

## **BUILD Fund – REGULATION (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”)**

The BUILD Fund aims to make sustainable investments that contribute to achieve significant progress towards the Sustainable Development Goals (SDGs) in the Least Developed Countries. In order to attain its sustainable investment objective the BUILD Fund invests in accordance with its investment policy in target businesses which are considered as contributing to driving positive social and environmental change, aligned with its impact thesis. This means that the BUILD Fund focuses on identifying targets whose products, technologies and/or services contribute to achieve progress towards the SDGs.

The BUILD Fund will seek to achieve its investment objectives by investing primarily in small- to medium-sized enterprises in the agriculture & food security, green economy & renewable energy, financial inclusion and local infrastructure sectors in the Least Developed Countries, while following a binding approach consisting of selecting companies that have the potential to generate positive impact at scale, while mitigating the risks of negative impacts through ESG integration, exclusions and engagement with investees.

In pursuing its sustainable objective, the BUILD Fund also places a priority on the effective management of potential Sustainability Risks associated with its investments to do no significantly harm to any area of environmental or social concern. The Fund seeks to integrate Sustainability Risk considerations all along the investment process. Towards that end, the BUILD Fund has implemented and maintains a specific investment process making a sustainability risk and impact assessment of each potential investment.

### **Impact & ESG risk management process**

Management of both positive and negative impacts of investments is at the core of the BUILD Fund. The BUILD Fund has designed an impact framework specifying its theory of change, detailed guidelines and impact indicators that will be measured at the portfolio company level and at the BUILD Fund level, as well as a policy on the assessment and management of ESG risks, ESG requirements and a comprehensive exclusion list of harmful sectors the BUILD Fund is prohibited from investing in. The Impact Framework also specifies the processes and roles with respect to impact management. The Impact Framework has been co-designed and iterated in collaboration with UNCDF.

Detailed investment criteria to support the BUILD Fund’s sustainable investment objective are set forth in its investment guidelines to ensure that the BUILD Fund contributes to its impact objective of driving progress towards the SDGs in the Least Developed Countries.

In order to achieve its impact objective, the BUILD Fund’s impact management process is deployed at every stage of the investment strategy.

**Pre-Investment:** Prior to investing in a company, the BUILD Fund checks that the potential investment is aligned with its impact thesis to drive progress towards the SDGs in the Least Developed Countries. Following the screening phase, a thorough due diligence is performed on selected companies to analyse the expected impact of the company and conduct an ESG risk assessment, leading to an ESG risk score. The analysis on the potential development impact of the investment (positive impact generated), as well as the ESG risk assessment (risk of negative impacts), are both included in the investment memorandum submitted to the Investment Committee. These analyses are discussed in the Investment Committee and form part of the investment decision.

**Investment:** Upon approval of the investment, the BUILD Fund defines with the investee company the selected impact indicators to be monitored and reported on a regular basis. If some significant ESG risks have been identified during the ESG due diligence, the BUILD Fund may also include conditions in the investment agreement related to the monitoring of those specific ESG risks.



**Post-investment:** During the post-investment period, the BUILD Fund monitors the impact data reported by its investees at the agreed upon frequency. Additional in-depth impact analyses beyond “core” impact metrics may be carried out upon availability of resources. In case specific ESG risks have been identified, the BUILD Fund monitors the progress reported by investee companies in monitoring and mitigating those risks. As an equity investor, the BUILD Fund usually sits on the board of investees to oversee and enhance the impact strategy and analysis of social performance as well as contribute to financial matters. The BUILD Fund’s intervention is complemented by a post-investment Technical Assistance Facility, the BUILDER TA, which also contributes to helping investee strengthen their capacities to deliver positive social and environmental impact while mitigating ESG risks.

**Divestment:** For equity investments, the BUILD Fund seeks to divest to trustworthy investors who will allow and enable the companies to pursue their missions and visions. The BUILD Fund also aims for organized, simple, fair and transparent divestment processes.

Whilst the BUILD Fund does not exclude investees that do not yet have a full environmental and social managements system, and actively engages its investees to ensure that they have minimum standards in place and are well positioned to improve their practices over time.

The social performance of our investment in investees is periodically evaluated. Some of the key non-financial KPIs used by the BUILD Fund to measure the attainment of its impact objective include:

Key output indicators of the BUILD Fund include:

- Number of leads identified to become prospective investees for BUILD Fund (per year)
- Number of prospective investees screened for further due diligence (per year)
- Number of prospective investees selected for pre-investment TA - i.e. investment readiness advisory support (per year)
- Number of new investments made by the BUILD Fund (per year)
- Amount of capital disbursed by the BUILD Fund (in US\$ per year)
- Total number of outstanding investments in the BUILD Fund (by year end)
- Total amount of capital outstanding in the BUILD Fund (in US\$ by year end)
- Number of investees receiving post-investment TA - i.e. advisory support to maximize the impact of the finance received and de-risk investment for BUILD Fund (per year)

Key outcome indicators of the BUILD Fund include:

- Number of individuals employed by investee companies (cumulative)
- Number of individuals served (as customers or users) by the BUILD Fund’s investee companies
- Aggregated income taxes paid by BUILD Fund’s portfolio companies (in US\$ per year)
- Number of forums/meetings with LDC Government representatives where the BUILD Fund is sharing experience and suggestions to public actors
- BUILD Fund level - Amount of first loss raised
- BUILD Fund level - Additional funding catalyzed from private investors
- Amount provided by other lenders or investors of portfolio companies that the BUILD Fund has contributed to catalyze
- Number of BUILD Fund’s investees that will receive additional follow-on or co-investment capital (per year)
- Amount of additional capital provided to the BUILD Fund’s investees as co-investment or follow-on by other funding sources (in US\$ per year)
- Aggregated revenues generated by the BUILD Fund portfolio companies (in US\$ per year)
- Number of new jobs created in the BUILD Fund’s investees
- Number of new ripple jobs created upstream and downstream of value chains
- Number of forums/conferences where the BUILD Fund is sharing experience about the viability of investing in LDCs.



