



Fund for Agricultural Finance in Nigeria



SUMMARY OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

BACKGROUND

The Fund for Agricultural Finance in Nigeria (“FAFIN”) is an innovative agriculture-focused private equity fund that provides tailored investment capital and technical assistance to high-growth, commercially attractive agricultural SMEs across all regions in Nigeria using quasi-equity, equity and structured debt instruments. FAFIN is managed by Sahel Capital, a private equity firm with a strong, private sector team of local investment professionals that have significant experience in the Nigerian agriculture sector.

FAFIN investments are focused on agricultural value chains and the fund’s investment strategy features several key focus points:

- Food security: Nigeria’s population is expected to grow by +70 million over next 10 years.
- Expanding middle class: Crop and livestock value chains, where demand will be driven by an expanding middle class with stronger purchasing power.
- Import substitution: Opportunities where there is concrete demand met by imports, but a commercially viable path to local processing and distribution of products.
- Financing need: Provide long-term, tailored finance and associated technical assistance to high-growth, commercially attractive agricultural SMEs across all regions in Nigeria.

Investments are made in a range of companies across the agriculture value chain which include input providers, producers, processors, logistics and warehouse providers.

FAFIN is also committed to creating a broader social and economic impact for Nigeria. The Fund is expected to have a direct positive impact for its investees, by generating revenue and creating employment for SMEs and providing additional financing to smallholder farmers through intermediaries. In addition, FAFIN will create a significant indirect social and economic impact for the broader economy, via the increased food security and improved efficiency of agricultural value chains.

All of FAFIN’s investments are carefully scrutinized to meet internationally-accepted environmental and social management requirements. To achieve this, the Fund has adopted a number of policies, tools and processes to facilitate the integration of its Environmental, Social and Governance (“ESG”) principles into every stage of its investment process. We believe that good ESG practices are very essential to lowering risks and liabilities and creating great businesses.

FAFIN's ESG POLICIES AND MANAGEMENT COMMITMENT

IFC PERFORMANCE STANDARDS



PS1: Assessment and Management of E&S Risks and Impacts



PS2: Labor and Working Conditions



PS3: Resource Efficiency and Pollution Prevention



PS4: Community Health, Safety and Security



PS5: Land Acquisition and Involuntary Resettlement



PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources



PS7: Indigenous Peoples



PS8: Cultural Heritage

FAFIN's ESG policies are based on the IFC Performance Standards ("PS"), a globally recognized benchmark for environmental and social risk management in the private sector.

AfDB OPERATIONAL SAFEGUARDS



OS1: Environmental and Social Assessment



OS2: Involuntary Resettlement: Land Acquisition, Population Displacement and Compensation



OS3: Biodiversity and Ecosystem Services



OS4: Pollution Prevention and Control, Greenhouse Gases, Hazardous Materials and Resource Efficiency



OS5: Labour and Working Conditions

Furthermore, FAFIN ensures that its policies are largely in line with the African Development Bank (“AfDB”) Five Operational Safeguards (OS), which is a component of AfDB’s Integrated Safeguards System (ISS). These Safeguards will also be a reference point in the execution of FAFIN’s ESG goals and objectives. The ISS is designed to promote the sustainability of project outcomes by protecting the environment and people from the potentially adverse impacts of projects.

THE NIGERIAN SUSTAINABLE BANKING PRINCIPLES

Principle 1: Our Business Activities : Environmental and Social Risk Management

- We will integrate environmental and social considerations into decision making processes relating to our Business Activities to avoid, minimize or offset negative impacts.

Principle 2: Our Business Operations: Environmental and Social Footprint

- We will avoid, minimize or offset the negative impacts of our Business Operations on the environment and local communities in which we operate, and where possible promote positive impacts.

Principle 3: Human Rights

- We will respect human rights in our Business Operations and Business Activities.

Principle 4: Women’s Economic Empowerment

- We will promote women’s economic empowerment through a gender inclusive workplace culture in our Business Operations and seek to provide products and services designed specifically for women through our Business Activities.

Principle 5: Financial Inclusion

- We will promote financial inclusions seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.

Principle 6: E&S Governance

- We will implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients.

Principle 7: Capacity Building

- We will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations.

Principle 8: Collaborative Partnerships

- We will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.

Principle 9: Reporting

- We will regularly review and report on our progress in meeting these Principles at the individual institution and sector level.

