Industrial Development Corporation

RESPONSIBLE INVESTMENT POLICY

November 2023

Version number 4.1

INTERNAL ONLY

Policy Governance	
Policy approval authority	IDC Board
Applicable Risk Category	Strategic, Social, Operational, Regulatory and Financial
Risk Owner	Chief Operations Officer (COO)
Last reviewed date	November 2014
Review date	November 2023
Material changes	**The following sections have been either updated or are new provisions.** 1) Updated Policy Context and Background 2) New Glossary 3) New Purpose 4) New Provisions of the Policy: i. Principles for Responsible investing and funding ii. Approach towards Responsible investing and funding iii. Priorities to drive Responsible investing and funding iv. Restricted list of activities v. ESRG and Sustainability Impact Enterprise Risk Management Process vi. Monitoring, Evaluation and Reporting (MER) Process 5) Updated Exclusion list of activities 6) Updated Scope 7) Updated Maintenance of the policy 8) Updated Non-adherence to the policy. 9) Updated Change Management, Knowledge Management, Engagement and Policy Review Cycle
Less Material changes	1) Updated Abbreviations and Acronyms 2) New Policy Effective Date 3) Updated alignment of the Policy to other policies and procedures 4) Alignment of the policy to the new policy template
Next date of review	September 2026
Recommended by	▪ Executive Management Committee ▪ Board Social and Ethics Committee (BSEC): 10 July 2023 ▪ Board Risk and Sustainability Committee (BRSC): 02 October 2023
Approved by	
Approval date	xx November 2023
Policy location	Office of the COO Policies on SharePoint IDC website

Document Ownership

Document Owners	COO
Signature	
Date	November 2023
Policy Custodian	Compliance Department
Maintenance of the Policy	1) COO's Office 2) CRO's Office: Risk Governance and Portfolio Management Department

---

Supported By

DESIGNATION	INITIALS AND SURNAME	SIGNATURE	DATE
Divisional Executive Strategy and Corporate Affairs	David Jarvis		22 November 2023
Divisional Executive Client Support and Growth	Lucrtia Khumalo		
Chief Risk Officer	Josephine Tsele		22 - 11 - 2023
Chief Financial Officer	I Malevu		01-12-2023

A. ABBREVIATIONS AND ACRONYMS

COO	Chief Operations Officer
CRO	Chief Risk Officer
DFI	Development Finance Institution
DSC	Development Score Card
ESRG	Environmental, Social, Resilience and Governance
ESRR	Environmental and Social Risk Rating
FAO	United Nations Food and Agriculture Organization
FATCA	Foreign Account Tax Compliance Act
IDC	Industrial Development Corporation
IFC PS	International Finance Corporation Performance Standards
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
JSE	Johannesburg Stock Exchange
MER	Monitoring, Evaluation, and Reporting
NDC	Nationally Determined Contribution
OFAC	Office of Foreign Assets Control
PFMA	Public Finance Management Act
RIP	Responsible Investment Policy
PRI	Principles for Responsible Investments
SDGs	Sustainable Development Goals
THC	low-delta-9-tetrahydrocannabinol cannabis varietals
UNCAHP	United Nations Convention on Animal Health and Protection

B. GLOSSARY

- **Cannabis:** means a plant of the genus of flowering plants in the family Cannabaceae. Three species may be recognised: Cannabis sativa (which may be accepted as a single undivided species); Cannabis indica and Cannabis ruderalis (which may be included within C. sativa). All three species may be treated as subspecies of single species.
- **CITES:** stands for the Convention on International Trade in Endangered Species of Wild Fauna and Flora, is a global agreement among governments to regulate or ban international trade in species under threat.
- **Development Score Card (DSC):** is the primary tool used by the IDC to measure and manage the developmental outcomes it aspires to achieve, outcomes and the impact each transaction may have in the long term. It comprises of four main categories, each category has a range of indicators, and these categories include the productive economy category, the environmental impact category, the social impact category and the governance category. The DSC is aligned to the Corporation's mandate, strategy, and outcomes.
- **Environmental Factors in the context of ESRG:** Factors in this instance include, but not limited to, the quality and functioning of the natural environment and natural systems including biodiversity loss, greenhouse gas emissions, renewable energy, energy efficiency, natural capital preservation, natural resource depletion or pollution, waste management, ozone depletion, changes in land use, ocean acidification and changes to the nitrogen and phosphorus cycles.
- **Environmental and Social Risk Rating (ESRR) for the IDC:** IDC's due diligence process examines how funding applicants manage their environmental and social risks, and whether environmental and social obligations are being met. The Environmental and Social Procedure specifies the criteria differentiating four levels of environmental and social performance: ESRR 1: very good; ESRR 2: good; ESRR 3: poor; ESRR 4: unacceptable/ not eligible for funding.
- **Ethics:** refer to moral values applied to decision-making, conduct, and the relationship between IDC, its stakeholders, and the broader society[1], its management of employees and its public disclosures.
- **Enterprise Risk Management Framework (ERMF):** provides management and employees with the foundation and sound guidelines to manage risk in a consistent, transparent, and efficient manner. The framework seeks to embed sound risk management processes and structures directed towards effectively managing potential threats and opportunities within the IDC's operating environment and fostering a risk aware organisational culture.
- **Environmental, Social, Resilience and Governance (ESRG):** refers to a framework that helps stakeholders understand how an organization is managing risks and opportunities related to environmental, social, resilience and governance criteria (sometimes called ESRG factors). The goal of ESRG is to capture all the non-financial risks and opportunities inherent to a company's day to day activities. Investors and funders are increasingly incorporating ESRG elements, into their investment decision making process, making ESRG increasingly important from the perspective of securing capital, both debt and equity. This includes integration into due diligence processes, integrated risk assessments, portfolio management and integrated reporting.

