

driving  
development  
**impact**

AFRICAN AGRICULTURE FUND **ESG ANNUAL REPORT 2015**

## DEVELOPMENT IMPACT

In addition to Phatisa's commitment towards sustainable environmental and social practices, it also reports on the development impact of its investments. The development impact varies between investments, depending on different variables. Phatisa considers the contribution its investments make to the local economic landscape through, for example, employment and taxes, and the positive social impact on dependents, including women and children, as key achievements. Phatisa is committed to the Additionality Development Outcomes Assessment from the African Development Bank to define and capture social and developmental outcomes.

Phatisa has developed a matrix to record key measurable parameters to evaluate the investments' contributions to local economies, as set out below:

Geography	PORTFOLIO COMPANIES	Goldtree	Goldenlay *	Feronia	CBC	Meridian Group	FES	General Plastics	AAF	AAF SME Fund	TOTAL	
	Region	West Africa	Southern Africa	Central Africa	West Africa	Southern Africa	Southern Africa	East Africa			5 West Africa, 1 Central Africa and 7 Southern African	regions
	Country	Sierra Leone	Zambia	DRC	Côte d'Ivoire	Malawi & Mozambique	Malawi	Kenya				countries
Investment	Date of investment	Aug 2011	Apr 2012	Dec 2012	Feb 2013	Sep 2014	Nov 2013	Dec 2014				
	Approved commitment (US\$m)	21.00	24.10	27.50	6.00	27.00	12.62	14.20	132.42	27.2	159.6	US\$m
	Invested to date (US\$m)	17.03	24.10	24.28	5.00	22.00	11.06	14.20	117.67	24.7	142.4	US\$m
	Total capital investment (US\$m)	25.40	31.60	37.60	11.30	40.20	15.16	14.20	175.46	-	175.5	US\$m
	Expansion capital (US\$m)	17.64	4.90	19.50	3.50	17.00	-	6.20	68.74	-	68.7	US\$m
Land	Land leased or owned (hectare)	6 397	4 058	107 241	4	** 8 000	2	3	125 705	3 693	129 398	hectares
	Outgrower land (hectare)	30 000	176	200	-	26 750	-	-	57 126	100	57 226	hectares
People	Total number of employees at entry	350	286	3 474	60	2 730	150	972	8 022	525	8 547	employees
	Total number of employees	748	346	3 754	89	2 588	127	1 087	8 739	809	9 548	employees
	Employees - male	630	301	3 661	65	2 058	114	1 056	7 885	672	8 557	employees
	Employees - female	118	45	193	24	530	13	31	954	137	1 091	employees
	Number of smallholders/vendors impacted	8 132	550	-	12	*** 53 500	1 888	-	64 082	885	64 967	smallholders vendors
TAF	Target number of beneficiaries in approved projects	6 500	5 000	-	-	6 000	-	-	17 500	2 690	20 190	people
	Current number of beneficiaries supported	6 387	2 560	-	-	-	-	-	8 947	-	8 947	people
Output	Current tonnes of output	2 845	10 085	17 861	29 773	266 219	200 000	5 834	532 617	33 281	565 898	tonnes
	Expected tonnes of output at exit	13 398	25 334	73 067	30 771	372 000	250 000	15 000	779 570	82 939	862 509	tonnes
Value	Current annual sales revenue (US\$m)	2.4	14.8	17.2	8.5	208.0	14.0	19.2	284	18	302.4	US\$m
	Expected revenue at exit (US\$m)	13.7	29.5	62.5	15.0	380.0	18.0	38.4	557	63	619.7	US\$m
	Current EBITDA (US\$m)	(1.7)	3.9	(10.2)	0.3	18.0	3.8	1.1	15	(2)	13.7	US\$m
	Expected EBITDA at exit (US\$m)	6.4	11.3	27.7	3.3	26.0	5.9	5.0	86	15	100.7	US\$m
Taxation	Taxes paid 2015 (US\$'000s) ***	125	-	199	48	400	87	-	859	265	1 124	US\$'000s
	Expected taxes paid on year of exit (US\$'000s)	600	1	5 000	1 000	3 930	1 000	1	11 532	3 260	14 792	US\$'000s

Publication: 31/12/2015

Footnote:

\* Inclusive of Kafubu and Kanyenda Farms

\*\* Unaudited number

\*\*\* 2015 profit on company tax only



## SUSTAINABLE INVESTMENT – FOREWORD

### FOR THE YEAR UNDER REVIEW

The African Agriculture Fund (AAF or the Fund) is a socially responsible investment vehicle, which has adopted a sustainable approach to business that is both environmentally respectful and closely aligned with the interests of the people and communities impacted by its investments. In accordance with this approach, the Fund operates according to a social and environmental management system (SEMS). The SEMS features an environmental and social risk management system, and for the first time in agri business private equity, a code of conduct for land acquisition and land use in agricultural and agri business projects.

Elements of the Fund's social responsibility strategy are as follows:

#### SMALLHOLDER FARMING

The AAF provides small farming businesses with access to infrastructure and training, predominantly through the use of the Technical Assistance Facility (TAF). When it comes to outgrower schemes, the Fund has and will continue to support partnerships between the businesses in which it invests and will carry on its creative work in achieving mutually beneficial partnerships.

#### REGULATORY COMPLIANCE

The AAF recognises that government participation and support in the agricultural market, through laws and regulations, are indispensable to creating a secure environment for investment, trading and generally conducting business. This legislation is also essential for the protection of the rights of employees and consumers.

The AAF acknowledges in particular that, in many of the countries in which it operates, legislation is either lacking or inadequately enforced; hence one of the functions of private equity is to bring international best practice to the companies in which it invests.

#### HEALTH AND SAFETY STANDARDS

Agriculture and food are sectors in which there are significant health and safety risks, especially those related to injuries caused by machinery. The Fund requires that the managers and owners of the businesses in which it invests are responsible for adhering to strict practices and policies that will minimise the risks to their employees.

#### ENVIRONMENTAL STANDARDS

To ensure long term sustainability, the Fund has put in place strict environmental standards for its investments so that they will have a positive impact on ecosystems.

Any investment consideration needs to take environmental concerns into account, especially those related to greenfield developments or projects that include significant expansion. Phatisa works with independent consultants and in-country associates with expertise in environmental and social impact assessments (ESIAs) and development planning. Where possible, the Fund draws on the knowledge and resources of its investors to ensure adherence to best practices.

#### LAND USE, ACQUISITION AND OWNERSHIP

Local ownership in farms, processing plants and other sections of the agricultural value chain is a key factor in both the development of food security and the growth of African economies. Phatisa does not assume any increase in land values when considering potential investments, but rather augmentation of the value of the earnings of the business through growth and the increase of food production in Africa, for Africa.

The twin goals of creating wealth for investors in the Fund and pursuing socially responsible investment strategies are not mutually exclusive; rather, they are complementary. AAF's aim to develop professionally run agricultural and food-related businesses benefits all stakeholders, not only investors. The Fund promotes food security through the establishment of sustainable and profitable agri businesses that produce affordable food for local consumption.

#### INTRODUCTION

This is Phatisa's fifth annual report on the AAF's environmental, social and governance (ESG) performance and covers the financial year ending 31 December 2015, as required by the Fund's legal documents and its SEMS.

The complete Appendix F and H of the SEMS is attached to this document.

#### ESG OBJECTIVES

AAF has two main objectives: to return value to shareholders, and to create value within the communities and environments associated with its investments, in such a manner that this value will persist beyond the life of the Fund. Measuring and reporting on the impact of its projects on its communities is as important as the financial return, and the opportunity for AAF to create significant social benefits – to contribute to building sustainable communities – is as important as environmental and governance issues.

The Fund's ESG goals are therefore:

- to preserve and, where feasible, improve the state of the environment around its projects;

- to maximise the socio-economic benefits to the broader community dependent on or affected by its projects; and
- to maintain good governance standards.

#### ANTI MONEY LAUNDERING

The Fund operates according to Phatisa's Anti Money Laundering (AML) Policy and the Anti Bribery and Corruption Policy, and Tax and Transparency Policy.

Phatisa conducts verification of each potential investment as prescribed by the AML Policy. To date, verification reports have been conducted on Goldtree, the AAF SME Fund, Goldenlay, the Continental Beverage Company (CBC), Feronia, Farming and Engineering Services (FES), Meridian and General Plastics Limited (GPL).

