# Sustainability-related disclosures for Regulation (EU) 2019/2088

*Website disclosure for Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR)*

## Glossary

**Minimum Safeguards** requested by the Sustainable Finance Disclosure Regulation "SFDR" refer to principles highlighted in:

- The International Labor Organization (ILO) to promote fair treatment, equal opportunity for workers and decent work conditions
- The International Bill of Human Right (UN)
- The Guiding Principles on Business and Human Rights (UN)
- When applicable, the OECD Guidelines for Multinational Enterprises

**"Sustainable Finance Disclosure Regulation" or "SFDR"**: Regulation (Eu) 2019/2088 of the European Parliament and of The Council of 27 November 2019 on Sustainability-Related Disclosures in The Financial Services Sector.

**Sustainability Risks** are defined as environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. This definition is aligned with the Sustainable Finance Disclosure Regulation (SFDR) and refer to the regulation (EU 2019/2088).

**Principal Adverse Impacts indicators** ("PAIs") are the mandatory Principal Adverse Impact indicators outlined in Table 1/Annex I of the Commission Delegated Regulation (EU) 2022/1288, as may be amended from time to time ("RTS"), and the two additional PAIs selected as optional indicators dedicated for the sub-Fund in question. For the purpose of the do no significant harm test pursuant to Art.2, Number 17 SFDR, all these indicators will be referred collectively as PAIs.

## (a) Summary

The GCA Fund and its sole sub-Fund, the FIR[1] (hereafter referred as the "sub-Fund") were initiated by the Grameen Credit Agricole Foundation, also Investment Advisor of the GCA Fund (the "Investment Advisor" or "the Foundation"). Innpact Fund Management S.A. is the alternative investment fund manager of the Sub-Fund (the "AIFM"). The GCA Fund qualifies as an alternative investment fund in accordance with the Law of 12 July 2013 on alternative investment fund managers) and the SFDR classification (Art. 9).

The sub-Fund targets a sustainable investment objective within the meaning of Article 9 of the SFDR Regulation. The sub-Fund aims at offering financial instruments to partner Microfinance Institutions (MFIs), which are selected according to their social goals and caters in priority to rural MFIs whose core mission is to combat poverty and promote the financial inclusion of the poorest, and mostly women, through a range of suitable and accessible microfinance services. This sustainable investment objective is reflected throughout the investment process of the sub-Fund as reflected in eligibility criteria and monitoring systems. Both allow to check compliance with

[1] FIR stands for Finance Inclusive en milieu Rural in French, which translates as Rural and Inclusive Finance in English.

Minimum Safeguards and are adapted to the ESG risk profile of the potential investee. In addition, the sub-Fund is actively engaging with partner MFIs to encourage the adoption of better management practices on environmental and social issues when risks are identified.

## (b) No significant harm to the sustainable investment objective

The sub-Fund ensures that investments do no significant harm throughout its investment process, by taking into account sustainability factors in the initial screening of counterparties, in the due diligence, in the documentation and through an adapted on-going monitoring. All steps of the investment process ensure compliance with Minimum Safeguards while the reporting and monitoring steps includes PAIs. In addition, potential investments are screened against the sub-Fund's exclusion list and an ESG risk matrix defining relevant due diligence and mitigating measures. This step also serves to ensure that investees implement good governance practices. The ESG rating approach, eligibility criteria and processes are detailed in the ESG policy of the sub-Fund (available upon request).

The investment committee is informed of Sustainability Risks related to the proposed investment and of its compliance with ESG eligibility criteria. This ensures that sustainable investments do not cause significant harm to the environment, clients, employees and communities of partner MFIs and therefore do not cause significant harm to the sub-Fund's objective.

i) Integration of adverse impacts on sustainability factors

As part of the Sub-Fund's management of adverse impact, the AIFM and the Investment Advisor are progressively implementing a consistent approach to collect data on PAIs. All PAIs will be reported with data at the investee level and not at the end-client level. When the investee is able to report the required data, the sub-Fund will report data provided by the investee and checked by the Investment Advisor. When this is not the case, the sub-Fund will report ratios provided by a specialized provider able to generate relevant proxies based on the characteristics of the investee's loan portfolio. Given the expected risk profile of the sub-Fund's investees, the adverse impacts related to some PAIs are expected to be negligible but the sub-Fund will report on them in order to serve the spirit of the regulation.

