



AFRICINVEST'S APPROACH TO RESPONSIBLE INVESTING

February 2016

I. Introduction

This document describes AfricInvest's approach to responsible investing, specifically AfricInvest's methodology to integrate Environmental, Social and Governance ("ESG") matters in its investment process.

We seek to provide our investors with risk adjusted returns while generating positive impact and sustainability. We believe that ESG matters can have both positive and negative impacts on the financial performance of our portfolio companies as well as the added value that we would like to generate to the communities and economies of our target markets.

We endeavor to invest in a responsible fashion, considering ESG aspects and business integrity matters. The impact of the of these ESG factors is continuously analyzed, assessed and monitored as part of our investment process. Effective management of these matters not only reduces the possibility of stakeholders being adversely affected by business activities, but also provides them with access to remedy. It can also add value to businesses through, for example, improving business efficiency, staff motivation and stakeholder relations. We have developed various instruments and procedures to enable us to assess whether our portfolio companies operate in line with the national and international laws and standards.

Through this policy, we work with our portfolio companies in a responsible approach to business that starts with compliance with certain basic requirements and works towards the adoption of internationally recognized standards of best practices. We maintain intensive contact with our portfolio companies to develop remedy measures and corrective action plans ("Action Plan") (that seek to achieve compliance) with clear deliverables in reasonable time frames, taking into consideration the risks and opportunities specific to that business and its size and resources.

This policy is a living document, which we can be reviewed, enhanced and change when needed.

II. Responsible investing integrated in the investment process

AfricInvest maintains a responsible investment management system through:

1. Adopting a proper Environmental and Social Management System (ESMS) that explains the process to assessing and monitoring the ESG risks and impacts of the portfolio companies from investment analysis phase, investment decision-making, through to investment management over the entire investment period.
2. Assigning ESG responsibilities to two designated representatives of senior management at AfricInvest and to suitably trained employee(s) or consultant(s)
3. Requiring portfolio companies AfricInvest invests in, to comply with certain basic ESG requirements and works towards the adoption of internationally recognised standards of best practice
4. Requiring portfolio companies AfricInvest invests in, to ensure a preventive and precautionary approach with respect to environmental and social impacts. If negative impacts are identified, a corrective action plan should be put in place by the portfolio company to address the areas of non-compliance. A failure to improve its behaviour in respect to the ESG negative impacts and to put in place the corrective action plan can ultimately result in exclusion
5. Requiring portfolio companies AfricInvest invests in, to maintain sound corporate governance practices as customary and commonly used under the laws of the country in which the portfolio company is located and observe high standards of business integrity. The portfolio companies are encouraged to work towards implementing best corporate governance practices.
6. Requiring portfolio companies AfricInvest invests in, to maintain dialogue and positively impact the surrounding communities and stakeholders
7. Ensuring regular (and no less than annual) reporting of environmental, social and governance matters to investors.

III. Requirements for all Portfolio Companies

General requirements

Every Portfolio Company in which AfricInvest invests shall:

- operate in compliance with applicable local and national laws including laws covering environmental impacts, labor rights, social issues, corporate governance and those intended to prevent extortion, bribery, corruption and financial crime ("**Applicable Laws**");
- operate in compliance with relevant international sanctions, including those of the European Union and the United Nations ("**International Sanctions**")¹;
- implement management systems, appropriate to the size and nature of the business, that ensure a systematic approach to ESG risk assessment, addressing relevant risks, monitoring and reporting on progress and, to the extent possible, involving stakeholders²;
- ensure achievement of and continuous compliance with the Requirements (as defined in the Annex) or related Action Plan; and
- not operate in any activity listed in the Exclusion list³.

Environmental issues

Every Portfolio Company in which AfricInvest invests shall:

- Assess the potential environmental risks and impacts of its operations and adopt the appropriate mitigation measures through an in depth environmental impact assessment; and
- Adopt the appropriate measures to mitigate the identified risks and enhance positive impact through committing to a specific list of corrective actions deliverables in reasonable time frames.

