

This is a draft document which are in the process of being finalised. Once finalised it will be a “living document” and will be updated as and when required.



Environmental & Social Management System

GAIA AFRICA CLIMATE FUND S.A., SICAV-RAIF

July 2025

Contents

PURPOSE OF THIS DOCUMENT.....	4
DEFINITIONS.....	6
1. INTRODUCTION.....	9
1.1 Background.....	9
1.2 Overview.....	9
1.3 Vision & Mission.....	9
1.4 Theory of Change.....	10
1.5 Stakeholders overview.....	11
1.6 Stewardship and engagement.....	12
1.7 Targeted Impact.....	13
2. ENVIRONMENTAL, SOCIAL & GOVERNANCE & IMPACT POLICY.....	14
2.1 Guiding ESG & Impact Principles.....	14
2.2 Applicable Standards and Guidelines.....	15
3. IDENTIFICATION AND MANAGEMENT OF ESG & IMPACT RISKS.....	16
3.1 ESG Risk Profiles.....	16
3.2 Potential ESG risks inherent to the Fund’s interventions.....	17
3.3 Impact Risk Profiles.....	18
3.4 Potential Impact risks inherent to the Fund’s interventions.....	20
3.5 ESG & Impact Risk Management Process.....	20
3.6 ESG & Impact Risk Mitigation Procedures.....	21
3.7 Sustainability Monitoring & Reporting.....	21
4. CONSIDERATION OF ADVERSE IMPACTS.....	22
5. ESMS ROLES & RESPONSIBILITIES.....	22
6. ESMS MANAGEMENT & MONITORING.....	23
6.1 ESG considerations across the investment process.....	23
6.1.1 Eligibility and Screening.....	24
6.1.2 Due diligence.....	25
6.1.3 Legal Agreement.....	26
6.1.4 Monitoring & Reporting.....	27
6.1.5 Responsible Exits.....	28
6.1.6 Stakeholder Engagement Plans (where relevant).....	28
7. EXTERNAL COMMUNICATIONS AND REPORTING.....	28

7.1	Grievance Mechanism	28
7.2	External communications to Gaia	29
7.3	External reporting to limited partners (annual report)	30
8.	ESMS APPROVAL, REVIEW AND CONTINUOUS IMPROVEMENT	30
9.	GAIA LABOUR AND WORKING CONDITIONS	30
	APPENDIX I – GAIA EXCLUSION LIST	32
	APPENDIX II – PRINCIPLE ADVERSE IMPACTS ON SUSTAINABILITY FACTORS	33
	APPENDIX III – IFC PERFORMANCE STANDARDS (“IFC PS”)	35
	APPENDIX IV – ESG/ GOVERNANCE STRUCTURE AND BUDGET	36

PURPOSE OF THIS DOCUMENT

The Environmental and Social Management System (“**ESMS**”) is a set of processes and practices that allow Gaia Africa Climate Fund (the “**Fund**”) to incorporate environmental, social, and governance considerations into its decision-making and operations.

The ESMS demonstrates to which extent Gaia as the investment manager integrates material ESG factors into the investment approach, the level of organizational support for Gaia to implement ESG factors in the investment process and demonstrate the level of transparency of the ESG integration.

The ESMS integrates the ESG & Impact Policy outlining the ESG and Impact eligibility criteria implemented by the Fund. The objective of this document is to facilitate and promote proper:

- Implementation and institutionalisation of the ESMS
- Assessment of the expected impact of each investment and the portfolio
- Identification, categorisation, assessment, mitigation, monitoring, and reporting of ESG and Impact Risks involved in the Fund financed activities and portfolio.

The ESMS also includes supporting tools such as ESG and Impact risk categorisation, checklists, templates, and guidance notes to assist the Fund in assessing and managing relevant sustainability aspects. It will also include corrective action plans to be taken when necessary.

The ESMS is in alignment with the European Union (“**EU**”) 2019/2088 Sustainable Finance Disclosure Regulation (“**SFDR**”) and the EU 2020/852 Taxonomy Regulation (“**EU Taxonomy**”). It is to note that this document is of equal importance and in conjunction with other Fund documents, such as policies and procedures.

The ESMS as well as the ESG & Impact Policy apply to:

- the Fund
- Fund Investees
- Fund Personnel including all direct employees, interns, personnel of significant third parties operating for and on behalf of Gaia and/or the Fund, regardless of the nature of the contractual relationship.

For the purposes of this document, the terms 'Environmental and Social (“**E&S**”) and 'Environmental, Social, and Governance (“**ESG**”) are used interchangeably, except where the distinction between the two is explicitly stated. Both refer to the framework through which environmental and social risks, impacts, and governance considerations are assessed, managed, and monitored. While E&S focuses specifically on environmental and social dimensions, ESG encompasses governance as an additional pillar. Where governance-related issues are directly relevant, they will be clearly identified.

The Fund is committed to ensuring that the requirements of this ESMS will be met and has put the following in place for compliance:

- The Fund’s Chief Impact and Risk Officer will oversee the adoption and implementation of the ESMS to ensure accountability and responsibility.
- The Fund’s Chief Impact and Risk Officer (“**CIRO**”) will report annually to the Fund’s Senior Partners, which have been involved in the drafting of the ESMS, regarding compliance across the overall Fund’s investment strategy and operations.

The ESMS will be reviewed and adapted annually (earlier in case of material changes). Material adjustments to the ESMS are to be approved by the Fund Board and Impact Board.

The ESMS adoption is part of Gaia as investment manager and as a signatory of the United-Nations-supported Principles for Responsible Investment (“**PRI**”) responsible investment strategy and will be applied to all funds (retroactively for funds already in the Gaia portfolio).

DEFINITIONS

“Additional PAIs”	means the SFDR PAIs selected by the Fund being 1) Natural species and protected areas (E14) and 2) Rate of accidents (S2);
“AfDB”	means the African Development Bank, a multilateral development finance institution established in 1964 with the goal of spurring sustainable economic development and social progress in its regional member countries (RMCs), thereby contributing to poverty reduction;
“Article 9 Fund”	means a financial product targeting a sustainable investment objective making as per SFDR;
“DNSH”	means do no specific harm;
“ESG”	means Environmental, Social, and Governance;
“ESMS”	means an Environmental and Social Management System is a set of policies, procedures, tools, and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients/investees;
“E&S”	means Environmental and Social;
“EU Taxonomy”	means EU 2020/852 Taxonomy Regulation, a unified classification system designed to identify economic activities that can genuinely be classified as environmentally sustainable on a measurable and empirical basis for the purposes of establishing the degree to which the investment is environmentally sustainable and avoid greenwashing;
“EU Taxonomy Compass”	means the EU Taxonomy Compass, which provides a visual representation of the contents of the EU Taxonomy, starting with the Delegated Act on the climate objectives (climate change mitigation (Annex I) and climate change adaptation (Annex II)), as published in the Official Journal on 9 December 2021;
“EU Taxonomy Sustainable Investment”	means an investment that 1) Contributes substantially to one or more of the six environmental taxonomy objectives as defined, 2) Does not significantly harm any of the other environmental objectives, 3) Is carried out in compliance with the minimum safeguards as defined, and 4) Complies with Technical Screening Criteria as defined;
“EU Taxonomy Sustainable Objectives”	includes 1) Climate Change Mitigation, 2) Climate Adaption, 3) Sustainable use and protection of water and marine resources, 4) Transition to a circular economy, 5) Pollution prevention and control, 6) Protection and restoration of biodiversity and ecosystems;

“Financial Products”	means under SFDR, financial products categorised under the Scope of Article 6, 8, or 9;
“FMPs”	means a Financial Market Participant;
“Gaia Africa Climate Fund” or “the Fund”	means the closed-ended Reserved Alternative Investment Fund (“ RAIF ”) to be established via the incorporation of a public limited company (“ SICAV ”) in Luxembourg;
“Gaia Africa Climate Fund Sustainable Investment Objective”	means the Gaia Africa Climate Fund objective selected which is investing in secondary/ brownfield equity/ replacement capital investments with a focus on 1) Renewable energy as primary (Climate Change Mitigation), which is aligned with the Paris Agreement; 2) Clean water production as secondary (Climate Change Mitigation & Sustainable and protection of water and marine resources);
“Gaia Africa Climate Fund Taxonomy Objectives”	means the Gaia Africa Climate Fund objectives of climate mitigation and adaptation, which the Fund contributes to;
“Gaia Fund Managers” or “Gaia”	means Gaia Fund Managers Proprietary Limited, the investment manager of Gaia Africa Climate Fund;
“Mandatory PAIs”	means the SFDR mandatory PAIs, which include 1) GHG emissions scope 1,2,3; 2) Carbon footprint; 3) GHG intensity of investee companies; 4) Exposure to companies active in fossil fuel sector; 5) Share of non-renewable energy consumption and production; 6) Energy consumption intensity per high impact climate sector; 7) Activities negatively affecting biodiversity-sensitive areas; 8) Emissions to water (companies), and 9) Unadjusted gender pay gap (companies);
“Material”	means financially material ESG factors are factors that could have a significant impact – both positive and negative – on a company’s business model and value drivers, such as revenue growth, margins, required capital, and risk;
“OS”	means Operational Safeguard;
“OS9 Guidance Note”	Means African Development Bank Group’s, ISS Guidance Note on Operational Safeguard 9 which addresses the environmental and social requirements associated with intermediated financing through financial and non-financial institutions;
“PAI considerations”	means 18 mandatory PAIs and 1 additional Environmental, and 1 Social PAIs;
“PAIs”	means Principle Adverse Sustainability Impacts;

“Paris Agreement”	means a legally binding international treaty on climate change adopted by 196 parties at COP21 in Paris on 12 December 2015 and entered into force on 4 November 2016;
“RAIF”	means a Reserved Alternative Investment Fund (fonds alternatif reserve) under the Luxembourg law of 23 July 2016 relating to alternative investment funds;
“SFDR”	means 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;
“Sustainable Investment”	means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices;
“Sustainability Risk” or “ESG Risk”	means an environmental, social, or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment;
“Taxonomy Regulation”	means Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088;
“Technical Screening Criteria” or “TSC”	means the TSC sets out the conditions under which an economic activity qualifies as contributing substantially to climate change adaptation or mitigation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives in the Taxonomy; and
“UN SDGs” or “SDG”	means the United Nations’ Sustainable Development Goals.