#### CAPACITY

The SEMS provides guidance on how to assess the potential for investments to achieve our ESG objectives, without compromising the Fund's ability to deliver financial returns. The responsibility of ensuring adherence to the SEMS lies with Stuart Bradley, Joint Managing Partner at Phatisa. Robert Kruger has been employed as Phatisa ESG Manager and AAF SEMS Manager, and the services of ESG professionals have been contracted to assist with due diligence investigations, reporting and opportunity risk assessment.

#### SCORECARD

Phatisa scores each investment opportunity that is pre-screened and included in the deal pipeline. The scoring measures the financial attractiveness of the proposed investment as well as the ESG impact. The underlying aim is to build a portfolio of investments that have high financial and ESG impact returns.

#### PROJECT ACTIVITIES FOR THE REPORTING PERIOD

For each opportunity investigated by Phatisa, whether concluded or not, an appropriate level of screening of the ESG risks and social development opportunities is performed in accordance with the process outlined in Appendix A of the SEMS. For all of AAF's proposed investments, none of the excluded activities listed in Appendix D of Phatisa's SEMS are undertaken or occur at the portfolio companies.

During 2015, AAF continued its focus on its existing portfolio companies with follow-on investments going into Feronia, FES, Goldenlay, Goldtree and Meridian. In addition, a new investment into General Plastics Limited was finalised.

In the social and environmental due diligence (SEDD), a fatal flaw analysis is undertaken to verify the following:

- A material breach of legislation.
- A material breach of the applicable standards as determined in Appendix C, the International Finance Corporation (IFC) and African Development Bank (AfDB) policies.
- A breach of this kind would be considered material when more than 50% of the requirements for a particular category of criteria (i.e. each performance standard) were breached consistently over a significant period (i.e. one year or more).
- Where an ESG liability of US\$ 250,000 or more has a reasonable chance of being incurred, either from a third-party claim or from regulatory enforcement.
- Where the risk of significant reputational damage is likely.

In terms of World Bank and IFC Guidelines, the following general descriptions apply to categorising projects according to their social and environmental impacts:

- **Category A:** The portfolio company's or proposed portfolio company's activities are likely to have significant adverse environmental, social or health and safety impacts that are sensitive, diverse or unprecedented. A potential impact is considered sensitive if it may be irreversible (e.g. lead to loss of a major natural habitat), affect vulnerable groups or ethnic minorities, pose major risks of injury or to health, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.
- **Category B:** The portfolio company's or proposed portfolio company's activities may result in specific environmental, social or health and safety impacts, but these impacts are site-specific and few, if any, of them are irreversible. In most cases, mitigation measures are predetermined performance standards, guidelines, or design criteria. Potential adverse impacts on human populations or environmentally, socially or culturally important areas are less adverse than those of a Category A.
- **Category C:** The portfolio company's or proposed portfolio company's activities are likely to have minimal or no adverse environmental, social or health and safety impacts.

According to the category of the project, varying levels of due diligence are required, as follows:

- **Category A:** A full environmental and social impact assessment (ESIA) is required.
- **Category B:** Although a full ESIA is not required, an assessment focusing on the anticipated impacts is required.
- **Category C:** No further assessment is required. AAF considered no category C projects during the reporting period.

The SEMS requires that the first five SEDD reports be sent to AfDB for review and feedback. Phatisa is in full compliance with this requirement. The Goldtree and Goldenlay SEDD reports were submitted in 2011, and the SEDD reports for the Goldenlay follow-on investments in Kafubu and Kanyenda, as well as Feronia and CBC, were submitted in 2012 – we are pleased to report that these were all accepted by AfDB as presented.

An additional requirement by *Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.* (FMO) was that the first three primary agriculture investment SEDD reports be submitted to FMO for review. Since FMO's admittance to the Fund, no new primary agriculture investments have been reviewed.

#### GOLDTREE

Prior to investment, a full ESIA was conducted in 2011 on the proposed palm oil mill and outgrower scheme in Daru, Sierra Leone. This was conducted by a local consultancy, with specialist components being performed from South Africa under the guidance of ESG consultants, Environmental Business Strategies (EBS). The ESIA was therefore performed according to local legal requirements, and in all respects except for public consultation, against the IFC Performance Standards. The final ESIA was submitted to the Sierra Leone Environmental Protection Agency (EPA) in November 2012.

The ESIA provides an environmental management plan (EMP) outlining mitigation measures that Goldtree Management should complete to reduce risks posed by the Company's operations to an acceptable level. These measures include asset acquisition, construction of sufficient treatment facilities and appropriate management systems that include periodic monitoring of company performance.

According to Sierra Leone legislation, public consultation of the ESIA is required to be performed by the Environment Protection Agency (EPA) and Goldtree was obliged to comply with this requirement. The final three public disclosure and consultation meetings were held in Freetown, Daru and Segbwema in March 2013. Furthermore, a community development action plan (CDAP), environmental management programme and closure plan were outcomes from this process, all of which have been accepted by Goldtree Management and incorporated into their projects and operations.

Emmanuel Koroma, the health, safety and environmental manager, continued to implement actions in relation to the requirements of the ESIA and CDAP.

A summary of the key deliverables listed in the EMP is provided below. The table also reflects Goldtree's progress over 2015:

ITEM	COMPLETION DATE COMMITTED TO BY MANAGEMENT	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
Proper chemical storage to be constructed for plantation chemicals, including pesticides and fertilisers, to minimise risks for human health and the environment, including chemical bookkeeping.	Q4 2013 Revised date: Q1 2016	Not implemented (see below)			
Prepare, implement and monitor an erosion and sediment control plan. The plan should include measures appropriate to the situation to intercept, divert, or otherwise reduce the storm water runoff from exposed soil surfaces. Integrate vegetative and non-vegetative soil stabilisation measures in the erosion control plan,	Q4 2013 Revised date: Q4 2015				Completed
Goldtree's primary production practices are implemented in a manner that allows verification or certification under practices codified in globally, regionally, or nationally recognised standards (such as RSPO).	Q4 2015 Revised date: Q4 2017				Process initiated
Development of a biodiversity management plan (BMP) for implementation prior to land conversion or development within the concession area.	Q2 2016				Process initiated/first studies completed Dec 2015

#### Environmental management plan

The EPA audits Goldtree every year. This audit is part of the licence renewal process. The agency evaluates the level of environmental impact that the company will have on its surroundings and score the project in accordance with an approved guideline: the level of environmental mitigation infrastructure, such as effluent treatment ponds, bunding and environmental management systems. The fee for 2015 was US\$ 87,328.

Goldtree has been advised to construct a permanent chemical storage room for all chemicals used on the plantations; the temporary storage facility is constructed from a metal container which can be locked and placed within a bunded area with 60 cm-high wall. This is located within a secured work area, which is concreted with a single wastewater outlet to the effluent ponds. Phatisa believes that this structure is sufficient until other priority actions have been completed.

#### Monitoring

During 2014, monthly internal noise monitoring exercises were conducted as part of the EPA's requirements to obtain sufficient baseline data. Data was collected from seven different locations in and around the project area. This included the mill, administration offices, staff quarters, as well as surrounding villages. The noise data obtained established that noise emissions outside the mill are within the internationally acceptable noise limit of 85 dB for workers who are exposed to noisy conditions for an eight-hour period. However, results obtained from within the mill showed elevated noise levels above 85 dB during mill operation. Management has enforced the use of safety earmuffs for all staff members working within the mill. The enforcement and monitoring of the use of PPE continued in 2015.

Worker health and safety is continuously monitored in accessible hazardous locations and where there is constant movement/traffic. Internal inspections and health and safety training remain ongoing to ensure improvements to operational health and safety compliance.

Formal lost time injury reporting has continued and the intention is to compare this with industry averages in due course.

Daily observations are carried out on the stack to monitor air emissions, and palm oil mill effluent, as well as worker safety within the factory compound and on the plantation.

