

Environmental and Social Data Sheet

Overview

Project Name: LEAPFROG EMERGING CONSUMER FUND III
Project Number: 20180763
Country: Regional – Africa
Project Description: The proposed operation concerns an equity participation of up to USD 40.5m in LeapFrog Emerging Consumer Fund III, a private equity fund planning to make equity growth investments in innovative SMEs and Midcaps enterprises active in the financial services, and to a lesser extent, healthcare sectors in Africa and developing Asia.

EIA required: no

Project included in Carbon Footprint Exercise¹: no

Environmental and Social Assessment

The Fund will invest in companies providing financial and healthcare services to emerging consumers across Africa and developing Asia, which it defines by people earning in the range of USD 1.9 to USD 10 per day. The targeted geographical markets are characterized as having fast growth, large low middle-income populations, low penetration of formal financial and healthcare services that are mainly restrained by affordability. The Fund seeks to mainly invest in high growth companies which make use of digital technologies with the objective to deliver efficiently affordable products / services to low and middle income population groups.

The Fund will invest in Sub-Saharan Africa, South Asia and Southeast Asia where the priority countries include Nigeria, Kenya, Ghana, South Africa, India, Indonesia, Philippines and Sri Lanka. The Fund has a strong focus on Sub Saharan Africa, bolstered by its offices in Nairobi, Lagos and Johannesburg, serving as an entry point to other African markets.

The Fund has an ESG policy requiring investees, among others, to periodically monitor and report on a set of Environmental, Social and Governance (ESG) compliance metrics, with a particular focus on corporate governance processes (completion of board membership, adequate decision processes, use of board committees etc.), on social development impact strictly related to business performance (e.g. inclusion impact in emerging consumers segment

¹ Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100,000 tons CO₂e/year absolute (gross) or 20,000 tons CO₂e/year relative (net) – both increases and savings.

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business models, HR practices, job creation progress) and on any environmental impact related to investments conducted by the Fund.

As per the Fund's compliance manual, which all officers employed by the Fund should adhere to on an annual basis, an ESG due diligence must be conducted for each new investment. This will be performed using a risk-based approach, in accordance with the company's ESG Risk Assessment:

- investment opportunities categorised as High Risk must be reviewed with the support of an independent, external consultant;
- investment opportunities categorised as Low Risk may be reviewed according to internal due diligence guidelines, outlined below;
- investment opportunities categorised as Medium Risk should be discussed with LeapFrog's Compliance Officer/Money Laundering Reporting Officer (CO/MLRO) to design an appropriate approach to ESG due diligence which may involve internal or external review.

In terms of investment process, the first step in the due diligence process is conducting a risk assessment of each investment, in accordance with the guidelines established. The second step is a review of prohibited activities. The third step involves the identification of material and specific ESG risks for the investment, and assessing a company's current performance against international best practice standards for addressing such risks, as well as compliance with other key areas of LeapFrog's Responsible Investment Code ("RIC"). This can be completed for Low Risk investments with reference to FMO's Environmental & Social Toolkit (Dutch Entrepreneurial Development Bank), as well as the good governance & policy and product quality assessments incorporated in the risk management module of LeapFrog's Environmental and Social Management System. The final step involves the identification of key actions that mitigate identified ESG risks and/or enhance ESG value, and ensure compliance with LeapFrog's Responsible Investment Code. These should be summarised in an Environmental and Social Action Plan ("ESAP") for the company to support the implementation of ESG best practices. Risk assessments must be completed before initial screen. ESG due diligence must be completed prior to final investment committee approval, but may progress throughout the stages of investment evaluation.

Prior to signature, the ESG policy will be further checked and fine-tuned if necessary to fully comply with the Bank's requirements. A policy as negotiated and agreed upon between the Fund's Partners and the Bank will be a condition for disbursement.

EIB will receive quarterly updates on the projects in the development, implementation and operation phase as well as more detailed annual portfolio reports. The fund manager undertakes to make available any additional information concerning the investee companies and assure that relevant documentation is properly archived. He shall also report on any claim or equivalent communication from any authority concerning any investee company.

Conclusions and Recommendations

If located in Europe, the project is not likely to include activities that trigger a full EIA required under the EU Directive 2014/52/EU amending the EIA Directive 2011/92/EU, given the Fund's target sectors.

Most of the proposed investments will take place inside buildings at existing facilities already being used for similar activities, and are not expected to have a significant environmental



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impact on the surroundings. On the contrary, some of the investments are indirectly addressing environmental issues notably in terms of remote access to banking or insurance services. Therefore, the investment's results will help among others to allow for a more efficient and reduced use of energy.

The capacity of the Fund Manager to carry out the relevant environmental due diligence on the underlying investment and to maintain and operate an appropriate environmental management system has been assessed and deemed satisfactory.

The Bank will ensure through its finance contract that the projects financed from the Fund are in eligible areas/sectors for the Bank, do not lead to competitive distortions, and that Bank's requirements on procurement, environment and social matters will be respected. More specifically, the validation of the Promoter's Environmental, Social and Governance Policy by the Bank's Environment, Climate and Social Office is a condition for the finance contract signature.

Therefore, the project has been classified as acceptable in environmental terms for the Bank's financing.

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