1. INTRODUCTION

1.1 Background

Gaia Africa Climate Fund (“**the Fund**”) is a private equity (“**PE**”) fund focused on delivering positive climate impact alongside competitive financial returns and is classified as an SFDR Article 9 fund.

Gaia is an African impact investment manager focused on market rate risk-adjusted financial returns and impact with a specific focus on infrastructure. Gaia acts as the Investment Advisor for the Fund.

1.2 Overview

Gaia Africa Climate Fund believes that ESG principles are crucial to develop climate and socially resilient companies based on sustainable growth and reducing climate impact that deliver long-term value for investors. Furthermore, we recognise that investments often benefit from following sound social, environmental, and governance practices. ESG analysis and management can improve profitability and manage risk, resulting in more resilient companies. Furthermore, integrating ESG into the investment process can enhance our understanding of the investment risk result in lower investment risk. Therefore, we are committed responsible investment and to integrating ESG considerations across all stages of the investment process, from screening to exit and operating principles.

This ESMS outlines Gaia Africa Climate Fund’s approach to integrating sustainability considerations into its investment activities and strategies, how ESG are aligned with the Fund’s values and practices, the Fund’s overall mission and objectives, and how the Fund will address ESG challenges.

1.3 Vision & Mission

The Fund adopts a broad-based but rigorous approach to its sustainable investment strategy – investing in secondary/ brownfield equity/ replacement capital investments in Sub-Saharan Africa with a primary focus on (1) Renewable energy contributing to climate change mitigation through the reduction of carbon emissions, and a secondary focus on (2) clean water production as secondary contributing to sustainable protection of water and marine resources “Sustainable Investment Objective”.

The Fund’s mission is to play a catalytic role in promoting a sustainable project development cycle and crowd in more investors at all stages of the funding ecosystem by (1) providing exit opportunities for primary investors to enable them to recycle their capital into new greenfield projects and (2) drawing in private capital into the project funding ecosystem.

In particular, the Fund aims to reach its Sustainable Investment Objective by catalysing the infrastructure development cycle, ensuring skills transfer, and ultimately providing access to sustainable clean energy by:

- **Recycling Development Capital**

Accelerate the climate infrastructure project development snowball by providing a clear exit path and allowing greenfield developers to recycle their capital into new projects.

- **Providing Access to Clean Electricity**
Prioritise and promote exemplary governance structures, policies, and procedures to ensure effective operation and continued supply of clean electricity.
- **Increase in access to clean water, sanitation, and hygiene (“WASH”)**
Prioritise and promote exemplary governance structures, policies, and procedures to ensure effective operation and continued supply of clean water production.
- **Job Creation and development of Local Skills**
Create jobs and effect direct upskilling and skill transfer in investee companies to develop a local skilled workforce to support a sustainable local industry.

The Sustainable Investment Objective of the Fund takes an environmental facet as it directly contributes to the EU Environmental Objectives. Sustainable Investments will contribute to **Climate Change Mitigation** in alignment to the COP21 Paris Agreement adopted in 2015, and may potentially also qualify under Objective 3, **Sustainable use and protection of water and marine resources**.

1.4 Theory of Change

Africa holds the key to humanity’s global climate future as it hosts 17% of the world’s population and 600 million people without access to electricity. With electricity demand on the continent set to quadruple by 2040 and only 2% of global renewable energy spending being directed towards Africa, if the continent is to energise using fossil fuels, the impact will be devastating despite the efforts of other regions and actors.

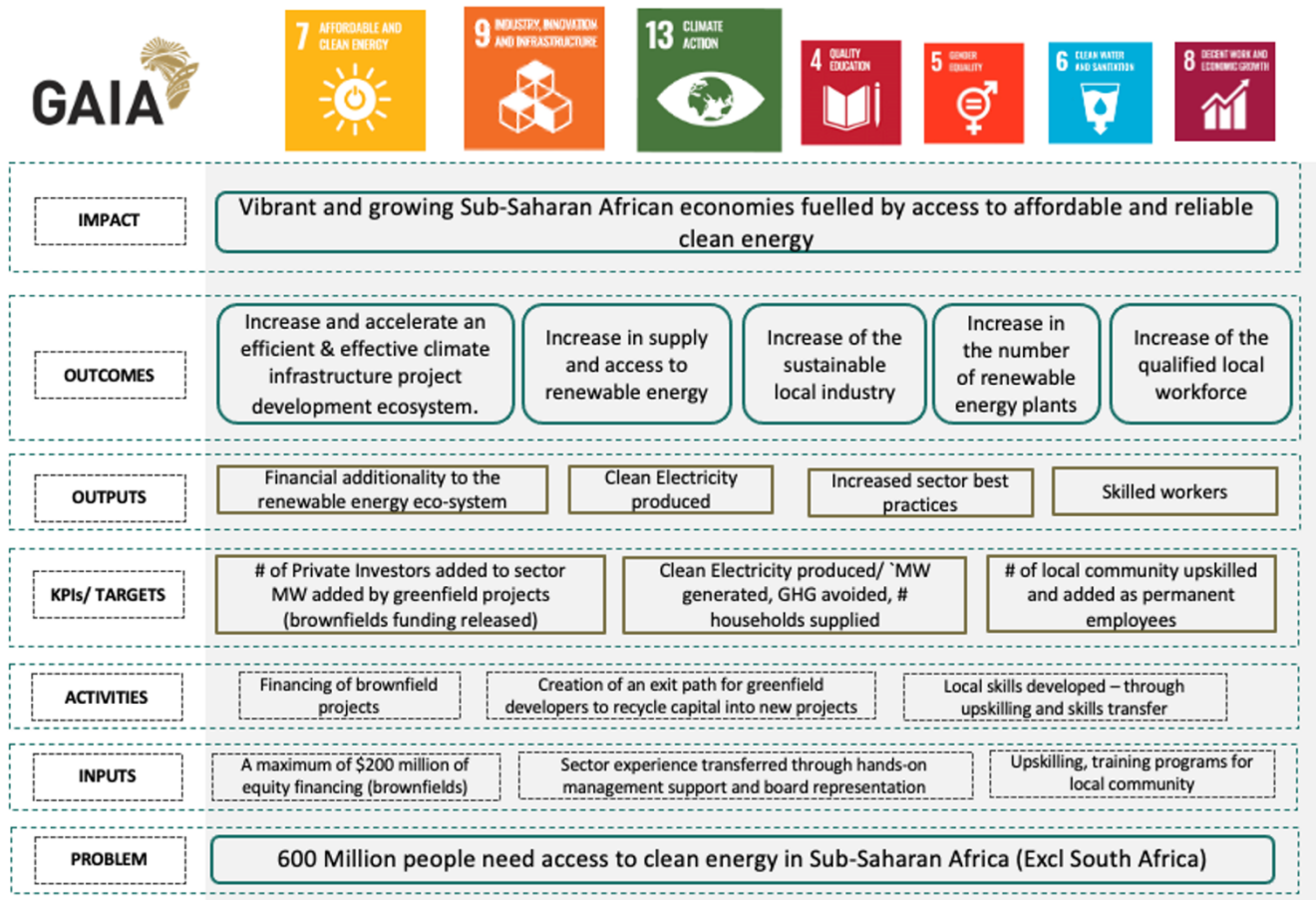
An effective project development cycle, which allows greenfield project developers to recycle their capital into new projects, is required to enable the African continent to accelerate the utilisation of its abundant renewable energy resources. However, with a pipeline of greenfield projects coming online, the secondary investment market’s inability to absorb these projects has become a critical bottleneck in the project development cycle.

The Fund Theory of Change, the cause-and-effect that the Fund believes will contribute to the targeted social and environmental objectives. The Theory of Change demonstrates the Fund’s multi-level logic model, showing the relationship between the root causes of problems that the Fund will address and the inputs, activities, outputs, outcomes, and the associated impact the Fund will seek to make. Through embedding the investment strategy in the theory of change logic model we demonstrate the intentional positive outcomes we seek to achieve.

The root causes identified underpinning the impact strategies are as follows:

- A mismatch in the supply and demand in the market for green infrastructure projects underpins a risk-return discrepancy.
- Private capital is being excluded from participating in green infrastructure projects.