#### Social environmental management system

The integrated pest management plan was completed for the nucleus plantation. The management plan was drafted in accordance with the IFC performance standards and the Roundtable on Sustainable Palm Oil (RSPO). The management plan outlines in detail the schedule of designated authority, an active management approach as well as training, storage and general management of pesticide usage on the plantation. Currently, training is being carried out by an external service provider, funded by Phatisa's Technical Assistance Facility (TAF), to train outgrower farmers in the safe application of agrochemicals. Material safety data sheets have been prepared for all pesticides and agrochemicals that are stored on the company premises.

The ESIA identified that the company must develop a waste management plan (WMP) that clearly highlights the various types of waste generated. In March 2014, Goldtree drafted and submitted the WMP to the EPA; it was approved in June. The plan outlines the effective management and disposal methods of waste in an environmentally and socially sound manner.

#### Certification

The company is committed to becoming compliant with the RSPO standards during AAF's investment. Goldtree has been accepted as a full member of the RSPO and is targeting full certification of its operations by the end of Q4 of 2017.

#### Ebola

In February 2014, an outbreak of the Ebola virus was registered in neighbouring Guinea. By mid-March the virus had spread to Liberia's north-western

border with Guinea and Sierra Leone. At the beginning of April, the first confirmed deaths from the Ebola virus were confirmed in Kailahun district – the same district where Goldtree is located. In response, Goldtree developed an action plan to provide guidance during the Ebola outbreak. This plan was presented to *Médecins Sans Frontières* (MSF) and the Ministry of Health and Sanitation (MHS), who both endorsed the plan.

Sierra Leone was declared Ebola-free on 7 November 2015, after 42 consecutive days without any new cases being reported and confirmed.

#### GOLDENLAY

Goldenlay has completed most of the outstanding recommendations from the SEDD relating to the main site. Due to the incorporation of the Kafubu and Kanyenda farms, the Goldenlay SEMS has been expanded to include operational risks associated with the farming activities that occur on those sites.

Goldenlay management prepared a design for the new permanent grain storage facility that is being built on the Kafubu farm, in a separate company jointly owned by NWK and AgDevCo. Phatisa supports this action, as it will result in a reduction of personnel movement on the site, reducing the risk of exposing the flock to pathogens. Construction of the new facility on the Kafubu farm has been funded by an AgDevCo loan and will be completed in Q1 2016.

#### Environmental management plan

##### Monitoring

Air emissions monitoring for CO, CO<sub>2</sub>, SO<sub>2</sub> and NOx from the on-site incinerator has continued throughout 2015; however, large periods of incinerator downtime were experienced during Q4 2015. The incinerator has reached end of life and a replacement is to be procured.

Goldenlay has also been addressing the dust emissions from the feed mill. This has primarily been achieved through improved ventilation and reduced staff exposure to dust emissions through the use of PPE and frequent staff role rotations.

ITEM	TIME TO COMPLETION
<b>Incinerator emissions</b>	
Management should ensure that continuous monitoring of CO, CO <sub>2</sub> , NOx and SO <sub>2</sub> is carried out.	Ongoing semi-annual
Regular servicing of the incinerator should be done to reduce the gas emissions.	Completed
<b>Dust emissions</b>	
Increase the ventilation system within the feed mill.	Completed
Management should implement appropriate maintenance programmes for respective machinery.	Completed
Reduce the duration a worker is exposed to dust by rotating workers shifts.	Completed

##### Certification

During 2015 Goldenlay had planned to complete and submit its social environmental management systems policy to external consultants for all three sites to be audited against ISO 14001. This item has been delayed and will be addressed in 2016.

#### Goldenlay follow-on investment

##### Kafubu

During late 2012, Goldenlay entered into negotiations with a willing seller of an abandoned dairy farm. The farmland had a variety of inhabitants located within its borders, which would have prevented Goldenlay from fully developing the land into a functioning farm. The vendor was willing to resettle the settlers in accordance with Zambian law only. Due to Phatisa's commitment to the IFC Performance Standards, a gap analysis between Zambian law and IFC Performance Standard 5 was conducted to determine if additional steps were required for the resettlement action plan (RAP) to be in compliance with IFC requirements. The gap analysis highlighted that Zambian law does not afford compensation claims to illegal settlers when compared with the IFC Performance Standards, which include compensation for loss of income as well as the replacement cost of lost assets.

As a result, Phatisa requested that Goldenlay, and not the vendor, drive the process to remove the settlers in accordance with Performance Standard 5 for land acquisition and involuntary resettlement. Terms of Reference (ToR) were drafted and submitted to the Zambian Environmental Management Agency (ZEMA) and the local council, who accepted the resettlement action plan framework, but requested that they be kept abreast of developments during the process. The ToR was sent out for tender and a consortium of external consultants, Greenline Environmental Solutions consultancy, was appointed to compile the report. The resettlement report was based on two surveys carried out in August 2013 and October 2014 and finalised in December 2014. Compensation was paid to affected parties in the first and second quarters of 2015.

Goldenlay management, in conjunction with Phatisa and EBS, will form an ESG subcommittee to oversee the conclusion of the resettlement action plan and ensure that compensation is distributed appropriately.

Goldenlay has continued to clear scrubland in accordance with the terms set out in the EIA. Management has prioritised the rehabilitation of old pasture fields due to the reduced cost of conversion. In a joint venture with Phatisa, 14 hectares of land on Kafubu farm have been sectioned off, as part of Phatisa's carbon neutral plan. The land has been planted with indigenous trees that were previously disturbed, and allowed to return natural vegetation. The objective of the programme is to sequester approximately 120 tonnes of carbon to offset the carbon emissions generated from daily operations of Phatisa.

##### Kanyenda

Development at the Kanyenda farm site continued throughout 2014, with clearing of the remaining scrubland in accordance with the EIA.

The Goldenlay grain storage facility and weighbridge, to be built for crop storage, became fully operational in 2015. While this activity does not prove a material change to the nature of Goldenlay's operations, a change in the scope of the EIA was required in order to remain compliant with ZEMA regulations. The new scope of the audit highlighted environmental and social risks for the new operations. The EIA did not provide any further insight to risks expected from the company's operations.

OPIC requested that a follow-up audit be commissioned to evaluate the post-resettlement conditions of the inhabitants of the Kanyenda farm, who were removed prior to the land being incorporated into Goldenlay's operations. The social audit was carried out by Greenfields Consultancy and quality-

assured by EBS. The audit highlighted that all persons who had been relocated experienced net benefits to their living conditions. These benefits include larger houses, houses built from superior building material, agricultural assistance with new fields, larger fields to plant subsistence crops, access to potable water, and access to organic fertiliser. All inhabitants have expressed that they have benefited from Goldenlay's presence in the area. Phatisa feels satisfied by the ongoing social inclusion that the company is conducting with the surrounding communities.

The Goldenlay ESG Officer is currently preparing a revised consolidated EMP for all Goldenlay operations.

#### FERONIA

Feronia has continued to make substantial progress with its environmental social commitments. Its Environmental Social Governance Board Committee (ESGBC) provides technical assistance to the company and ensures that senior management is held accountable in delivering on its ESG commitments. Feronia is mostly on track and in some aspects it is ahead of schedule to achieve the deadlines as set out in the ESAP. Phatisa and co-investor, CDC, are satisfied with the progress made to date. Phatisa also recognises that, as a result of the implementation of the ESAP, the company is undergoing a period of transformation, which can result in the highlighting of serious issues or which may have short-term adverse effects, but that the company has the required experience and capacity to deal with these issues. Through addressing these social and environmental issues, the company is ensuring that it is sustainable in the long term.

#### Environmental management plan

##### Environmental Social Governance Board Committee Charter

The ESGBC was created to harmonise different ESAPs held by Phatisa and CDC and align and assist management in its goals to deliver on the various objectives that have been agreed by the company's stakeholders. The ESGBC Charter makes provision for three members: one representative from Phatisa and CDC each, as well as one representative appointed by the company. The Board members are Keith Alexander (chair), Peter van As (Phatisa) and Joel Strickland (Feronia). The heads of their respective ESG departments, who provide technical assistance, support the Board members of Phatisa and CDC. The heads of the HR, ESG and OHS departments for Feronia each represent the company, providing quarterly updates on expected deliverables.

The Board held the required four meetings in 2015 and a site visit was undertaken in October.

