BARAK FUND MANAGEMENT

LAFCo Lending for African Farming

Operating Principles for Impact Management

Lending for African Farming Company (LAFCo)

Disclosure Statement

February 2024

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1. Introductory Statement

Lending for African Farming Company (LAFCo) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles").

The total assets under management in alignment with the Impact Principles is USD 25 million as of 31 December 2023.

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Signed: ______________________________

Name of Institution: Lending for African Farming Company

Authorized Representative: Kevin Ramsamy

Title: Director

Date: 29 February 2024

2. Disclosure statement: Impact Principles

2.1 Principle 1

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

In 2023, LAFCo conducted a comprehensive review of its Theory of Change (TOC), clearly outlining the organization's impact strategy. This strategy delineates the specific United Nations (UN) Sustainable Development Goals (SDGs) to which LAFCo contributes and identifies the indicators necessary for measuring and tracking its impact performance. LAFCo's TOC continues to be prominently showcased in its annual impact report which can be found on the official website (https://www.lendingforafricanfarming.com).

At the core of LAFCo's investment strategy is the objective of enhancing value for small and medium-sized enterprises (SMEs) in the agricultural sector. This strategic impact objective aligns with the identified SDGs to which LAFCo contributes, establishing a robust foundation for its achievement through the investment strategy. Emphasis is placed on ensuring coherence between impact objectives and the investment strategy. The primary focus is on elevating smallholder farmer productivity and incomes by integrating them into domestic and intra-Africa agricultural value chains, facilitating improved access to formal markets. The ultimate goal is to promote inclusive economic growth in the Sub-Saharan African agricultural sector, linking smallholder farmers to formal markets and, consequently, mitigating poverty and bolstering food security in rural areas. We have made investments in various countries in Sub-Saharan Africa, including Tanzania, Ghana, Kenya, Zambia, Togo, Nigeria, and Rwanda.

LAFCo's investment strategy involves providing flexible lines of credit to SMEs across the African agricultural value chain, working directly with smallholder farmers to advance local food security. Access to debt finance is extended to SMEs engaged in domestic food value chains and the export of agricultural products outside of Africa, contingent on their direct engagement with smallholder farmers.

These strategic impact objectives are aligned with the specified SDGs, namely No Poverty (SDG 1), Zero Hunger (SDG 2), Gender Equality (SDG 5), and Decent Work and Economic Growth (SDG 8).

	***No Poverty*** *The mobilization of funds for borrowers so that smallholder farmers can earn an adequate and predictable income.*		***Gender Equality*** *We strive to ensure that smallholder farmers have equal market access whether they are female or male.*
	**Zero Hunger** *Contributing to developing a food system where smallholder farmers are more productive and cultivate a diverse range of crops meeting nutritional requirements.*		**Decent Work and Economic Growth.** *Aiming to increase the participation of smallholder farmers the value chain to enhance decent wor and economic growt*

LAFCo works to mobilize funds for borrowers, ensuring that smallholder farmers, regardless of gender, can earn adequate and predictable incomes, enabling equal market access. The company also works to contribute to a food system where smallholder farmers are more productive and cultivate a diverse range of crops, meeting nutritional requirements and enhancing decent work and economic growth by amplifying smallholders' participation in the value chain.

LAFCo remains dedicated to making impactful investments in agricultural SMEs across Africa, upholding its commitment to its investment strategy which is aligned with SDGs and aimed at achieving strategic impact objectives. In the preceding reporting period, the company successfully implemented impact targets which have been integrated into the Shareholder's Agreement, with the goal of increasing the number of smallholder farmers, particularly focusing on female smallholder farmers, and promoting job creation. The targets are linked to SDG 1, 2, 5, and 8. It's noteworthy that these targets remain unchanged in the current reporting period.

LAFCo's commitment to making impactful investments in agricultural SMEs across Africa, underpinned by our impact strategy with clear targets, reflects the organisation's dedication to fostering positive change and underscore LAFCo's proactive approach towards achieving its strategic impact objectives.

