BARAK FUND MANAGEMENT

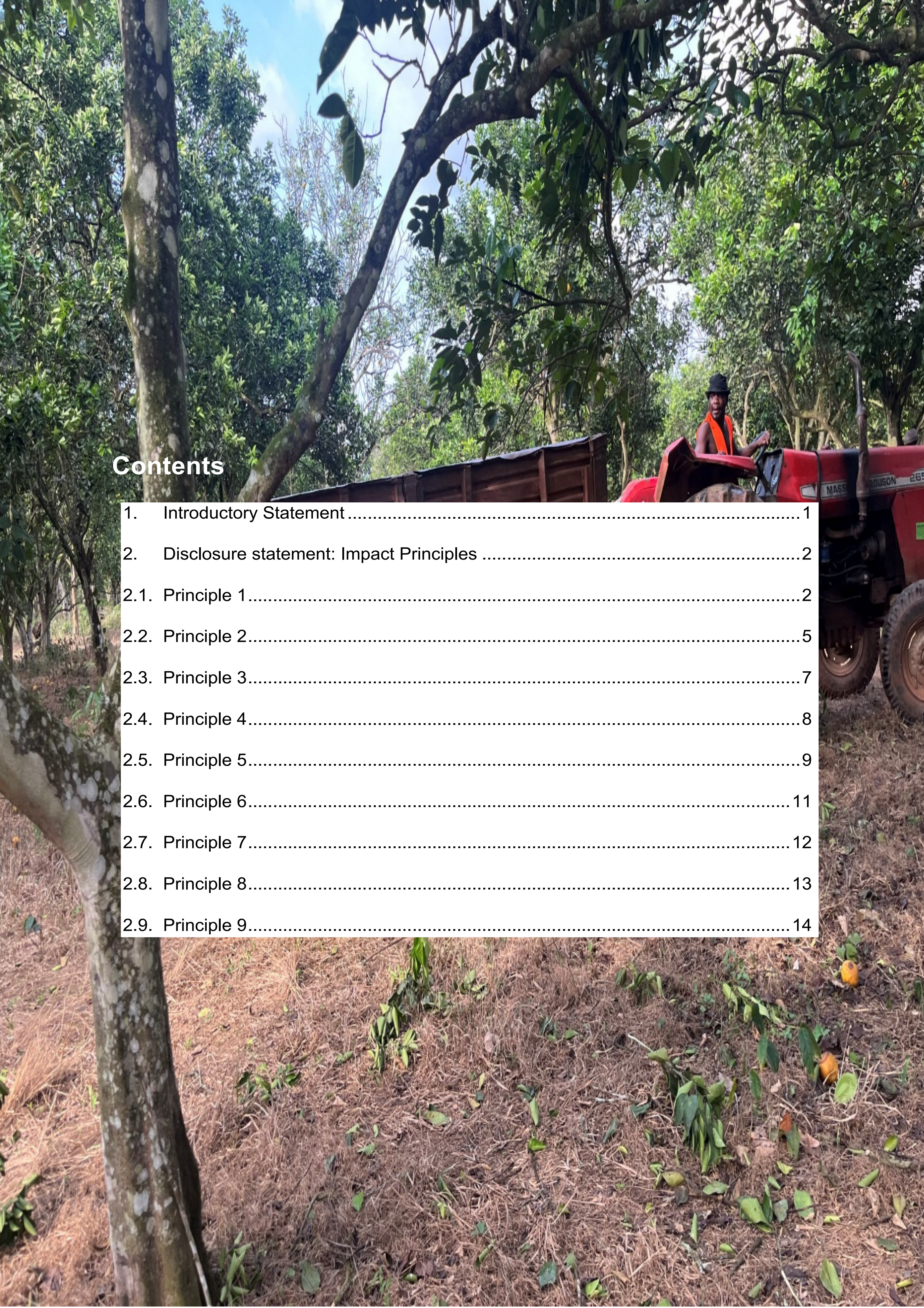
LAFCo Lending for African Farming

Operating Principles for Impact Management

Lending for African Farming Company (LAFCo)

Disclosure Statement

February 2025



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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 2024.

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 the 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: LAFCo

Authorized Representative: Kevin Ramsamy

Title: Executive Director

Date: 19 March 2025

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.

A. Who we are

LAFCo operates as an investment company specialising in the provision of financing facilities, primarily in the form of loans, to qualifying Small-Medium Enterprise (SME) businesses in the agricultural value chain in Sub-Saharan Africa (SSA). These businesses collaborate with smallholder farmers and cooperatives in SSA as well as SMEs engaging in the export of agricultural products outside of Africa, provided such SMEs engage directly with local smallholder farmers.