The ESGBC meets after each internal publication of the company's quarterly progress report on the ESAP. Each quarterly report details the progress made in the previous quarter and management provides feedback on issues that have arisen or any issues faced in implementing the ESAPs requirements. The ESGBC has the right to accept or reject any change control order that management proposes, based on justifiable information that the company has made all reasonable efforts to deliver on the action items. To date, the company has requested 11 change controls; all have been approved.

#### Policies

Anti-bribery, whistleblowing, grievance procedures and the Feronia Business Code were accepted and initial training commenced for UK staff members. The communication of these policies went through a variety of channels to ensure that members of staff across all jurisdictions, UK, Canada and the DRC, were informed of these new policies.

In addition, the company has published an environmental and social policy, which outlines its aims to ensure consumers, customers, suppliers, employees and communities are protected and its operations are carried out in a sustainable manner.

#### Management capacity

Management appointed Dr Jack Tshibangu as the group Health and Safety (H&S) Manager and he joined the company on 1 February 2014. Jack initiated an internal audit of all the environmental, health and safety risks on the company's plantations and within the company's mills.

In addition to the above appointment, individual capacities for ESG and OHS have been put in place at the three plantations.

#### Studies and assessments

The Feronia Environmental and Social Impact Assessment (ESIA) that included the high conservation value (HCV) was completed in 2015 by an independent consultant. The ESGBC reviewed the documentation and have produced a single consolidate ESAP. In accordance with adhering to the principles of RSPO, the documents have been published on the Feronia website.

Land-use mapping activities have commenced, in conjunction with government land conservators who will support the survey and provide legal advice. The border delineation survey started mid-2014 and continued into 2015; the main objective of the survey is to identify the borders of the concessions. The process experienced delays due to local resistance to the survey being carried out.

Additionally, Feronia commissioned a palm oil mill effluent treatment and management study that was completed in 2015. The findings of the study are being considered and decisions on implementation will be finalised in 2016.

#### Serious incident reports

A separate human resource management report is also published, reporting on all incidents that occurred during the reporting period. During the year, Feronia encountered three serious incidents on its plantations. Feronia submitted its serious incident reports to the Phatisa ESG Manager for recording and evaluation. Since investment, the company has had 11 serious incidents; those for 2015 are listed in the table below:

Nº	DATE OF INCIDENT	TYPE OF INCIDENT	NATURE OF INCIDENT	FATALITIES/ PERMANENT HARM
1 – (SIR07)	15/01/2015	Fatality	Non-work-related vehicle accident – a pedestrian (PHC employee) was struck by a speeding motorcycle (third party) and died as a result of his injuries.	One deceased
2 – (SIR08)	16/03/2015	Fatality	Work-related incident – a plantation worker was bitten by a snake on the foot and died after receiving medical attention.	One deceased
3 – (SIR09)	21/08/2015	Fatality	Work-related vehicle accident – contractor vehicle (truck) collided with a motorcycle carrying two persons.	One deceased
4 – (SIR10)	31/10/2015	Serious	Work-related incident – worker assaulted by villagers and items stolen from worker.	One injured
5 – (SIR11)	01/12/2015	Fatality	Non-work-related vehicle accident – contractor vehicle, not on company business, overturned while carrying people.	One deceased

Feronia initially experienced a number of vehicle-related incidents as a result of not having a formal enforceable road safety policy. This has since been identified as a priority for the company to address. As a result, the company drafted a road safety policy and has been actively enforcing it on all its plantations. The company has started to address these issues with its service providers, through a review of its contracts, employee safety workshops and penalty clauses. Phatisa continues to monitor the situation to ensure that progress is made regarding the enforcement of these policies and is happy with the level of progress made thus far.

The current risk assessment conducted by the group-level health and safety manager has highlighted many occupational risks associated with working within the mills. The OHS team has been working hard to ensure full compliance of workers with PPE requirements.

#### Social infrastructure

In 2014, management proposed that the company hospitals be prioritised as they were in critical need of repair and re-equipping. This decision was taken after obtaining informed opinions from community members who also consider the refurbishment of the hospitals to be a priority. Due to the limited funds available, the schools were removed from the programme.

Management submitted a report with costs for borehole drilling at workers' housing and nearby community villages, which the ESGBC approved. Due to the limited amount of funds available for borehole drilling, not all boreholes located on the plantations will be renovated. This project has been initiated and progress is being made, with the entire project being completed in 2016.

#### Certification

Management has committed to introducing best practice at all levels of its operations. Management has accepted the IFC Performance Standards and RSPO Principles as the benchmark standards on which compliance will be monitored. The IFC occupational health and safety standards for plantation crop and vegetable oil processing outline the key performance criteria a company must comply with in relation to occupational health and safety risks. The RSPO standards lay the framework for internationally accepted standards for a company to be considered a sustainable palm oil company. Feronia is making progress towards compliance against these standards.

#### CONTINENTAL BEVERAGE COMPANY

Prior to AAF's investment, three studies were completed on CBC: an EIA, hydro-study, and the SEDD. These three studies provide information on the operational capacity and the possible environmental impacts of the company's operations. The SEDD confirmed that the risk categorisation of the investment is B according to the IFC project risk classification guidelines.

Environmental Management Engineering Company Côte d'Ivoire (EMEC-CI) conducted a hydro-study, using the Cooper Jacobs model to determine the flow rates for pumping of the CBC boreholes. Taking into consideration water flow rates without the integration of groundwater recharge, the model utilised an actual flow rate of pumping at 17 m<sup>3</sup>/h (CBC uses 15 m<sup>3</sup>/h). Over a calculated period of 100 years, the net drawdown would be about 0.37 m. With added variables such as seasonal rains, the drawdown for the period will have a negligible effect on the water table, concluding that the current extraction rate is sustainable.

CBC has addressed many of the requirements identified in the SEDD Environmental and Social Action Plan (ESAP). The following environmental and social recommendations are ongoing:

COMPLETION DATE COMMITTED TO BY MANAGEMENT	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
Noise zones in the plant need to be identified and signage and PPE should be issued accordingly. Occupational exposure monitoring needs to be performed. Emergency policies and gender policy to be developed.	Q3 2014		Completed	
It should be investigated whether the pumping of the borehole water during periods when the plant is closed is possible, without compromising the quality of the bottled water. In this way, wastage of groundwater pumped to the surface should be minimised.	Q1 2013	Completed		
Increasing abstraction rates beyond the 15 m <sup>3</sup> /h stated in the EIA should be approved by the Department of Environment, Water and Forestry.	Q1 2013	Completed		
Consultation should take place with <i>Société de distribution d'eau de la Côte d'Ivoire</i> regarding future water pricing strategies.	Q2 2013	Completed		
As per Appendix I of the Phatisa SEMS, an ESAP is required for all category A and B portfolio companies financed by the AAF.	Q4 2014	Refer to corrective action plan		
Periodic (every three to five years) confirmatory hydrogeological studies should be performed to determine whether the availability of surface water to the ecology and communities has been altered as a result of CBC's activities, or whether the security or quality of water supply from the relevant aquifer has in any way been compromised.	Q4 2012			Completed
Burning of waste to be ceased immediately and recycling opportunities investigated.	Q4 2012			Completed
The EIA noted that there were concerns about traffic risks, child labour and the proximity of the plant to the nearby cemetery, and expectations of employment. Although the risks to the company from these issues are low, it appears as though these concerns could be addressed through corporate social investment initiatives. We are not aware of any CSI initiatives undertaken by CBC and would recommend that these be considered by management going forward.	NA			

**Environmental management plan**

During September 2015, the Phatisa ESG Manager undertook the second annual audit of the company. CBC's facilities and management systems were re-evaluated. Following the audit, it was evident that CBC has overdue deliverables from the original SEDD; however, as a result of the audit, Phatisa's ESG Manager has developed a corrective action plan to address these over-runs. This new action plan highlights expected deliverables to be achieved during 2016.

