

Sustainability-related disclosure: statement on sustainable investment objective



Introduction

This statement is published by the SANAD Fund for MSME (SANAD, “the Fund”) on its website in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, “the Regulation”). Its purpose is to provide transparency on the promotion of environmental or social characteristics and, as applicable to SANAD, of sustainable investments¹ on websites.

Additional publicly available documents that are related to and complementing this statement include:

- Information published on the [SANAD Website](#)
- [SANAD statement on consideration of principal adverse impacts on sustainability factors](#) (March 2021) in accordance with Article 4 of the Regulation
- [SANAD statement on integration of sustainability risks](#) (March 2021) in accordance with Article 3 of the Regulation
- Finance in Motion’s² (“the Advisor”) [Disclosure statement to the Operating Principles for Impact Management](#)

This statement is made on 9th March 2021 in reference to the calendar year 2020.

¹ The Regulation defines ‘sustainable investment’ as “an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”.

² Finance in Motion serves as SANAD’s Fund Advisor.

Sustainable investment objective of the financial product

SANAD is an impact fund that aims to foster economic development and job creation – including youth employment – agriculture, affordable housing, and innovations in finance and financial technologies. It works towards this objective by financing micro, small and medium enterprises (MSMEs) and low-income households (“the final target group”) in the Middle East and North Africa (“MENA”) and selected countries in Sub-Saharan Africa (“SSA”) (“the target regions”) via qualified local lenders and provides direct equity financing to qualified investees. At the final target group level, the positive impact goal of the Fund is to support employment opportunities (as both self-employed and as employee), supporting the generation of income and improving livelihoods. In pursuing this explicit sustainable (social) investment objective³ it therefore falls within the scope of Art. 9 of the SFDR. SANAD further strives for systemic impact by contributing to strengthening the financial sector serving those target groups and promoting financial innovation and technology as tools to enhance efficiency, extend outreach, and expand financial inclusion.

The entire SANAD portfolio is dedicated to this social investment objective, requiring each investment to work towards making contributions to tackling inequality, fostering social cohesion, or investing in the economically disadvantaged.

SANAD’s activities have been mapped towards the Sustainable Development Goals (SDGs) at an SDG target level, based on which 6 have been selected as core SDGs. For more information on SANAD’s contributions towards these SDGs, please refer to the impact section of the [SANAD website](#).

No index has been designated as a reference benchmark. Details on how the Fund’s social objective is being attained are provided in the below sections on investment strategy and monitoring approach.

(Investment) Strategy to achieve sustainable investment objective

Investment strategy. The investment strategy of the Fund focuses primarily on providing dedicated debt financing to financial intermediaries in the target regions, particularly commercial banks, microfinance institutions, and leasing companies. The strategic approach of providing dedicated finance through financial intermediaries has been shown as particularly effective in building outreach, strengthening local systems, and creating impact at scale.

SANAD also provides equity financing to financial institutions, innovative technology companies as well as investment vehicles that enable access to financial services for underserved MSMEs and agri-businesses in the region.

In addition to providing dedicated financing, SANAD is advancing strategic issues to strengthen local financial markets, such as local currency financing.

Investee selection. Investees of the Fund are referred to as “partner institutions” (PIs). The selection of PIs is guided based on a comprehensive set of eligibility requirements and investment criteria, as

³ In the following, the terms “sustainable investment objective” and “positive/social impact objective” shall be used interchangeably.

defined in the Fund's Issue Document and Investment Guidelines. Linked to the Fund's social objective, these include commitment to internationally recognized environmental, social, and governance (ESG) standards, responsible finance standards and principles of good corporate governance as well as potential to reach SANAD's target group. SANAD's Responsible Investment Policy complements the Issue Document and Investment Guidelines and governs SANAD's responsible investment commitments in relation to development impact, responsible finance, governance, and environmental and social management.

Use of proceeds. SANAD aims to support the entire spectrum of MSMEs by providing PIs with financial instruments adapted to their respective refinancing needs.