LAFCo works to mobilise 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 secure 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 United Nations Sustainable Development Goals (SDGs) and aimed at achieving strategic impact objectives.

B. Our impact strategy

The core mission of LAFCo is catalysing social and economic advancement in the SSA agricultural sector, while simultaneously creating shareholder value. The primary focus is on elevating smallholder farmer productivity and incomes by integrating them into domestic and intra-Africa agricultural value chains and facilitating improved access to formal markets. We promote inclusive economic growth in the SSA agricultural sector by linking smallholder farmers to formal markets, consequently, mitigating poverty and bolstering food security in rural areas.

Our strategic impact objective aligns with four SDGs (Figure 1), providing a framework that is credible yet robust for achieving our impact targets. Emphasis is placed on ensuring coherence between impact objectives and the investment strategy.

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 in the value chain to enhance decent work and economic growth

Figure 1: The UN SDGs that LAFCo's impact strategy is aligned

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 the listed SDGs 1, 2, 5, and 8. It's noteworthy that these targets remain unchanged in the current reporting period.

For the 2024 reporting period, LAFCo continues to uphold the impact strategy defined in the previous reporting periods. LAFCo's investment strategy continues to prioritise the enhancement of SMEs in the agricultural sector in SSA.

C. Impact targets

During this reporting period, LAFCo successfully added two new borrowers to its portfolio, and several of its impact targets were achieved, as outlined below:

Table 1: LAFCo's impact targets for the current reporting period

Target 1	Target 2	Target 3
Increase the number of smallholder farmers in the region: LAFCo is committed to increasing the number of smallholder farmers linked to SMEs and/or using agricultural extension services and/or receiving improved inputs to female smallholder farmers.	Female smallholder farmers: At least 35% of all smallholder farmers to be female smallholder farmers.	Job creation: Increasing the number of new full time equivalent jobs created in companies which we are borrowers.
TARGET: 1,200 smallholder farmers per USD 1,000,000 of funds Invested	TARGET: 35%	TARGET: 300
CURRENT PERFORMANCE: • **43,210 (2023)** • **46,938 (2024)**	CURRENT PERFORMANCE: • 44% (2023) • 41% (2024)	CURRENT PERFORMANCE: • 230 (2023) • 760 (2024)
LAFCo has made significant progress in increasing the number of smallholder farmers supported. There was an increase of 3,728 smallholder farmers in 2024 compared to 2023, marking a positive growth trend. This growth reflects the continued commitment to connecting smallholder farmers to SMEs and supporting their productivity and income. While challenges like fluctuating market demand and reporting issues did impact progress, the increase in smallholder farmer numbers demonstrates the resilience and effectiveness of LAFCo's approach.	While the target of 35% female smallholder farmers has been consistently exceeded, there has been a slight decrease in the percentage of female farmers, from 44% in 2023 to 41% in 2024. Despite this decline, LAFCo continues to prioritize gender equity and will aim to reverse this trend.	LAFCo has made an impressive improvement in job creation, with a substantial increase of 530 jobs from 2023 to 2024, rising from 230 jobs in 2023 to 760 jobs in 2024. This marks a strong recovery and an overachievement of the target of 300 new jobs. This growth indicates the effectiveness of LAFCo's strategy in supporting SMEs, especially as the agricultural value chain continues to expand and provide more employment opportunities for local communities.

LAFCo's commitment to making impactful investments in agricultural SMEs across Africa, remain underpinned by our impact strategy with clear, measurable targets. This commitment reflects our dedication to fostering positive change, which underscores 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 and 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. LAFCo is currently reviewing this system as part of its annual policy review.