ITEM	TIME TO COMPLETION	STATUS
CBC must complete an appropriate SEMS, including specifically best practice Health and Safety and Labour Practices of the ILO, OHSAS 18001, ISO14001, IFC Performance Standards, legal and permit requirements, such as appointments, registers, risk assessments, procedures, legal compliance assessments, incident records, emergency response plans and scheduled inspections.	Q2 2016	To be completed after the final OHS policy has been signed off.
CBC must develop and implement an appropriate human resources management system in accordance with IFC Performance Standard 2. A copy must be provided to OPIC as evidence that this has been established.	Q2 2016	Commenced.
Management must purchase a minimum of five first aid kits to be visibly placed in the factory, and the personnel responsible for dispensing first aid should have the required training.	Q4 2015	Complete.
Senior management must accept and budget for the quality assurance action plan.	Management agreement by Q1 2016	Complete.
The laboratories need to be completed and monthly testing of the borehole water quality implemented.	Q2 2016	Commenced.
CBC should purchase its own plastic crushing and pelleting machine in order to handle its own waste plastic.	Q4 2015	Not commenced. Refer below.
The company will need to purchase an appropriate incinerator for the disposal of non- plastic waste.	Q4 2015	Not commenced. Refer below.
Prior to the start of incineration, the company will have to acquire baseline air quality data, and draft an emissions monitoring schedule.	Q4 2015	Not commenced. Refer below.

The SEDD recommendation to stop incinerating waste plastic resulted in CBC contracting a small business owner to crush and recycle the plastic waste. Due to budgetary constraints, the purchase of an incinerator and crusher has been delayed. However, waste plastic material is currently being managed by the appointed approved contractor.

**FARMING AND ENGINEERING SERVICES**

The investment in FES was concluded in November 2013. The table below is a summary of all recommendations made by the external consultant in the SEDD – these recommendations are incorporated into an EMP that forms the basis for monitoring environmental and social performance.

FES has addressed all SEDD recommendations except for the compilation and implementation of a SEMS. It is expected that this item will be fully addressed by the end of Q2 2016.

ITEM	DATE OF COMPLETION	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
<b>FES General</b>					
SEMS to be developed and implemented.	Q2 2014 Revised Q2 2016				

**Social environmental management system**

The SEMS will be drafted separately for each site. Management has insisted that the policy is drafted in accordance with the National Occupational Safety Association (NOSA) as opposed to ISO. As a result, the proposed timeline for compliance will be extended to Q2 2016.

**Certification**

FES has all environmental permits required to operate within Malawian law.

**MERIDIAN**

Environmental Resources Management (ERM) undertook the SEDD during a site visit in July 2014. The SEDD report was finalised and accepted by Phatisa and the two proposed co-investors (Proparco and FMO). The table below is a summary of all recommendations made during the due diligence, with the risk categorisation and status as at the end of the 2015. All recommendations have been included in the ESAP as part of the shareholders' agreement.

ASPECT	REQUIRED ACTION	COMPLETION INDICATOR AND TIMING (MONTHS SUBSEQUENT TO PHATISA INVESTMENT)	STATUS
<b>Meridian Group (corporate) level (human resources)</b>	Hire appropriate resource(s), with the necessary capacity and experience, at Meridian Group level to take responsibility for developing a fit-for-purpose environment health and safety (EHS) and social management system (SMS) at corporate level. The group-level EHS and SMS Manager will be responsible for driving the implementation and ongoing oversight of EHS and SMS officers at subsidiary level.	Three months – shortlist of CVs to be sent to management and candidate to be agreed.  Six months – successful appointment of EHS and SMS manager.	Complete
<b>Meridian Group and subsidiary level</b>	An EHS and SMS will be developed to address the environmental, health and safety, and social risks faced by Meridian Group in accordance with the requirements of the IFC Performance Standards, develop an EHS and SMS with the support of an appropriate external consultant, which is appropriate to the nature and scale of the Meridian Group and commensurate with the level of the environmental and social risks and impacts. The EHS and SMS will incorporate the following elements: i. policy statements; ii. identification of risks and impacts, management programmes – associated procedures and work instructions related to the management of all environmental and social issues, relevant mitigation; iii. organisational capacity and competency – responsibilities and approach to all environmental and social management, inclusive of periodic monitoring and supervision of contractors (where relevant), and training requirements to facilitate the implementation of the EHS and SMS at corporate and subsidiary levels; iv. grievance mechanisms – an appropriate policy and standard operating procedure should be drafted and implemented to deal with employee, supplier, customer and (community) stakeholder grievances; v. to work in collaboration with the site EHS and SMS officers to develop and ensure emergency preparedness and response – devise a site-specific emergency response plan and undertake periodic practice drills; vi. stakeholder engagement; and vii. monitoring and review.	Eight months – Meridian Group EHS and SMS manager to propose Terms of Reference to management.  12 months – external consultant to be appointed.  18 months – for group-level EHS and SMS to be developed and subsidiary level companies to have completed site visits EHS and SMS and started implementing the system.	Commenced, completion expected Q2 2016.
<b>Meridian Group's subsidiaries (human resources)</b>	Appoint/hire appropriate resource(s) at subsidiary level (each site or country-specific), with the necessary capacity and experience, to develop a site-specific fit-for-purpose EHS and SMS based on the subsidiary's operations. The EHS and SMS officer will manage the implementation and ongoing oversight of the EHS and SMS at the site level.	10 months – shortlist of CVs to be sent to management and candidate to be agreed.  12 months – successful appointment of EHS and SMS officer.	Complete.  Complete.
<b>Occupational dust exposure</b>	Undertake occupational dust exposure study in the facilities where the company operates. Based on the findings, implement measures to reduce dust at source (i.e. local exhaust ventilation and filter systems) and/or provide additional PPE. Specialised training may be required. The company will use the IFC Performance Standards to provide the appropriate compliance for dust emissions.	12 months – baseline dust level assessment to be carried out by an external consultant and recommendations to be made.  15 months – implementation of recommendations.	Commenced, ongoing.  Not commenced.
<b>Personal protective equipment (PPE)</b>	The company is to issue appropriate PPE to all members of staff (permanent and temporary) who are working on their sites.  An appropriate register of PPE issued to employees needs to be established. A management programme ensuring appropriate use of PPE will include but not be limited to: • daily tool time talks; • training for employees and management; and • an incentive/negative consequences plan.	Two months – after new EHS managers/officers have been appointed.	Commenced, ongoing.
<b>Health and safety risk assessment</b>	EHS Manager to conduct a health and safety risk assessment of the company's current operations, with independent oversight by an appropriate consultant, following the five-step approach: i. Identify all hazards. ii. Decide who might be harmed and how. iii. Evaluate the risks and decide on precautions. iv. Record findings and implement them. v. Review and periodically update assessment.  If the risk assessments highlight any risks that require monitoring, medical baseline tests, these recommendations will implemented.	12 months.	Commenced, completion expected Q2 2016.
<b>Standard Operating Procedures (SOPs)</b>	SOPs – incorporating the results of the health and safety risk assessment, develop SOPs (including safe and sustainable working practices) for all business operations including, for example, the following: • Land conversion/expansion (sugar cane) – including, where applicable, land acquisition. • Biodiversity conservation. • Fire safety and general safety. • Pests and diseases. • Processing plant. • Road maintenance. • Surface and ground water management. • Safe use and storage of agrochemicals/chemicals. • Control of documents and records. • Waste management (process and domestic waste). • Energy use. • Periodic maintenance. • Internal audit procedures. • Distribution and shipping.	18 months	Commenced, completion expected Q4 2016.