**Mandatory indicators of Table 1/annex I of CDR 2022/1288**

| # | PAIs | Level | Source | Comment |
|---|---|---|---|---|
| 1 | GHG emissions | Investee | Work with data providers | |
| 2 | Carbon Footprint | Investee | Work with data providers | |
| 3 | GHG intensity of investee companies | Investee | Work with data providers | |
| 4 | Exposure to companies in fossil fuel sector | Investee | Reported by investee | Negligible risk |
| 5 | Renewable energy % consumption, production | Investee | Proxy based on national data | |
| 6 | Energy Consumption per high impact climate sector | Investee | Work with data providers | Negligible risk |
| 7 | Activities near biodiversity sensitive areas | Investee | Plan to work with data providers | Negligible risk |
| 8 | Emissions to water | Investee | Plan to work with data providers | Negligible risk |
| 9 | Hazardous waste | Investee | Plan to work with data providers | Negligible risk |
| 10 | Violations to UNGC principles and OECD Guidelines | Investee | Reported by investee | |
| 11 | Monitor compliance with UN Global Compact | Investee | Reported by investee | |
| 12 | Unadjusted Gender Pay Gap | Investee | Reported by investee | |
| 13 | Board gender diversity | Investee | Reported by investee | |

| | | | | |
|---|---|---|---|---|
| 14 | Exposure to controversial weapons | Investee | Reported by investee | Excluded from financing |

**Additional indicators selected in Table 2 & 3 /annex I of CDR 2022/1288**

| # | PAIs | Level | Source | Comment |
|---|---|---|---|---|
| 1 | Investments in companies without carbon emission reduction initiatives | Investee | Reported by investee | |
| 2 | Lack of grievance/ complaints handling mechanism related to employee matters | Investee | Reported by investee | |

The AIFM will work in close collaboration with the Investment Advisor, the Grameen Credit Agricole Foundation, on this process. The aim is that PAIs are analyzed throughout the investment process and determine if relevant a remediation plan on negatively assessed PAIs. Based on this assessment, the AIFM will not knowingly approve any Investment which is expected, or is determined, to do significant harm to any Environmental or Social Objective as detailed in Article 2(17) of Regulation (EU) 2019/2088.

The AIFM will engage with the Investment Advisor to capture relevant PAIs data for the first PAIs reporting in 2023 and to ensure that data on PAIs regarding the investees is collected on periodic basis depending on the investees' capacity to report and the availability of proxies where needed.

ii) Alignment with Minimum Safeguards

Each new investment is evaluated with dedicated questionnaires (including the SPI4-ALINUS tool and the AML-FT questionnaire) administrated during due diligence and that include specific questions on the processes implemented at the investee level to ensure its compliance with Minimum Safeguards related to human rights such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights including the declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO) and the International Bill of Human Rights. Although OECD Guidelines for Multinational Enterprises may not always be applicable to the sub-Fund's investees since the latter are not Multinational Enterprises, the underlying principles are assessed as part of the due diligence questionnaire when they apply to the investee.

In addition, each new investee is screened on relevant online softwares and search engine to ensure that it is not involved in bribery or corruption or in violations of human rights, labour rights or consumer rights. The results are presented in the investment proposal submitted to the IC. The aim is that Minimum Safeguards are analyzed throughout the investment process and based on this analysis, the AIFM will not knowingly approve any Investment which is expected, or is determined not to respect the Minimum Safeguards.

The contractual documentation also ensures that the investee undertakes to maintain its compliance with Minimum Safeguards and the sub-Fund's exclusion list during the life of the loan and reports to the Fund in case of incompliance. Specific reporting on the SPI4-ALINUS tool during the life of the loan and checked by the investment advisor also ensures that sustainable investments remain aligned with Minimum Safeguards.

