Norsad Sustainability Newsletter: Volume 2

Supporting Access to Financial Services and Financial Inclusion

ABOUT NORSAD:

Norsad Finance (Norsad) is an impact investor offering medium to long-term risk capital to mid-market growth companies across Southern Africa. We offer customised financing solutions, across the debt spectrum from senior debt to mezzanine finance, to profitable businesses and commercially viable projects that deliver desirable impact.

Our Mission and Vision

Vision:
To be acknowledged as a preferred impact investor, providing flexible and customised financing solutions.

Mission:
To be the premier provider of customised longer-term risk capital to Southern African companies and financial services providers that are financially, socially and environmentally sustainable.

Our Commitment to ESG

At Norsad, our belief is that subscribing to best ESG practices reduces investment risk, creates sustainable brands, increases productivity and enables companies to unlock further funding. We consider Environmental Social and Governance (ESG) factors as a crucial part of the decision-making process and incorporate sustainability criteria into all our business processes and financing activities.

Our core purpose is 'Building a Better Africa' by investing in sustainable and profitable businesses in the Southern Africa region. We are proactive in enabling sustainable enterprise growth and playing a catalytic role in traditional and alternative financing structures, demystifying perceived risk in inspiring impact beyond our funding. This demands that as a company we ensure our sustainability for lasting impact while supporting our investees in their journey.

Norsad Finance is guided by the following initiatives:

SUSTAINABLE DEVELOPMENT GOALS
THE WORLD BANK IBRD · IDA | WORLD BANK GROUP
GIIN GLOBAL IMPACT INVESTING NETWORK
PRI Principles for Responsible Investment
IRIS IMPACT REPORTING & INVESTMENT STANDARDS
IFC International Finance Corporation World Bank Group

OUR SECTORS:

We are sector agnostic allowing us to invest in diverse sectors and businesses. Our preferred sectors are those which can achieve impact in line with the Sustainable Development Goals (SDGs). Our diversified impact approach gives preference to companies which have strong employment effects, support gender diversity, import substitution and exports, food security, global climate change mitigation and financial inclusion.

- Renewable Energy
- Financial Institutions
- Hospitality
- Manufacturing
- Food Products
- Integrated Agriculture

MESSAGE FROM OUR CEO: Why Norsad Invests in Financial Institutions

I am pleased to present the second volume of our Sustainability Newsletter which highlights Norsad's selected impact through Financial Institutions (FIs). Inclusive financial services – transactions, payments, savings, credit and insurance – play a pivotal role in the functioning of markets and the economy and contribute to economic and social development.

Access to finance remains a key bottleneck in sustaining the level of development required to adequately address current challenges in Africa. In some of our markets, up to 60% of people have no access to basic financial products and services and over 60% of the micro, small and medium-sized enterprises (SMEs), have unmet financing needs.

At Norsad, we believe that supporting financial institutions that can improve linkages with SMEs, typical households and under served communities with the local economy is a key component in addressing inequality in the region.

Such inclusive financial services delivered in a responsible and sustainable way can build resilience to shocks for susceptible households and individuals and facilitate the ability to capture opportunities through investments, education, housing, health and other welfare enhancing areas. Resilience and the ability to capture welfare enhancing opportunities reinforce each other and we seek to strengthen local financial institutions that understand their markets and can contribute to such resilience.

