

Assurance Statement on Alignment with Good Practice in Responsible and Impact Investing Provided for KawiSafi Ventures by First Principles Sustainability Services

Date: 13 July 2020

Purpose and Scope of Assurance

The following statement of reasonable assurance is provided to KawiSafi Ventures (KSV), its investors, and stakeholders to confirm the alignment of KSV's strategy, policies, systems, and investment practices with good practice in Responsible and Impact Investment. Particular consideration is given to the accuracy of KSV's Disclosure Statement to the IFC Operating Principles for Impact Management (13 July 2020).

In conducting our assessment, we have applied the following principles and checklists:

- The [IFC Operating Principles for Impact Management](#)
- UN supported [Principles for Responsible Investment](#)
- The [ILPA Due Diligence Questionnaire \(ILPA DDQ\)](#) ESG segment
- The Principles for Responsible Investment (PRI) [LP responsible investment due diligence questionnaire \(DDQ\)](#)

No assessment was conducted of financial systems or financial information reported by KSV.

Definitions

- **Responsible Investment** is defined by the Principles for Responsible Investment (PRI) as “a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.
- **Impact Investing** is defined as “investments made into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside financial returns.”

First Principles' qualifications

Established in 2010, First Principles Sustainability Services is an international sustainability service provider based in Cape Town, South Africa. We provide support to private equity funds and companies to improve their ESG performance in line with international good practice standards. Our team has extensive experience in applying the IFC Performance Standards, UN Global Compact, UN Principles for Responsible Investment, IFC Operating Principles for Impact Management, and other sustainability frameworks.

Relationship with client

First Principles has provided the following third-party services to KSV since May 2018

- Technical support to develop ESG policies and procedures
- In-house ESG training and capacity building
- ESG due diligence on prospective investee companies

- Annual data collection and analysis of ESG performance of KSV portfolio companies.

First Principles has not contributed to KSV's strategies, policies, systems, and monitoring related to impact.

Basis for reasonable assurance

This assurance statement is based on

- Interviews with key KSV staff in April 2020.
- ESG due diligence conducted by First Principles for KSV investments during the course of 2019 and 2020.
- A detailed review of KSV's founding documents, policies, and procedures to understand KSV's fund-level approach to ESG and Impact.
- A detailed review of sample legal agreements with investee companies and annual internal monitoring reports that assess ESG and impact performance within KSV's portfolio.

Assurance summary

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that KSV has not complied, in all material respects, with the IFC Operating Principles for Impact Management as per the Fund's Disclosure Statement as of 13 July 2020.

In addition, we find that KSV demonstrates alignment with recognized standards of international good practice in responsible and impact investment.

Overview

As a climate change fund targeting low-income populations in developing countries, KSV shows leadership both in seeking positive impact and managing ESG risks and performance in its investments. KSV aims to make a meaningful contribution to the following **Sustainable Development Goals (SDGs)**:

- GOAL 5: Achieve gender equality and empower all women and girls
- GOAL 7: Ensure access to affordable, reliable, sustainable and modern energy for all

KSV's commitment to achieve positive social and environmental impact through its investments is embedded in its founding documents, which include commitments to report at least annually to its investors on agreed impact indicators and targets. Achieving impact is an explicit component of the overall investment strategy of the Fund. Impact measurement and reporting requirements are embedded in investment agreements with investee companies for the life of the investment.

KSV has adopted a systematic approach to integrating ESG management into its operations and investment activities throughout the life of the Fund. This includes the following formalized policies (updated and approved as of 13 December 2019):

- Responsible Investing Policy
- ESG Procedures
- Complaints Procedure

Progress since January 2019

In the period January 2019 to December 2020, KSV achieved the following improvements in its ESG and Impact Management Systems:

1. Adoption of an external Complaints Procedure.
2. Third-party ESG due diligence carried out for all new investments.
3. ESG Action Plan agreed with all new investee companies and embedded in investment agreements.
4. Comprehensive, annual data collection and assessment of portfolio ESG performance in 2019 and 2020.
5. Signatory to, and implementation of, the IFC Operating Principles for Impact Management.

Observations on alignment with good practice and opportunities to improve:

- KSV is strongly aligned with the IFC Operating Principles for Impact Management. Strategic impact objectives have been defined, the Fund's contribution to impact is achieved through direct investment in high impact businesses, impact is actively managed and monitored on a portfolio and company basis using an impact measurement framework, and the Fund proactively assesses ESG risks and performance of investee companies. In line with principle 9, this assurance statement provides an independent verification of KSV's alignment with the Impact Principles. **To align further, KSV should consider publicly disclosing this statement for the benefit of all interested stakeholders.**
- KSV is not a formal signatory to the UN supported Principles for Responsible Investment but applies the PRI principles and related good practice. **KSV could consider becoming a formal PRI member to enhance credibility and help promote good practice in collaboration with other investors.**
- KSV's RI policy and ESG procedures are comprehensive and demonstrate a strong commitment by the Fund and integration with investment beliefs.
- KSV has adopted a proactive approach to assessing ESG risks and performance in potential investments and agreeing action plans with investee companies to address material ESG aspects as part of investment agreements. **KSV should consider adopting a more systematic approach to regularly engaging with investee companies on their ESG Action Plans and any emerging ESG issues during the life of the investment, such as through its participation at board level.**
- KSV staff at all levels demonstrate awareness and commitment to ESG good practice. There is strong leadership and support provided by the Fund Manager to enable adherence to good practice. **KSV should invest in additional capacity building for all Fund staff during the coming year to cater to new staff that have joined since previous ESG training was carried out. This could include a focus on emerging trends and material issues for KSV's sectors and regions of operation.**
- KSV has made policy provisions for assessing and considering ESG performance and impacts at exit, including the effect of an exit on the sustainability of impacts. KSV has not yet conducted an exit. **The Fund should review these provisions during the coming year and ensure that suitable preparations can be made in a timely manner when the time comes.**

- The external Complaints Procedure was recently introduced. The Fund reports that no formal complaints have been received from external stakeholders to date. **Consideration should be given during the next annual assessment to whether the Procedure is functioning appropriately.**
- The Fund prepares an annual report to Limited Partners on its adherence to ESG and RI good practice as well as the ESG and impact performance of its investee companies. High-level impact results and descriptions of investee companies are included on the Fund website. **KSV should consider publishing at least an annual update publicly on its website, which could include examples of ways in which it has helped investee companies to enhance business value through improved ESG and impact performance.**

For more information about the assurance process and this statement, email louise@firstprinciples.org



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