



# **AFRICINVEST'S APPROACH TO IMPACT AND SUSTAINABILITY**

**April 2023**

## I. Introduction

This document describes AfricInvest's approach to Impact and Sustainability, specifically AfricInvest's methodology to integrate Impact, Environmental, Social and Governance (ESG) and Climate considerations throughout our investment process as part of our mandate to provide investors with attractive risk-adjusted returns while generating meaningful and measurable impact. AfricInvest refers to impact, ESG and climate considerations as "Impact & Sustainability (I&S)". Impact and ESG management are two sides of the same coin and the two are often addressed in parallel during similar moments in the investment cycle. While the key difference between climate risk and ESG is that climate risk is focused specifically on the financial impacts of climate change, while ESG considers a much broader range of non-financial factors. This means that a company may have strong ESG performance, but still be vulnerable to climate risks, or vice versa. At AfricInvest, we tackle climate change proactively by not just mitigating against its effects on our portfolio companies, but also by actively changing and redefining strategies and processes to avoid the ongoing deterioration of our climate disaster.

We believe in stakeholder capitalism: that the businesses that we invest in should incorporate the interests of all stakeholders, including employees, customers, suppliers, communities, and the environment, as well as shareholders. We prioritize investing in companies that recognize and care about their impact on stakeholders, and we seek to try to assist wherever possible in helping our investees develop their approaches to stakeholder capitalism. For us, Impact & Sustainability considerations are not merely minimizing risks to the business — rather, we believe I&S considerations embody the principles of operational best practice. Effective management of Impact & Sustainability helps us add value not only to our investees, but also to the communities and economies of our investees' markets across Africa.

AfricInvest's theory of change rests on finding investees which generate impacts that are a net positive for stakeholders. By serving as a critical source of financing, fostering linkages among portfolio companies, enhancing their operational performance, improving their financial structuring and implementing international best practices in Impact & Sustainability performance, AfricInvest helps its investees expand and thrive, enabling them to maximize their positive impact across the African continent. We target investees which provide decent work and economic growth (SDG 8), promote gender equality (SDG 5), foster innovation on the African continent (SDG 9) and take action to combat climate change and its impacts (SDG 13), among other goals. We strive to identify and work with portfolio companies that can achieve relevant and credible impact objectives specific to their industry, such as a focus on SDG 3: Good Health when investing in healthcare, pharmaceutical and insurance companies, SDG 4: Quality Education when investing in schools or SDG 10: Reduced Inequalities when working with fintech and healthcare companies. By considering opportunities across a diverse array of industries and countries, we strive to make investments that maximize measurable positive impact alongside financial returns.

We believe that careful integration of Impact & Sustainability considerations throughout the investment lifecycle is required for effective stakeholder capitalism. We have developed various tools and procedures that allow us to assess whether our existing and future portfolio companies operate in line with national and international Impact & Sustainability laws and standards and best practices in Impact & Sustainability management as well as support their transition to net-zero carbon emissions. The AfricInvest Management System (AIMS) requires that we adopt a net impact-oriented approach that takes into account positive and negative outcomes and work closely with our companies to develop efficient methods to deliver positive impact at scale—culminating in sustainable returns to investors and society.

This Impact and Sustainability policy sets out AfricInvest's commitment to investing in an impactful manner, including a) summarizing the necessary Impact & Sustainability requirements to invest at both a platform and portfolio company level, such as the adoption of specific Impact & Sustainability standards and frameworks; b) reviewing material Impact & Sustainability issues considered (e.g., child labor, human rights, climate physical risks, climate transition risks, client protection, etc.); c) describing the necessary resources and organizational structure of AfricInvest; etc. This policy also defines how we integrate Impact & Sustainability considerations into AfricInvest's day-to-day business activities and fund investment processes.

This policy should be viewed as a living document, which is reviewed, enhanced, and changed when needed in order to remain relevant to AfricInvest's business operations, as well as up to date with emerging Impact & Sustainability trends within the broader investment ecosystem.

## II. AfricInvest's Guiding Impact & Sustainability Policies, Principles, and Core Commitments

AfricInvest seeks to adopt key Impact & Sustainability policies and principles to guide sound management of Impact & Sustainability matters in areas considered 'material'<sup>1</sup> to the long-term success of the organization, its funds, and funds' investment portfolios.

These policies and principles are listed below and have been selected based on their relevance for the institution and its stakeholders. They will serve as a baseline commitment that will be tailored to and expanded upon depending on their specific relevance across the different funds that compose AfricInvest.

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<sup>1</sup> Within the context of this document, 'material' I&S issues or I&S 'materiality' is the principle of defining the Impact & Sustainability topics that matter most to AfricInvest and its stakeholders.

## a. Guiding Impact & Sustainability Principles

At AfricInvest, we seek to conduct our business activities in accordance with the set of guiding Impact & Sustainability Principles listed below. These Principles are fundamental to our Impact & Sustainability approach and shall be incorporated into our investment and decision-making processes as well as our engagements with stakeholders, where feasible. These Principles are based off internationally accepted Impact & Sustainability frameworks and norms.

