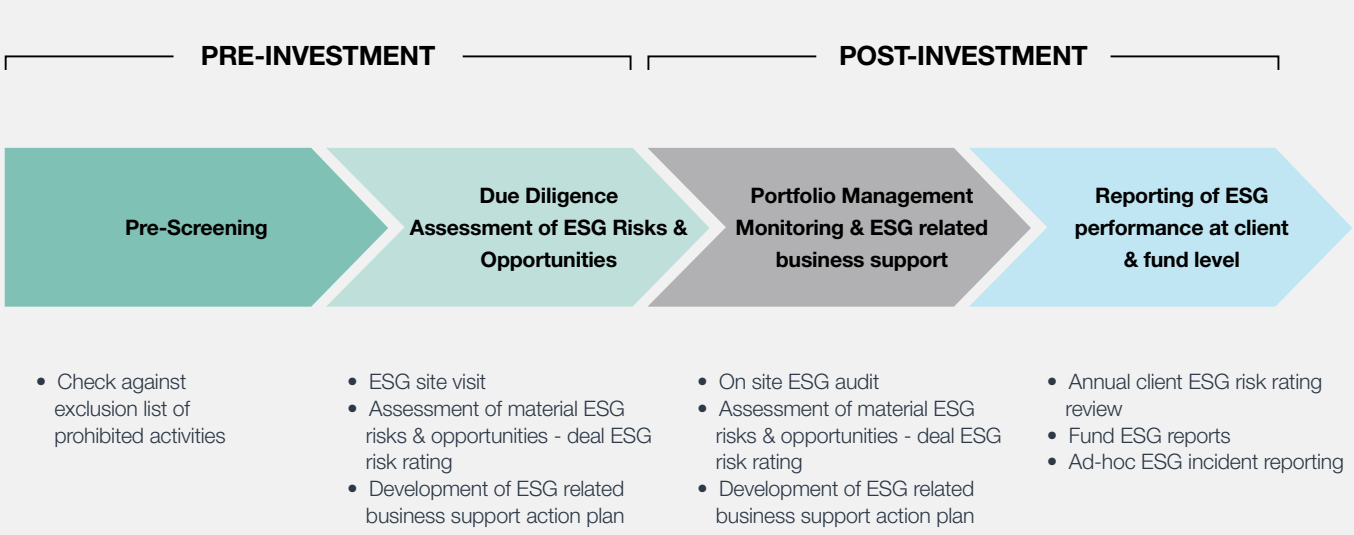
ESG Screening of all prospective investees

GroFin screens all potential clients to determine if they should be considered as high-risk clients, as defined by the IFC's EH&S Guidelines[3]. As per the GroFin ESG Policy; Investment Managers refer high-risk clients to the Impact & ESG Manager who then undertakes, or arranges with in-country experts to undertake, a full ESG audit/gap assessment of the business. The findings of this assessment are included in the risk screening process. If GroFin invests in the client, the findings are translated into Business Support Actions, which are then implemented to eliminate or mitigate the risk.

GroFin promotes ESG best practices that can fully integrated into our clients' operations, generate economic value as well as mitigate any environmental risks, occupational health and safety hazards, and ensure compliance with local legislation and operational requirements. Our mission is to create sustainable impact through SMEs and help them grown and unlock their full business potential.

Roubesh Jhumun
GroFin Impact & ESG Manager

[2]https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist
[3]https://www.worldbank.org/en/projects-operations/environmental-and-social-framework



Moreover, GroFin subscribes to the World Bank's three-tier classification[4] of generalised ESG risks and all clients are classified into these categories during initial screening. In terms of GroFin's ESG Policy, all clients that are classified as Category A require an Impact & ESG review (with input/review by the Group Impact & ESG) to identify most ESG risks and suggest mitigating measures. GroFin's Investment Managers score all clients according to a range of ESG risk parameters after completing site audits, entrepreneur interviews, documentation reviews, and carefully considering potential ESG risks. The final risk score/rating informs the investment decision and all high-and very high-risk scores from individual parameters are included in the Business Support Action Plan for that client, so that the risk can be eliminated or mitigated.