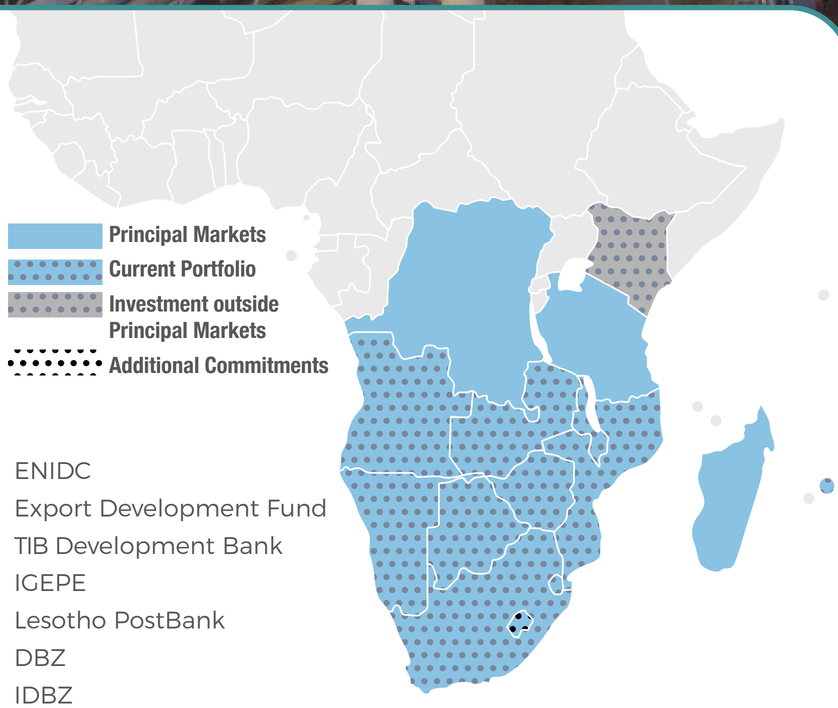
As part of our investment process we actively measure the impact our investee companies will have on the community, social and economic growth. Our investments in financial institutions target resilience with emphasis on access and inclusion and in doing so, Norsad seeks to align to the goals set out in the UN's Sustainable Development Goals (SDGs). Although the SDGs are not explicit on financial inclusion, greater access and inclusion to financial services are deemed instrumental in attaining many of the SDGs.

In this issue, we look at dimensions to financial inclusion and the implementation of ESG principles in FIs in our case studies.

Best regards
Kenny Nwosu

OUR FOOTPRINT:

Our principal markets are in Southern Africa, however we can also provide financing beyond our principal markets to SADC domiciled or headquartered companies expanding outside the region.



Our Shareholders are:

- Norfund
- Finnfund
- Swedfund
- IFU
- BDA
- CEDA
- Development Bank of Namibia
- SIC
- ENIDC
- Export Development Fund
- TIB Development Bank
- IGEPE
- Lesotho PostBank
- DBZ
- IDBZ

THE ROLE OF ACCESS TO FINANCE AND FINANCIAL INCLUSION IN EMERGING MARKETS

Access to finance and financial inclusion are critical to social and economic growth, inequality reduction and poverty alleviation. Financial inclusion provides individuals with the opportunity to improve their economic standing, through household savings that allow them to invest in their family's educational, development and overall health and wellbeing. The World Bank thus set a target of Universal Financial Access (UFA) (i.e. 100% access to financial services) by 2020. While access to financial services improved to 68% of adults worldwide and 48% in developing countries in 2017, this figure is likely to increase to only 74% by 2020, thus falling short of the UFA target. This is significant in Sub-Saharan Africa where only 32.8% have a financial institution account, 20.9% of women have a mobile money account and 36.9% of women have a bank account. According to the IFC's Microfinance Program for Africa, the Sub-Saharan African region has the lowest level of access to finance in comparison to other regions in the world, and the region is home to just 2% of the world's MFIs.

LINKAGE WITH SDGs

According to the IRIS+ metrics, supporting the SDGs by financing to FIs contributes to the following goals both directly and indirectly:

Direct

Indirect

SDG 1: No poverty

Access to finance facilitates entrepreneurship, strengthens resilience and reduces poverty.

SDG 8: Decent work and Economic Growth

Sustainable and profitable financial services provide more job opportunities, greater job security and more predictable incomes in the long term, which is of enormous significance for populations in the region. Increasing the access of small-scale industrial and other enterprises to financial services, including affordable credit, promotes the entry of new firms and encourages enterprise growth and innovation.

SDG 10: Reduced Inequalities

•**Banking the unbanked:** Owning a bank account acts as an entry point into the formal financial system, enabling previously unbanked individuals to establish a credit history which can lead to future access to credit.

•**Financing SMEs:** The finance sector also has the potential to generate substantial impact through facilitating SME growth, while growing the number of entrepreneurs.

•**Financing women:** A well-functioning financial system can promote gender equality. For example, a study in Kenya found that access to mobile money services allowed women-headed households to increase their savings by more than one fifth, enabled 185,000 women to leave farming and develop business or retail activities, and helped to reduce extreme poverty among women-headed households by 22%.

OUR FINANCIAL INSTITUTION PORTFOLIO

Our investments in Financial Institutions (FIs), have contributed towards increasing financial inclusion and have also supported the development of new products and service offerings which provide for greater access and inclusion. The FI sector is our largest investment sector in terms of capital and number of investee companies, and accounts for approximately 50% of our portfolio.

