Operating Principles for Impact Management

Lending for African Farming Company (LAFCo)

Disclosure Statement

February 2023

Contents

LAFCo Lending for African Farming

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 Principles is USD 25 million as of 31 December 2022.

The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network ("the GIIN") or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

Signed: ____________________________________

Name of Institution: Lending for African Farming Company

Authorized Representative: Kevin Ramsamy

Title: Director

Date: 28 February 2023

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.

LAFCo's investment strategy is to add value to agricultural small and medium-sized enterprises (SMEs). As part of this effort, the company has defined strategic impact objectives for the portfolio that are aligned to the Sustainable Development Goals (SDGs). A credible basis is provided for achieving the impact objectives through the investment strategy, and the intended portfolio impact relates to the size of the investment portfolio. The company strives to ensure that the impact objectives and investment strategy are aligned.

The Company's principal impact objective is to increase smallholder farmer productivity and incomes through better integration in domestic and intra-Africa agricultural value chains, and improved access to formal markets. The aim is to stimulate inclusive economic growth in the African agricultural sector by connecting smallholder farmers to formal markets and thereby reducing poverty and enhancing food security for rural poor areas. This is achieved primarily through LAFCO's investment strategy of offering flexible lines of credit to its borrowers with a focus on SMEs across the agricultural value chain in Africa which advances local food security and works directly with smallholder farmers.

As part of LAFCO's investment strategy, debt-finance is made accessible to SMEs active within the domestic food value chains that advance local food security and who engage directly with smallholder farmers, as well as SMEs engaging in the export of agricultural products outside of Africa, provided such SMEs engage directly with smallholder farmers. The purpose of LAFCo's investment strategy is to provide funding in the market where there are potential gaps rather than to compete with local commercial banks.

The strategic impact objectives are aligned to the following SDGs, namely:

No Poverty

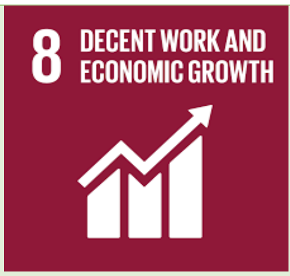
The mobilization of funds for borrowers so that small-holder farmers can earn an adequate and predictable income.

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 diverse while meeting everyone's nutritional requirements.



Decent Work and Economic Growth.

Aiming to increase the participation of smallholders in the value chain to enhance decent work and economic growth

In addition, the company has set clear impact targets, which are incorporated into the Shareholder's Agreement. This is a major accomplishment for the organisation from the previous reporting period. The targets aim to increase the number of smallholder farmers, female smallholder farmers, and job creation. They are linked to LAFCo's key targeted SDGs 1, 2, 5 and 8. The company aim to ensure that the intended portfolio impact is proportionate to the size of the investment portfolio.

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.

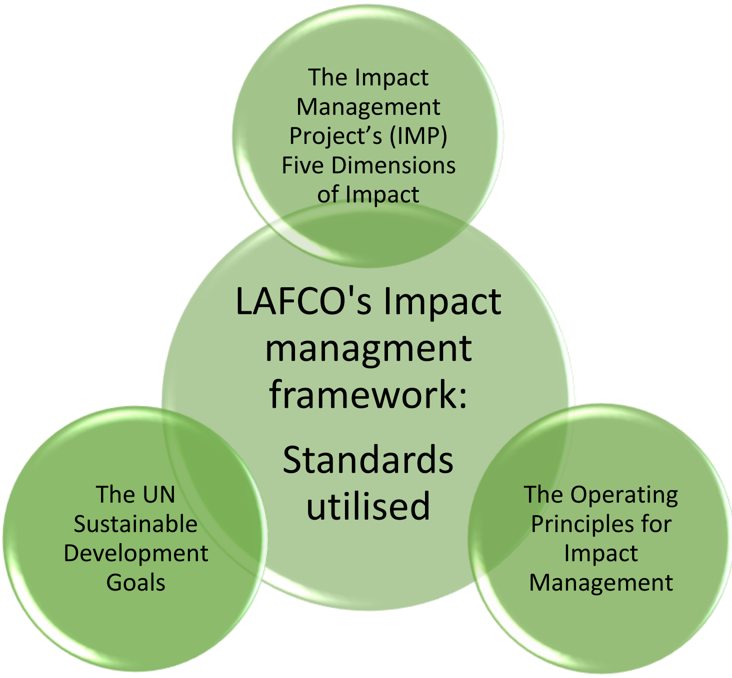
The company implemented an Environmental and Social Investment Policy and a Counterparty Management Policy over the last year, which together make up the Environmental Social Management System (ESMS). The ESMS governs LAFCo's portfolio-based management of impact achievement. Implementing the ESMS represents our commitment to continuously improving our existing policies and procedures in line with best practice.