ASPECT	REQUIRED ACTION	COMPLETION INDICATOR AND TIMING (MONTHS SUBSEQUENT TO PHATISA INVESTMENT)	STATUS
<b>Medical surveillance</b>	Undertake a baseline medical test to assess potential occupational health risks to permanent employees that work in direct contact with fertiliser dust on an annual basis.	Three months – baseline medicals at the three fertiliser plants. Six months – implementation of recommendations.	Commenced.
<b>Building integrity</b>	Engage a qualified engineer to review each relevant building's structural integrity. Based on recommendations, certain upgrades to the building structures may be required.	Three months to complete building integrity survey.	Commenced.
		12 months to implement recommendations.	Not commenced.
<b>Hazardous materials disposal</b>	Develop an alternative to burning waste in the open. Use a purpose-built incinerator; alternatively dispose of waste at appropriate municipal sites (approximately 20 km away).	Three months.	Complete, Waste Management Plan compiled.
	Develop a formalised waste management plan focusing on segregation, labelling and safe storage of all waste types.		
<b>Hazardous materials management</b>	Ensure that storage requirements contained in the safety data sheet are satisfied.	One month for procedure.	Complete.
	Request Engen to provide confirmation of the integrity of the tank and install secondary containment around the dispensing points.	Three months – Engen to confirm integrity and install bunding and drainage for dispensing points.	
<b>Inhabitants living in accommodation provided by Meridian</b>	To conduct a census of all persons living on Meridian properties and on the conditions of the housing/accommodation in accordance with the IFC Performance Standards.	11 months.	Not commenced.
	Management must draft contracts to be signed by the workers who reside in staff housing, stipulating the terms and conditions of residence. For retired and non-employees who reside in staff housing, the company must formalise the terms and conditions of residency, including nominal rent, duration etc.	14 months.	Not commenced.
<b>Community safety</b>	Develop code of conduct and provide formal training to security guards on human rights and the prevention of excessive force.	12 months.	Commenced, Code of Conduct complete.
<b>Outgrower development</b>	In the case that the company management decides to implement a programme to support outgrower farmers, a formal monitoring and evaluation plan needs to be developed. A baseline study must be performed to take into account the following parameters: <ul style="list-style-type: none"> <li>Personal details.</li> <li>Land size (total and cultivated).</li> <li>Annual income.</li> <li>Previous, current and future crops.</li> <li>Current inputs (equipment, products and applications).</li> <li>Current yields.</li> <li>Current prices received for sold crops.</li> <li>Main purchaser/user of farmers' crops.</li> <li>Closest dealership.</li> <li>Current issues with crops.</li> </ul> Assign and train extension/support officers from company dealerships to support outgrower farmers in good agricultural practices (OHS, biodiversity, labour issues, etc.).	A baseline study must be completed prior to formal support/development  An action plan must be developed and presented to group-level management.	Commenced.
<b>Trilobite site compliance</b>	Management should confirm the location of the trilobite site, and if the trilobite site is located on the premises of Transalt; management must report the discovery of trilobite to the relevant local heritage authorities, as well as inform the authorities of the proposed consultant who will be conducting an assessment of the discovery. Once an assessment has been completed the recommendations should be presented to the local authorising body. If the trilobite site is not located on the Transalt premises, this should be recorded and disclosed.	Three months to inform the authorities and appoint the necessary specialists, if required.	Trilobite site confirmed to be outside of operational boundary. No action required.
<b>Mangrove and trilobite protection</b>	Develop specific management measures and programmes for the protection of mangrove ecosystems and the trilobite discovery site, aligned with the relevant national authority and IFC Performance Standards.	Six months to appoint the necessary specialists	No action required.
<b>Thundulu phosphate quarry development</b>	A detailed ESIA must be carried out prior to the site being converted into an extraction and processing unit. The ESIA must be in accordance with the IFC Performance Standards for Environmental Social Impact Assessments. A detailed closure plan should be undertaken before the commencement of mining, or construction of processing infrastructure. The above should be undertaken irrespective of whether regulatory approval to commence with quarrying has already been obtained.	NA – to be undertaken at least 12 months prior to commencing project construction	Process on hold.
<b>Demeter Seeds Farm development</b>	Prior to large-scale development of sugar cane cultivation and processing infrastructure at the Demeter Seeds Farm, an ESIA should be performed according to the IFC Performance Standards.	NA – to be undertaken at least 12 months prior to commencing project construction	Sugar cane cultivation plan delayed.

#### Resource recruitment

During latter 2014, Meridian advertised the position for a group-level Environmental Health and Safety Officer. A shortlist of possible candidates was submitted to the Phatisa ESG Manager for evaluation. The final three candidates were informed of their selection and were interviewed in February 2015. This post has since been filled. Meridian management are putting in place additional ESG resources.

#### GENERAL PLASTICS LIMITED

The SEDD for GPL was completed in July 2014 by an appointed ESG consultant. The table below is a summary of all recommendations made within the SEDD. The company is currently working towards achieving compliance with these recommendations.

N°	ASPECT	REQUIRED ACTION	COMPLETION INDICATOR AND TIMING (MONTHS SUBSEQUENT TO PHATISA INVESTMENT)	STATUS
1	<b>Social Environmental Management System</b>	Develop a comprehensive SEMS across all operations, including specifically the best practice Health and Safety and Labour Practices of the ILO, OHSAS 18001, ISO 14001, IFC Performance Standards, legal and permit requirements, such as appointments, registers, risk assessments, procedures, legal compliance assessments, incident records, grievance mechanisms, stakeholder engagement mechanisms, an integrated pest management plan, waste management plan, scheduled inspections, etc. Results of regular internal and external audits should be communicated to and reviewed by management.		Commenced
2	<b>OHS policies and procedures</b>	Develop formal training schedules and material for all staff on environmental, health and safety policies and procedures.	Q4 2015	Commenced
3	<b>Employee training</b>	Develop training initiatives to up-skill Kenyan staff operating on the shop floor so that they can potentially fill management positions in the future. This would reduce the need to hire staff from outside Kenya.	Q2 2016	Commenced
4	<b>Personal Protective Equipment</b>	Regularly replace worn or broken PPE.	Q4 2015	Commenced
5	<b>Contamination prevention</b>	Install bunding around generators and diesel storage tanks to contain spillages.	Q4 2015	Commenced
6	<b>Effluent testing</b>	Perform regular testing on wastewater leaving the facilities and entering the municipal sewage system to ensure contamination has not occurred and water quality is adequate, according to national regulations.	Q1 2016	Not commenced
7	<b>Asbestos protection</b>	Paint asbestos roofing to contain asbestos fibres. Routinely monitor and maintain asbestos roofing. When replacement of roofing is required, non-asbestos roofing must be utilised.	Q3 2016	Commenced
8	<b>Fire safety</b>	Install a sprinkler system throughout all facilities to prevent the spread of any potential fires.	Q2 2016	Not commenced
9	<b>Emergency equipment checks</b>	Ensure that luminescent emergency exit signage is installed to ensure the sign is visible in low light conditions.	Q4 2015	Commenced
10	<b>Security</b>	Install a lockout system to prevent unauthorised access to the shop floor.	Q4 2015	Commenced
11	<b>Medical baseline checks on staff</b>	Perform medical checks on hiring and exit of workers from the company, to improve monitoring of occupational diseases.	Q4 2016	Not commenced
12	<b>HACCP</b>	Ensure that all machines are installed with mechanical breaks, which lock revolving parts when the machinery doors are opened.	Q3 2016	Not commenced
13	<b>Employee shift schedules</b>	The shift system should be amended so that all workers only work the hours that they are contracted to work.	Q1 2016	Not commenced
14	<b>Customer complaints</b>	A formal customer complaints register should be implemented and maintained.	Q1 2017	Not commenced
15	<b>Noise monitoring</b>	Implement a monitoring system to check that noise levels outside of designated noise zones do not exceed 80 decibels to protect the hearing of workers.	Q2 2016	Not commenced
16	<b>Staff salaries</b>	The company should undertake a review of temporary workers' salaries, and where justifiable equate the salary scale to the permanent workers' salary scale. Temporary workers' wages are to be aligned with the minimum sector wage published within the country.	Q4 2015 Revised Q2 2016	Not commenced
17	<b>Staff meals</b>	Providing shop floor staff with one meal per shift and a transport subsidy may assist in reducing staff fatigue and staff turnover.	Q4 2016	Not commenced
18	<b>Staff performance</b>	Develop and implement a performance review system for workers.	Q4 2016	Not commenced
19	<b>Alcohol testing</b>	GPL administer breathalyser tests to workers on arrival to prevent any employees who are under the influence of alcohol from operating machinery.	Q4 2015	Not commenced
20	<b>Stock stacking</b>	In warehouses install a second floor or shelving systems to ensure safe stack heights.	Q3 2016	Not commenced
21	<b>Waste recycling</b>	Initiate or support a recycling scheme targeting the end users of GPL's products.	Q4 2017	Not commenced

## AAF SME FUND

Please refer to the 2015 AAF SME Fund ESG Annual Report.

## CONCLUSION

Phatisa recognises that identification of ESG opportunities and risks early in the deal process is critical when determining the long term feasibility and sustainability of investments. As evidenced above, Phatisa has applied this principle to every investment opportunity.