2.2 Principle 2

Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

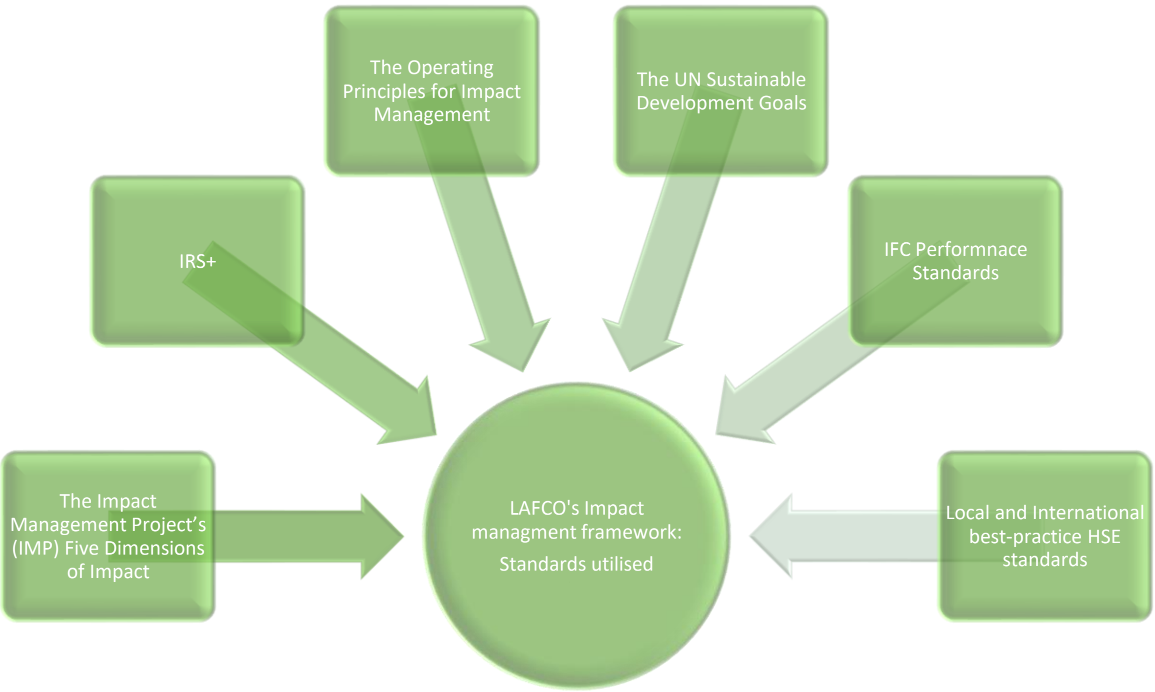
The company's Environmental and Social Investment Policy and a Counterparty Management Policy, which together make up the Environmental Social Management System (ESMS) serves as the guiding framework for LAFCo's portfolio-based management of impact achievement. This system was successfully implemented during the previous reporting period, reflecting LAFCo's dedication to continuous improvement in line with industry best practices.

As part of the ESMS, the following tools/processes are used to monitor and manage impact at different stages of the investment process:

- **ESG Screen:** A negative screening tool containing a list of exclusions is included in the due diligence process.
- **Impact Evaluation:** LAFCo evaluates the impact of prospective investments before presenting them to the credit committee. An impact report, accompanies the credit application, providing a thorough assessment of the potential impact.
- **Final Impact Evaluation and Site Inspection:** Upon receiving approval during the initial credit meeting, a thorough evaluation is initiated. The credit application is accompanied by an impact report. Environmental and Social (E&S) risks assessed through the International Finance Corporation (IFC) Performance Standards (PS), and pertinent national laws or international best-practice Health, Safety, and Environment (HSE) standards and potential impact evaluated using the IMP framework. This report provides an assessment of the potential impact associated with the approved deal. The impact report also contains the baseline data for monitoring and tracking.

- **Contractual Obligations:** Portfolio companies, upon approval, are contractually obligated to provide impact data and adhere to LAFCo's impact reporting requirements. Quarterly evaluations against baseline data and annual impact reports at the portfolio level further reinforce our commitment to impact management.
- **Reporting and Verification:** LAFCo discloses impact metrics and performance through both quarterly (internally) and annual (publicly available) impact reporting, reaching out to a diverse range of stakeholders. Furthermore, LAFCo possesses internal capabilities for impact assessment and works in partnership with an external consultancy for the purposes of data collection, and reporting. LAFCo also reports to investors on ad hoc basis and participates in investor reviews.
- **Impact Monitoring**: LAFCo gathers baseline data either before or at the commencement of drawdown from counterparties, utilising predefined metrics (primarily sourced from the IRS+ catalogue) as specified in LAFCo's Investment Management Agreement. This data serves as the foundation for impact monitoring.