While we acknowledge that some funds under our management and their respective portfolio companies may not satisfy all of these guiding Impact & Sustainability Principles from the start of the investment, we endeavor to work towards achieving alignment with them in order to reach our Impact & Sustainability goals.

These principles should be viewed as a guideline and a framework for engagement with stakeholders and should not be considered an exhaustive list.

### Environmental Principles

Developing and implementing a Net Zero Strategy using science-based emissions reduction targets across all scopes, in line with 1.5°C emissions scenario and the criteria and recommendations of the Science Based Targets initiative (SBTi)

Support a precautionary approach<sup>2</sup> to environmental challenges

Contribute to environmental protection and the reduction of pollution to reach nature-positive projects

Adopt measures to protect biodiversity and natural resources

Assess potential environmental risks and impacts associated with business operations through appropriate assessments, and adopt appropriate measures to mitigate any risks identified within reasonable time frames

Assess climate impacts and risks of our operations and undertake efforts to mitigate climate change impacts and risks, as appropriate to the size and nature of our investee companies

Promote the transition to a low-carbon economy by identifying and investing in products and services that will support the transition

### Social Principles

Do not employ or make use of forced labor<sup>3</sup>

Do not employ or make use of child labor<sup>4</sup>

Pay wages which meet or exceed industry, living wage or legal national minima

Support quality jobs by going beyond good wages and considering inclusion & diversity, well-being, training and growth opportunities

Do 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 status<sup>5</sup>;

<sup>2</sup> "Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation" Principle 15 of the 1992 Rio Declaration. This approach is based on the UN's (1992) precautionary principle: "If in doubt, err on the side of the planet not the side of the company."

<sup>3</sup> 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](http://www.ilo.org/ilolex/english/docs/declworld.htm)

<sup>4</sup> 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](http://www.ilo.org/ilolex/english/docs/declworld.htm)

<sup>5</sup> 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](http://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 workplace<sup>6</sup>

Ensure reasonable working conditions are provided, including a safe and healthy work environment, working hours that are not excessive, and clearly documented terms of employment. In situations where workers are employed in remote locations for extended periods of time, ensure that such workers have access to adequate housing and basic services<sup>7</sup>

Ensure appropriate grievance mechanisms are available to all workers (including contractors) and, where appropriate, to other external stakeholders (e.g., surrounding communities, etc.)<sup>8</sup>

Implement appropriate procedures and encourage the reporting of wrongdoing and misconduct in the workplace, including whistleblower protection and appropriate disciplinary action for anyone found to harass the whistleblower.

Integrate just transition, resilience, and equity dimensions into our investment and procurement strategies

## **Governance and Business Integrity Principles**

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 legal requirements and international best practice

Properly record, report and review financial and tax information<sup>9</sup>

Establish corporate governance practices that are appropriate to the size and nature of the business

Deal with regulators in an open and cooperative manner

Use information received from 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

Use effective systems of internal control and risk management covering all significant issues, including on governance and ethical issues

Hold senior management accountable for the oversight and effective management of environmental (including climate-related), social, and governance matters

Ensure sufficient monitoring and strategic oversight of organisational environmental (including climate-related), social, and governance goals, objectives and targets through AfricInvest Impact & Sustainability Committee

Ensuring that adequate governance structures are set up at a Fund level to manage material Impact and Sustainability-related risks and opportunities. This includes provision of material I&S information to the Investment Committee to ensure informed decision-making for all new investments, as well as regular reporting on the I&S performance of the portfolio and exposure to any new or existing risk or opportunities.

## **Client Protection Principles**

Ensure equitable and fair treatment of customers.

<sup>6</sup> 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](http://www.ilo.org/ilolex/english/docs/declworld.htm)

<sup>7</sup> 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](http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang-en/index.htm)

<sup>8</sup> See IFC Performance Standard 2 and the "Effectiveness Criteria for Non-Judicial Grievance Mechanisms" and see IFC Performance Standard 1 which makes reference to "External Communications and Grievance Mechanisms" ([http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)) within the UN Guiding Principles on Human Rights.

<sup>9</sup> 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](http://www.iasb.org) or other internationally recognized accounting standards; and the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC"), see [www.privateequityvaluation.com](http://www.privateequityvaluation.com). Investees of Investment Intermediaries should as a minimum report to local reporting standards and should make progress towards internationally recognized accounting standards.

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Provide clear, sufficient and timely information on products and services in a manner and language clients can understand so that clients can make informed decisions.

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Take adequate care to design products and delivery channels such that they do not cause harm to clients.

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Set pricing, terms and conditions in a manner that is both affordable to clients and sustainable financially.

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Respect the privacy of individual clients' data in accordance with the laws and regulations of individual jurisdictions.

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Ensure providers have put in place timely and responsive mechanisms for complaints and problem resolution, and use these mechanisms both to resolve individual problems and to improve product and service offerings.