In general, agricultural projects are rated as Category B in terms of the World Bank classification system. Projects with outgrower supply systems offer significant opportunities to improve social conditions in the broader community. A lack of regulatory enforcement and clear legislative guidelines will, in most cases, require that AAF invests in improving labour conditions, especially health and safety and environmental monitoring and performance, post-investment.

In general, however, none of these risks have presented themselves as fatal flaws, nor require conditions precedent to be included in any investment agreements.

Phatisa remains committed to contributing to the development of sustainable communities in Africa, by enhancing both food security as well as social and environmental benefits, and looks forward to future reporting on subsequent developments.

Finally, I am delighted to report that the Fund is in compliance with the AAF Social Environmental Management System and Phatisa Anti Money Laundering Policy.



Robert Kruger  
*Phatisa ESG Manager (AAF SEMS Manager)*



## ANNEXURE

**ANNEXURE A – ANNUAL SOCIAL AND ENVIRONMENTAL PERFORMANCE REPORT AS SET OUT IN APPENDIX F OF THE SEMS**

**ANNEXURE B – ADDITIONALLY AND DEVELOPMENT OUTCOMES ASSESSMENT REPORT AS SET PUT IN APPENDIX H OF THE SEMS**

**ANNEXURE A**  
**ANNUAL SOCIAL AND ENVIRONMENTAL PERFORMANCE REPORT AS SET OUT IN APPENDIX F OF THE SEMS**

<b>ORGANISATION:</b>	African Agriculture Fund (AAF)
<b>COMPLETED BY (NAME):</b>	Stuart Bradley
<b>POSITION AND CONTACT INFORMATION:</b>	Joint Managing Partner Phone +27 (0)11 463 1920 Email: stuartbradley@phatisa.com

**Portfolio information**

Report covering period

<b>FROM</b>	<b>TO</b>
January 2015	December 2015

Fund business lines and portfolio type

PRODUCT LINE	EXPECTED HOLDING PERIOD	TOTAL EXPOSURE	AVERAGE TRANSACTION SIZE	MAXIMUM TRANSACTION SIZE
Listed equity	8 – 10 years	US\$19.5m	US\$19.5m	US\$19.5m
Private equity	8 – 10 years	US\$86.8m	US\$10.9m	US\$24.9m
Market debt instruments				
Privately placed debt				
Other – mezzanine finance	5 years	US\$31.0m	US\$5.2m	US\$9.5m

**EXPOSURE BY INDUSTRY SECTORS**

INDUSTRIAL SECTOR	INDICATIVE PERCENTAGE OF INVESTMENTS
Rice production	
Maize production	
Wheat production	
Soya production	
Barley production	
Other cereals production	
Cereal processing	
Cereal distribution	
Protein production	17.2%
Roots and tubers	
Cattle industry	
Dairy products	
Non-alcoholic beverages	3.5%
Fruit products	
Seed production	
Fats and oils	28.9%
Food production and processing	
Fertilisers and crop protection chemicals	15.4%
Agri infrastructure	
Food in country (FMCG) including packaging	
Plastic packaging and closures	9.9%
Rural domestic credit institutions	
Insurance companies covering agricultural risks	
Small and medium-sized enterprises	17.3%
Farming equipment suppliers	7.7%

**INFORMATION ON EXPOSURES OF PORTFOLIO COMPANIES**

COMPANY NAME, LOCATION	INDUSTRY SECTOR	DESCRIPTION OF COMPANY	INVESTMENT TYPE AND AMOUNT	ENVIRONMENTAL CATEGORY	ENVIRONMENTAL ISSUES AT APPROVAL	CURRENT ENVIRONMENTAL STATUS/ANY CHANGES SINCE LAST REPORT
Goldtree	Fats and oils	Palm oil processing	US\$7.5m equity and US\$9.5m debt	B	ESIA submitted to Sierra Leone EPA to issue certificate for mill operator license	ESIA process initiated for nucleus expansion project
Goldenlay	Protein production	Poultry egg laying and processing	US\$ 700,000 equity and US\$18.1m shareholder loans	B	Recommendations as per SEDD	Integrated SEMS for all operations
CBC	Non-alcoholic beverages	Water bottling	US\$1.9m equity and US\$3.1m shareholder loans	B	N/A	New CAP
Feronia	Fats and oils	Palm oil processing	US\$19.5m equity and US\$4.8m debt	B	N/A	ESIA process and HCV assessment complete for all plantations
FES	Farming equipment	Farming equipment	US\$11.1m equity	B	N/A	SEMS documentation compilation
Meridian	Fertiliser blending and distribution	Fertiliser blending and distribution	US\$17m equity and US\$5m bridge finance	B	Recommendations as per SEDD	New CAP for all operations
GPL	Production of plastic packaging	Packaging manufacture	US\$5.6m equity and US\$8.6m debt	B	Recommendations as per SEDD	Recommendations as per SEDD
AAF SME Fund	Food and agri business SMEs	Private Equity Fund	US\$24.9m equity	FI	None – bound by AAF SEMS	No change

SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM (SEMS) INFORMATION		YES/NO	
<b>POLICIES AND PROCESSES</b>			
Have there been any updates to the environmental policy adopted by your organisation?		No	If yes, please provide a copy of the updated policy, including date when it was issued and reasons for the same.
Has senior management signed off on the updated policy/procedure?		N/A	
Has the budget for the implementation of the policy/procedure been revised from the previous year?		Yes	US\$ 30,000 for annual audits US\$ 19,200 external consultant retainer.
Describe any activities for the last FY for staff training and other internal communication.			
Give details of any transactions rejected on environmental, health, safety or social grounds.		None.	
State any difficulties and/or constraints related to the implementation of the environmental procedures.		None.	
Describe how you ensure that your clients and their portfolio companies are operated in compliance with national laws and regulations and (if applicable) the IFC's Performance Standards and AfDB's ESAP.			Legal requirement as part of standard AAF legal documents (shareholders' agreement) and thereafter monitored.
Provide two samples of internal E&S review reports conducted for portfolio companies considered last year. (Only if following IFC's Performance Standards and AfDB's ESAP is an applicable requirement).			A requirement of AAF is that the first five SEDD reports are submitted to AfDB for review. Goldtree, Goldenlay (including Kanyenda and Kafubu), CBC and Feronia have been submitted and cleared as presented.
Please give detail of any material environmental and social issues associated with investees during the reporting period in particular.			See main report above.
Do you consider compliance with national laws as part of your credit review process, when considering potential investments?		Yes	
Do you review the operational performance (non-financial) of industrial facilities you invest in?		Yes	Annually
Do you conduct site visits for any industrial facilities you invest in?		Yes	Annually
Do you know whether your clients and their portfolio companies are in compliance with the relevant environmental, health and safety regulations of the host country?		Yes	
Have you invested in portfolio companies that entail acquisition of land?		No	
Indicate whether you have worked with any international finance institution (for instance AfDB, EBRD, IDB, NIB and IFC) and have used their environmental and social guidelines.		Yes	Work with IFC and AfDB guidelines and AfDB review the SEDDs.
Do you regularly update the social and environmental management system (SEMS)?		Yes	Reviewed annually.
<b>CAPACITY</b>			
Provide current staffing of the core SEMS people as well as a list of other people in the organisation involved with the SEMS implementation.			Stuart Bradley Robert Kruger (Christoph Scaife)
What was the budget allocated to the SEMS and its implementation during the year? (Include staff costs, training as well as any actual costs)			US\$ 19,200 due diligence US\$ 30,000 annual monitoring US\$ 5,000 training
Has the SEMS team undergone any training?		Yes	
<b>MONITORING</b>			
Do you receive any non-financial reporting from industrial portfolio companies you invest in?		Yes	Quarterly updates.
Describe how you monitor investee environmental performance, provide the following information:			Annual or semi annual site visits are conducted against the IFC Sector supplements (if available) or against relevant ISO standards.
<ul style="list-style-type: none"> <li>Number of portfolio companies in portfolio classified as category A or B.</li> <li>Number providing annual reports.</li> <li>Number of portfolio companies where a field visit was conducted by an AAF member of staff to review aspects, including environmental and social issues.</li> </ul>		7 3 6	
Please provide details of any accidents /litigation/regulatory notices and fines:		Yes	Accident report in main body of report (Feronia).
<ul style="list-style-type: none"> <li>Any incidents of non-compliance with applicable requirements.</li> <li>Covenants/conditionality imposed by AAF as a result of any non-compliance.</li> </ul>			
Do you check for ongoing compliance of your investments with national regulation or any other requirements?		Yes	
<b>REPORTING</b>		<b>YES/NO</b>	
Is there an internal process to report on environmental and social issues to senior management?		Yes	
Do you have a process to inform AfDB of any material change in business?		Yes	
Do you inform AfDB if there is any incident/accident at one of the portfolio companies?		Yes	
Do you report to AfDB as per the agreed upon format and schedule?		Yes	