In addition to the IFC Performance Standards and AfDB’s ISS, FAFIN will seek to adhere to the requirements of the Nigerian Sustainable Banking Principles developed by the Central Bank of Nigeria. In particular, FAFIN will pay attention to the CBN’s sustainability principles on agriculture which stipulates that agriculture must be conducted sustainably by making use of natural resources in an efficient manner and taking into account social issues particularly women participation in the sector. This will particularly be considered in key areas like animal welfare and food safety which are not specifically covered by the IFC performance standards.

FAFIN’s ESG policies aim to address environmental, social and governance issues which includes:

Environmental Issues

- Avoid/minimize adverse impacts on human health and the environment;
- Promote sustainable use of energy and natural resources;
- Promote the improvement of the environment wherever possible;
- Encourage preservation of bio-diversity and climate change mitigation and adaptation;
- Encourage the reduction of negative impacts on the environment.

Social Issues

- Fair labor and working conditions;

- Respect of human rights;
- The protection of the health and safety of workers, surrounding communities, and consumers;
- Establish open, consultative relationships with local communities;
- The minimization of negative impacts on affected communities, when applicable.

Governance Issues

- Comply with all applicable laws;
- Adopt high standards of professional conduct and excellence;
- Exhibit honesty, integrity, fairness and respect in all the company's business dealings;
- Enhance the good reputation of the company;
- Manage business affairs prudently and with due skill, care and diligence;
- Promote sustainability through inclusive investments and enhanced stakeholder engagement.

FAFIN is committed to investing in businesses that are focused on creating value with sustainability at the forefront. The FAFIN investment team is committed to working with its portfolio companies to identify ESG issues, develop action plans to address the issues during the investment period to enhance the positive impact of its investments and develop in-house capacity to ensure a self-sustaining ESG practice following FAFIN's exit.

FAFIN is committed to supporting its investee companies to:

- Identify and assess social and environment impacts, both adverse and beneficial, in the investment's area of influence.
- Avoid, or where avoidance is not possible, minimize, mitigate, or compensate for adverse impacts on workers, affected communities, and the environment.
- Ensure that affected communities are appropriately engaged on issues that could potentially affect them.
- Institute appropriate corporate governance controls and ensure adherence to applicable laws.

ESG AND THE INVESTMENT PROCESS

FAFIN actively pursues strategies to create value and achieve commercial success by firmly embedding its ESG policies into each stage of its investment process from screening until exit.

Below are the key ESG objectives FAFIN seeks to achieve at each step of the investment process:

Screening	Due Diligence	Investment Decision	Investment Agreement	Ownership & Monitoring	Exit
Identify red flag ESG issues (exclusion list, sanctions, past involvement in corruption, links to Politically Exposed Persons (PEPs))	Assess the ESG risks and opportunities of the proposed investment, to: <ul style="list-style-type: none"> Inform IC of key issues and how they will be addressed (including capacity and resource needs within the Fund) Assess the company's capacity to address risks and capitalise on opportunities. 	To enable the Fund's Investment Committee (IC) to make an informed investment decision that takes ESG factors into account.	Ensure that the company's and Fund's expectations on ESG matters are explicitly aligned and there is agreement on how to achieve improvements Protect the Fund from reputational, financial and/or legal damage by providing legal remedies (and exit) as needed	Guide and support the company to ensure ongoing compliance with ESG requirements including the action plan and value creation Stay informed and respond to new developments and/or ESG risks and opportunities Maintain and build a good working relationship with the company.	Maximise the contribution that good ESG performance can make to return on investment (ROI). Help the company answer questions from prospective investors. For example, collate relevant ESG data which shows the extent to which business improvements have been achieved. Ensure the company's ESG management system is self-sustaining.

The key investment activities include:

Screening	<ul style="list-style-type: none"> The investment team must complete the 'FAFIN ESG questionnaire' if the project does not fall under the exclusion list. The answers on the questionnaire will be used to determine the risk category of the project The FAFIN team open source research to collate any publicly available information on the company
Due Diligence	<ul style="list-style-type: none"> Investment memo presented to the Inv. Committee includes a snapshot of the key ESG issues associated with the project. Identify and understand potential risks and explore opportunities to add value through ESG for all FAFIN's portfolio companies. Assess the portfolio company's commitment, capacity and track record and ESG management systems
Investment Decision	<ul style="list-style-type: none"> In addition to approving the investment, the FAFIN IC gives approval of the overall ESG strategy for the portfolio company Assess the Ability / willingness of company to implement the key ESG solutions identified Influence and capacity of FAFIN to ensure and enforce implementation of proposed ESG Plan
Investment Agreement	<ul style="list-style-type: none"> Obtain a mutual understanding of expectations from the ESG perspective between FAFIN and the company FAFIN to include ESG commitment along with appropriate ESG covenants in the investment agreement Include Environmental and Social Action Plan ("ESAP") in legal documentations
Ownership & Monitoring	<ul style="list-style-type: none"> FAFIN will track implementation of agreed improvements and respond to events directly impacting the ESG issues Constantly reviewing ongoing processes to ensure it achieve / maintain compliance with fund policies and relevant legislation Ensure the fund has enough oversight to have access to implementation and also reporting for FAFIN and fund LPs
Exit	<ul style="list-style-type: none"> Include ESG information in the offering memorandum, including a summary of improvements Highlighting the operational value-add of ESG improvements in meetings with prospective buyers. Demonstrate value to potential investors and realise value

FAFIN's investment team engage in full dialogue with portfolio companies early on in the process to examine and demonstrate the benefits of ESG that could be applied to their business. At every stage of the investment life-cycle there are ESG requirements which need to be considered and met prior to moving on to the next stage. All potential deals are initially reviewed and potentially excluded in accordance with the FAFIN's Exclusion List (included in the 'FAFIN ESG Guidelines'). For example, FAFIN shall not finance directly or indirectly any of the following investments:

- i. Production or trade in weapons and munitions;
- ii. Production or trade in alcoholic beverages (excluding beer and wine) or tobacco;
- iii. Gambling, casinos and equivalent enterprises;
- iv. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded;
- v. Production or trade in unbounded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%;
- vi. Production or activities involving forced labor or child labor (labor which is harmful to the child or interferes with his/her education);
- vii. Commercial logging operations for use in primary tropical moist forest;
- viii. Production or trade in wood or other forestry products other than from sustainably managed forests.
- ix. In addition, the Fund will not finance directly or indirectly any Investment involving involuntary resettlement or legally protected areas.

The Investment Process

During the screening stage, the investment team must complete the 'ESG Questionnaire'. This questionnaire is a high level assessment tool, to help identify key health and safety, environmental and social risks associated with a prospective investment. The ESG questionnaire is used to determine the risk category of the project as defined in FAFIN's ESG guidelines.

During the due diligence phase, deal teams identify and understand potential risks and explore opportunities to add value through ESG. An ESG analysis is an integral part of all Investment Committee ("IC") papers. In accordance with the Environmental and Social Guidelines of the Fund, the Fund Manager will classify each investment according to the categories set out below as part of the due diligence process.

- i. **Category A:** A proposed investment is classified as Category A if it is likely to have significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to the Investment. An investment classified Category A does not qualify for Fund financing.
- ii. **Category B:** A proposed investment is classified as Category B if its potential adverse environmental and social impacts on human populations or environmentally important areas including wetlands, forests, grasslands, and other natural habitats are less adverse than those of Category A investments. These impacts are site-specific; few if any of them

are irreversible; and in most cases mitigation measures can be put in place more readily than for Category A investments.

- iii. **Category C:** A proposed investment is classified as Category C if it is likely to have minimal or no adverse environmental and social impacts. An Investment as classified as Category C does not require any further actions beyond the initial screening according to the E&S Standards.
- iv. **Category FI:** A proposed investment is classified as Category FI if it involves investments through Intermediaries in sub-investments that may result in adverse environmental impacts. An investment classified Category FI will require the potential Investees to establish its own in-house Social and Environmental Management System.

MONITORING AND REPORTING

Following investment, portfolio companies' performance is closely monitored through regular reviews, board meetings, and annual reporting. The Investment team is responsible for the overall monitoring and reporting of ESG related issues based on consolidated information from portfolio companies. The required documents and reports employed are:

- i. The ESAP prepared for category B companies prior to investment which will serve as a reference point for measuring compliance of the portfolio company to pre-agreed action plans;
- ii. Report on selected ESG metrics on a monthly basis to be included in the Monthly Report to the Fund Manager prepared by the portfolio company;
- iii. Quarterly progress report provided to the Fund Manager by either the external consultant or the in-house ESG staff, where applicable;
- iv. FAFIN annual Impact Report provided by the Fund Manager to its various stakeholders, which will include a section on issues related to tracked ESG metrics such as Labour and Working conditions, Pollution Prevention, Community Health and Safety, Land Acquisition and Involuntary Resettlement and Bio-diversity Conservation and Sustainable Natural Resource Management.