[1] Based on the King IV definition of ethics https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/684B68A7-B768-465C-8214-E3A007F15A5A/IoDSA_King_IV_Report_-_WebVersion.pdf

- **ESRG and Sustainability Impact Framework for the IDC (Framework):** refers to the overarching framework in which the IDC governs, manages and implements ESRG and sustainability impact initiatives as guided by the IDC Responsible Investment Policy.
- **ESRG and Sustainability Impact Governance Framework for the IDC (Governance Framework)**: refers to governance structures and processes set up within the IDC to strategically manage the IDC's ESRG and Sustainability Action Plan.
- **ESRG and Sustainability Impact indicators for the IDC (Impact Indicators):** refer to indicators the IDC utilises to identify, define and measure its ESRG and sustainability outcomes and impact. The IDC has its primary impact indicators outlined in its Development Score Card.
- **ESRG and Sustainability Impact Risks and Opportunities (Impact Risks and Opportunities)**: refers to the related impact risks and opportunities which the IDC will identify, manage, control and report as part of its overall ERMF processes. This includes emerging climate-related transition and physical risks and opportunities.
- **ESRG and Sustainability Impact Reporting and Disclosures for the IDC (Impact Report):** refers to a quarterly and annual reporting process focused on the progress made against the Action Plan, any updates on Framework, Governance Framework, indicators, impact risk and opportunities including continuous baseline reporting improvements on Scope 3 for disclosure purposes. This impact report is submitted to the IDC Executive Committee and relevant Board Committees on annual basis and forms part of the IDC integrated report on annual basis.
- **ESRG and Sustainability Impact Action Plan for the IDC (Action Plan):** refers to the IDC's ESRG and Sustainability Impact Strategy which outlines IDC's strategic objective, initiatives, activities, expected deliverables and associated timelines aimed at shaping IDC's ESRG and sustainability impact journey.
- **Equator Principles:** The Equator Principles are intended to serve as a common baseline and framework for financial institutions to identify, assess and manage environmental and social risks when financing Projects through internal environmental and social policies, procedures and standards for financing Projects. The IDC's Environmental and Social Policy provides further guidance on how the IDC has integrated the Principles.
- **Governance Factors in the context of ESRG:** Factors in this instance include, but are not limited to, board structure, size, diversity, skills, and independence; transparency in executive pay; shareholder rights; stakeholder interaction; transparency in impact data and indicators, disclosure of information; business ethics; bribery and corruption; internal controls and risk management; emerging ESRG and sustainability impact opportunities and, in general, issues dealing with the relationship between a company's management, its Board, its shareholders and its other stakeholders.
- **Greenhouse gases (GHGs):** A greenhouse gas (GHG) is a gas that absorbs and emits radiant energy within the thermal infrared range, causing the greenhouse effect. The primary greenhouse gases in Earth's atmosphere are water vapour (H_2O), carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), ozone (O_3) and Fluorinated gases. These gases are released by many different types of activities – not just the burning of fossil fuels, but also farming, deforestation and industrial processes. Key sectors which release GHG emissions include energy generation, electricity & heat, industry, transportation, other fuel combustion, fugitive emissions, agriculture, land use change, industrial processes, and waste.
- **GHG emissions** are divided into three categories for businesses and organizations – *Scope 1, Scope 2 and Scope 3*.

- Scope 1 emissions are “direct” emissions – caused by operating the assets of the IDC (owned or controlled). These can be a result of running machinery to make products, driving vehicles, or heating buildings and powering computers.
- Scope 2 emissions are “indirect” emissions created by the production of the energy that an organization buys. Installing solar panels or sourcing renewable energy rather than using electricity generated using fossil fuels would cut a company’s Scope 2 emissions. Companies can normally easily measure their Scope 1 and 2 emissions and can control them by taking steps like switching to renewable energy or electric vehicles.
- Scope 3 are also indirect emissions – meaning not produced by the company itself – but they differ from Scope 2 as they cover emissions produced by IDC’s investments and funding i.e., IDC’s financed emissions. Scope 3 emissions are under the control of investee companies and are affected by decisions made outside the company. Measuring Scope 3 emissions involves tracking activities across the entire business model or value chain from suppliers to end users.