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## ***b. AfricInvest's Core Commitments to Impact & Sustainability***

To ensure AfricInvest implements and maintains an Impact & Sustainability-driven investment approach, AfricInvest commits to undertake the following:

1. Developing and adopting AIMS for the funds under our management, that integrate the process of identifying, assessing, and monitoring Impact & Sustainability Policy risks and impacts of portfolio companies throughout the lifetime of the investment period.
2. Do not invest into prohibited activities as prescribed by Fund Specific Exclusion Lists<sup>10</sup>.
3. Establishing an Impact & Sustainability Team with adequate organisational capacity, capabilities and competencies to support the implementation of the Impact & Sustainability Policy and the AIMS.
4. Ensuring funds under our management are active and engaged owners of the portfolio companies under their management.
5. Requiring our investees in to comply with certain general Impact & Sustainability Policy requirements, specific guiding Impact & Sustainability principles, and work towards the adoption of internationally recognised standards of best practice (see **Section III** below for further details).
6. Incorporating appropriate Impact & Sustainability Policy representations, warranties and covenants into legal agreements for all investments, including Impact & Sustainability Policy monitoring, measurement and reporting requirements;
7. Gathering appropriate disclosure on Impact & Sustainability Policy management and performance from the funds under AfricInvest's management and their respective portfolio companies;
8. Pro-actively drive continuous improvements and progress at fund and portfolio company level, through ongoing monitoring, evaluation and reporting on progress against set Impact & Sustainability objectives;
9. Ensuring transparent and regular (and no less than annual) reporting and disclosure of Impact & Sustainability Policy matters to investors and other relevant stakeholders.
10. Establishing and maintaining a clear and readily accessible mechanism for external grievances to be raised with AfricInvest relating to any funds and/or portfolio companies under its management.
11. Contributing to industry best practice and thought leadership around Impact & Sustainability and remaining abreast of emerging trends in the field.
12. Periodically review AfricInvest's Impact & Sustainability Policy and AIMS to drive improvements continuously.

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<sup>10</sup> As indicated in the legal documentation of the Fund in question.

### III. AfricInvest's Requirements for all Portfolio Companies

To ensure alignment with the overarching Impact & Sustainability, each AfricInvest fund is required to implement the following Impact & Sustainability requirements for every portfolio company in which AfricInvest invests:

- not operate in any activity listed in the Exclusion list.
- 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**")<sup>11</sup>.
- promote adoption of "International Impact & Sustainability Standards" (as defined by the Reference Framework in the Annex). This includes a commitment to apply the IFC Performance Standards for all High and Medium Risk investments, and encouraging low-risk portfolio companies to comply with the IFC Performance Standards on a best-efforts basis.
- respect all internationally recognised human rights and conduct human rights due diligence when relevant in order to identify, prevent, mitigate and account for potential adverse impacts and risks, as appropriate to the size and nature of our businesses
- contribute to women's empowerment and gender equality in line with the 2X Criteria and counteract unacceptable behaviours and practices in line with the ILO C190 – Violence and Harassment Convention.
- 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. Portfolio companies are encouraged to work towards implementing best corporate governance practices.
- maintain appropriate human and financial resources for adequate implementation and management of Impact & Sustainability practices, including the appointment of external resources as required.
- implement Impact & Sustainability management systems, appropriate to the size and nature of the business, that ensure a systematic approach to Impact & Sustainability risk assessment, addressing relevant risks, monitoring and reporting on progress and, to the extent possible, involving stakeholders<sup>12</sup>.
- implement remedy measures, corrective and value-addition actions identified during AfricInvest's Impact & Sustainability due diligence as well as through on-going monitoring during post-investment stages. The Value Creation Action Plan must contain clear deliverables with reasonable time frames, taking into consideration the risks and opportunities specific to that business and its size and resources.
- ensure a preventive and precautionary approach with respect to Impact & Sustainability impacts. If negative impacts are identified, the Value Creation Action Plan should be updated and / or put in place by the portfolio company to address the areas of non-compliance. A failure to improve its behaviour with respect to negative Impact & Sustainability outcomes and to put in place a corrective action plan may ultimately result in exclusion from AfricInvest financing.
- maintain appropriate dialogue on Impact & Sustainability-related matters through direct and continued engagement with AfricInvest as well as prescribed reporting templates as stipulated in legal agreements, including selected key performance indicators (KPIs) reporting, major incidents and progress against prescribed action plans.
- positively impact the surrounding communities and stakeholders.

<sup>11</sup> See [www.fco.gov.uk/en/about-us/what-we-do/services-we-deliver/export-controls-sanctions/](http://www.fco.gov.uk/en/about-us/what-we-do/services-we-deliver/export-controls-sanctions/) for a full list.

<sup>12</sup> See IFC PS 1 for guidance. [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/performance-standards/ps1](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps1)



#### IV. AfricInvest's is a signatory of and in alignment with the highest standards



#### V. Impact and Sustainability Policy Version Control and Authorisation

##### Version Control

Version Number:	3.0			
Number of Pages:	10 pages			
Effective Date:	February 2016			
Review Date:	November 2021	March 2023		
Next Anticipated Review Date:	August 2023			

##### Authorization

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13 March 2023