Beyond these fund-level output and outcome indicators, the BUILD Fund will report on progress made towards the SDGs, by linking the cross-portfolio and investment-specific impact metrics reported by the companies to the relevant SDGs. Each investment will have its own set of metrics depending on its sector and business model. The BUILD Fund will consolidate investee's impact metrics per SDGs.

### **Integration of sustainability risks into the investment decisions of the BUILD Fund**

The BUILD Fund integrates Sustainability Risks into decision-making and investee engagement throughout the investment process. The Fund has defined in its Investment Strategy an exclusion list of harmful sectors that the BUILD Fund is prohibited from investing in. The BUILD Fund's investment evaluation of investees includes an environmental, social and governance (ESG) risk assessment, leading to an ESG risk score according to the level of ESG risks. The ESG risk assessment, conducted during the due diligence phase, is customized according to the profile of the investee. Results of the ESG due diligence are included in the investment memorandum presented to the Investment Committee whose investment decision informed by the review of ESG factors. Where ESG-related risks cannot be mitigated to a satisfactory extent, the investment will not proceed. Where significant sustainability risks are identified as a result of the ESG due diligence of an investee, a clear ESG risk mitigation strategy may be requested as a prerequisite for investment, and regular updates related to the ESG risk mitigation strategy and/or ESG Action Plan as a reporting requirement.

Throughout its portfolio of investments, the BUILD Fund collects, analyzes and consolidates the impact metrics of portfolio companies. Upon approval of the investment, the BUILD Fund defines selected impact indicators to be monitored and reported on for each investee, aligned with the BUILD Fund's impact thesis. The BUILD Fund reports back to investors on progress and informs them of any development that can affect the impact of portfolio investments. Additional in-depth impact analyses may be carried out upon availability of resources.

Engagement with investees, including on ESG matters, is an integral component of the BUILD Fund's investment cycle and contribution to positive development impact. The BUILD Fund's intervention is complemented by a post-investment Technical Assistance Facility, the BUILDER TA, which also contributes to helping investee strengthen their capacities to deliver positive social and environmental impact while mitigating ESG risks.

### **Assessment of the likely impacts of sustainability risks**

The BUILD Fund is exposed to sustainability risks in the form of ESG events and conditions that can have negative impacts on the assets, financial and/or earnings situation, or the reputation of the BUILD Fund. The BUILD Fund is exposed to the Sustainability Risks that its investees are exposed to through their operations and clients. When providing debt financing, as a balance sheet lender, the BUILD Fund may be impacted by ESG events impacting the investees and their clients. This risk is amplified by the often weaker environmental and social laws and enforcement thereof in the developing countries in which the BUILD Fund operates.

Given the BUILD Fund's portfolio composition, investees targeted by the BUILD Fund may trigger the risk of negative impact on the environment and society in the form of water pollution, carbon emissions, release of hazardous substances threats to local biodiversity, local in areas subject to extreme weather events, child labor, forced labor/exploitative working conditions, hazards to health and safety, impacts to indigenous people and cultural heritage, population displacement, monopoly of contractors, lacks in client information and/or protection, lacks in Board Functioning and/or audit and transparency, corruption, money laundering and/or link to armed groups.

If not adequately managed, these impacts may negatively affect the investees' reputation, regulatory compliance and financial viability. Given the BUILD Fund's strategic impact focus, such impacts can in turn negatively affect the BUILD Fund's credit risk profile, reputation and/or its financial and/or earnings situation.

However, these sustainability risks are mitigated by the BUILD Fund’s investment strategy to generate positive impact by focusing on small- to medium-sized businesses that have the potential to drive progress towards the UN SDGs, as well as the BUILD Fund’s exclusion list, ESG policy targeting companies with low to medium ESG risk, and diversified portfolio. The BUILD Fund applies an exclusion list prohibiting activities that involve significant negative impact on the environment or society (ex: child labor, forced labor). The BUILD Fund refrains from financing activities with a high level of ESG risk, based on a specific ESG risk assessment conducted during due diligence. In addition, the BUILD Fund is requiring its investees to comply with a set of ESG requirements and, where necessary, engages with investees to ensure improvement of their ESG performance. Mandatory incident reporting further facilitates the Fund’s ESG risk management. Finally, the BUILD Fund’s engagement with investees, including on ESG matters, is an integral component of the BUILD Fund’s investment cycle and contribution to positive development impact. The BUILD Fund’s intervention is also complemented by a post-investment Technical Assistance Facility which also contributes to helping investee strengthen their capacities to deliver positive social and environmental impact while mitigating ESG risks.

Assessment of inherent ESG risks:

