



# **AFRICINVEST'S APPROACH TO RESPONSIBLE INVESTING**

**November 2021**

## I. Introduction

This document describes AfricInvest’s approach to responsible investing, specifically AfricInvest’s methodology to integrate Environmental, Social and Governance (“ESG”) and Impact considerations throughout our investment process as part of our mandate to provide investors with risk-adjusted returns while generating positive and sustainable impact.

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, ESG considerations are not merely minimizing risks to the business — rather, we believe that ESG considerations embody the principles of operational best practice. Effective management of ESG and Impact 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, and implementing international best practices in ESG and impact 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), and foster innovation on the African continent (SDG 9), 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 4: Quality Education when investing in schools or SDG 10: Reduced Inequalities when working with fintech companies. By considering opportunities across a diverse array of industries and countries, we strive to make investments that maximize impact alongside financial returns.

We believe that careful integration of ESG and Impact 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 ESG laws and standards and best practices in Impact management, as part of fund-specific ESG Management System(s). The AfricInvest Management System (AIMS) requires that we work closely with our portfolio companies to adopt a responsible approach to business that starts with meeting minimum ESG compliance requirements and working towards the adoption of internationally recognized standards of best practices in ESG and Impact to create value and generate positive impacts for both internal and external stakeholders.

This responsible investing policy sets out AfricInvest’s commitment to investing in a responsible manner, including a) summarizing the necessary ESG requirements to invest responsibly at both a platform and portfolio company level, such as the adoption of specific ESG standards and frameworks; b) reviewing material ESG issues considered (e.g., child labor, human rights, physical risks, transition risks, client protection, etc.); c) describing the necessary resources and organizational structure of AfricInvest; etc. This policy also defines how we integrate ESG and Impact 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 ESG and Impact trends within the broader investment ecosystem.

## II. AfricInvest’s Guiding Responsible Investing Policies, Principles, and Core Commitments

AfricInvest seeks to adopt key responsible investing policies and principles to guide sound management of ESG and Impact 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’ ESG issues or ESG ‘materiality’ is the principle of defining the environmental, social, and governance (ESG) topics that matter most to AfricInvest and its stakeholders.

## a. Guiding Responsible Investing Principles

At AfricInvest, we seek to conduct our business activities in accordance with the set of guiding Responsible Investing Principles listed below. These Principles are fundamental to our responsible investing 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 ESG and Impact frameworks and norms.

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

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

Contribute to environmental protection and the reduction of pollution

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

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 or legal national minima

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>;

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>

<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.

<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)

<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)

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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>

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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.

### Governance and Business Integrity Principles

Uphold high standards of business integrity and honesty

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Adopt and implement policies to prevent extortion, bribery, corruption, fraud and financial crime in accordance with local legal requirements and international best practice

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

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

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Deal with regulators in an open and cooperative manner

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Use information received from business partners only in the best interests of the business relationship and not for personal financial gain by any worker

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Clearly define responsibilities, procedures and controls with appropriate checks and balances in company management structures

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

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

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Ensure sufficient monitoring and strategic oversight of organisational environmental (including climate-related), social, and governance goals, objectives and targets through the ESG sub-committee

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

### Client Protection Principles

Ensure equitable and fair treatment of customers.

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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 Responsible Investing**

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<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.

To ensure AfricInvest implements and maintains a responsible 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 ESG risks and Impacts of portfolio companies throughout the lifetime of the investment period. Some funds call for a fund-specific ESGMS in order to account for specific ESG or Impact requirements related to that individual fund, such as a proprietary framework or investor requirements outlined in legal agreements.
2. Do not invest into prohibited activities as prescribed by Fund Specific Exclusion Lists<sup>10</sup>.
3. Establishing a Responsible Investing Team with adequate organisational capacity, capabilities and competencies to support the implementation of AfricInvest's Responsible Investing Policy and associated fund specific ESG Management System(s).
4. Ensuring funds under our management are active owners of the portfolio companies under their management.
5. Requiring the portfolio companies AfricInvest invests in to comply with certain general ESG requirements, specific guiding ESG principles, and work towards the adoption of internationally recognised standards of best practice (see **Section III** below for further details).
6. Incorporating appropriate ESG representations, warranties and covenants into legal agreements for all investments, including ESG monitoring and reporting requirements;
7. Gathering appropriate disclosure on ESG and Impact 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 ESG and Impact objectives;
9. Ensuring transparent and regular (and no less than annual) reporting and disclosure of ESG and Impact 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 responsible investing and remaining abreast of emerging trends in the field.
12. Periodically review AfricInvest's Responsible Investing 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 Responsible Investing Policy, each AfricInvest fund is required to implement the following ESG 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 ESG 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.
- 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 ESG and Impact practices, including the appointment of external resources and specialists as required.
- implement ESG and Impact management systems, appropriate to the size and nature of the business, that ensure a systematic approach to ESG and Impact risk assessment, addressing relevant risks, monitoring and reporting on progress and, to the extent possible, involving stakeholders<sup>12</sup>.
- implement remedy measures and corrective action plans developed to address areas of non-conformance identified during AfricInvest's ESG and Impact due diligence as well as through on-going monitoring during post-investment stages. The 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 environmental and social impacts. If negative impacts are identified, the 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 ESG/Impact outcomes and to put in place a corrective action plan may ultimately result in exclusion from AfricInvest financing.
- maintain appropriate dialogue on ESG-related matters through direct engagement with AfricInvest as well as prescribed reporting templates as stipulated in legal agreements, including selected key performance indicators (KPIs) reporting, major incidences 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 Contribution to Industry-Led Responsible Investment Practices