- The secondary market in Africa as an immature emerging market are a bottleneck for the growth of green infrastructure projects and only catalytic intentional system change will activate a systemic supply/ demand ecosystem at the right risk level.
- 600 million people need access to clean energy in Sub-Saharan Africa (Excluding South Africa).
- Clean energy projects are not managed by the local community and there is a skills gap.



Stakeholders involved will be the greenfield developers that will be key stakeholders for the Fund’s pipeline and private investors, which will be crowded in, invest alongside the Fund and form the basis for the financial additionality of the Fund.

1.5 Stakeholders overview

The Fund wants to play a catalytic role in growing the green infrastructure and impact investing eco-system. The core impact strategy was identified after a process of systems mapping and it was identified that the eco-system can only be advanced through a systemic approach and industry collaborations with stakeholders as set out below. The Fund will engage on the following field building activities per stakeholder and crowding-in of private investors through a demonstration effect:

- **Secondary market projects**

With an engagement of the pipeline of secondary market projects, identify projects at screening level that qualify as Sustainable Investments and provide projects with the gap analysis and potential improvement points.

- **Institutional investors**
Through engagement draw in asset owners with a product that matches their risk and return requirements.
- **Sovereign wealth funds, Development Finance Institutions & Multilateral Development Banks**
Through engagement demonstrate the need of support to grow the secondary market in green infrastructure.
- **Asset managers**
Through engagement and industry conventions demonstrate the secondary market investment strategy to crowd-in more secondary market funds.
- **Long-term asset owners (insurance companies and pension funds)**
Through engagement draw in asset owners with a product that matches their risk and return requirements.
- **Stock-exchanges**
Through engagement work with local stock exchanges to demonstrate how a listed vehicle can be used to enhance liquidity and as an exit mechanism.

1.6 Stewardship and engagement

As shareholder and through investor stewardship, Gaia seeks to partner with our investee companies. Through engagement, we help them implement best practices by offering tools, training, and expertise, managing ESG risk factors, ensuring minimum safeguards, implementing good governance practices, and measuring progress.

We have identified priority ESG topics that we believe can most affect our ability to build strong companies of enduring value.

- **Climate Change Mitigation, Resiliency, and Adaptation**
We recognise that climate change is a systemic issue affecting all sectors and geographies. Our goal is to partner with our investees to help them reduce carbon emissions through our engagement and assess climate's physical and transition risks, and support investees in introducing mitigants.
- **Diversity, Equity, and Inclusion (DEI)**
We focus on driving diversity by setting a broad diversity target for our investee companies. We are also working to foster employment opportunities through skills transfer and training programs with a specific focus on women for our investee companies. We have adopted 2X Global's 2X Challenge to play our part in providing women in developing country markets with improved access to leadership opportunities, quality employment, finance, enterprise support and products and services that enhance economic participation and access.

- **Net zero commitments**

As part of our own net zero commitment strategy, we will engage with investee companies to make net zero commitments and improve on net zero data transparency and reporting.

- **Good Governance**

We believe good governance is essential for financially sound companies. Therefore, we support our investees at various stages of their life cycle to implement good governance practices spanning board governance to controls.

1.7 Targeted Impact

The Gaia Africa Climate Fund Sustainable Investment Objective support the transition toward more sustainable and resilient societies, which requires an integrated approach. We recognise that the SDGs are interrelated, and that impact needs to be considered from a net perspective. The Fund is committed to high impact, creating a systemic solution, and supporting a worldwide pathway to net zero. The Fund’s priority UN SDGs are SDG 4 (Quality Education), SDG 6 (Clean Water & Sanitation), SDG 7 (Affordable & Clean Energy), SDG 9 (Industry, Innovation, and Infrastructure), and SDG 13 (Climate Action).

To measure the attainment of the Sustainable Investment Objective of the Fund, identified KPIs at Portfolio Level will be measured, monitored, and reported. Most KPIs are aligned to the IRIS+ framework, while additional tailored indicators have been identified on a case-by-case basis.

The Fund will quarterly monitor & annually report on the following KPIs per Impact Objective/ UN SDG:

IMPACT OBJECTIVE	UN SDGs	KEY PERFORMANCE INDICATORS
i. Recycling Development Capital	SDG 7.2,7.b SDG 9.a SDG 13	<ul style="list-style-type: none"> • Number of private capital investments made in the brownfield phase of the lifecycle. • Number & Percentage of exit opportunities provided to investors disaggregated by type of investor
ii. Providing Access to Clean Electricity	SDG 7.2, 7.b SDG 13.a	<ul style="list-style-type: none"> • Reduced GHG Emissions (IRIS+ PI2764) Amount of greenhouse gas (GHG) emissions avoided by the organization during the reporting period. • Energy generated for Sale: Renewable (IRIS+ PI5842) Amount of renewable energy generated and sold to off-taker (s) during the reporting period. • Target stakeholder Socioeconomics (IRIS+ PD2541) Describes the socioeconomic groups of stakeholders targeted by the organization at the end of the reporting period disaggregated by Lower or Lower middle income.
iii. Increase in access to clean water, sanitation, and hygiene (“WASH”)	SDG 6.1	<ul style="list-style-type: none"> • Number of households and Business Connections (IRIS+ PI8053) Number of residential and commercial connections to utilities and services provided by the organization as of the end of the reporting period. • Public Water Point Coverage (IRIS+ PI3218) The number of individuals within a coverage region (defined by a municipality, district, or designated service area) who have primary water access through a public tap at the end of the reporting period. • Target stakeholder Socioeconomics (IRIS+ PD2541) Describes the socioeconomic groups of stakeholders targeted by the organization as of the end of the reporting period disaggregated by Lower income and Lower middle income.

iv. Job creation and development of local skills	SDG 4.4 SDG 8.5	<ul style="list-style-type: none"> • Employee training and Transition Programmes Offered (IRIS+ OI3368) Describes the type and scope of programs implemented and assistance provided during the reporting period to upgrade employee skills. • Permanent employees (IRIS+ OI8869) A number of people in paid employment with the organization as of the end of the reporting period, whether full-time or part-time. • Target Stakeholder Demographics (IRIS+ PD5752) Describes the demographic groups of stakeholders targeted by the organization disaggregated by Gender, Race/ Ethnicity/ Minority status (Historically marginalized groups/ Dominant culture populations).
---	--------------------	--

2. ENVIRONMENTAL, SOCIAL & GOVERNANCE & IMPACT POLICY

2.1 Guiding ESG & Impact Principles

To ensure generation of positive impact and minimization of adverse impacts on sustainability factors, Gaia and the Fund operates according to the below principles. Gaia is committed to:

- 1) Active ESG Governance & Stewardship;
- 2) Sustainable Growth & Reducing Climate Impact;
- 3) Fair Employment & Engagement and Well-being;
- 4) Diversity, Equity, and Inclusion; and
- 5) Community Engagement.

The Guiding Principles describe how the Fund will implement and achieve the Policy's objectives in alignment with Gaia's commitments. Gaia Africa Climate Fund will adhere to the Guiding Principles listed below:

- Select investments with the aim of maximising environmental and/or social positive impact.
- Ensure that the ESMS is fully communicated to, understood, and implemented at all levels throughout the Fund and its investees.
- Exclude investment activities outlined in the Gaia Exclusion List (See Appendix I) in line with the IFC, EDFI Exclusions List, and BII Fossil Fuel Policy.
- Assess investments against the Minimum Safeguards¹, Good Governance practices, Taxonomy Eligibility, and Principal Adverse Impacts.
- Ensure ongoing compliance of investees with Minimum Safeguards and Good Governance practices
- Ensure transparent and ongoing reporting of the pre-defined KPIs and PAIs.
- Implement the IFC Performance Standards ("IFC PS"), IFC Corporate Governance and Business Integrity, the World Bank Group's General Environmental and Health and Safety ("H&S") Guidelines ("WBG EHS Guidelines") to assess and manage ESG risks of investments.
- Apply the Impact Management Project ("IMP") to assess and manage the impact risks of investments as set out in section 6.
- Identify and comply with all applicable legal and other compliance obligations, including environmental, social, and governance-related laws in the country/countries of operations.

¹ Minimum Safeguards include OECD Guidelines for Multinational Enterprises (when applicable), International Bill of Human Rights, ILO International Labour Standards, and UN Guiding Principles on Business and Human Rights

Maintain a compliance register with periodic reviews to identify any change or newly arising compliance obligations and implement appropriate steps in anticipation of known changes.

- Actively engage with investees through dialogue on ESG and Impact risks and opportunities.
- Commit to improving internal ESG capacity and training relevant to Gaia Personnel on their roles in implementing this policy (i.e. the identification and management of ESG risk). Gaia recognises that additional external ESG expertise may be acquired where necessary.
- Non-discrimination (whether on grounds of gender, race, age, or disability) in the recruitment process at all levels of the organisation (employees, boards, etc.).
- Act with ethics, integrity, transparency, accountability, and probity in management behaviours, structures, policies, and processes at all times respecting the applicable cultures as much as possible.
- Respect and protect human rights and implement associated policies regarding the prohibition of slavery and child labour, freedom of association and community safety and security (including with respect to the activities of government and private sector security forces).
- Implement separate labour and stakeholder grievance mechanisms in line with good international industry practice.
- Implement governance considerations related to market abuse surveillance, know your customer, anti-bribery, corruption, counterparty risk monitoring.