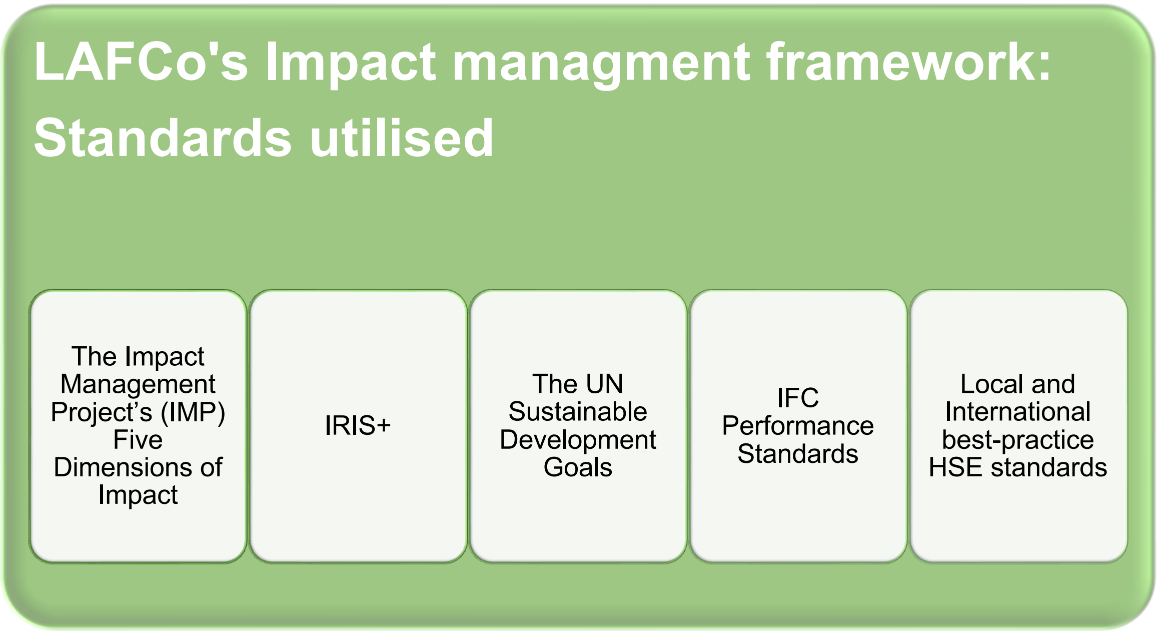
As part of the ESMS, the following procedures are used to monitor and manage impact at different stages of the investment process:

- **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, Social and Governance risks and potential impact are assessed against the reference framework outlined in LAFCo's ESG Policy, which is aligned to the IMP framework amongst others. This report provides an assessment of the potential impact associated with the approved deal and includes 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 possesses internal capabilities for impact assessment and works in partnership with an external consultancy for the provision of strategic ESG advisory services. LAFCo discloses impact metrics and

performance through both quarterly (internal) and annual (publicly available-the latest reports can be found on the LAFCo website impact reporting (www.lendingforafricanfarming.com/press/press.aspx)), reaching a diverse range of stakeholders. 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 IRIS+ 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:



Staff incentive systems tied to impact and financial performance are not yet implemented due to the existing employment structures. Nevertheless, LAFCo is fully 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 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

This fund aims to serve 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.

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) (Figure 2), the impact classification is described as the combination of its effect on the environment and people, using the following impact classification:

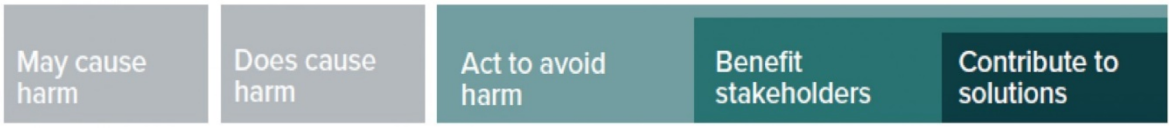


Figure 2: IMP model's five dimensions (What, Who, How Much, Contribution and Risk)

LAFCo also extends its assessment, evaluating the "additionality" component of the transaction, which determines 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, collected during the pre-investment screening process, indicates the potential impact of the investment. This data includes indicators such as the cumulative number of supported SMEs, the value of loans committed, and the total number of smallholder farmers linked to SMEs. It forms part of the deal approval phase and enables the assessment of areas where additional impact can be achieved, as outlined in the principle requirements. This provides a clear foundation for measuring the investment's potential impact. 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.

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 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.

Figure 3: Overview of the LAFCo investment lifecycle

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.

LAFCo 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 validation 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 borrower 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 incorporating 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 describes LAFCo's approach to impact evaluation and continuous improvement.

1 **Quarterly evaluation and documentation:** LAFCo conducts a thorough evaluation of impact performance results from all borrowers on a quarterly basis. This systematic approach allows for the documentation of actual impact compared to expectations, and to track progress over time. Our commitment to transparency is evident in our documentation practices, providing a clear record of performance over time.

2 **A comprehensive annual impact report**: 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 its ESG and impact 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.

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. Our 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. LAFCo plans to undertake the verification in 2027.