## (c) Sustainable investment objective of the financial product

The investment objective of the Sub-fund is to contribute to the fight against poverty in developing countries by providing access to adapted financial services to communities in rural areas. The sub-Fund's investments contribute to the sustainable investment objective as well as to one or several of the following UN Sustainable Development Goals (SDGs):

- **SDG 1**: Helping to fight poverty: The sub-Fund helps fight poverty by financing and supporting organizations that facilitate access to financial and essential services for vulnerable segments of the population: rural populations and micro-entrepreneurs.
- **SDG 2**: Strengthening food security in rural areas: The sub-Fund contributes to food security by financing food-producing agriculture in rural areas.
- **SDG 5**: Supporting the empowerment of women through entrepreneurship and financial inclusion: it finances and supports microfinance institutions that promote financial inclusion and the empowerment of women through entrepreneurship.
- **SDG 8**: Promoting sustained economic growth and decent work: The sub-Fund seeks to promote economic development that creates quality jobs by financing small and medium-sized businesses. It uses the ALINUS tool to measure the social performance of microfinance institutions, including responsible treatment of employees.

## (d) Investment strategy

*Investment Strategy used to attain the sustainable investment objective*
The sub-Fund aims at offering financial instruments to Partner Microfinance Institutions, which are selected according to their social goals. These should be in line with the sustainable objective of the sub-Fund. The Fund caters in priority to rural Microfinance Institutions whose core mission is to combat poverty and promote the financial inclusion of the poorest, mostly women, through a range of suitable and accessible microfinance services.

The sub-Fund works in Sub Saharan Africa, Asia, Middle East and North Africa, and Central Europe. Its countries of operations will be selected according to criteria of poverty and access to financial services. The sub-Fund offers mostly unsecured senior loans in local currency, with a loan tenor typically ranging from three to four years and a pricing reflecting the level of risk-taking and the general market conditions.

The investment strategy is implemented into four phases, each one considering the Sub-Fund’s impact and sustainability objectives through an analysis of key characteristics of the investee and related sustainability factors:

- Initial presentation of opportunities to the sub-Fund, aiming at either confirming the due diligence, conditioning the deal and/or discarding proposals that would not be in line with the sub-Fund’s sustainability requirements and sustainable investment objective.
- Due diligence performed by the investment advisor to gather and check the information presented on the investment proposal
- Investment proposal to the sub-Fund, presented for decision, including all relevant information for the IC to decide whether the investment is aligned with the sub-Fund’s sustainability objectives
- Contractual documentation, including covenants, undertakings and warranties to ensure that the investment remains in line with the sub-Fund’s sustainability objectives

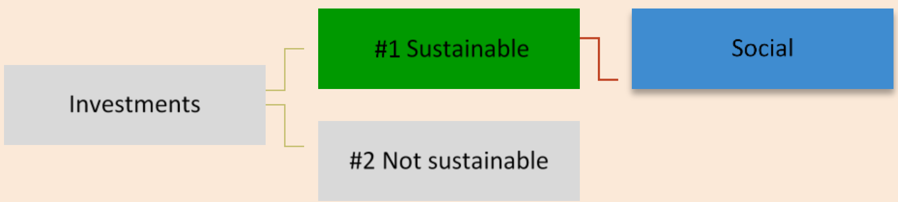
After investment, the investment advisor performs an on-desk on-going monitoring to ensure that the investment remains in line with the sub-Fund's sustainability requirements and sustainable investment objective.

*Policy to assess good governance*
To ensure that all investees follow good governance practices as defined in article 2(17) of SFDR, each investee is assessed against an amended version of the BII Corporate Governance standards defined for financial institutions adapted to microfinance by the Grameen Credit Agricole Foundation. In addition, each investment opportunity has to comply with the BII's Minimum elements of corporate governance, also adapted to microfinance by the Grameen Credit Agricole Foundation.