- **Hemp:** means low-delta-9-tetrahydrocannabinol (THC) cannabis traditionally cultivated en masse to focus primarily on vegetative biomass for use in industrial applications aka industrial cannabis. The term “hemp” in legislation refers to cannabis with low-THC present in the germplasm (seeds, clones or tissue culture) and final cultivated product. However, the distinction between Hemp and/or Industrial Cannabis and/or Medicinal Cannabis is arguably arbitrary as Hemp can be cultivated for either high cannabinoid containing flower or vegetative biomass or both.
- **House views**: Refers to positions on what, and how IDC shall invest in the context of various strategic issues including fossil fuel-based sectors and industries thereby illustrating how it will contribute to net zero ambition and targets, Just Transition, energy security and overall sustainable development.
- **Johannesburg Stock Exchange (JSE) Sustainability Disclosure Guidance** considers many hundreds of ESRG metrics currently available and highlights those metrics that are well-established, universal, industry-agnostic and that are material to sustainable value creation. The guidance serves as an umbrella for sustainability disclosure which covers environmental, social and governance factors and is broadly linked to international initiatives within the global sustainability landscape.
- **Just Transition** refers to a shift towards a low-carbon, climate-resilient economy, ecologically sustainable economies and societies which contribute toward the creation of decent work, social inclusion, and the eradication of poverty in a manner that is fair and equitable for workers, communities, and the environment**.**
- **Nationally Determined Contributions (NDCs):** The Paris Agreement requests each country to outline and communicate their post-2020 climate actions, known as their NDCs. Together, these climate actions determine whether the world achieves the long-term goals of the Paris Agreement and to reach global peaking of greenhouse gas (GHG) emissions as soon as possible and to undertake rapid reductions thereafter in accordance with best available science.
- **Net Zero:** applies to a situation where global GHG emissions from human activity are in balance with emissions reductions from various climate actions e.g. NDCs and associated plans and initiatives. At net zero, GHG emissions are still generated, but an equal amount of GHG emissions is removed from the atmosphere as others are being released into it, this state of equilibrium results in a zero increase in net emissions.

- **Physical risks** are the damages and losses to an investment made that occur due to the physical consequences of climate change. These physical risks result from acute climatic events, such as flooding, wildfires and extreme heat, and chronic climatic events like droughts and coastal inundation. These risks are unevenly distributed across the country, across countries and regions, and over time, so locations that are at low risk today may have much higher risk in the future or vice versa. Across the business value chain, physical climate risks can have direct impacts, like impairment costs and productivity loss, and indirect impacts that can disrupt supply and demand. All of these can have an impact to the IDC as a funder or investor, such as a change in earnings or an increase in default risk.
- **Polychlorinated biphenyls (PCBs):** belong to a broad family of man-made organic chemicals known as chlorinated hydrocarbons. PCBs were domestically manufactured from 1929 until manufacturing was banned in 1979. They have a range of toxicity and vary in consistency from thin, light-coloured liquids to yellow or black waxy solids. PCBs were used widely in electrical equipment like capacitors and transformers.
- **Pornography:** refer to all activities in which people pay money for sexual activities or prostitution or graphic representations of sexual conduct. This includes printed or visual material containing the explicit description or display of sexual organs or activity, intended to stimulate sexual excitement.
- **Principles for Responsible Investment:** is a United Nations-supported international network of financial institutions working together to implement its six aspirational principles, often referenced as "the Principles".
- **Resilience Factors in the context of ESRG**: Resilience refers to a company's ability to absorb shock and emerge stronger and more relevant from a catastrophe than before. As such, the IDC through its overall ESRG and Sustainability Impact Framework has incorporated resilience factors into their risk management functions, hence it's called the ESRG Framework. Resilience factors in this instance also include, but are not limited to, risks and opportunities posed by increasing the climate resilience of communities, businesses, physical and natural assets against the adverse effects of climate change which are an urgent priority to deliver the systemic change needed to close the adaptation finance and action gap at the scale and pace required.
- **Responsible Investment/investing** is a practice to incorporate environmental, social, ethics and governance factors in investment and funding decisions including active ownership based on these factors.
- **Ring-fenced:** refers to method or practice of separating assets or profits so that it can only be used for a particular purpose.
- **South African Green Finance Taxonomy (GFT):** refers to South Africa's GFT which is a classification system or catalogue that defines a minimum set of assets, projects, activities, and sectors that are eligible to be defined as "green" in line with international best practice and national priorities. The GFT can be used by investors, issuers, and other financial sector participants to track, monitor, and demonstrate the credentials of their green activities in a more confident and efficient way.
- **Social Factors in the context of ESRG:** Factors in this instance include, but are not limited to, to the human rights, human well-being and interests of people and communities. These factors also include initiatives aimed at promoting social inclusivity, spatial equity and equality, access to employment, human rights, fair and equitable labour standards, rights of women, rights of youth, children and the disabled, Black industrialists, health and safety, relations with local communities, community trusts, community empowerment models, activities in conflict and disaster affected zones, health and access to medicine and consumer protection rights.