2.2 Applicable Standards and Guidelines

The following ESG & Impact Standards have been implemented.

Gaia/Fund Level:

- Exclusion List in line with the IFC, EDFI Exclusions List, and BII Fossil Fuel Policy
- BII Fossil Fuel Policy
- IFC Performance Standards (“**IFC PS**”)
- IFC Corporate Governance and Business Integrity
- World Bank Group General and sectoral EHS Guidelines (“**WBG EHS Guidelines**”)
- Impact Management Platform (“**IMP**”)
- UN Global Compact (“**UNGC**”)
- BII/CDC ESG Toolkit
- AfDB OS9 Guidance Note
- AfDB Operating Standards 1-10

Investee Level:

- IFC PS and associated good governance notes, handbooks and ESMS
- World Bank Group General and sectoral EHS Guidelines
- World Bank Group Environmental, Health and Safety Guidelines
- EBRD Environmental, Health and Safety Sub-Sectoral Guidelines
- OECD Guidelines for Multinational Enterprises (when applicable)
- International Bill of Human Rights
- ILO International Labour Standards
- UN Guiding Principles on Business and Human Rights
- AfDB OS9 Guidance Note
- AfDB Operating Standards 1-10

The Fund is aligned with SFDR and eligible for EU Taxonomy.

The Fund will ensure operationalisation of applicable international standards (including IFC Performance Standards (See Annexure III), AfDB ISS, and World Bank EHS Guidelines) by integrating them into due diligence tools, ESG action plans, and monitoring checklists. For each geography, a regulatory context review will be conducted to assess national ESG requirements against international benchmarks, and the more stringent standard will be applied.

3. IDENTIFICATION AND MANAGEMENT OF ESG & IMPACT RISKS

ESG and impact risk management is integrated into the Fund’s investment cycle and is integral to the ESMS. Performance of a potential investee against the Guiding ESG & Impact Principles will determine whether it is suitable for investment in terms of ESG and impact risk. Exclusion lists and ESG Due Diligence Questionnaire (“**DDQ**”) are tools to be used to evaluate and categorize the potential risks posed by the investee’s activities.

Methodology on the identification and management of specific risks that may be encountered are discussed later in this section. The following steps are integrated within Gaia’s existing risk management procedures for evaluating an investment’s financial risks.

3.1 ESG Risk Profiles

During the screening and due diligence stage, potential investments will all be evaluated for environmental, social and governance risk (“**ESG or Sustainability Risk**”) where, under SFDR 2019/2088, Sustainability Risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.

In addition, AfDB OS9 Guidance Note will be used to set out how the Fund will (1) assess and manage environmental and social risks and impacts at investee level; (2) promote good E&S practices at investee level, (3) promote good human resources practices at Gaia; and (4) support best practice standards in corporate governance, business management and corporate responsibility at investee level based on the requirements of OS1-10 (as appropriate). The Fund acknowledges that failure to effectively manage E&S issues can lead to a range of financial, legal, and reputational consequences.

The categorisation system will take into account (1) nature of the E&S risks and impacts of investees, (2) sectoral and geographical context, and (3) type of financing. The categorisation system will inform the scope and nature of the Fund’s E&S due diligence and risk management of investees. The categorisation system allows for a systematic aggregation and analysis of risk at the Fund portfolio level.

Subsequently to being identified, potential investments will be categorised in terms of one of three levels of risk, which then informs subsequent investment and mitigation actions through an ESG action plan. This categorization follows that outlined in IFC Sustainability Framework as per IFC PS 1:

Category A (high)	Business activities with potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented
--------------------------	---

Category B (medium)	Business activities with potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
Category C (low)	Business activities with minimal or no adverse E&S risks and/or impacts .

Governance risks will be evaluated based IFC Corporate Governance and Business Integrity.

All deals categorised as “A” in the ESG risk categorisation will be referred to the Board for pre-approval before being considered by the Investment Committee. The categorisation framework assists the Fund to identified, assessed, managed, monitored and reported on E&S risks appropriately. The E&S assessment process support the Fund (1) making an informed decision on whether the E&S risk at investee level is acceptable to the Fund, (2) minimising E&S risk at investee level, and (3) realising any potential E&S benefits at investee level.

3.2 Potential ESG risks inherent to the Fund’s interventions

It The ESG factors framework that may be incorporated into Gaia’s investment evaluation and monitoring processes (where applicable and material) include, but are not limited to, the following topics:

Environmental considerations	Social considerations	Governance considerations
Air (climate) – GHG emissions	Diversity, equity, and inclusion (including anti-discrimination)	Corporate governance, sound management structures, and oversight
Air (health), soil & water pollution	Human rights and modern slavery	Tax compliance
Waste management (including land and water impact)	Employee and community health and safety	Employee relations and remuneration of staff
Raw materials and supply chain	Labour relations and practices, labour and working conditions	Fraud, anti-bribery and anti-corruption controls
Biodiversity and habitat	Customer privacy and security	Compliance with any and all national laws and regulations (including social), requirements with the AfDB OSs and Good International Industry Practise (GIIP)
Physical climate change impacts	Stakeholder engagement Impact on vulnerable groups, highly vulnerable rural communities such as Indigenous People and cultural heritage (including resettlement, unless risk is minor)	Fraud & cyber security

Risk Description	Risk Category	Mitigation Strategy
Environmental Risks	A, B or C	

Air (climate) – GHG emissions		
Air (health), soil & water pollution		
Waste management (including land and water impact)		
Raw materials and supply chain		
Biodiversity and habitat		
Physical climate change impacts		
Social Risks		
Diversity, equity, and inclusion (including anti-discrimination)		
Human rights and modern slavery		
Employee and community health and safety		
Labour relations and practices, labour working conditions		
Customer privacy and security		
Stakeholder engagement		
Impact on vulnerable groups, highly vulnerable rural communities such as Indigenous People and cultural heritage (including resettlement, unless risk is minor)		
Governance Risks		
Corporate governance, sound management structures, and oversight		
Tax compliance		
Employee relations and remuneration of staff		
Fraud, anti-bribery and anti-corruption controls		
Compliance with any and all national laws and regulations (including social), requirements with the AfDB OSs and Good International Industry Practise (GIIP)		
Fraud & cyber security		

The following considerations will be used to establish the E&S risk profile as per the AfDB OS9 Guidance Note:

- What is the nature of the investee's business?
- What is the intended use of proceeds?
- World Bank Group Environmental, Health and Safety Guidelines
- EBRD Environmental, Health and Safety Sub-Sectoral Guidelines

3.3 Impact Risk Profiles

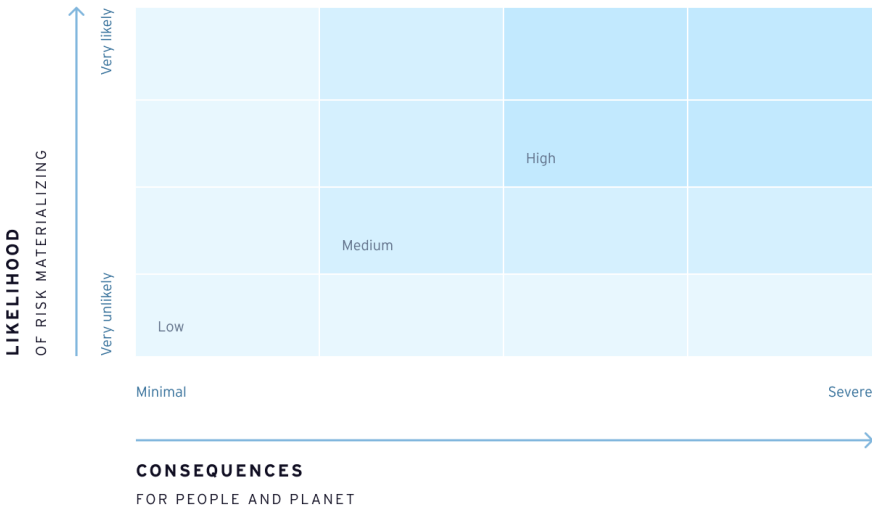
Potential investments will also be evaluated for Impact Risks defined by the Impact Management Platform (IMP) as the (i) likelihood that impact will be different than expected, and that (ii) the difference will be material from the perspective of people or the planet who experience impact.

IMP classifies Impact Risks into nine types, to be identified, categorized, and assessed based on the nature of the investment. Types include:

IMP Impact Risk	Definition
EVIDENCE RISK	The probability that insufficient high-quality data exists to know what impact is occurring
EXTERNAL RISK	The probability that external factors disrupt our ability to deliver the impact
STAKEHOLDER PARTICIPATION RISK	The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account
DROP-OFF RISK	The probability that positive impact does not endure and/or that negative impact is no longer mitigated
EFFICIENCY RISK	The probability that the impact could have been achieved with fewer resources or at a lower cost
EXECUTION RISK	The probability that activities are not delivered as planned and do not result in the desired outcomes
ALIGNMENT RISK	The probability that impact is not locked into the enterprise model
ENDURANCE RISK	The probability that the required activities are not delivered for a long enough period
UNEXPECTED IMPACT RISK	The probability that significant unexpected positive and/or negative impact is experienced by people and the planet

Similar to ESG Risks, Impact Risks can be categorized as follows.