SANAD provides its PIs with dedicated funding for on-lending through loans ("sub-loans") to urban and agriculture-related MSMEs as well as to households (for housing purposes) ("end-borrowers") in line with market needs and according to contractually agreed, SANAD-specific use-of-proceeds requirements including limits to sub-loan size.

Sub-loans to MSMEs feed into the Fund's social investment objective by addressing two core challenges:

- Access to finance is a key challenge for MSMEs, limiting their development and growth. Through its dedicated MSME financing, SANAD is increasing the resources available for MSMEs⁴. The internal currency hedging facility allows the Fund to offer loans to PIs in local currency.
- MSMEs are a key driver of employment and local economic development, including in rural areas. By facilitating access to finance for MSMEs, SANAD fosters their ability to start, maintain, and grow their business activities, thereby supporting employment opportunities and income generation, including through self-employment.

Housing finance is considered a tool to improve livelihoods and starting or consolidating a development pathway for individual low-income households by increasing social security and resilience, presenting an asset for the future and indirectly contributing to local economic opportunities.

Its equity investments provide complementary development of financial systems, act as a catalyst for the creation and expansion of institutions that address the "missing middle" in underserved geographic areas and promote innovative products and modes of financings.

Technical assistance. The Fund's investment activities are complemented by the nonfinancial support of the SANAD Technical Assistance Facility (TAF), which is strengthening the capacity of the Fund's partners in the region, enhancing their outreach to MSMEs. In addition, the TAF advances strategic

⁴ Independent evaluations have shown that investments by funds such as SANAD indeed enable the financed FIs to increase their investment volume and expand their portfolios in absolute terms, so that more sub-borrowers can be reached. Please refer to: Deutsches Evaluierungsinstitut der Entwicklungszusammenarbeit (2020): Structured funds: A balancing act between financial sustainability and development impact.

https://www.deval.org/files/content/Dateien/Evaluierung/Berichte/2020/DEval_Report_2020_Structured_Funds_web.pdf

issues to strengthen local financial markets, such as local currency financing, agrifinance, entrepreneurship, digitalization, and innovative financial technologies, all factors contributing to a thriving ecosystem, inclusive economic development and growth in employment in the region.

No significant harm to sustainable investment objectives and good governance principles

SANAD places a priority on the effective management – i.e., avoiding, minimizing, and mitigating – of potential environmental and social (E&S) risks associated with the Fund’s investments. To that end, SANAD maintains, implements, and continuously improves an Environmental and Social Management System (ESMS). The ESMS includes SANAD’s Responsible Investment Policy, the Fund’s Exclusion List, and detailed E&S procedures.

Investments are screened positively and negatively. The Fund requires its PIs to carry out their activities in compliance with the SANAD Exclusion List, which prohibits the use of SANAD funding for activities with an elevated risk of causing adverse social or environmental impacts, such as those related to the coal or oil and gas sectors, activities involving child or forced labor, pesticides/herbicides subject to international bans, and those involving the destruction of high conservation value areas, among others.

Equally, PIs must carry out activities in compliance with national law, and in a manner consistent with the key principles of the relevant IFC Performance Standards and International Labour Organization’s core labor standards.

SANAD is committed to actively promoting good governance, integrity and transparency standards in its financing/investment activities. A set of governance principles have been adopted by the Fund with details set-out in the Investment Guidelines.

For more details, please refer to [SANAD’s statement on the integration of principal adverse impact](#).

Monitoring of sustainable investment objective

Assessing SANAD’s impact is important to the Fund as it demonstrates progress towards the Fund’s social objective, as well as providing insights and learnings that inform SANAD strategy. The attainment of SANAD’s social objective is monitored continuously through a set of key positive impact indicators (see below), combining different data sources and assessment methodologies. These indicators were selected based on [SANAD’s impact agenda](#) reflecting both the direct impact on the investee (for example, by improving the financial sector’s capacity to serve the MSME sector) as well as the indirect impacts on or through the PI’s clients.