Our comprehensive and multifaceted process for establishing and managing impact utilises international standards and guidelines, and recognised impact measurement frameworks:



The fee structure, managed by Barak Fund Management Limited, currently aligns with impact data collection and reporting targets. Aligning staff incentive systems with both impact and financial performance is challenging due to the indirect employment relationship between LAFCo and its employees. Despite this complexity, LAFCO remain committed to maintaining high standards in impact management.

2.3 Principle 3

Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

To establish and document the manager's contribution to the achievement of impact for each investment, LAFCo follows a comprehensive approach through both financial and non-financial channels. The narrative is clear, supported by evidence, and aligned with the company's overarching investment strategy and impact goals.

A. Financial Channels – Overview

LAFCo's primary purpose, as outlined in Principle 1, is to provide funding to SMEs excluded from traditional capital sources. The funding strategy distinguishes LAFCo by closing the financial exclusion gap. The organization offers credit facilities, particularly focusing on agricultural value chain SMEs in Africa. By partnering with SMEs and providing structured and tailored credit products, LAFCo directly addresses their needs, helping them succeed and generating job opportunities in local communities.

The emphasis on alignment with the company's investment strategy ensures that every dollar invested contributes directly to the impact objective. LAFCo's commitment to supporting SMEs that may not receive funding otherwise underscores the financial impact it seeks to achieve.

B. Non-Financial Channels – Overview:

In its commitment to achieving impact beyond financial avenues, LAFCo is currently in the process of finalising non-financial channels, particularly focusing on Technical Assistance (TA) and the Forex Exchange (FX) Trust Fund.

a) Technical Assistance (TA)

LAFCo has an approved TA facility totalling EUR 1.7 million. While the process of transitioning legal documents from the previous Fund Management to LAFCo has led to some delays in deploying the facility, addressing this issue is a top priority for the upcoming year. Collaborating with TA partners, LAFCo aims to implement inclusive technical mechanisms to strengthen the supply chain. This includes a specific emphasis on smallholder farmer engagement and training, among other initiatives aimed at promoting commercial returns, impact, and resilience.

b) FX Trust Fund

Similar to the TA facility, the FX Trust Fund underwent legal document transitions from the previous Fund Management to LAFCo. This fund serves the purpose of mitigating the risk of local currency lending to counterparties. It allows LAFCo to share some of the associated costs while assisting portfolio companies in accessing commercial FX markets, which might otherwise be challenging. LAFCo has the capability to finance both local and hard currency loan facilities. Local currency debt is hedged through an innovative financing mechanism supported by KfW's technical assistance funding. LAFCo anticipates deploying this facility in 2024, enabling greater local and regional impact and more additionality compared to lenders restricted to hard currency facilities.

2.4 Principle 4

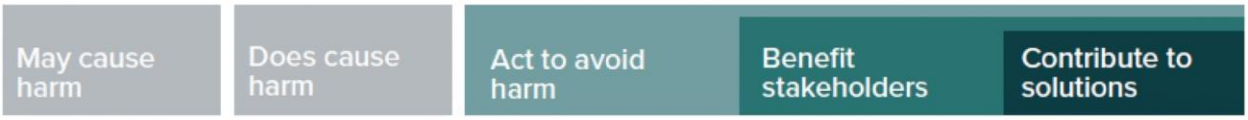
Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

LAFCo's commitment to assessing the expected impact of each investment aligns with Principle 4, emphasising a systematic approach to evaluating positive outcomes. The organisation recognises that the impact of trade financing extends beyond financial metrics, encompassing both immediate and long-term effects. LAFCo employs a comprehensive measurement framework, specifically utilising the five dimensions of the IMP model for a thorough impact assessment. This approach helps LAFCo not only quantify but also qualitatively understand the positive outcomes of each investment.

By identifying and evaluating significant risk factors during the due diligence process, LAFCo proactively addresses potential variations in impact compared to initial expectations. Moreover, LAFCo recognises the importance of contextualizing impact potential within the targeted geographical context.

