Social Enterprise Fund for Agriculture in Africa SA, SICAV-RAIF

Sustainability-related disclosures

DISCLAIMER -
Any reference to "We" throughout this document shall be construed as a reference to the person(s) in charge of portfolio management.

1. Summary

The main objective of the financial product is to contribute to enhancing the business ecosystem, income opportunities and thus the livelihood conditions of smallholder farmers ("SHFs") in the agri-sector in Sub-Sahara Africa.

The financial product has sustainable investment as objective (Article 9 SFDR).

The financial product started operations in September 2021 and has commenced investing. It is expected that upon completion of its ramp-up period as set out in the term sheet, at least 90% of the Fund's portfolio will consist of sustainable investments with a social objective.

No index has been designated for the financial product as a reference benchmark for sustainability.

2. No significant harm to the sustainable investment objective

All investments are screened for relevant PAIs as part of ESG due diligence. The financial product has an Environmental and Social Management System (ESMS) framework which has been developed in line with KfW Sustainability Guidelines, IFC performance standards and the World Bank operational framework.

It sets out the financial product's ESG investment guiding principles. The business activities and operations of the financial product's investees can influence and/or result in potential negative impacts on the environment or their local operating communities.

These negative impacts can include air or water pollution, destruction of biodiversity, threats to human health and safety, violations of labor rights, or displacement of livelihoods. The negative impact of this issues can expose the financial product and its investees to risk in the form of credit risk, reputational risk, and legal risk.

The financial product's ESMS framework is developed to enhance the E&S performance and operations of the SAEs and thereby reduce the risk impact, costs and liabilities.

Considering the evolutional stage of the SAEs in most of the focus countries, the financial product has developed a systematic ESG transformation strategy to bring the SAEs up to speed on the implementation and benefit of adopting ESMS principles and guidelines. Each investee must establish an ESMS appropriate to the nature and scale of the investment and commensurate with the level of social and environmental risks and impacts.

3. Sustainable investment objective of the financial product

The main objective of the financial product is to contribute to enhancing the business ecosystem, income opportunities and thus the livelihood conditions of smallholder farmers (“SHFs”) in the agri-sector in Sub-Sahara Africa.

To maximise its impact on the business ecosystem the financial product will target investments with the greatest potential ecosystem benefit. These investees are likely to be intermediaries in the ecosystem: providing products and services to a range of SAEs and other intermediaries.

The financial product is value-chain agnostic and will thus offer financing to investees operating in all agricultural value chains. It has also been designed to address the gap in availability of local currency lending to agri-SMEs. The financial product will therefore offer loans in both hard currency and local currency, thus enabling it to make financing available to agri-SMEs in food crops as well as cash crops and so helping to strengthen and build resilient local food systems.

4. Investment strategy

The financial product follows an investment strategy based on the Fund's Theory of Change. The ToC is that significant poverty alleviation can be achieved by improving the productivity of smallholder farmers (SHFs) by providing growth funding to viable agri-SMEs.

The financial product therefore invests in social agricultural enterprises and other agri-SMEs with profitable, or nearly profitable, businesses that enhance the productivity (and hence the income opportunities) and livelihood conditions of smallholder farmers in Sub-Saharan Africa. The investment strategy of the financial product is tailored to this segment by using relatively smaller ticket sizes, local currency lending as well as hard currency lending and it takes a double-bottom line approach to returns.

All investments must achieve significant, measurable impact in addition to financial return.

5. Proportion of investments

The financial product started operations in September 2021 and commenced investing across its focus countries.

It is expected that upon completion of its ramp-up period as set out in the term sheet, at least 90% of the portfolio will consist of sustainable investments with a social objective.

6. Monitoring of sustainable investment objective

All investments are evaluated based on the impact themes and the financial product's theory of change to ensure compliance with the impact thesis and investment model. Sahel Capital, the investment advisor, has developed an online impact assessment and monitoring portal to aggregate ESG performance indicators and impact metrics across its portfolio companies. The database is used to implement the impact framework to enhance its decision-making process.

Specific ESG and Impact metrics in line with the portfolio companies' operating strategy and value chain are collected on a weekly, monthly, or quarterly basis, the data are captured into the database to analyze portfolio performance using the impact dashboard.

The annual portfolio impact target is evaluated as part of the Funds annual non-financial performance indicators. A part of the employee bonuses is based on achievement of specific impact key performance indicators linked to the Funds' targeted annual impact.

Sahel publishes an annual Impact Report which highlights the aggregated data across the portfolio companies and presents impact initiatives implemented across the portfolio companies.

7. Methodologies

The sustainability indicators used to measure the attainment of the sustainable investment objective are:

- Employment generation (Number of additional direct and indirect jobs created)
- Sustainability of the enterprise (Revenue CAGR in investees)
- Scale at SHF level (Minimum number of SHFs reached (cumulative)
- % women (% of SHFs that are women)
- Livehood improvement (Cumulative number of people enabled through engagement with SHFs)
- Increase in income of SHFs (Input and output volume growth- Growth calculated as a weighted average for the Fund based on local currency numbers).

Measure	Definition	Year 13 Target
Employment generation	Number of additional direct and indirect jobs created	2,000
Sustainability of enterprises	Revenue CAGR in investees	10%
Scale at SHF level	Minimum number of SHFs reached (cumulative)	96,000
% Women	% of SHFs that are women	25%
Livelihood improvement	Cumulative number of people enabled through engagement with SHFs	600,000
Increase in income of SHFs	Input and output volume growth*	15%

8. Data sources and processing

The baseline data is captured in the online impact portal and used as indicators to measure the portfolio financial product's impact performance. The impact parameters are determined based on the portfolio companies value chain, location and operational model in alignment with IRIS+ considering its global acceptable principles of impact measurement.

Sahel leverages on the financial product's technical assistance facilities to implement specific interventions that will enhance the portfolio companies impact performance.

The portfolio companies conduct periodic data collection as applicable (weekly, monthly, and quarterly) and input the data in the online impact portal for performance tracking and monitoring by the Sahel ESG and Impact team.

Sahel ESG and Impact team generates quarterly report for each portfolio company, analyzing the aggregated quarterly data against the baseline data. This is used to track and monitor the performance of each portfolio company and highlight areas of improvement.

9. Limitations to methodologies and data

The quality of the information is variable given the financial product's target segment i.e. SMEs. Nevertheless, attainment of its social objective is assured by means of covenants imposed as a condition of financing by the financial product and regular reviews and audit of progress against agreed objectives.

10. Due diligence

All investments are screened for relevant PAIs as part of ESG due diligence.

The following key issues and factors are assessed as part of the ESG due diligence carried out prior to each investment:

- Labor & working conditions
- Community health, safety, and security
- Effect on indigenous peoples and cultural heritage
- Air Management
- Noise Management
- Water Management
- Wastewater Management
- Waste Management
- Hazardous Materials Management
- Contaminated Land
- Climate change
- Animal Welfare

11. Engagement policies

ESG is an integral component of the overall investment process. An in-house ESG specialist supports the investment team through all stages of the investment process and provides ESG oversight across all the portfolio companies.

The ESG policy and guidelines are tailored to the integrated performance standards of the International Finance Corporation (IFC), operational safeguards of the African Development Bank (AfDB), BII's Code of Responsible Investing, KfW sustainability guidelines, Dutch Good Growth Fund ICSR Principles, and Nigerian Sustainable Banking Principles

12. Attainment of the sustainable investment objective

Not applicable to SEFAA as the financial product is not benchmarked against any index.