GroFin also monitors and records any incidents involving portfolio companies that result in serious workplace injuries or fatalities, material negative impact on the environment, or material breaches of law. We then promote appropriate corrective actions and report such incidents to our funds' governing bodies and investors.

Bestever paper Industries
GroFin SGB Fund Investee, Uganda

Abou Arab
Nomou Jordan Fund Investee, Jordan

[4]https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization

IMPACT PRINCIPLE 6:

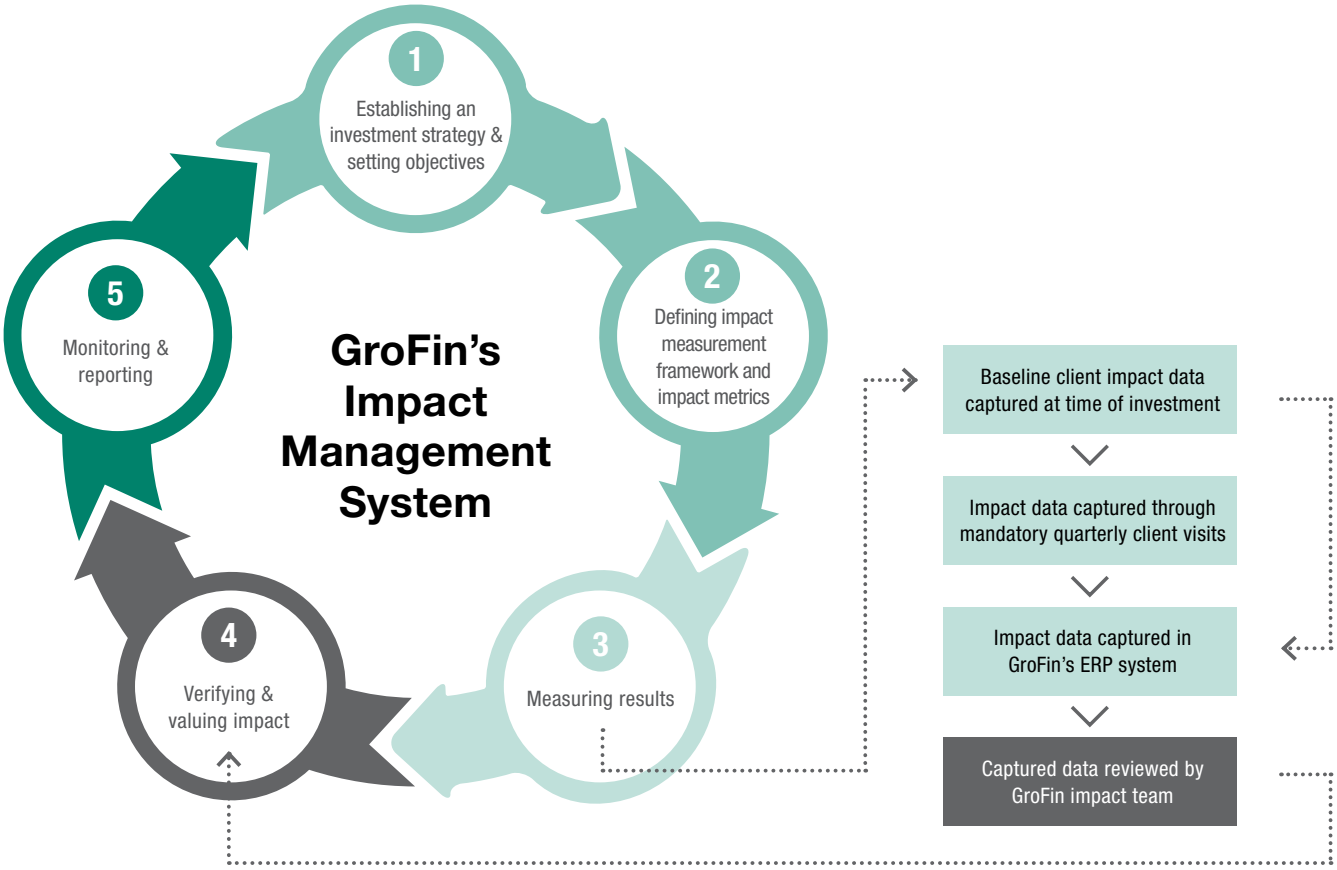
Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in 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.