- **Sustainable Development Goals:** The Sustainable Development Goals or Global Goals are a collection of 17 interlinked global goals designed to be a "shared blueprint for peace and prosperity for people and the planet, now and into the future". These goals were set up in 2015 by the United Nations General Assembly and are intended to be achieved by 2030.
- **Sustainable Development for the IDC:** refers to industrial capacity expansion and maintenance through the development of value chains in a transformative, socially inclusive, developmentally impactful, and environmentally responsible way. These value chains include enablers such as energy, infrastructure, water and logistics from source to end user.
- **Sustainable Finance:** is defined as decisions that consider the environmental, social, resilience and governance (ESRG) factors of an investment activity or project.
- **Sustainability:** consists of fulfilling the needs of current generations without compromising the needs of future generations, while ensuring a balance between economic growth, environmental care, and social well-being. In business and policy contexts, sustainability seeks to prevent the depletion of natural or physical resources, so that they will remain available for the long term. Sustainability is often broken into three core concepts: economic, environmental, and social whilst many businesses and governments have committed to the Sustainable Development Goals (SDGs).
- **Sustainability Impact for the IDC**: has several dimensions which include, but not limited to, investments and funding aimed to ensure value to society, social benefits, environmental responsibility, equality, positive resilient change, inclusion & governance, impact magnitude, replicability, and scalability. For the IDC, these dimensions describe the manner in which the IDC will strive to execute its mandate of sustainable industrial development and capacity expansion whilst investing and funding the transition towards global net zero ambition. This includes continuous alignment by the IDC to emerging ESRG frameworks and standards, the management of associated ESRG risks and trade-offs including conscious integration of ESRG into the IDC investment and funding decision making processes.
- **Transition risks**: are business-related risks that follow societal and economic shifts toward a low-carbon and more climate-friendly future. These risks can include policy and regulatory risks, technological risks, market risks, reputational risks, and legal risks.

Table of Contents

1. POLICY CONTEXT

The Industrial Development Corporation of South Africa Limited (IDC) was established in 1940 through an Act of Parliament (Industrial Development Corporation Act, 22 of 1940) and is fully owned by the South African Government. The IDC complies with the Public Finance Management Act (PFMA), 1 of 1999, as amended, the Companies Act, 71 of 2008, as amended, the King Code on Corporate Governance (King IV), the International Financial Reporting Standards (IFRS) and applies the South African Green Finance Taxonomy in its green classification of set of assets, projects, activities, and sectors for value creation and industrial development purposes.

IDC pursues an ethical approach to investments. It operates within an intricate framework of relationships with suppliers, clients, government authorities, business partners, communities, and other stakeholders. Trends in legislation (e.g., environmental and climate change legislation), corporate governance (e.g., King IV), and shareholder and community activism are increasingly holding the Corporation accountable for its impact on communities, broader society and the environment as a result of its funding and investment activities. This requires the Corporation to demonstrate accountability and ambition whilst maintaining its social license to operate. As an industrial development institution, it is important for the IDC to clearly articulate areas of activity that it shall prioritise, as part of its mandate to drive sustainable development in South Africa and the rest of the African continent whilst also outlining areas of activities that it treats as exclusions to ensure its adherence to best practice, ethical decision-making and impactful responsible investing. In support of its sustainable industrial capacity development objectives, the Corporation believes that its focus on Environment, Social, Resilience and Governance (ESRG) and sustainability impact is material to enterprise value creation and increasingly provides valuable opportunities for innovation, industrialisation, and the creation of sustainable economies across its investments.

This IDC Responsible Investment Policy (RIP) guides the Corporation to invest and fund activities for industrial capacity expansion that are transformative, socially inclusive, developmentally impactful, and environmentally responsible. Furthermore, this policy is aimed at practically assisting the IDC to navigate its journey and path towards defining and aligning to the global net zero ambition, South Africa's Nationally Determined Contribution (NDC), the various NDCs from countries on the African continent, various national industry and economic development plans, including South Africa's Just Transition Framework and the IDC's own Just Transition Framework.

2. PURPOSE

This Policy serves to provide guidance and definition for the IDC and its stakeholders on how the IDC undertakes its responsible investing and funding. This includes the integration of the IDC Responsible Investment and Funding Principles to drive effective, responsible and ethical interventions across the IDC decision-making processes as per the IDC's mandate. It also outlines how the emerging ESRG related risks and opportunities will be managed. This policy further enables the Corporation to invest and fund activities for industrial capacity expansion in a transformative, socially inclusive, responsible, ethical and developmentally impactful manner.

3. PRINCIPLES FOR RESPONSIBLE INVESTING AND FUNDING

The IDC shall incorporate the following ESRG and Sustainability Impact Principles as guided by its funding model, decision-making processes, policies and practices. The principles in Table 3.1. below also guide and ensure compliance to this policy.

Table 3.1 IDC ESRG and Sustainability Impact Principles for Responsible Investing and Funding

PRINCIPLES	GUIDANCE	IMPLEMENTATION PROCESS
1. Governance, Ethics & Compliance	IDC Code of Ethics and Governance are core to the IDC's pre-investment, due diligence assessment, enterprise & credit risk management and overall business principles which includes compliance to this Policy. This policy guides the IDC on what the IDC will not fund through its Exclusion List and what it will fund on a restricted basis. This requires each of the internal approval and governance structures to ensure compliance to this Policy at all times i.e., Special Deal Development Forum and various Operations and Risk Committees.	a. All IDC funding and investment activities shall ensure compliance to the IDC Responsible Investment Policy b. All IDC funding and investment activities shall ensure compliance to the IDC Environmental and Social Policy which includes Environmental and Social Risk Rating (ESRR) which is aligned to International Finance Corporation Performance Standards (IFC PS) and where applicable to the Equator Principles. As such, all of the IDC Business Partners and Investee companies shall: i. Comply with national Environmental and Social (E&S) laws including Labour laws; ii. Comply with the ILO's core labour standards on Decent Work[2], Gender, Diversity and Inclusion. iii. Operate an E&S management system; and