IMP Category	Description
<i>HIGH</i>	Very likely and severe risk
<i>MEDIUM</i>	Partially likely and severe risk
<i>LOW</i>	Very unlikely and not severe risk



3.4 Potential Impact risks inherent to the Fund’s interventions

Impact Risks are also integrated within the Fund’s investment due diligence processes. In this regard, it has developed mitigation strategies to ensure protection against highly material Impact Risks. The table below is depicting the Impact Risks and mitigation strategies for its investments.

Risk Description	Level of Risk	Definition	Mitigation Strategy
<i>EVIDENCE RISK</i>	High	The probability that insufficient high-quality data exists to know what impact is occurring	
<i>EXTERNAL RISK</i>	High	The probability that external factors disrupt our ability to deliver the impact	
<i>STAKEHOLDER PARTICIPATION RISK</i>	High	The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account	
<i>DROP-OFF RISK</i>	MEDIUM	The probability that positive impact does not endure and/or that negative impact is no longer mitigated	
<i>EFFICIENCY RISK</i>	MEDIUM	The probability that the impact could have been achieved with fewer resources or at a lower cost	
<i>EXECUTION RISK</i>	MEDIUM	The probability that activities are not delivered as planned and do not result in the desired outcomes	
<i>ALIGNMENT RISK</i>	LOW	The probability that impact is not locked into the enterprise model	
<i>ENDURANCE RISK</i>	LOW	The probability that the required activities are not delivered for a long enough period	
<i>UNEXPECTED IMPACT RISK</i>	LOW	The probability that significant unexpected positive and/or negative impact is experienced by people and the planet	

3.5 ESG & Impact Risk Management Process

The Fund’s has implemented procedures to (i) identify, (ii) measures, (iii) manage and (iv) monitor Sustainability and Impact Risks.

The Fund’s risk management process is based (amongst other things) the time horizon for its investments, the types of assets and geographies in which it invests.

- I. **Identify** – Gaia reviews the Sustainability and Impact Risks which are potentially likely to cause a material negative impact on the value of investments, should those risks occur. They are broadly categorised into the three categories depending on the high, medium, or low risk level – Category

A, B and C, respectively. Further information on risk categorisation refer to Section 3.1 & 3.3 of this document. Gaia treats ESG and Impact Risks as a standalone risk, and a cross-cutting risk which manifests through many other established principal risk types (such as financial risks, operational risks, credit risks, etc.). Each risk identified will be assessed according to specific tailored ESG or Impact Risk Indicators (RIs).

- II. **Measure** – Gaia measures ESG and Impact risks according to two metrics. The first is likelihood of occurrence of each risk. The second is severity of impact to the investment value, should the risk occur. Measurement of such risks is integrated in the investee preliminary ESG & Impact Scoring including alignment with the Fund Sustainable Investment Objective and values.
- III. **Manage** – Gaia applies its experience as an active shareholder to support investment company management to manage ESG and Impact risks. Risk management would typically entail the choice between eliminating/avoiding the risk, reducing the likelihood of the risk occurring and reducing the severity of the risk, should it occur with a combination of risk management and risk mitigation usually being the suggested approach.
- IV. **Monitor** – As part of ongoing monitoring value creation activities, Gaia is engaged in “active ownership” style, with a view to reducing or mitigating Sustainability and Impact Risks of investments. Measurement (through specific risk indicators), monitoring and reporting of positive environmental and societal impact provides post-investment evidence of Gaia’s intentionality toward impact.

3.6 ESG & Impact Risk Mitigation Procedures

The direct physical, operational, and indirect business transition risks can be mitigated through good governance (sound management practices, adequate management of employees and remuneration of staff, respect for human rights, anti-corruption, and anti-bribery matters) and effective risk management. The Fund periodically reviews its target country risk profiles and reporting tools.

The Fund’s ESG due diligence requirements and adherence to the Fund’s ESG requirements, such as the Exclusion Lists, are designed to mitigate the risks of reputational or other damages arising from the Fund’s investment activities.

The Fund’s ESG and Impact risk assessment will lead to developing an ESG Action Plan, describing the environmental, social, and governance mitigation and monitoring measures and the organisational measures to be implemented by the project.

3.7 Sustainability Monitoring & Reporting

Gaia commits to monitoring all investments for ESG and E&S performance, including using its expertise and insights from previous experiences to identify opportunities for proactive risk mitigation and achievement of positive impact beyond those already planned.

The Chief Impact and Risk Officer (CIRO) and the Portfolio Management Team will work with the investee to collect data on an ESG status of an investment on a quarterly basis.

A fund E&S tracker and repository will be maintained that captures investee information inclusive of categorisation, reporting arrangements and monitoring frequency which would serve as E&S information repository, and to track the investees E&S performance.

The Fund's CIRO will inform the Gaia senior management and the Fund's Board of all investments' ESG statuses on a quarterly basis and in aggregate on an annual basis.

4. CONSIDERATION OF ADVERSE IMPACTS

Integrating ESG factors into Gaia's investment decision and ownership is an important part of fulfilling our mission to create a strong impact and returns for our investors. Therefore, ESG considerations are to be integrated within all the stages of the investment process as per the guidance of the [CDC Toolkit](#) on ESG for fund managers. We believe that the consideration of ESG factors not only enhances our assessment of risk, it also helps us identify opportunities to enable transformation and value creation.

In this line of thought, the indicators for Principal Adverse Impacts ("PAIs") on sustainability factors are taken into account by the Fund, in close collaboration with the AIFM, during the due diligence process, prior to the investment decision, and during the life of the investment. In particular mandatory PAIs (or proxies when not available) and two additional PAIs will be monitored and reported annually. Where no data is available, proxies shall be used. The additional PAIs considered are as follows:

- Environmental Additional PAI #14: Natural species and protected areas
- Social Additional PAI #2: Rate of accidents.

Compliance with the mandatory and additional SFDR PAIs are stipulated in the Fund's Environment and Social Management System, which the Board of Directors has adopted.

Pursuant to the indicators set out in Annex 1 of the Regulatory Technical Standards under the EU 2019/2088 SFDR Regulation, Gaia, acting as the Investment Advisor of the Fund, will endeavor to assess its investment opportunities and monitor the performance of its investees against the PAIs as follows:

- **Due diligence process:** Principal Adverse Impact indicators (or proxies if no direct data is available) are collected during the due diligence phase prior to the investment decision. They may lead to deciding not to invest or a mitigation plan.
- **Investment Commitment:** The term sheets may include a mitigation plan in case of gaps. In that case, Gaia can also provide some assistance to improve the performance on the PAIs.
- **Monitoring & Reporting through portfolio life:** Principal Adverse Impacts indicators will be collected on a rolling basis or at least quarterly according to the KPI to monitor the portfolio effectively and reported on an annual basis. An annual verification will be made.

5. ESMS ROLES & RESPONSIBILITIES

The Fund's aim is that the Gaia team understands Impact Management and Measurement, ESG and Impact risks and opportunities in all the Fund's investment activities to provide a comprehensive impact and ESG assessment. The Fund has implemented the following roles & responsibility structure:

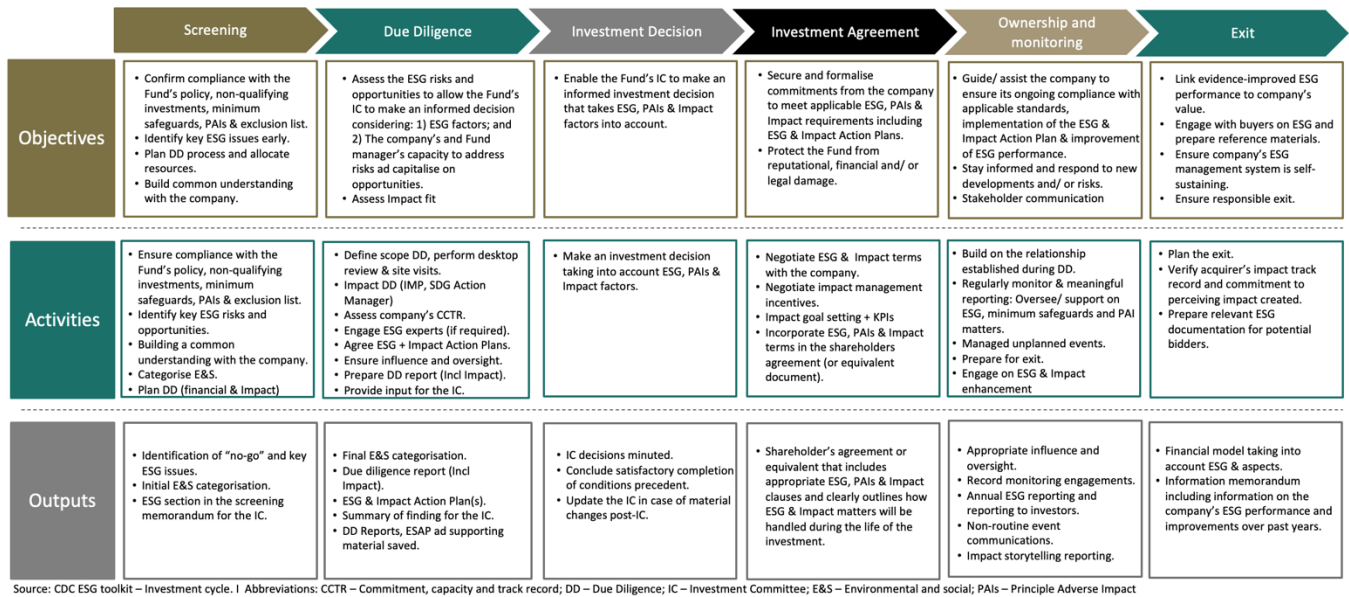
- The Fund's Chief Impact and Risk Officer ("**CIRO**") have implementation authority and will oversee the adoption and implementation of the ESMS to ensure accountability and responsibility.
- The ESG/ Impact team will be led by the CIRO, supported by at least one Impact/ ESG Associate and the Head of Operations, when and if required.
- A detailed organisational chart illustrating the ESG governance structure, including reporting lines from the CIRO directly to the Fund's Board of Directors, is provided in Appendix IV.
- The ESG/ Impact team will maintain functional independence from investment decision-making to ensure objective Impact and ESG oversight. The ESG/ Impact team will report directly to the Fund's Board of Directors.
- The ESG team involvement is integrated into the investment activities and all Investment Committee submissions. The CIRO will present the ESG/ Impact findings to the Investment Committee and be an advisory function to the Investment Committee.
- Gaia is committed to ongoing training for the ESG/ Impact team as well as annual training for the Gaia investment team and portfolio companies.
- The current budget for the ESG/Impact team is USD 195,000 annually. This budget covers remuneration of ESG/Impact personnel, to support the implementation and monitoring of the Fund's ESMS obligations and the cost of annual ESG/Impact training. The budget will be reassessed each year to ensure sufficient capacity and resources are available to meet the ESMS requirements in line with market expectations and portfolio expansion.

6. ESMS MANAGEMENT & MONITORING

6.1 ESG considerations across the investment process

ESG factors are considered a key part of evaluating new portfolio company investments through performing an ESG initial screening, an ESG due diligence, and reporting the material ESG findings to the Investment Committee. By considering applicable ESG factors in a streamlined manner across the investment process, we aim to identify and address material investment risks, drive value and incorporate good governance practices.

The Fund has integrated sustainability considerations across all its stages of the investment processes, as presented in the figure below.



These sustainability considerations may be refined over the lifespan of the Fund as updated and adjusted in this ESMS and ESG Policy accordingly.

6.1.1 Eligibility and Screening

The following process will be followed to ensure the investee's compliance with the ESG regulatory requirements. Investment opportunities are screened against:

- Exclusion List as set out in Appendix A, Gaia Africa Climate Fund Sustainable Investment Objective (as defined),
- Fund values and Sustainable Investment Objective
- Fund's Impact eligibility requirements (based on the 5 (five) dimensions of the Impact Management Project) as set out below;
- Minimum Safeguards
- Good governance practices;
- Investment opportunities are assessed against the [EU Taxonomy Compass](#) to ensure eligibility
- Preliminary ESG and Impact risks assessment
- PAIs applicability and capacity for monitoring & reporting

Projects must provide all requested information to the ESG/ Impact team before presenting the potential investment to the Fund's Investment Committee. In the case where the potential Investee passes the preliminary screening, the potential investment can be moved forward to the due diligence stage.

Impact Management Project

Gaia's impact framework has been developed using the five different dimensions of impact as defined by the Impact Management Platform. Each of the dimensions, what, who, how much, contribution and risk were considered as set out below to establish the impact strategies and how they can reduce the negative and increase the positive per investment.



IMPACT MANAGEMENT PROJECT

IMPACT STRATEGIES

RECYCLE DEVELOPMENT CAPITAL

DEVELOP LOCAL SKILLS

ACCESS TO ELECTRICITY

1	WHAT PROBLEM ARE WE ADDRESSING?	Lack of secondary market in renewable energy eco-system	Lack of sector specific skillset by local community	Reliance on fossil fuel and gas for electricity generation
2	WHO WILL BENEFIT?	Local community, broader environment	Employees and local community	Local community, broader environment
3	HOW BIG IS THE IMPACT?	Data gathered during holding period. Ex. 1) US\$ released back to developers to deploy, 2) # of local community upskilled, 3) Renewable energy MW produced		
4	WHAT IS OUR CONTRIBUTION TO THE IMPACT?	Recycle US\$200 of capital in the clean renewable energy sector	Sector experience transfer, upskilling, and job creation	Increase in supply and access to renewable energy
5	HOW DO WE ADDRESS THE RISK?	Extensive ESG analysis and impact monitoring in place across all investments, engagement on E&S issues across all portfolio companies		

6.1.2 Due diligence

The Due Diligence (DD) stage enables a comprehensive sustainability assessment of the investment opportunity. Assessment includes verification of compliance with applicable national laws on environment, health, and safety guidelines, minimum safeguards, good governance practices. The applicability of IFC Performance Standards and World Bank Environmental, Health, and Safety Guidelines will also be determined (1) to identify opportunities to avoid adverse impacts and, if impacts are unavoidable, (2) to identify required mitigation and compensation; (3) to identify opportunities to improve environmental and social performance of projects seeking support; and (4) to establish specific performance requirements for the Renewable Energy sector.

The following processes and tools will be used in the ESG/ due diligence process:

Environmental Taxonomy Objective	ESG & Impact Risk Profile	Minimum Safeguards	PAIs	Good Governance
Taxonomy Technical Screening to determine deal eligibility	Identify and integrate ESG & Impact Risks IFC Performance Standards	UN Guiding Principles of Business and Human Rights	Determine PAIs data availability – Elaborate considering PAIs and Taxonomy	FMO Corporate Governance Toolkit for Corporate/ Private Equity

Determine substantial contribution criteria DNSH criteria & deal-specific operational procedures EU Taxonomy Compass	Apply the British International Investment – ESG Toolkit UN Global Compact	ILO on Fundamental Principles and Rights at Work International Bill of Human Rights World Bank Group Environmental, Health and Safety Guidelines EBRD Environmental, Health and Safety Sub-Sectoral Guidelines	IFC Business Integrity
--	---	---	--

- During the due diligence phase, Gaia will conduct a jurisdiction-specific regulatory review to identify relevant national ESG laws and compare them to IFC PS (see Annexure III), and other applicable international frameworks.
- A compliance register or matrix will be developed for each investment to document regulatory gaps and align mitigation measures with the more stringent of the applicable requirements.
- The ESG/Impact team will work with legal counsel and sector experts to ensure that all regulatory and institutional frameworks relevant to the country of investment are accurately reflected in the ESG Action Plan and investment agreements.
- Where local regulations are less developed or weakly enforced, Gaia will apply international best practices as the default safeguard.
- The ESG/ Impact team will request and review E&S information provided by the investee.
- The ESG/ Impact team will carry out an on-site visit to the investee’s premises or project site.
- Based on the above, the Fund will shall determine the scope of work for the E&S due diligence.

Given the nature of the Fund Investments and small team size, investees do not fall under the Minimum Safeguard OECD Guidelines for Multinational Enterprises.

The UN Guiding Principles on Business and Human Rights, especially the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights, compliance with minimum safeguards will be ensured as follows across the different stages of the investment process:

- **Pre-investment phase:** Verified during the origination, screening, and due diligence process
- **Investment Commitment:** Investees will be required to commit and ensure compliance with these principles and rights in the term sheets.
- **Portfolio life:** An annual verification through a questionnaire will be made.

After all the assessments defined above have been performed, if no major concerns are identified during the assessment, the investment can be proposed to the Investment Committee for review (and approval) alongside its tailored ESG Action Plan and legally binding sustainability covenants for the Investee to be discussed and confirmed by the IC.

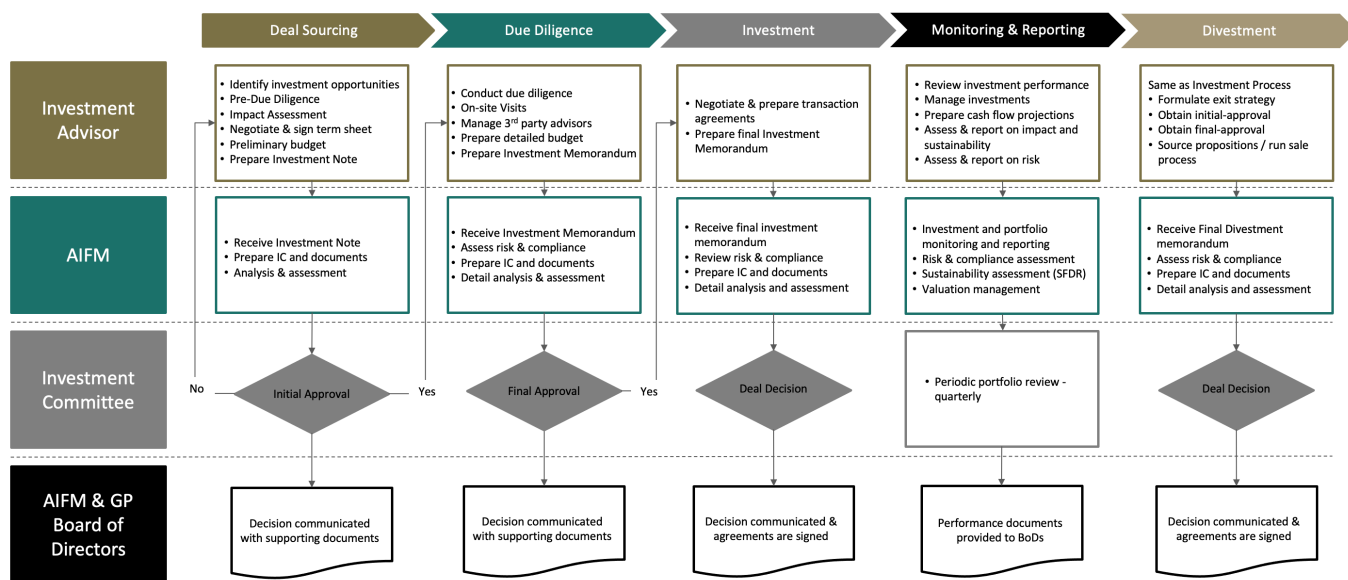
6.1.3 Legal Agreement

The investment agreement between the Fund and all investees will include appropriate social and environmental clauses that address and protect ESG objectives in contractual agreements. Examples of sustainability covenants may include but are not limited to:

- Confirmation of sustainability Due Diligence
- Compliance with the Fund requirements
- Monitoring and Reporting (e.g. KPIs & PAIs) and any provisions to manage E&S risk.
- Addressing non-compliance through a corrective action plan (“CAP”)/ 100-day plan

6.1.4 Monitoring & Reporting

An overview of the Fund’s monitor and reporting system is set out the figure below.