IMPACT HIGHLIGHTS:

USD88.3 million
Norsad's Investments

5,678 employees	1,749 (31%) women employees	225 (43%) women in management	617 (11%) youth employees

CASE STUDY:

FINCORP

Country: Eswatini

Current credit facility: USD7 million

Year of investment: 2018

Eswatini Development Finance Corporation (FINCORP) is a Development Finance Institution (DFI) aimed at economically empowering Eswatini people and entrepreneurs through the provision of sound and sustainable financial services. It has been in operation for 21 years in Eswatini. Norsad has had a business relationship with FINCORP since 2004 when the first credit facility was extended to the company. Furthermore, FINCORP has disbursed over ZAR3.1 billion and currently, over 15,000 jobs in Eswatini are supported through FINCORP's funding of SMEs, in addition to contributing over ZAR1 billion to national GDP per annum.

FINCORP impact highlights:

·Ranked the 5th best DFI under the Association of African Development Finance Institutions (AADFI) Prudential Standards, Guidelines and Rating Systems in 2009.
·The corporation plays a considerable role in terms of agribusiness, where it represents 60% of Eswatini's total agriculture/agribusiness market share, thus contributing significantly to food security in Eswatini.
·Financing approximately 200 SMEs (and sole proprietors) who previously did not have access to traditional financing solutions.
·Creation of approximately 400+ direct and indirect jobs in the local market.
·Contributing to credit availability in Eswatini specifically to market segments that do not have access to finance due to their perceived high-risk profile and insufficient collateral.
·The organisation employs 101 employees, including 44 (44%) women and 58 (57%) youth.
·FINCORP's client base comprises 40% women which is considerable in addressing the gender gap in access to finance which is estimated at 11% in Sub-Saharan Africa.

Strong commitment to ESG:

FINCORP is an institution committed to strong sustainability principles, having established a Social and Environmental Management System (SEMS) and adhering to IFC Performance Standards on Environmental and Social Sustainability. The organisation also applies an Exclusion List on their credit facility when screening credit applications, and their credit policy requires compliance with local environmental legislation and regulations.

CASE STUDY:

FBC Holdings Limited
strength • diversity • service

Country: Zimbabwe

Current credit facility: USD10 million

Year of investment: 2016

FBC Holdings Limited (FBC) is an investment holding company comprised of 6 subsidiaries providing consumer and investment banking and insurance services. The group's financial and risk management services include commercial banking, mortgage financing, short-term insurance, re-insurance, securities trading and microfinancing. Norsad provided a USD10 million facility in 2016 to support the group's strategy of transforming FBC Bank Limited to become a Tier I Bank by 31 December 2020.

FBCs impact highlights:

·The majority of FBC's client base comprises of previously unbanked individuals (30%), 21% women, and 7% youth and low-income individuals.
·The company employs 798 individuals, including 317 (40%) women and 74 (9%) youth employees.
·Norsad's investment has supported FBC to establish a dedicated women's desk, SME incubation hub, and SME Banking for both youth and women, and increase financial inclusion activities for SMMEs involved in Agriculture, Mining, Green Energy.
·The company also issued 114,189 instant cards to low-income earners in 2018 to promote financial inclusion within Zimbabwe, where 45% of adults do not have an account and women are 8% less likely to have access to an account than men.
·FBC Bank won the CSR Network Zimbabwe 2018 Top Sustainable Company of the Year award.
·In 2019 the Group had budgeted over US$25 million for the construction of 600 high density units. These units are to be constructed in different areas and are generally low in cost and more affordable to the general populace.

Strong commitment to ESG:

Norsad has fostered and guided FBCs increased commitment to sustainability principles. FBC has established and implemented guidelines on environmental management principles in all the sectors it operates in and continually attempts to limit the impact of environmental risks to all its stakeholders. The Group's housing development projects are subjected to Environmental Management Agency (EMA) inspection prior to any construction works.
The company has established an ESG policy to ensure the Group's policies are in line with international best practice on issues relating to ESG matters. FBC continued to increase its sustainability focus, assigning sustainability roles to managers and included ESG clauses on loan contracts and term sheets, and embarked on an ESG training program in 2016 based on the IFC Principles for Financial Institutions targeting 25 staff members and management drawn from Credit Division, Corporate Banking, SME Banking, Risk Management, Corporate Finance and Human Resources Departments.

GOING FORWARD

We look forward to continuing our sustainability journey with you in our periodic Newsletter.

FEEDBACK

To continuously improve our practices and reporting, we welcome and value your feedback and comments. Please contact us by phone, email or via our website.

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