## (e) Proportion of investments

The sub-Fund aims at having a minimum of 70% of its assets as sustainable investments with a social objective. All investments have a social objective and shall represent at least 70% of the total assets of the sub-Fund, the remaining funds being held as liquid instruments. In 2023, the share of sustainable investments with a social objective will exceptionally be below this threshold as the sub-Fund ramps up. It is expected that the share will be above 70% starting from 2024 at the latest. All sustainable investments will be direct exposures to investee entities, although it may happen occasionally that the financing is provided to a holding company that would then affect it to one or several of its affiliates.

*[Include only relevant boxes, remove irrelevant ones for the financial product]*




**#1 Sustainable** covers sustainable investments with environmental or social objectives.

**#2 Not sustainable** includes investments which do not qualify as sustainable investments.

## (f) Monitoring of sustainable investment objective

The sub-Fund's investment process includes the monitoring of impact and sustainability factors in order to ensure the alignment of the proposed investment with the social objective of the sub-Fund and the continued compliance of the proposed investment with the ESG eligibility criteria of the sub-Fund. This monitoring includes a quarterly review of outreach indicators, a review of publicly available data and an annual analysis of the environmental and social performance of the partner MFI. In addition, the sub-Fund will collect and disclose annually the mandatory PAIs the table 1 and the additional indicators selected in table 2 and 3 of Annex I of the draft Regulatory Technical Standards (RTS) to the SFDR. All data reported by the partner MFI to the sub-Fund is checked for consistency by the Investment Advisor. The full list of indicators used during the monitoring and their characteristics (including frequency, source and related SDG) are available in the sub-Fund's ESG policy.

## (g) Methodologies

The sub-Fund has developed a Theory of Change which is the basis for the methodologies used to measure the attainment of the sustainable investment objective. The theory of change of the sub-Fund consists in an impact model derived from the impact model of the Foundation, its initiator, given their common goal to help reduce inequality and poverty through financial inclusion. The Foundation defined this impact model in 2019 through objectives and related key performance indicators available on its website (https://www.gca-foundation.org/en/impact-report). Given the sub-Fund's objective to contribute to the fight against poverty (as detailed in section c above), the Investment Advisor systematically assesses each potential partner MFI against the Foundation's impact model and related key performance indicators, during due diligence and monitoring. The latter are linked to the SDGs (also listed in section c) as detailed in its ESG policy. Recognizing the need to collect outcome data to check the achievement of its mission, the Foundation committed to commission impact studies and contribute to the microfinance industry's efforts to standardize outcome indicators used for impact-driven investment.

## (h) Data sources and processing

The sub-Fund sources its data from information provided by the investee companies crosschecked with results of the due diligence performed by the Investment Advisor and complemented with publically available data as well as data generated by specialized providers. To ensure that the sub-Fund meets its objectives and eligibility requirements, data is collected and analyzed first during the due diligence prior to disbursement and second during the monitoring after disbursement.

The due diligence on impact and sustainability factors relies on the following sources:

- Interviews with staff, management and governance bodies representatives within the Partner MFI and with other relevant stakeholders in the country
- Field visits at the head office and in branches of partner MFIs, for all new partner MFIs and when needed in case of loan renewal for existing partner MFIs
- Documentary evidence related to policies and practices of partner MFIs
- Publicly available information (such as news reports, industry data and country ratings);

The monitoring of impact and sustainability factors relies on the following sources:

- Information disclosed by partner MFIs via quarterly reporting
- Information disclosed by partner MFIs via annual reporting (including environmental and social reporting)
- PAIs provided by specialized data providers generating PAIs proxies based on the investee's portfolio information
- Information disclosed by partner MFIs upon request of the sub-Fund
- Publicly available information (such as news reports, industry data and country ratings);

The Foundation has also started commissioning impact surveys on a sample of MFIs within its own loan portfolio with tools such as the 60 decibel Microfinance Index; if such tools become market standards and affordable, the sub-Fund will consider using them in a more consistent manner to monitor its performance at a later stage.