[2] Further guidance on Decent Work is reflected in the IDC Environment and Social Policy and is aligned to the International Labour Organization (ILO) which defines decent work as "productive work for women and men in conditions of freedom, equity, security and human dignity". In general, work is considered as decent when: it pays a fair income; it guarantees a secure form of employment and safe working conditions; it ensures equal opportunities and treatment for all; it includes social protection for the workers and their families; it offers prospects for personal development and encourages social integration workers are free to express their concerns and to organise.

		iv. Operate a grievance recourse mechanism & a whistle blowing mechanism. c. All Fossil Fuel sector-based transactions and funding activities (i.e., Coal, Natural Gas and Liquid Fuel) shall apply IDC House Views/ Positions and associated Investment Decision and Risk Tools. d. Strategic Initiatives and activities to support the execution of this Policy on annual basis shall be reflected in the IDC's ESRG and Sustainability Impact Action Plan.
2. Enterprise Risk Management, Baseline Reporting & Target Setting	IDC's Risk Governance and Portfolio Management function shall develop tools and procedures (i.e., Framework) that shall guide the IDC to continuously identify, assess, evaluate and monitor IDC's material ESRG and sustainability impact risks. This function shall further provide assurance on the integration of ESRG and sustainability impact principles throughout the end-to-end risk management process both at a transactional and portfolio management level. IDC's Environmental, Health and Safety and Client Support and Growth (Portfolio Insights) functions shall develop systems to update and improve its baseline reporting and disclosures i.e., for GHG emissions reporting whilst Industry Planning function shall outline pathway development	a. IDC shall continuously improve reporting and disclosures as it relates to physical and transition risks. b. IDC shall improve its ESRG and sustainability impact tools and procedures from pre-Investment to Due Diligence to credit risk approval and portfolio management stages. c. IDC shall disclose and improve on its GHG baseline reporting and disclosures of IDC operations, its subsidiaries, loan book and other Business Partners (Scope 1, Scope 2 and Scope 3 emissions). d. IDC shall define its sustainable industrial development pathways (i.e., targets) in line with South Africa's NDC and all other NDC's across African continent including their frameworks on the Just Energy Transition. e. Strategic Initiatives and activities to support the implementation of this Principle are reflected in the ESRG and Sustainability Impact Action Plan.

	process in the context of sustainable industrial development pathways.	
3. Transparency through continuous ESRG & Sustainability Impact Monitoring, Evaluation and Reporting	IDC's Monitoring, Evaluation and Reporting (MER) capability shall be enhanced and improved over time to ensure overall transparency in improving IDC's impact indicators, systems to manage the monitoring and evaluation of the set indicators, continuous improvement of the internal systems for integrated reporting including improved outcomes and impact reporting.	a. The IDC's Development Score Card (DSC) shall be continuously improved and applied in all IDC transactions and shall be a basis for the extension and enhancement of IDC's MER capability including its associated framework and internal implementation systems and procedures. b. Strategic Initiatives and activities to support the implementation of this Principle are reflected in the ESRG and Sustainability Impact Action Plan.
4. Alignment to the Just Transition and related ESRG and Sustainability Impact frameworks	IDC shall continuously ensure alignment (where applicable and aligned to its mandate) with various international ESRG frameworks and taxonomies e.g., Task Force on Climate-related Financial Disclosures (TCFD); Taskforce on Nature-related Financial Disclosures (TNFD); South Africa's Green Taxonomy; South Africa's Just Transition Framework and other Just Energy Transition Frameworks across the African continent.	a. IDC shall continuously explore how to alignment to global ESRG and impact standards and frameworks including taxonomies. IDC notes that this will require periodic internal assessments of applicability, capabilities and resources before they are adopted. b. Strategic initiatives and activities to support the implementation of this Principle are reflected in the IDC ESRG and Sustainability Impact Action Plan.

5. Stakeholder Engagements, Investor Relations and Sustainable Finance	The IDC shall utilise this Policy as a guide to engage, communicate, disclose and/or report to its relevant stakeholders, social partners and communities, clients and investors on its ESRG and sustainability impact journey.	a. The IDC shall provide updates on the ESRG and Sustainability Action Plan through its Sustainability Impact Report which is also an input into its annual Integrated Report. b. Strategic Initiatives and activities to support the implementation of this Principle are reflected in the ESRG and Sustainability Impact Action Plan.

4. APPROACH TOWARDS RESPONSIBLE INVESTING AND FUNDING

The Corporation shall incorporate responsible investment and sustainability impact principles into its funding investment cycle and decision-making processes. At Transaction & Portfolio Levels (where applicable), the application of this Policy; E&S Policy; E& S Risk Rating Tool; the DSC; House Views[3]; dedicated ESRG and sustainability impact conditions precedent (CPs) in contracts and related ESRG enterprise risk management tools shall be utilised to ensure integration of this Policy's principles, embed the process of ESRG data and information collection across the IDC investment & funding cycle. This will be undertaken to enhance and influence IDC's pre-investment, due diligence, enterprise risk management (including IDC Pricing Policy), portfolio management and integrated monitoring and reporting processes.