Social issues

Every Portfolio Company in which AfricInvest invests shall:

- not employ or make use of forced labor⁴;
- not employ or make use of child labor⁵;
- pay wages which meet or exceed industry or legal national minima;
- not discriminate in terms of recruitment, progression, terms and conditions of work and representation, on the basis of personal characteristics unrelated to inherent job requirements, including gender, race, color, caste, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, marital status, membership of workers' organizations, legal migrants, or HIV status⁶;

¹ See www.fco.gov.uk/en/about-us/what-we-do/services-we-deliver/export-controls-sanctions/ for a full list.

² See IFC PS 1 for guidance.

³ http://www.ifc.org/wps/wcm/connect/b296fe00436490eb946e96d3e9bda932/IFC_Exclusion_List.pdf?MOD=AJPERES. Or otherwise indicated in the legal documentation of the fund which invests in the portfolio company.

⁴ As covered by the ILO Forced Labour Convention (No. 29) and the Abolition of Forced Labour Convention (No. 105). See www.ilo.org/ilolex/english/docs/declworld.htm

⁵ As defined by the ILO Minimum Age Convention (No. 138) and the Worst Forms of Child Labour Convention (No. 182). See www.ilo.org/ilolex/english/docs/declworld.htm

⁶ As covered by the ILO Equal Remuneration Convention (No. 100) and the ILO Discrimination (Employment and Occupation) Convention (No. 111), allowance could be made where positive discrimination is mandated in law and is intended to address a historical imbalance. See www.ilo.org/ilolex/english/docs/declworld.htm

- adopt an open attitude towards workers' organizations and respect the right of all workers to join or form workers' organizations of their own choosing, to bargain collectively and to carry out their representative functions in the workplace⁷;
- provide reasonable working conditions including a safe and healthy work environment, working hours that are not excessive and clearly documented terms of employment and in situations where workers are employed in remote locations for extended periods of time to ensure that such workers have access to adequate housing and basic services⁸;
- provide an appropriate grievance mechanism that is available to all workers and where appropriate to other stakeholders⁹; and
- implement a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the reporter;

Governance and business integrity

Every Portfolio Company in which AfricInvest invests shall:

- uphold high standards of business integrity and honesty;
- adopt and implement policies to prevent extortion, bribery, corruption, fraud and financial crime in accordance with local law requirements and international best practice;
- properly record, report and review financial and tax information¹⁰;
- establish corporate governance practices appropriate to the size and nature of the business;
- deal with regulators in an open and co-operative manner;
- use information received from its business partners only in the best interests of the business relationship and not for personal financial gain by any worker;
- 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.

⁷ As defined by the ILO Freedom of Association and Protection of the Right to Organise Convention (No. 87) and the Right to Organise and Collective Bargaining Convention (No. 98). See www.ilo.org/ilolex/english/docs/declworld.htm

⁸ Respecting any collective bargaining agreements that are in place or where these do not exist or do not address working conditions, make reference to local or national law, IFC Performance Standard 2 and relevant ILO Conventions, as may develop over time, including Weekly Rest (Industry) Convention (No. 14) and Weekly Rest (Commerce and Offices) Convention (No. 106), See www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang-en/index.htm

⁹ See IFC Performance Standard 2 and the "Effectiveness Criteria for Non-Judicial Grievance Mechanisms" (http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf) within the UN Guiding Principles on Human Rights.

¹⁰ Direct investments, including investment intermediaries, are required to report to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), see www.iasb.org or other internationally recognised accounting standards; and the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC"), see www.privateequityvaluation.com. Investees of Investment Intermediaries should as a minimum report to local reporting standards and should make progress towards internationally recognised accounting standards.

Annex: Recommended International Practices Promoted by AfricInvest

AfricInvest also promotes the following international standards and encourages the Portfolio Companies for which they are appropriate to make progress over time towards achieving and maintaining them:

- The ILO Fundamental Conventions¹¹
- THE OECD Principles of Corporate Governance¹²
- The IFC Performance standards¹³
- The EHS Guidelines¹⁴

¹¹ <http://ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>

¹² <http://www.oecd.org/corporate/oecdprinciplesofcorporategovernance.htm>

¹³ http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/performance+standards/environmental+and+social+performance+standards+and+guidance+notes

¹⁴ http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/ehsguidelines