Using the IMP model's five dimensions (What, Who, How Much, Contribution and Risk), the impact classification is described as the combination of its effect on the environment and people, using the following impact classification:



LAFCo also extends its assessment, evaluating the "additionality" component of the transaction, determining the likelihood of the transaction receiving funding without LAFCo. A rating tool, developed by LAFCo, aids in this assessment along with evaluating the impact intentionality of the transaction.

The baseline data (which is collected at the beginning of the investment), including indicators such as the cumulative number of supported SMEs, value of loans committed, and the total number of smallholder farmers linked to SMEs, showcase a holistic approach to impact measurement. These indicators provide a comprehensive understanding of the investment's broader influence on local economies, supply chains, and individual livelihoods.

The commitment to transparency and accountability is evident through the regular monitoring and updating of impact data, conducted both quarterly and annually. Leveraging the ToC and IRIS+ directory for baseline and ongoing monitoring data aligns with industry standards and best practices, ensuring the robustness and credibility of LAFCo's impact assessments.

This year, LAFCo successfully concluded a transaction, and the final report, demonstrating how LAFCo followed this comprehensive process—an achievement that underscores LAFCo's commitment to Principle 4.

2.5 Principle 5

Assess, address, monitor and manage the potential risks of negative effects of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

LAFCo has implemented a comprehensive ESMS, which includes an Environmental and Social Investment Policy and a Counterparty Management Policy. These systems and policies outline the procedures and structure for identifying, avoiding whenever feasible, and/or managing ESG risks associated with each investment throughout the entire investment cycle. In relevant cases, the company actively collaborates with borrowers/investees, seeking their commitment to rectify potential deficiencies in their existing systems, processes, and standards to effectively address ESG risks.

The process is outlined as follows:

Pre-Investment

- LAFCo conducts pre-investment evaluations to assess compliance with relevant Environmental and Social (E&S) requirements.
- A comprehensive gap analysis is performed as part of the evaluation process before considering any proposed investment.
- LAFCo employs an ESG screening process for counterparties.
- The screening process systematically identifies and evaluates potential Environmental, Social, and Governance (ESG) risks associated with each potential investment.
- Assessment criteria include the Exclusion List, sector-specific risks, and LAFCo's internal ESG screening questionnaire.

During the ESGDD process

- The LAFCo screening process is succeeded by an Environmental, Social, and Governance Due Diligence (ESGDD) phase.
- The ESGDD applies risk categorization to assess the potential investment.
- Counterparties undergo evaluation against a range of national laws and international standards, including but not limited to:
  - IFC Performance Standards
  - ILO Core Labour Conventions
  - World Bank Group Environmental, Health and Safety Guidelines

Post-Investment

- LAFCo reports on the impact performance from portfolio companies.
- All Counterparties are obligated to reporting of incidents.
- The Major Incidents Reporting Form will be utilised for incident reporting and is a contractual requirement included in Counterparty contracts.

This year, LAFCo successfully concluded a transaction, and the final report demonstrates that LAFCo meticulously considers ESG risks in accordance with the IFC PS, International Labour Organisation Declaration on Fundamental Principles and Rights at Work (ILO), best practices in Health and Safety, and Employee Standards, as well as local laws. The company drafted a comprehensive action plan with specific milestones to address potential risks associated with the investment. This commitment to ESG risk management has been formalised in legal agreements, underscoring LAFCo's dedication to responsible and sustainable investment practices. As part of ongoing portfolio management, LAFCo will continuously monitor the investee's ESG risk and performance, engaging with them as needed to address any gaps or unforeseen events.

2.6 Principle 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Impact Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

The company has a robust ESMS system in place to adhere to Principle 6, which emphasises monitoring the progress of each investment in achieving impact against expectations and responding appropriately. Here's how the company aligns with this principle:

1. **Framework Utilisation:** The company uses the IMP framework, as mentioned in Impact Principle 4, to monitor the progress of its investments. This framework serves as a reference point for comparing actual impacts against the expected impact for each investment.
2. **Performance Reporting to Shareholders:** The company ensures that both the company and its participating shareholders are entitled to concern themselves with, monitor, or verify the application of any loans. Quarterly reports to the Board cover the performance of the portfolio against set targets, aligning with the transparency and accountability

highlighted in Principle 1.The annual impact report is published on the company's website (https://www.lendingforafricanfarming.com/press/press.aspx).