The above integration and application at Transaction and Portfolio Levels shall ensure the following:

a. Continuous promotion of ESRG and sustainability impact disclosures in IDC's investee companies through monitoring and engagements including stewardship programmes i.e., related climate disclosures and impact indicators as defined in the DSC.
b. Continuous alignment with international ESRG frameworks i.e., TCFD, TNFD, International Financial Reporting Standards (IFRS), implementation of Taxonomies, Just Transition Frameworks, Principles Responsible Investments (PRI), IFC Performance standards etc.

4.1 Priorities to drive Responsible Investing and Funding

a. Transformation and transitioning of hard to abate sectors: A focus on Steel and Chemical sectors and value chains.
b. Supporting and transforming vulnerable sectors: Flood relief and resilience strategies with partners e.g., Agricultural Support.
c. Social Inclusion opportunities for women and the youth i.e., Impact Catalyst, SMME Connect
d. Investments in renewable energy generation and Renewable Energy Component localisation: In this instance, the focus is on funding Community and Worker participation in these projects whilst actively pursuing public procurement, commercial and industrial (component manufacturing) opportunities.
e. Green Hydrogen Commercialisation: The Corporation plays a leading role including planning and implementation of this new industry whilst continuously driving project development in catalytic projects and formulating partnerships with various co-funders and lead sponsors.
f. Transition to New Energy Vehicle manufacturing by supporting policy developments in this industry and exploring low carbon transition opportunities across the value chain.
g. A focus on Sustainable Fuels: Sustainable aviation fuel from hydrogen as well as sugar including their combined role in the Just Transition.

[3] The IDC seeks to ensure a balanced approach towards energy security, industrialisation and the energy transition in the context of sustainable development. To further drive sustainable development across the continent and the transition of carbon intensive sectors, the IDC shall continuously update its Fossil Fuel House Views i.e. Coal House View, Liquid Fuel House View, Natural Gas House View etc.

h. Developing the Energy Storage value chain: A focus on exploring different areas of the critical minerals and battery value chain for development across the Southern Africa region.
i. Support for the social and solidarity economy and its enabling ecosystem to support social and economic inclusion that facilitates higher development impact e.g., rural and township economies.

In addition to the above, in line with market practices and standards, the IDC has to define its Exclusion List to outline what it will not Fund or Invest in; and a Restricted List to further manage specific activities for specific sectors and industries in line with its investing and funding principles.

4.2 Exclusion and Restricted List of Activities

The IDC Exclusion and Restricted Lists of activities are aimed at guiding all IDC activities. If an activity is not part of the Exclusion List nor the Restricted List, it is deemed acceptable for IDC investment and/or funding.

Table 4.1: Exclusion List

The IDC's Exclusion List provides a list of activities, industries, and sectors which the IDC SHALL NOT FUND. It should be noted that this List is in line with market and industry practices.

1	Production or trade in any product or activity deemed illegal under South African, or to host country laws or regulations, or to international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, Polychlorinated biphenyls (PCB's), wildlife or products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), but are not limited to – ▪ Illegal trade in endangered species, biodiversity destruction, destruction of wetlands and protected areas or habitats. ▪ Animal cruelty activities as defined by the UN Convention on Animal Health and Protection (UNCAHP) ▪ Child labour: This refers to employment of children that is exploitive, hazardous, interferes with child's education, harmful to child's health, physical, mental, spiritual, moral and social development. ▪ Modern slavery and violation of fundamental human rights. This includes various forms such as slavery, servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another to exploit them for personal or commercial gain. ▪ Cross-border trade in hazardous chemicals- and/or waste ▪ Illicit substances as defined under the South African Drugs and Drug Trafficking Act. No. 140 of 1992 with special specifications on Cannabis[4][5].
2	Projects or transaction involved in the production or trade in tobacco.

[4] In line with the exclusion on tobacco products. Recreational cannabis and hemp usage are currently not regulated by any bill.
[5] The South African Drug and Drug Trafficking Act No. 140 of 1992 and the Medicines and Related Substances Act 101 of 1965 regulates THC at a compound level, therefore only delta – 9 - tetrahydrocannabinol is a regulated substance. Recently unregulated psychoactive cannabinoids such as delta – 8 – tetrahydrocannabinol have entered the market via hemp products, and although not on the same psychoactive level as delta – 9 – tetrahydrocannabinol, they produce similar experiences. (Ref: CDH (2022) Legal Opinion on the South African Cannabis Industry).

3	Projects or transactions involved in the production, screening or distribution for pornography[6] .
4	Production or trade in asbestos fibres as guided by the South African Asbestos Abatement Regulations 2020 published under Government Notice R1196 in GG 43893 of 10 November 2020.
5	Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
6	Commercial logging operations for use in primary tropical moist forest[7].
7	Production or trade in wood or other forestry products other than from sustainably managed forests as defined by the UN Food and Agriculture Organization (FAO).
8	Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
9	New projects or transactions that are given an Environmental and Social Risk Rating (ESRR) 4 rating during pre-investment or due diligence stage.
10	All activities in contravention of US Foreign Account Tax Compliance Act (FATCA) and Office of Foreign Assets Control (OFAC) List as governed by the IDC RMCP Policy are excluded.
11	All new coal to power project activities in South Africa and across the continent.