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

- ESG Screen: A negative screening tool containing a list of exclusions is included in the due diligence process.
- The impact of LAFCo's prospective investments is evaluated prior to presenting the deal to the credit committee. An impact report accompanies the credit application and assesses the impact of the investments. An impact report for each potential investee accompanies the credit application, and assesses impact based on the Impact Management Project (IMP) framework. Baseline data is collected before or at the onset of drawdown for counterparties with pre-defined metrics outlined in LAFCo's Investment Management Agreement. This data forms part of an impact report accompanying the credit application.
- Following approval of the transaction, portfolio companies are contractually required to provide impact data and meet LAFCo's impact reporting requirements. These metrics span a wide range of indicators that include sex-disaggregated data for employees and smallholder farmers linked to SMEs and farmers using extension services and receiving improved inputs, as well as units sold, agricultural yields, and payments to farmers..
- Quarterly, the credit committee evaluates performance against the baseline data and LAFCO's targets. An annual impact report with key impact metrics at the portfolio level is compiled and communicated to various stakeholders.

As a portfolio company, LAFCo also reports to investors regularly and participates in investor reviews. Furthermore, LAFCo has in-house impact capacity and has partnered with an external and independent consultancy to assist with impact data collection, reporting, and verification..

Our comprehensive and multifaceted process for establishing and managing the impact utilises third-party frameworks that are industry-leading:



As the investment manager of LAFCo, Barak Fund Management Limited's fee structure pays out at different levels depending on the achievement of impact data collection and impact reporting targets.

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.

A. Financial Channels - Overview

As stated in Principle 1, the purpose of the LAFCo is to provide funding to SMEs who do not have or are excluded from traditional sources of capital for many reasons, such as size, lack of track record etc. Our funding strategy distinguishes us because it aims to close the financial exclusion gap and bring financial additionality to the markets, i.e. investment that would not have occurred otherwise. LAFCo offers a variety of flexible credit lines to its borrowers, with an emphasis on agricultural value chain SMEs in Africa. These facilities include different lines of credit including working capital facilities. LAFCo partners with SMEs to serve more directly their needs and we offer more structured and tailored credit products. By doing so, we help SMEs succeed while creating jobs in the communities where they operate.

It is imperative that each investment is explicitly aligned with the company's overarching investment strategy and impact goals. Our approach ensures that every dollar invested directly supports this impact objective.

B. Non-Financial Channels Overview

Technical Assistance

LAFCo also seeks to achieve impact by providing technical assistance (TA) to portfolio companies through TA partners. With the assistance of our TA partners, we intend to implement inclusive technical mechanisms that strengthen the supply chain, with a focus on smallholder farmer engagement and training, amongst others which promote commercial returns, impact, and resilience.

FX Trust Fund

This Trust was established for the purpose of, amongst others, mitigating the risk of local currency lending to the counterparties. It allows LAFCo to bear some of the cost, whilst also assisting our portfolio companies to access commercial FX markets where they would normally not have the means to gain access.

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.

As part of LAFCo's ES investment policy, each investment must be evaluated for potential positive impact before gaining final approval from the first committee meeting. Since most of the trade financing that is provided is on a short-term basis, the most immediate impact that is anticipated is connected to financial expectations. Increasing sales and revenues produce a stronger impact by sourcing larger quantities from smallholders and benefiting the supply chain. This is done in order to maximise the positive impact. In addition, LAFCo also assesses the non-financial impact prior to investment, which forms the baseline data, and is updated and updated quarterly. The evaluation employs an impact assessment using the five dimensions of the Impact Management Projects (IMP) model1. The baseline impact data is collected during the due diligence process, and is reviewed quarterly and annually after the investment is approved. The baseline impact data includes some of the following items:

- Cumulative number of SME(s) supported;
- Cumulative value of loans committed to SMES
- Total number of smallholder farmers linked to SMEs (both with and without formal contracts in place, or with whom there is a long-term relationship), divided into male farmers, female farmers and total number of individual benefiting from such arrangements.

The IRIS+ directory provides most of the baseline and on-going monitoring data.

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.

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[1] https://impactmanagementproject.com/

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An Environmental and Social Management System (consisting of an Environmental and Social Investment Policy and a Counterparty Management Policy) has been adopted by LAFCo. The systems and policies outlines the process and framework to identify, avoid if possible, and/or manage Environmental, Social, and Governance (ESG) risks for each investment throughout the investment cycle. Where applicable, the company shall engage with the borrower/investee to seek its commitment to address potential gaps in the borrower's current systems, processes, and standards to manage ESG risks. The management of risk shall be done using an approach consistent with accepted international standards and guidelines, and industry practice as outlined in the LAFCo Investment Policy . As part of portfolio management, the company monitors the borrowers s' ESG risk and performance through regular reporting and, when necessary, engages with the borrower to address gaps and unforeseen events.