AfricInvest is committed to working with others to promote the incorporation of ESG and Impact into investing processes and support efforts to improve responsible investment practices both within the jurisdictions in which we operate and internationally. As part of this, AfricInvest is a proud signatory of the Principles for Responsible Investment (PRI) and thus our responsible investing approach incorporates the six PRI Principles<sup>13</sup>.



This includes, but is not limited to, being active managers and promoting best-in-class ESG standards and practices, ensuring mandatory annual disclosures to the PRI, promoting acceptance and implementation of the PRI principles within the investment industry and driving continued improvement and effectiveness towards achievement of the objectives set out by the Principles.

On an on-going basis, AfricInvest shall review and consider involvement in other responsible investing-related industry initiatives and / or organizations, as appropriate.

#### V. AfricInvest's Commitment to Climate Action

AfricInvest recognizes the significant importance of considering climate-related risks and opportunities that may impact our investment strategy, portfolio returns, and asset valuations, as well as the global transition towards a low-carbon economy. As such, AfricInvest is committed to understanding and mitigating climate-related risks across our investment portfolio, as well as supporting portfolio companies in decreasing their negative impact on climate change and driving opportunities to support the transition to a low carbon-economy. Climate change considerations are therefore fully incorporated into the way that AfricInvest assesses, manages, supports and exits portfolio companies.



AfricInvest's approach to climate action is aligned with the recommendations of the Task Force on Climate-related Disclosures (TCFD), to which AfricInvest is committed as a PRI Association signatory. The TCFD is regarded as providing the best available framework for systematically considering climate-related risks and opportunities within a business and investment strategy. To comply with TCFD recommendations, AfricInvest incorporates climate-related considerations at three levels:

1. Integrating climate change into the governance structure of AfricInvest and considering transition-related risks and opportunities to inform our overarching investment strategies;
2. Developing processes to identify, manage and disclose climate change-related risks and opportunities in the investment process (e.g., ensuring asset-specific climate risks and opportunities are identified and managed during screening, due diligence, deal structure and approval, monitoring and reporting, etc.) of prospective portfolio companies; and
3. Managing and reporting on climate-change-related risks and opportunities and portfolio companies' associated data (e.g., collecting and reporting on carbon emissions and considering mitigation opportunities, supporting portfolio companies in their efforts to understand potential climate-related risks and opportunities or implement new climate-relevant technologies, and actively advising them on such matters).

Lastly, AfricInvest commits to reporting on its progress in alignment with the TCFD framework as part of our annual PRI reporting requirements.

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<sup>13</sup> Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.  
 Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.  
 Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.  
 Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.  
 Principle 5: We will work together to enhance our effectiveness in implementing the Principles.  
 Principle 6: We will each report on our activities and progress towards implementing the Principles

## VI. Responsible Investing Policy Version Control and Authorisation

### Version Control

<b>Version Number:</b>	2.0		
<b>Number of Pages:</b>	10 pages		
<b>Effective Date:</b>	February 2016		
<b>Review Date:</b>	August 2021		
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### Authorization

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## Annex: Reference Framework

- The International Labour Organisation (ILO) Fundamental Conventions<sup>14</sup>
- THE OECD Principles of Corporate Governance<sup>15</sup>
- International Finance Corporation (IFC) Performance Standards (PS) 1 to 8 on Environmental and Social Sustainability (2012)<sup>16</sup>
- The World Bank Group's General Environmental and Health and Safety (EHS) Guidelines and Industry Specific Guidelines<sup>17</sup>
- World Bank (WB) Environmental and Social Standard (ESS) 9 for the management of E&S risks and impacts for financial intermediaries<sup>18</sup>;
- IFC's Interpretation Note on Financial Intermediaries<sup>19</sup>;
- The UN Guiding Principles on Business and Human Rights (UNGPs) (2011)
- Task Force on Climate-Related Financial Disclosures (2015)
- Universal Standards for Social Performance Management (last updated 2017, Social Performance Task Force)

<sup>14</sup> <http://ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>

<sup>15</sup> <http://www.oecd.org/corporate/oecdprinciplesofcorporategovernance.htm>

<sup>16</sup> [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](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)

<sup>17</sup> [http://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/ifc+sustainability/our+approach/risk+management/ehsguide+lines](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/ehsguide+lines)

<sup>18</sup> <https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ESFFramework.pdf#page=105&zoom=80>

<sup>19</sup> [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/publications/publications\\_policy\\_interpretationnote-fi](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_interpretationnote-fi)