Data and information quality is ensured through the triangulation of the sources listed above. The quality of the information and internal control systems of the partner MFI is also taken into account. Conclusions on environmental and social matters are formalized into a dedicated due diligence questionnaire, with answers duly justified when relevant and conclusions shared with the IC of the Fund. In this process, data estimates are therefore limited.

The reporting on PAIs is currently under development and might include some estimates (proxies) for some indicators, which will be explained in related standard disclosures.

## (i) Limitations to methodologies and data

As the sub-Fund invest only in non-listed companies in emerging markets, external data providers able to deliver data to measure the attainment of the sub-Fund's sustainable investment objective have not yet developed methodologies to report on all Principal Adverse Impacts. The data collection used to measure the attainment of the sustainable investment objective is thus based on reported numbers by partner MFIs, which has not been externally verified. The combination of self-reported data and the lack of external verification can lead to few uncertainties in data output for the measuring of the sub-Fund's sustainable investment objective.

The sub-Fund acknowledges the general limitations in the methodologies and data sources it is currently using, which are the same limitations across the microfinance sector. To address such uncertainties and limitations, the Investment Advisor carefully checks the consistency of the data reported to the sub-Fund and is participating to industry initiatives coordinated by the Social Performance Task Force to develop the most consistent way to report on the mandatory PAIs. The sub-Fund will progressively improve its methodologies to ensure that it is comparable with the state-of-the-art in the industry.

## (j) Due diligence

During due diligence, the Investment Advisor assesses each potential partner MFI in order to give its opinion in the investment proposal on the partner MFI's:

- Alignment with the fund's sustainability objective
- Impact through an analysis of its social objectives, track record and impact risks;
- ESG risks and related mitigants;
- Principal Adverse Impacts thanks to a detailed analysis of its compliance on SFDR Minimum Safeguards and a reporting on the PAIs.

The results are mapped using an ESG risk categorization framework in line with the BII Risk Categorization Framework and Corporate Governance Standards. This ensures that the IC becomes aware of any potential Sustainability Risk, as well as of the mitigation actions defined to minimize the negative impacts on the Fund. If an investment is categorized as high risk in terms of environmental, social or governance risks, the Fund may reject the investment opportunity or take measures to decrease this risk to an acceptable level.

The process includes an assessment and review of the responses provided by each Partner MFI, controls at the Investment Advisor level on the quality of the due diligence and two successive reviews of the investment proposal by the IC of the sub-Fund. The IC first reviews the opportunity before due diligence and then reviews the final investment proposal after due diligence.

## (k) Engagement policies

The sub-Fund is actively engaging with partner MFIs to encourage the adoption of better management practices on environmental and social issues when risks are identified. Even if a potential investee company is not involved in any excluded activities, it still may not fully meet the sub-Fund's eligibility criteria. In such cases, an action plan is defined and included in the relevant transaction documentation; it therefore becomes mandatory for the investee company to put in place actions to address gaps in a timely manner. Progress on the action plan is checked via monitoring reports. This approach allows the Fund to track how investments improve investee companies E&S performance from appraisal to project close.

Throughout the investment process, the sub-Fund is attentive to sustainability-related controversies and how the partner MFI respond to them. If a controversy reflects insufficient management practices by the partner MFI, the sub-Fund will request time bound action plans to fill identified gaps.

## (l) Attainment of the sustainable investment objective

There is no benchmark available for the sub-Fund according to Article 9 (3) of the SFDR as no EU-approved index, which aligns to the sub-Fund's investment strategy, is currently available in the market. However, the sub-Fund monitors and reports its impact and its ability to meet its sustainable investment objective through the collection of traditional indicators and key metrics widely used in the industry such as the SPI4-ALINUS tool (measuring the social and environmental performance of investees), which helps benchmark the performance of the sub-Fund to its peers.

The Sub-Fund does not have a specific environmental objective and therefore does not have a reduction in carbon emissions as its objective. Investments are therefore not assessed for alignment with the EU Environmental Taxonomy or related Benchmarks. The Sub-Fund however takes measures to ensure no significant harm is caused in this regard.