Table 4.2: Restricted List

The Restricted list below shall be reviewed on a case-by-case basis ONLY if the following is met:

a. The restricted activities shall only constitute no more than 10% of the borrower's or investee company's or groups net assets[8].
b. The restricted activities may not constitute more than 20% of the overall turnover of the borrower or investee company or group.
c. The planned transaction/project shall not form part of the business that is excluded.
d. The project shall be ring-fenced; and
e. No portion of the IDC's funding shall be utilised to support the excluded areas of operation.
f. The borrower or investee companies' ownership and involvement in a restricted enterprise does not imply that the IDC approves of all the company's policies, products, and actions. It shall be stipulated in all transaction agreements that, if the IDC believes that its funds are being used in a manner that is contrary to this policy, then the IDC shall reserve it rights as per the stipulated legal provisions of the agreement including the ability to accelerate repayment or call an event of default or put the exposure to the shareholders. It should be noted that this List is line with market and industry practices.

[6] All the activities which include exchange of cash for sexual activities.
[7] Tropical moist forest is generally defined as forest in areas that receive not less than 100 mm of rain in any month for two out of three years and have an annual mean temperature of 24 degrees Celsius or higher. Also included in this category, however, are some forests (especially in Africa) where dry periods are longer but high cloud cover causes reduced evapotranspiration.
[8] Benchmarking with international DFI's revealed that the 16 DFIs that are affiliated with the Association of European Development Institutions adopted a 10% threshold and a variation of the following phrase:" Substantial" means more than 10% of a financed institution's/company's consolidated balance sheet or earnings. For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume. A number of other DFI's took on the following explanation from the IFC: This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

1	Production/ or trade in weapons and munitions and military equipment and components specifically intended for military purposes. This does not apply to companies who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.
1.1	Funding of military equipment and components for peace keeping purposes and other intentions across the continent shall be decided on a case-by-case basis by the IDC Board or its duly delegated sub-committees.
2	Hotel or Infrastructure Investments with gambling and casinos attached to them. In instances where a hotel or other infrastructure development shall include such activities, investee companies shall have to provide assurance and proof that none of IDC funding or investment shall go into such activities. Also, the majority of the revenue of such establishments should not come from gambling income.
3	Existing projects or transactions which trigger Social and/or Environmental Authorisations or where Environmental Impact Assessments and approvals have not been obtained and/or where geological reports are still underway pending approvals will be dealt with on a case-by-case basis and will apply restricted list criteria until all approvals are obtained. This will also be included as part of the contract between the IDC and the project/investee company.
4	For existing Transactions/ exposures that migrate to an ESRR 4 rating during ongoing post-investment monitoring, an appropriate integrated risk management strategy shall be developed and approved in partnership with the business partner to remedy the ESRR rating, failing which an exit from the exposure shall be executed.
5	Production or trade in radioactive materials. This does not apply to the purchase or trade of medical equipment, quality control (measurement) equipment and any equipment where IDC considers the radioactive source to be trivial and/or adequately shielded.

5. SCOPE

This policy sets out the IDC's ESRG and Sustainability Impact framework in relation to how the IDC will conduct all of its activities. This Framework is presented in Figure 1.