**ACTIVITIES ON THE EXCLUSION LIST**

If any, indicate the Dollar percentage of loans or investments out of your total outstanding exposure provided to clients who are substantially involved in IFC excluded activities.	Zero
If the percentage is not zero, please explain these exposures and any steps having been taken to reduce such exposure.	-

**SUSTAINABLE FINANCE**

Have you made any investments in portfolio companies that have environmental and social benefits, such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply-chain greening, corporate social responsibility, community development, etc.? List these in the format provided below:		
Company name	Value financed by the company	Type of environmental benefit
Goldtree	US\$17.0m	Building of a new and only palm oil mill in Sierra Leone to support 8,000 outgrowers and improve livelihoods, as well as improve operational activities that has environmental impacts that can be mitigated.
Goldenlay	US\$24.5m US\$7m repaid	Building new employee houses, connecting more households to electricity and clean water, greener and more accountable operational practices, more energy efficient faccos, improved monitoring of poultry health.
CBC	US\$5m	Improved operational health and safety practices, reduction in air emissions, and improvement of abstraction rates from underground water sources.
Feronia	US\$24.3m	Building of a new palm oil mill that operates at a better energy efficiency, introduction of improved environmental management systems (RSPO), improved occupational health and safety monitoring.
FES	US\$11.1m	Introduction of a SEMS to provide adequate policies and procedures to all operations. This will include safety signage, fire preparedness procedures, spent oil usage mechanisms, etc.
Meridian	US\$22m	Appointment of EHS and environmental officers, replacement of asbestos, risk assessments, SEMS policy and operational proficiency.
General Plastics Limited	US\$ 4.2m	Improve overall management systems and operational efficiencies. Implement an auditable environmental and social management system.
AAF SME Fund	US\$30m	Focussed on food and agri business SMEs across Africa.

## ANNEXURE B

## ADDITIONALITY AND DEVELOPMENT OUTCOMES ASSESSMENT REPORT AS SET OUT IN APPENDIX H OF THE SEMS

<b>FUND NAME:</b>	African Agriculture Fund (AAF)
<b>FUND SIZE:</b>	US\$ 246 million
<b>OPSM CONTRACT:</b>	-
<b>YEAR:</b>	2015
<b>SPONSOR CONTACT:</b>	Stuart Bradley
<b>POSITION:</b>	Joint Managing Partner
<b>EMAIL:</b>	stuartbradley@phatisa.com

**CHARACTERISTICS OF ACTIVE INVESTEE PROJECTS:** Specify unit of measure for each item and use bank definition for sectors. Add lines if needed.

	YEAR OF INITIAL INVESTMENT	COUNTRY OF HQ LOCATION	SECTOR	TYPE (START-UP, DEVELOPMENT CAPITAL, VENTURE, EXPANSION, LBO, MBO)	CURRENCY	AMOUNT OF EQUITY INVESTED BY THE FUND	AMOUNT OF DEBT INVESTED BY THE FUND	FOLLOW ON INVESTMENT	EBIDA AT INVESTMENT	EBIDA MOST RECENT DATA	TURNOVER AT INVESTMENT	TURNOVER MOST RECENT DATA	CO-INVESTORS	
Goldtree	2011	Sierra Leone	Palm oil	Start-up	US\$	US\$7.5m	US\$9.5m	-	-	(US\$1.7m)	N/A	US\$2.4m	Finnfund	Operations to commence Jan 2013
Goldenlay	2012	Zambia	Poultry	MBO	US\$	US\$0.7m	US\$13m	US\$4.4m	US\$4.9m	US\$3.9m	US\$12.5m	US\$14.8m	N/A	Financial year end is March
CBC	2012	Côte d'Ivoire	Non-alcoholic beverages	Expansion	US\$	US\$1.9m	US\$3.1m	-	-	US\$3.3m	US\$7m	US\$8.5m	N/A	
Feronia	2012	DRC	Palm oil	Expansion	US\$	US\$19.5m	US\$4.8m	-	-	(US\$10.2m)	US\$7.5m	US\$17.2m	Listed and CDC Group	
FES	2013	Malawi	Farming equipment	MBO	US\$	US\$10.1m	-	US\$1m	US\$4.3m	US\$3.8m	US\$15.3m	US\$14m	N/A	
Meridian	2014	Malawi and Mozambique	Fertiliser blending & distribution	MBO/Expansion	US\$	US\$17m	US\$5.0m	-	US\$18.8m	US\$18.0m	US\$250m	US\$208m	N/A	
GPL	2014	Kenya	Plastics packaging manufacture	Expansion	US\$	US\$5.6m	US\$8.6m	-	US\$2.1m	US\$1.1m	US\$20.1m	US\$19.2m	N/A	

NAME OF INVESTEE	EBIDA – MOST RECENT DATA	TURNOVER AT INVESTMENT	TURNOVER – MOST RECENT DATA	EMPLOYMENTS AT INVESTMENT	EMPLOYMENT – MOST RECENT DATA	FEMALE EMPLOYMENT CREATED SINCE INVESTMENT	TAXES PAID TO GOVERNMENT AT INVESTMENT	TAXES PAID TO GOVERNMENT MOST RECENT	EXPECTED GROSS IRR	CURRENT GROSS IRR (IN CURRENCY OF INVESTMENT)	CURRENT GROSS IRR	CURRENT NET IRR	CHANGE IN TOP 3 MANAGERS (Y/N)	IMPROVED BUSINESS PROCEDURE/PROCESS (Y/N)
Goldtree	(US\$1.7m)	N/A	US\$2.4m	0	748	118	N/A	US\$0.13m	4.8%	(0.2%)	(0.2%)	N/A	Y	Y
Goldenlay	US\$3.9m	US\$12.5m	US\$14.8m	178	346	45	US\$1.2m	-	20%	8%	8%	N/A	Y	Y
CBC	US\$0.3m	US\$5m	US\$8.5m	60	89	24	0	US\$0.05m	28%	9.7%	9.7%	N/A	N	Y
Feronia	(US\$10.2m)	US\$7.5m	US\$17.2m	3,559	3,754	193	US\$1.2m	US\$0.2m	15%	0.9%	0.9%	N/A	Y	Y
FES	US\$3.8m	US\$4.3m	US\$14.0m	150	127	13	US\$0.54m	US\$0.09m	30%	38.4%	38.4%	N/A	N	Y
Meridian	US\$18.0m	US\$16.9m	US\$208.0m	2,430	2,588	530	US\$2m	US\$0.4m	23.4%	27.9%	27.9%	N/A	N	N/A
GPL	US\$1.1m	US\$19.46	US\$19.2m	972	1,087	31	US\$0.06m	-	30%	0.1%	0.1%	N/A	N	Y

## CORE INDICATORS AT THE LEVEL OF THE FUND

	UNIT OF MEASURE	INDICATOR VALUE
<b>Employment:</b> Number of permanent jobs (total).	Persons employed	8,739
<b>Female employment:</b> Number of permanent jobs for women.	Persons employed	954
<b>Government revenue:</b> Net financial flows to the government (including taxes, dividends, subsidies, grants and any other payment, net of any subsidies and investment costs).	US\$m	0.859
<b>Fund multiplier.</b>		N/A



## FEEDING AND HOUSING AFRICA

### OUR VISION

To be the leading sector-focused  
**development equity** fund manager  
in Africa

#### Our vision will be achieved through:

- Employing best in class private equity and sector professionals.
- Being dedicated to the needs of our investors.
- Committed to development, transparent in all that we do and recognised for our ethical approach.
- Supporting and nurturing our investments to optimise value.
- Managing sector focused funds through a network of offices across Africa.

$$\text{DevEq} = \text{PAT} * x + i^2$$

TM



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