Kinderville
GroFin SGB Fund Investee, Kenya

Impact Data Collection & Management Process.

Enterprise impact at the level of our funds' investees is captured at the time of investment and then reviewed quarterly and annually. Impact data is collected, using proprietary GroFin templates and tools, during mandatory client site visits carried out by our investment staff every quarter. The impact data is then uploaded on GroFin's ERP system, CASPER, which is managed centrally. Each quarter, the GroFin Impact Team carries out data accuracy and completeness checks to ensure that up-to-date and quality impact data is being captured.



Overview of GroFin's Impact Management System and Impact Data Collection process

All impact data relevant to our Funds' objectives are captured and monitored on a regular basis (until exit), as follows:

(i) At Investment (baseline data)
(ii) Quarterly - through mandatory client visits
(iii) Annually

Defining, tracking, measuring, and interrogating our impact footprint allows us to use insights gleaned and enables us to prompt data-driven decision making. GroFin has a dedicated Impact & ESG team responsible for assessing the impact credentials of investments and monitoring the impact and ESG performance of each investee at regular intervals.

If any concerns regarding the financial, impact, or ESG performance of investees arises, our local investment team engages with the client directly to develop relevant corrective actions, wherever possible.

IMPACT 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.

GroFin invests through private debt instruments, which are self-liquidating once the loans have been repaid. Although, the time of exit is set when each investment is made, our investment management process allows for some flexibility (to the extent possible) when an investee struggles to meet payment deadlines due to liquidity issues but has delivered impact.

By collecting baseline data at the level of each investee at the time of investment, GroFin can establish the impact each of our clients have generated when they exit our respective funds. GroFin provides business support to its investees to ensure their viability and sustainability over time. Consequently, the business support provided should allow them to sustain their positive impact even after their exit. In line with this, following exit, all indicators are assumed to remain in steady-state for five years, at which point they are no longer counted as within GroFin's purview.

GroFin also carries out annual client satisfaction surveys where feedback is received directly from investees regarding their overall experience around support services, staff professionalism, responsiveness, and promptness of interventions from GroFin.

Olerai School
GroFin SGB Fund Investee, Kenya

IMPACT 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.

Review impact and ESG performance of investees

As part of our impact measurement and management framework, the impact footprint of our investees and funds is systematically measured and reported quarterly and annually. The impact performance of both our funds and investees is tracked against quarterly and annual targets and reported to senior management, the board, and investors. This structured evaluation of portfolio impact and financial outputs ensures that any significant insights can inform operational and strategic adjustments to improve impact performance and inform future investment decisions.

Expected financial and impact returns, both qualitative and quantitative, are documented at the level of each fund in the form of 'Fund Activity Plans' and fund reports as part of our investment and impact strategy management process. The targets set are used as the benchmark for the quarterly and annual structured evaluation of our impact performance.

For the annual review, GroFin carries out an assessment using a broader set of metrics that include key financial performance indicators of investees and impact metrics related to the number of customers/end users served by each investee. For example, the number of students served per annum for education investees and the number of patients served per annum for healthcare investees.

GroFin also carries out an annual review of ESG risk ratings that were allocated to each investee at the time of investment to assess the impact of relevant business support actions identified and implemented to reduce ESG risks inherent to the business. Annual fund ESG reports are also shared with investors and partners.

Review of internal processes, tools and frameworks

Insights from our regular review of the effectiveness of our impact and investment strategy also calls for the review of policies, frameworks, and tools in place for the measurement and management of impact to ensure GroFin is aligned with emerging best practices and reporting standards in this field.

AL Majal
Nomou Iraq Fund Investee, Iraq

IMPACT PRINCIPLE 9:

Independent Verification

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.

- GroFin publicly affirms its alignment with the Impact Principles in this Disclosure Statement and undertakes that the Disclosure Statement will be updated and published annually in compliance with the Impact Principles.
- GroFin expects to complete an independent verification of this alignment by December 2022.

Ndurwa Millers
GroFin SGB Fund Investee, Uganda

GroFin
Support beyond finance

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