At Investee level, the Fund generally uses an annual ESG survey and data collection process post-investment to monitor our investee companies as set out below:

Minimise negative impact	KPIs & PAIs
Identify, assess and monitor and report on ESG & Impact Risks	Identify, assess, monitor & report on KPIs and PAIs
Apply strategies to avoid, mitigate and compensate for sustainability risks	Measure and monitor Mandatory PAIs and Additional PAIs

Participation in our survey and data collection is expected for investees for whom we hold a minimum shareholding of 20%. Portfolio companies undergo ongoing monitoring based on KPIs, PAIs, ESG Risks, compliance with Minimum Safeguards, EU Taxonomy.

In addition, the Fund commits to the required SFDR Article 9 pre-contractual disclosures, periodic reports, and website disclosures to report on portfolio sustainability performance to relevant stakeholders.

In addition to Annual Impact & Sustainability reports, the Fund will prepare and submit Environmental and Social Performance Reports (“QESPRs”) to the investors. These reports will include:

- Compliance with ESMSs the ESMS plan and mitigation measures
- Stakeholder engagement activities and effectiveness of Stakeholder Engagement Plans
- Summary of grievances received and their resolution status
- Any ESG incidents and corrective actions taken. In the event of a major event investors will be notified in 72 hours.
- An Annual Environmental and Social Report (“**AESR**”) will consolidate project- and portfolio-level ESG performance, actions taken/ mitigation measures, stakeholder engagement, grievance resolution, including environmental and social procedures as well as safeguard management requirements and any additional investor requirements.

The Fund will align all the required reporting with the following AfDB’s OS9 Guidance Note Annexures:

- Annexure 1: Reporting template for the Fund/ Gaia
- Annexure 2: The Fund’s E&S Documentation checklist
- Annexure 3: The Fund/ Gaia – Regulatory Checking
- Annexure 4: E&S Due diligence onsite visit questionnaire
- Annexure 5: E&S Due Diligence onsite visit report
- Annexure 6: E&S Covenants
- Annexure 7: E&S Due Diligence Report
- Annexure 8: E&S Monitoring Checklist
- Annexure 9: E&S incident Reporting
- Annexure 10: E&S Performance Report
- Annexure 11: Annual E&S Reporting
- Annexure 12: ESMS Key Performance Indicators
- Annexure 13: Using E&S Experts and Consultants

6.1.5 Responsible Exits

The Fund is committed to a responsible exit by assessing final deal impact and ensuring that impact and sustainability considerations are continued after exit.

6.1.6 Stakeholder Engagement Plans (where relevant)

Each portfolio company or investee will be required to develop and implement a Stakeholder Engagement Plan in line with the AfDB OS10, tailored to local context and submit it to Gaia.

Gaia will provide Stakeholder Engagement plans templates (if required) and review each investee’s Stakeholder Engagement Plans for compliance.

Stakeholder Engagement Plans implementation will be tracked through quarterly reporting and independently reviewed by Gaia’s ESG/ Impact team.

7. EXTERNAL COMMUNICATIONS AND REPORTING

7.1 Grievance Mechanism

Gaia has implemented sufficient grievance redress channels for affected persons or stakeholders to anonymously provide complaints to Gaia with robust process to manage complaints with specified timelines are set out below:

7.1.1 Grievance mechanism for investees

Maintaining good stakeholder relations is also critical to maintaining good project performance and reputation. Poor stakeholder relations can result in a range of problems and costs. Gaia will emphasize to Investees that it is essential to alert the Fund to any significant stakeholder-related issues (e.g. social protests and relevant grievances) and the status of relationships with key stakeholders, such as local communities. Investees should, as appropriate, have a grievance mechanism and a stakeholder engagement plan in place. Gaia will help companies to develop a grievance mechanism and stakeholder engagement plan if they do not have it.

Even if an Investee has not identified any affected communities during the stakeholder engagement process, it must establish and maintain a publicly available and easily accessible channel for members of the public to contact it (e.g. through a phone number, website, or email address). External stakeholders can provide companies with valuable information through this channel, such as: suggestions on improvement; feedback on interaction with their employees; and comments from regulators, Non-Governmental Organisation (NGOs) and individuals regarding the Investee's ESG performance.

The Fund presents two tools related to this element that are helpful for Investees to refer to them:

- Checklist for Effective Grievance Mechanism; and
- Grievances Log.

Any grievance may also be submitted anonymously.

All investees must operationalise a grievance mechanism that is accessible, documented, and responsive. A grievances log must be maintained and submitted quarterly to Gaia.

Serious or unresolved grievances must be escalated to Gaia's CIRO. The Fund's institutional grievance mechanism remains accessible to all stakeholders and is listed on the Fund's website.

In the event of serious complaints or those that cannot be resolved promptly, Investees are obligated to inform the Fund of the details. In addition, Gaia maintains a separate channel of communication open to all stakeholders in the event that issues are not being properly addressed by the Investees.

7.1.2 Public Grievance mechanism of Gaia and the Fund

Gaia's own institutional Grievance Mechanism Procedure is available on its website. The ESG/ Impact Management complaints are assigned to the Managing Director Renier de Wit (renier@gaia.group). The response will be provided formally within 30 days after receipt of the grievance if the grievance has not been received anonymously.

7.2 External communications to Gaia

All communications received from external third parties (e.g., NGOs, communities, etc.) concerning a particular Investee should be forwarded to the Chief Impact & Risk Officer Tersia Lister (tersia@gaia.group). The Chief Impact & Risk Officer will record the communication, acknowledge the communication to the third party (if not anonymous), analyse its contents and respond to the third party within 30 days.

The contact details for communications with Gaia are available on the Gaia's website.

7.3 External reporting to limited partners (annual report)

The Fund will provide an Annual Sustainability Report setting out the implementation of the ESG policy and performance of the portfolio companies to its investors and other stakeholders using Annex V as template provided by the EU Commission Delegated Regulation.

8. ESMS APPROVAL, REVIEW AND CONTINUOUS IMPROVEMENT

An effective ESMS is dynamic, responsive to changing circumstances, and continuously improved through iteration and feedback.

Gaia and the Fund commit to soliciting feedback annually from internal and advisory stakeholders, investors, and external experts before or during Board meetings about the perception of the Fund's ESMS. Similarly, the Fund will survey investees, end-beneficiaries, and impacted communities (where relevant) each year to understand areas of success, lessons learned and concerns that have not been addressed. Feedback from the sources will then be reviewed by Gaia's senior team, and revisions will be made to the Fund ESMS to improve future performance for investees already part of the portfolio and future investees.

The ESMS shall be formally reviewed on an annual basis and approved by senior management of Gaia, taking stakeholder feedback in consideration.

If severe incidents or breaches of the ESMS/ ESG Policy occur, Gaia commits to making rapid changes to the ESMS, including future due diligence procedures. Gaia undertakes to notify all investors of the Fund within 2 days of incident occurring.

This ESMS supersedes all previous ESG Policies and shall be superseded by all future ESG Policies approved by the Fund's board of directors.

9. GAIA LABOUR AND WORKING CONDITIONS

Gaia will provide a safe and healthy working environment as prescribed by AfDB OS2, the national law and International Labour Organisations' Core Labour Standards.

Gaia has in place and will maintain appropriate labour management procedures, including procedures relating to working conditions and terms of employment, non-discrimination and equal opportunity, grievance mechanisms and occupational health and safety.

Gaia has in place the following measures: (a) Adopting and implementing human resources policies and procedures; (b) Documenting and communicating to all workers their rights under national

labour and employment laws, any applicable collective agreements, working conditions and terms and conditions of employment, and notifying them when any material changes occur; (c) Promoting fair treatment, non-discrimination, and equal opportunity of all workers; (d) Establishing and managing a grievance mechanism process to learn, receive and address workers' concerns and suggestions; and (e) Providing a safe working environment through appropriate occupational health and safety programs and measures.