Data sources. The Fund draws on the following data sources:

- **Fund monitoring:** Covering a range of data points at the Fund and portfolio level, allowing monitoring of the Fund's overall activities related to resource mobilization, financing, and technical assistance.
- **PI reporting:** Contractually agreed reporting on a set of predefined indicators, submitted by the PIs to the Fund on a regular basis, utilized for continuous monitoring of use of proceeds, outreach to target group and, particularly in case of equity investments, progress towards impact targets.
- **Third-party data:** External parameters and studies from academia and the impact investing industry, utilized to inform underlying impact assumptions and model final socio-economic impacts.
- **Studies and evaluations:** In-depth studies that collect and analyze primary quantitative and qualitative information directly from SANAD's final target group are conducted periodically for a deeper understanding of the Fund's impact mechanisms and the scale of its impact, complemented by external evaluations which provide additional perspectives and analysis.
- **On-site visits:** Regular site visits facilitated through the Advisor's staff operating from several offices across the region, facilitating continuous exchange with PIs, and the incorporation of on-the-ground knowledge of market needs into investment strategies.

Assessment methodologies. For a large proportion of its monitoring, SANAD utilizes first-hand data, such as from PI's reporting or SANAD's own, internal fund monitoring data. In order to assess and monitor its social impact, the Fund applies the following assessment methodologies:

- **Quantitative and qualitative studies in the target region:** SANAD periodically commissions end-borrower studies to review of the effects of its financing on the final target group. These are conducted by external, specialized research institutions and focus on assessing changes in the employment, income, and livelihoods of MSMEs and low-income households that received financing through a SANAD PI. Results are utilized to confirm the underlying assumptions of SANAD's impact agenda, impact reporting and measurement, and to inform future strategy and outreach of the Fund.
- **Modelling:** For a continuous estimation of the Fund's employment effect, a modelling approach has been developed. The approach combines PI reporting on sub-loans disbursed with job intensity factors derived by combining insights from the Fund's own end-borrower studies, academic research, and industry data. Underlying data and assumptions are periodically reviewed and updated.

Due diligence on underlying assets (concerning the social objectives of the Fund). Assessing the potential of an investment to contribute to the Fund's positive impact objective follows a two-step approach in the pre-investment phase:

- During pre-screening, the investee's alignment with the Funds' requirements is assessed. This relates to minimum requirements for ESG and responsible finance practices, as per the Fund's Issue Document and Investment Guidelines.
- During the due diligence phase, the investment's alignment with the Fund's impact objective is reviewed, taking into consideration different elements such as potential outreach to the target group, the investee's capacity to deliver the expected impact, and the Fund's specific impact contribution.

Positive Impact indicators and reporting. In order to measure its overall sustainable impact, SANAD has identified a set of indicators. These were selected in line with the Fund's impact agenda and include:

- Cumulative number of loans distributed to MSMEs and low-income households
- Share of loans facilitated to MSMEs in rural, urban, and semi-urban areas
- Average size of loans facilitated to MSMEs and low-income households
- Percentage of local currency lending
- Number of jobs supported by MSMEs receiving SANAD financing through a PI

Results towards these indicators along with additional metrics are regularly reported on the Fund's website and in periodic publications.

For **more information** on monitoring approach and overall sustainability-related impact please see:

- [The SANAD Pitchbook](#)
- The [SANAD Website](#)
- The Advisor's [Disclosure statement to the Operating Principles for Impact Management](#)

Engagement policies and impact management

Engagement with PIs is an integral component of the Fund's investment process and central to managing its positive development impact. SANAD considers itself a long-term partner to its PIs in line with its target to sustainably strengthen the local financial sector. This engagement includes (but is not necessarily limited to) the provision of tailored technical assistance to strengthen the abilities and capacities of PIs to enhance outreach to the SANAD target group, increase digitalization efforts or manage E&S risks. In addition, engagement with PIs takes place on a continuous basis, facilitated through the Advisor's strong local office presence in the target regions as well as through regular reporting requirements, and through the networking and platform building efforts of the Fund, which contribute to knowledge sharing and scaling up of good practices among and across PIs.

In those cases, where the Fund holds equity stakes it is represented in PI's Board, giving it the opportunity to have a stronger engagement with the PI. Through its Board representatives, the Fund follows its investees' activities closely and offers strategic advice and guidance in line with the impact objectives of the Fund.