`

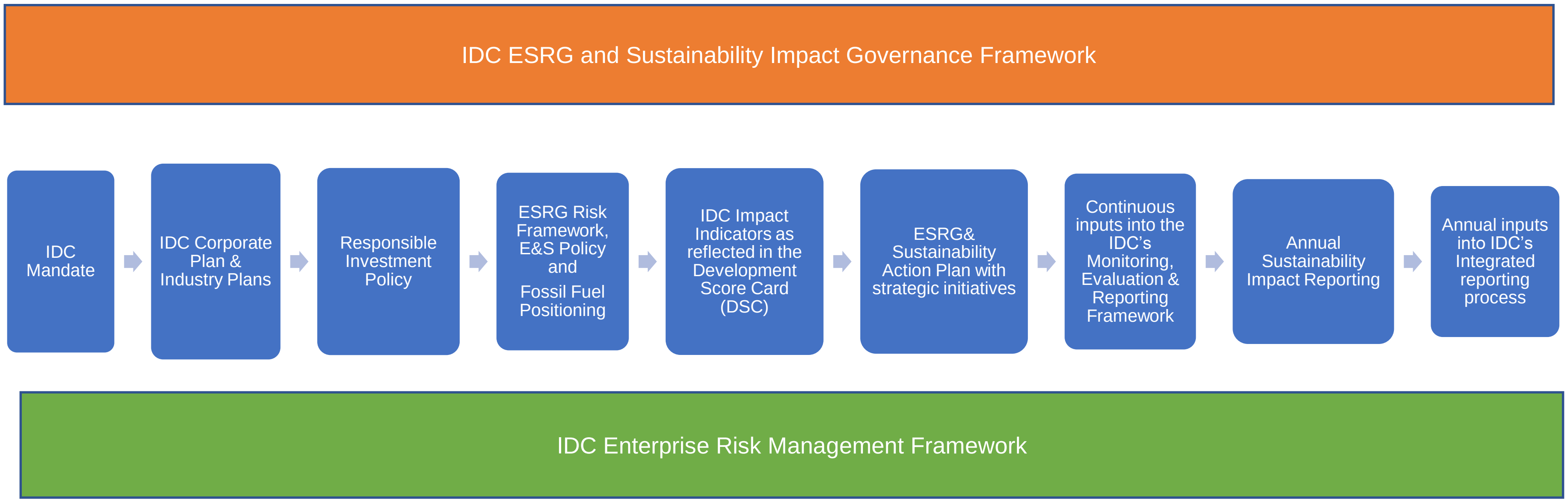

Figure 5.1: ESRG and Sustainability Impact Framework for the IDC

The approved Governance Framework[9] and the IDC Enterprise Risk Management Framework (ERMF)[10] provide context in which this RIP is implemented.

[9] Approved in March 2022
[10] Approved in February 2023

The RIP is informed by the IDC Mandate, the Corporate Plan and various industry sector plans. In this context, the RIP is then applied across the IDC and in all investments. The application of the RIP further informs the application the application of the ESRG Risk Framework, E&S Policy, Fossil Fuel Positioning at Transaction Levels and other internal industry-based guidance.

In terms of ESRG and Sustainability Impact indicators, the DSC shall be utilised to measure and report on IDC's expected ESRG and sustainability outcomes and impact[11] in all its investing and funding initiatives.The IDC ESRG and Sustainability Impact Action Plan defines the IDC ESRG and Sustainability Impact implementation strategy of the IDC whilst the IDC's MER Framework ensures the overall IDC monitoring, tracking and evaluation system includes ESRG and Sustainability Impact indicators are identified, measured, monitored and managed through the IDC funding and investment cycle. Lastly, the impact reporting process provides an overview, updates and progress made on the ESRG and Sustainability Impact Framework and ensures its integration into the IDC's overall annual integrated report.

6. ESRG AND SUSTAINABILITY IMPACT ENTREPRISE RISK MANAGEMENT PROCESS

The process of risk assessment (identification, analysis, and evaluation), treatment, monitoring, and reporting shall be done in line with the IDC's enterprise-wide risk management framework through a dedicated ESRG Risk Framework. This framework shall include a process for identifying material ESRG risks and opportunities that could either affect or promote IDC's reputation and ability to create value over the short, medium, and long term at both Transaction and Portfolio levels.

7. MONITORING, EVALUATION AND REPORTING (MER) PROCESS

The IDC's MER capability shall be continuously improved to ensure the monitoring, evaluation and integrated reporting and/or disclosures processes are in place and executed timeously. These processes will be guided by the DSC, the IDC primary tool in which outcomes and impact indicators including associated metrics are defined. This is in addition to other key performance indicators as required by the shareholder.

Additionally, the IDC shall continuously collate data and information as defined by its MER Framework and related processes. Furthermore, the reporting against this policy forms part of the IDC annual integrated report through a dedicated sustainability impact report. The IDC shall continuously ensure its integrated and impact reporting is aligned to the latest IFRS requirements and guidance.

[11] In terms of process, all data & information on DSC Indicators shall be collated by the responsible Deal Teams including Due Diligence Teams whilst portfolio management teams (i.e., Client Support and Growth) will over time track, evaluate, monitor and report on the performance as per the proposed IDC Monitoring, Evaluation and Reporting Framework.

8. MAINTENANCE OF THE POLICY

The COO Office shall maintain this policy and ensure its application within the IDC's Operations Division and guide its application into the existing IDC Portfolio in partnership with IDC's Client Support and Growth Division. In addition to this, the IDC's Group Risk Management Division through the Risk Governance and Portfolio Management function shall provide continuous assurance and overall enterprise risk management on the implementation of this policy across the IDC.

9. CHANGE MANAGEMENT, KNOWLEDGE MANAGEMENT, ENGAGEMENT AND POLICY REVIEW CYCLE

Strategic change management and knowledge management initiatives aimed at driving the IDC ESRG and sustainability impact agenda across the IDC and with its Business Partners shall be put in place to drive change, raise awareness and engage all of the IDC stakeholders (internal and external). This policy shall be reviewed dynamically and updated every 3 years.

10. POLICY EFFECTIVE DATE

The policy shall be effective from the date it is approved by the IDC Board.

11. NON-ADHERENCE TO THE POLICY

A clause in all IDC contracts referencing this Policy including all excluded and restricted activities shall guide all funded activities to ensure adherence to this policy by the IDC and its clients and or business partners. In an instance where the IDC believes that an investee company or borrower or business partner has used its funds or investments in a manner that is contrary to its Responsible Investment Policy, this shall constitute an event of default under the relevant agreement.

12. ALIGNMENT OF THE POLICY TO OTHER POLICIES AND PROCEDURES

This policy is an enabler for a broader IDC Framework that encompasses all internal ESRG and Sustainability Impact related guidance documents, policies, procedures and initiatives.