APPENDIX I – GAIA EXCLUSION LIST

It includes the following:

- Gaia’s Composite Exclusion List
- Exclude non-qualifying investments based on the DNSH principle in terms of the Fund’s environmental objective (Technical Screening criteria).
- [IFC Exclusion List](#)
- BII Fossil Fuel Policy
- Harmonised EDFI Exclusion List
- AfDB’s Negative List
- Exclusions specified in any investor financing agreement (if applicable)

Gaia will not invest in or finance any activity related to any of the following:

IFC Exclusion List:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone-depleting substances, PCB’s, wildlife, or products regulated under CITES.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos, and equivalent enterprises.¹
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

A reasonableness test will be applied when the activities of the project company would have a significant development impact, but the country's circumstances require adjustment to the Exclusion List.

All financial intermediaries (Fis), except those engaged in activities specified below, must apply the following exclusions in addition to IFC’s Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
- Commercial logging operations for use in primary tropical moist forests.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

APPENDIX II – PRINCIPLE ADVERSE IMPACTS ON SUSTAINABILITY FACTORS

Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken Actions planned Targets set (next reference period)	
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG Emissions				
		Scope 2 GHG emissions				
		Scope 3 GHG emissions				
		Total GHG emissions				
	2. Carbon footprint	Carbon footprint				
	3. GHG intensity	GHG intensity of investee companies				
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in fossil fuel sector				
	5. Share of non-renewable energy consumption and production	Energy consumption in GWh per million EUR of revenue of investee companies				
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million ZAR/EUR of revenue of investee companies, per high impact climate sector				
Biodiversity	7. Activities negatively affecting biodiversity – sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas				
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average				
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per				

		million EUR invested, expressed as a weighted average				
--	--	---	--	--	--	--

Adverse sustainability indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken Actions planned Targets set (next reference period)
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.				
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies				
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members				
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				
INDICATORS APPLICABLE TO INVESTMENTS IN REAL ASSETS						
Fossil fuels	15. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels				
Energy efficiency	16. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets				

APPENDIX III – IFC PERFORMANCE STANDARDS (“IFC PS”)

This annex sets out how the Fund aligns its ESMS with the eight IFC Performance Standards (PS). It serves as a cross-reference for the ESG/ Impact team, Fund staff, investees, and stakeholders to ensure consistent application of international best practice in ESG risk management.

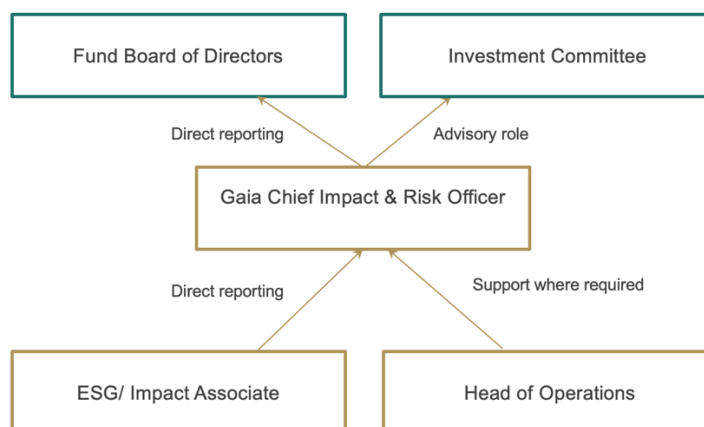
Overview of application across the investment cycle:

IFC PS	Screening	Due Diligence	Legal Agreements (examples where applicable)	Monitoring (where relevant)
PS1 – Assessment and Management of E&S Risks	Risk categorisation, use of ESG DDQ	Initial screening and ESG Action Plan/ PAI assessment	Sustainability covenants requiring ESMS implementation	ESG reporting (quarterly), AESR, annual review
PS2 – Labor and Working Conditions	High-level exclusion check	Review of HR policies, OHS plans, labor compliance	Clauses on labor practices, grievance mechanisms	Investee related metrics, worker grievance log
PS3 – Resource Efficiency and Pollution Prevention	Sectoral screening	Energy, emissions, water and waste assessment/ PAI assessment	Environmental compliance clauses	Energy & GHG KPIs, waste tracking/ PAI assessment
PS4 – Community Health, Safety, and Security	Proximity to sensitive receptor	Risk assessment, emergency preparedness	Security policies, emergency response plan	Community complaints, Health & Safety indicators
PS5 – Land Acquisition and Involuntary Resettlement	Exclusion list (where needed)	Review of land title, check for displacement	Land access clauses, RAP where applicable	Compliance with mitigation measures
PS6 – Biodiversity Conservation	Sensitive area flag in DDQ	Biodiversity screening/assessments	Mitigation hierarchy clauses	Site-specific biodiversity monitoring
PS7 – Indigenous Peoples	Initial country/context scan	Stakeholder engagement documentation	Consent and benefit-sharing agreement	Stakeholder engagement reporting
PS8 – Cultural Heritage	Site screening	Cultural heritage assessment (if relevant)	Incident reporting mechanism	Incident reporting mechanism

APPENDIX IV – ESG/ GOVERNANCE STRUCTURE AND BUDGET

The current budget for the ESG/Impact team is USD 195,000 annually. This budget covers remuneration of ESG/Impact personnel to support the implementation and monitoring of the Fund’s ESMS and the cost of annual ESG/Impact training. The budget will be reassessed each year to ensure sufficient capacity and resources are available to meet the ESMS requirements in line with market expectations and portfolio expansion.

ESG/ Impact Team Organogram:



The Fund ESG Governance Structure is defined as follows:

1. ESG Oversight and Accountability:

- The Chief Impact and Risk Officer (CIRO) holds overall accountability for ESG risk management, ESMS implementation, and alignment with the Fund’s sustainable investment objective.
- The CIRO reports directly to the Fund’s Board Risk Committee, ensuring functional and operational independence from investment origination and execution.

2. ESG/Impact Team Composition:

- **Chief Impact and Risk Officer (CIRO):** Leads the ESG/Impact strategy, reviews all investment-level ESG risks, and provides quarterly reports to the Board. The CIRO is ultimately responsible for the ESG/ Impact due diligence, ESG/ Impact performance tracking and stakeholder engagement monitoring and all related regulatory compliance.
- **ESG/ Impact Associate:** Supports ESG/ Impact due diligence, ESG/ Impact performance tracking, and stakeholder engagement monitoring. Provides technical input on ESMS, Stakeholder Engagement Plans, impact metrics, and regulatory compliance.
- **Head of Operations:** Support when and if required.
- External ESG external specialist will be appointed as needed

3. Investment Committee Advisory:

- The ESG/ Impact team provides input to the Investment Committee during deal screening and due diligence phases via advisory (non-voting) roles to flag ESG/ Impact risks early.

4. ESG/ Impact Committee (Internal):

- The ESG/Impact team meets quarterly in an internal ESG Committee to assess implementation progress, discuss emerging risks, and recommend enhancements to ESG strategy.

5. Portfolio Company Engagement:

- Each investee is required to designate a focal ESG contact who coordinates with Gaia's ESG team.
- ESG performance indicators are embedded in legal agreements and monitored quarterly.

6. ESG/ Impact team roles and responsibilities encompassed by ESMS

- Making decisions based on the exclusion list as per Appendix I.
- Assigning an E&S rating to Investees or potential Investees
- Identifying E&S Due Diligence requirements in a risk-based manner and consistent with E&S Standards
- Carrying out an E&S due diligence
- Identifying risk management measures in agreement with clients
- Drafting appropriate legal measures
- Monitoring E&S performance of the Fund's portfolio
- Monitoring the E&S portfolio risk profile
- Reviewing E&S reports and providing feedback
- Compiling E&S information about the ESMS and the Fund's portfolio
- Reporting to senior management/ the Fund's Board of Directors
- Managing the grievance mechanism
- Managing external relations
- Responding to and managing problems such as E&S accidents and incidents

7. Training and Capacity Building:

The CIRO oversees annual ESG/ Impact training sessions for Gaia staff and portfolio company management.

ESG/ Impact Training and Fund Manager level examples (Gaia):

Training topic	Sub-sectors
AfDB ISS & IFC Performance Standards	Application across investment cycle Gap analysis tools for local vs. international standards AfDB OS9 Guidance Note
ESG/ Impact Due Diligence & Risk Categorisation	Use of DDQ, risk matrix, and ESG/ Impact risk profile Categorisation (A/B/C) and mitigation planning IFC Performance Standards
Principle Adverse Impacts (PAIs) & SFDR Reporting	Data collection, proxy use, and compliance tracking
Stakeholder Engagement & Stakeholder Engagement Plan management	
Grievance Mechanisms	
Data Collection & Reporting	PAI indicator reporting Impact KPIs per IRIS+ framework
ESG Incident Management	
Governance & Compliance	Anti-bribery, anti-corruption, human rights and labor standards
Gender & Inclusion Principles	Internal protocols

ESG/ Impact Training at Portfolio Company level examples:

Training topic	Sub-sectors
Introduction to ESG & the Fund's ESMS	Roles and expectation of investees ESG clauses in legal agreements IFC Performance Standards AfDB OS9 Guidance Note
Legal & Regulatory Compliance	
Stakeholder Engagement & Stakeholder Engagement Plans	
Grievance Mechanisms	
Data Collection & Reporting	PAI indicator reporting Impact KPIs per IRIS+ framework Frequency and templates
ESG Incident Management	
Gender & Inclusion Principles	

END.