The process is outlined as follows:

Pre-Investment

- Prior to any proposed Investment LAFCo evaluates compliance of all proposed investments with and carry out a gap analysis against the relevant E&S Requirements
- LAFCo, through its ESG screening process of Counterparties, identifies and assesses potential ESG risks related to each potential investment. The screening process involves screening each potential investment against the Exclusion List, sectoral specific risks, and LAFCo's internal ESG screening questionnaire.

During the ESGDD process

- The LAFCo screening process is followed by an ESGDD, which will apply a risk categorisation to the potential investment.
- The Counterparties will be evaluated against national and international standards, these will include, but are not limited to, the following:
  - IFC Performance Standards (2012);
  - ILO Core Labour Conventions;
  - World Bank Group Environmental, Health and Safety Guidelines; and
  - Voluntary Guidelines on Tenure from the FAO (2022).

Post-Investment

- LAFCo will require portfolio companies to report annually on their E&S performance. LAFCo requires all Counterparties to conduct internal risk management, including reporting of incidents utilising the form in Major Incidents Reporting Form, and will be included in Counterparty contracts.

- LAFCo employs screening techniques such as surveys to ascertain house opinions on sectors/commodities & countries; and to provide guidance on where specific ESG risks must be addressed for the selected sectors/commodities & countries. This framework enables us to examine potential adverse effects during due diligence and after an investment has been made.
- Should specific ESG concerns be identified/highlighted, extra due diligence would be conducted and an action plan to manage and mitigate such risks would be discussed with the investee company.

- LAFCo tracks the success of the investee company's ESG operations and interact accordingly; with annual ESG compliance reviews.
- If a borrower does not reach the needed threshold based on the benchmark, or if the risk indicated is too high without appropriate remedial action, the borrower will not be onboarded onto the platform.

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, along with each of its participating Shareholders are entitled to concern itself with, monitor or verify the application of any loans. In addition, the Company provides quarterly reports to the Board covering the performance of the portfolio against its set targets as mentioned in Principle 1. The company tracks the impact performance of each investment in relation to expected impacts and targets by monitoring data and questionaries received by each Counterparty on a quarterly basis. Site visits are scheduled on a regular basis. In the event that Counterparties fail to meet expectations and targets, more site visits are scheduled, and the process is well documented. Afterwards, an action plan is devised and monitored continuously, if required.

Portfolio companies self-report impact data; however, the data is cross-checked against industry and country standards. LAFCo also validates the data during site visits and external consultants are also used.

If a portfolio client fails to achieve its intended impact or the company's business model has fundamentally changed, LAFCo may stop funding them and demand repayment. However, engaging the company in the assessment of potential alternatives and identifying whether additional support is needed would be the first step.

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 investments are revolving debt, and as such do not involve exits unless necessitated by an increase in risk or when once the borrower becomes successful and is therefore eligible for better rates from commercial banks. The client withdraws and repays interest and capital as they become due, while always remaining within the facility's maximum allowable limit. After repayments have been made and the company has performed well, LAFCo will conduct an additional DD on the client before resubmitting the request to the Credit Committee to renew the facility.

The Credit Committee will review and approve exit decisions based on the expectations/agreements established during the investment. Investment decisions that perform significantly below expectations must be reviewed by the Credit Committee. Although exits will be executed in accordance with the company's fiduciary duties, the timing, structure, and process of its exit will affect the impact's long-term sustainability.

As indicated previously, LAFCo also offers non-financial assistance to Borrowers so that they may become more skilled, resilient, and capable of entering more formal markets. This support enables the organisation to obtain training for expansion. This support is provided through the TA and FX facilities. The TA facility offers technical help in supply chain management, with an emphasis on smallholder farmer participation and training that enhances the company's resilience. Also, the FX facility offers farmers access to more official markets.

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.*

In addition to evaluating and documenting the impact performance results of each investment on a quarterly basis, the company maintains a database of records to evaluate and assess performance over time, as well as identify trends in performance to identify and manage any associated risks. This information is used to improve strategic and operational investment decisions in line with LAFCO's investment strategy and impact objectives.

To ensure that an impact review is conducted, a number of control measures are in place, including oversight by the board and credit committee, quarterly reporting, site visits, continuous communication with investors, and daily monitoring by finance and transaction management teams of settlements and drawdowns.

LAFCo reviews the portfolio every three months. Based on internal reviews and lessons learned, the measurement and management of LAFCo's impact continues to evolve.

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.

This disclosure statement affirms LAFCo's procedures with the Impact Principles. In accordance with the Impact Principles, LAFCo is committed to disclosing, verifying, and publishing its impact management system alignment annually. The company has appointed an independent verification agent (Kongiwe Environmental) to assess LAFCo's compliance with the Impact Principles for 2022. The verification report is scheduled for publication in the first half of 2023.