



Sustainability-related product disclosure: The Regional Education Finance Fund for Africa

In accordance with Chapter IV, Article. 45-57 and Article 9(1), (2) and (3) of Regulation (EU) 2019/2088

1. Summary

Based on the significant education needs in Africa, the Regional Education Finance Fund for Africa (REFFA) or the “Fund” was initiated in 2012 with the main objective of increasing equal access to primary, secondary, vocational and higher education in Africa, while also contributing to increase education quality. REFFA was initiated by KfW, the German Development Bank and funded by the German Federal Ministry for Economic Cooperation and Development (BMZ). As of 2017, the Fund was also sponsored by the UK Development Finance Institution (CDC). The OPEC Fund for International Development (OFID) and private investors also joined the Fund as of 2017.

2. No significant harm to the sustainable investment objective

The fund does not directly invest in sectors, which are prohibited by the IFC Exclusion List. Furthermore, inherent to the investment process is an ESG and Impact assessment (B.Impact Framework). The ESG Spirit Scorecard developed by BlueOrchard is a dedicated tool and process to assess investees’ environmental, social and governance risks and practices. It is aligned to international standards like the ILO Labor Convention. The Impact Spirit Scorecard verifies, amongst others, that the potential investment side effects do not cause significant harm to other sustainable investment objectives. BlueOrchard’s proprietary tools are based on the Operating Principles for Impact Management.

3. Sustainable investment objective of the financial product

The Fund aims at increasing the access of lower income households in Africa to affordable education, as well as improving the quality and affordability of education by increasing the availability of education finance.

4. Investment strategy

REFFA aims at achieving its objective by providing funds to financial intermediaries in Africa for on-lending and expand their education loan portfolios. Financial intermediaries include banks, microfinance institutions, credit co-operatives and other finance companies across Africa. Sustainability risk is reflected in the overall impact investment process and makes part of the variable compensation scheme.

5. Proportion of investments

All REFFA investments (100%) are screened according to BlueOrchard’s proprietary ESG and Impact screening methodology. The remaining is invested in cash or money market funds.

6. Monitoring of environmental or social characteristics

All investments of REFFA are regularly monitored for their social component by a dedicated team of monitoring specialists. Specific impact related indicators relevant for the Fund, e.g. number of loans to students and private schools, are monitored at the investee level on quarterly basis throughout the life of the investment. Additionally, the ESG Spirit Scorecard is updated on a biennial frequency and the Impact Spirit Scorecard in case the impact objective may not be attained.

7. Methodologies

The Fund combines a top-down approach of strategic asset allocation with a rigorous bottom-up credit analysis and underwriting process. ESG and impact measurement and management is an integral part of the investment process. Each prospective investment is analyzed via a three-step ESG and Impact assessment framework consisting of (1) ESG assessment: a dedicated tool and process to



assess a project's environmental, social and governance risks and practices, (2) Impact Assessment: a dedicated tool and process to assess a project's potential impact, (3) SDG Mapping & alignment: a dedicated SDG methodology allowing for SDG mapping at fund and investment level.

8. Data sources and processing

The B.Impact framework consists of a holistic approach to manage and measure ESG risks and impact potential across asset classes and impact themes. The two separate developed scorecards are looking at ESG risks and practices of a company and the impact generated by the investment. Most information is collected through direct contact with REFFA investees and their information on the underlying portfolio, policies and procedures, organizational structure, business plans, etc. which will form part of the proprietary tools and processed accordingly.

9. Limitations to methodologies and data

Given the fast-paced development of ESG and Impact management tools and methodologies across the industry, BlueOrchard's proprietary tools are reviewed and updated on a regular basis to drive industry best-practice. The last update was reviewed and launched in December 2020. Using a proprietary tool eases comparability across the investments based on the same metrics and standards.

10. Due diligence

Each investee financed by REFFA needs to go through a rigorous on-site Due Diligence process. The Due Diligence process focuses on financial and social performance and can be broken down into two components: (1) Industry information collected through meetings with local regulators, associations, rating agencies, other lenders, etc., and (2) due diligence of the investee where the investment officers assess in detail policies, procedures, processes and practices of the investee. The due diligence is comprised of interviews with the senior management and directors and loan file reviews and more broadly assess credit underwriting and risk management tools and processes.

11. Engagement policies

Engagement policy is part of the ESG framework (Investment Process Level). To maximize the intended social impact, REFFA has a Technical Assistance Facility (TAF) endowed with public and private grant funds to (i) enhance institutional capacity of REFFA's investees for education lending, (ii) provide market information, and (iii) foster innovation.

12. Attainment of the sustainable investment objective

REFFA was created to address the fundamental challenges of increasing access and quality of education in Africa; a direct comparison of the Fund with available benchmarks is not the case (Article 9 (2) no index designated as its reference benchmark). The fund maps its impact to the Sustainable Development Goals (SDGs) via a dedicated SDG methodology allowing for SDG mapping at fund and investment level.

For more information on BlueOrchard's proprietary ESG & Impact measurement tool in relation to this sustainability-related product disclosure please contact: info@blueorchard.com