3. **Regular Monitoring Process:** Data related to impact performance is monitored on a quarterly basis.
4. **Cross-Checking and Validation:** Impact data reported by portfolio companies undergoes a data validating data process to ensure the accuracy and reliability of the reported information. This is done by engaging the Borrowers on the information provided.
5. **Response to Underperformance:** If a borrower fails to achieve its intended impact or undergoes a fundamental change in its business model, LAFCo adopts a proactive approach. The company emphasises engaging with the portfolio client to assess potential alternatives and identify whether additional support is needed, aligning with a collaborative and problem-solving approach.

2.7 Principle 7

Conduct exits, considering the effect of sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

LAFCo's investment strategy involving revolving debt reflects a distinctive approach where exits are considered only under specific circumstances. The nature of revolving debt means that exits are triggered by factors such as increased risk or a successful borrower becoming eligible for more favourable rates from commercial banks. LAFCo's commitment to responsible management is evident in its practice of allowing clients to withdraw and repay interest and capital within the facility's allowable limit. LAFCo conducts annual impact reviews before resubmitting the request to the Credit Committee for facility renewal, or extension. The Credit Committee plays a pivotal role in the exit decision-making process. The committee reviews and approves exits based on the expectations and agreements established during the investment. Notably, investments that significantly underperform expectations undergo thorough review by the Credit Committee, demonstrating a commitment to accountability and fiduciary responsibility.

While exits are executed in accordance with fiduciary duties, LAFCo recognizes the importance of considering the timing, structure, and process of exits for their impact on long-term sustainability. This approach aligns with the principle's emphasis on ensuring that exits contribute to the enduring positive effects of the investment.

2.8 Principle 8

Review, document and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

The following provides an overview of LAFCo's commitment to Principle 8, which emphasises the review, documentation, and improvement of decisions and processes based on the achievement of impact and lessons learned. The information presented highlights LAFCo's approach to impact evaluation and continuous improvement.

Key Practices:

1. **Quarterly Evaluation and Documentation:** LAFCo conducts a thorough evaluation of impact performance results on a quarterly basis. This systematic approach allows for the documentation of actual impact compared to expectations. The company's commitment to transparency is evident in its documentation practices, providing a clear record of performance over time.
2. **A comprehensive annual Impact reporting**: Noteworthy progress has been made with LAFCo's comprehensive annual impact reporting. The impact metrics included in the report cover a wide spectrum (namely Jobs Sustained & Employment, Gender inclusivity, Farmer Engagements & Sustainability) reflecting a holistic understanding of impact. This enhancement contributes to a more robust and insightful evaluation of LAFCo's overall impact performance. The annual impact report is published on the company's website (https://www.lendingforafricanfarming.com/press/press.aspx).
3. **Database Maintenance:** LAFCo's maintenance of their database enables continuous impact measurement and evaluation. Beyond facilitating trend identification, this practice contributes significantly to risk management. The database acts as a valuable tool for making informed decisions aligned with LAFCo's investment strategy and impact objectives.
4. **Control Measures:** Oversight by the board and credit committee, along with quarterly reporting, continuous communication with borrowers, and daily monitoring by finance and transaction management teams, collectively contribute to the assessment of impact.

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5. **Utilization of Third-Party Service Providers:** LAFCo augments its impact evaluation by leveraging the services of 60 Decibels, conducting annual impact assessments on select borrowers. This external perspective adds an additional layer of credibility to LAFCo's impact measurement process, enhancing the overall reliability of impact data.

LAFCo acknowledges that the measurement and management of impact are continually evolving based on internal reviews and lessons learned. This adaptive approach underscores a commitment to organisational learning and improvement.

LAFCo's adherence to Principle 8 is evident through its systematic impact evaluation, utilisation of control measures, and commitment to continuous improvement. The company's practices align with responsible and impactful investment principles, fostering transparency, accountability, and a proactive approach to impact management.

2.9 Principle 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

In accordance with the Impact Principles, LAFCo maintains its dedication to annually publishing disclosures regarding the alignment of its impact management system with the Impact Principles. The last verification report was published in April 2023, accompanied by a link to the verification summary. We expect to perform our next verification every two years.