



CapPlus
CapitalPlus Exchange

CapitalPlus Exchange Corporation ESG Policy

First Updated: May 31 2018

Purpose

The purpose of this policy is to define CapitalPlus Exchange Corporation (CapPlus) approach to integrating the consideration of environmental, social, and governance (ESG) risks and value creation opportunities into investments made by CapPlus Impact LLC and technical assistance provided by CapitalPlus Exchange Corporation (together hereinafter ‘CapPlus’) through the following activities:

Equipping financial institutions with both digital and traditional methods and technical assistance to finance and support micro, small and medium enterprises (MSMEs) including social enterprises like the financing of private education and health, and other high impact sectors including but not limited to agriculture and technology.

Spurring higher quality services to women and youth by rigorously piloting and /or providing a range of traditional and cutting-edge methods to improve economic equity, increase job creation and economic empowerment (e.g. through providing financial management training to women led businesses alongside loans).

Provision of affordable, patient debt through CapPlus Impact, LLC to financial institutions to catalyze lending to schools with conditions and incentives for improving learning outcomes

Engaging MSMEs, civil society, and government stakeholders to promote inclusive growth initiatives that address inequities for disadvantaged individuals or groups.

CapPlus commits to consider material ESG issues in the course of its due diligence of banks, other financial institutions, other partners, and in the monitoring of its services provision, including all technical assistance programs and investments, to the extent reasonably practical under the circumstances, subject to the provisions of the underlying agreements and any other associated legal documentation, and to the duty of CapPlus to seek to achieve stated objectives to its stakeholders and funders. For the purposes of this policy, “material” ESG issues are defined as those issues that CapPlus in its sole discretion determines to have,

or have the potential to have, a direct substantial impact on a bank or financial institutions' ability to create, preserve, or erode economic value, as well as environmental and social value for itself and its stakeholders.

CapPlus will seek to update this policy continually, as appropriate.

Scope

This policy will apply to all loan investments and/or associated technical assistance considered by CapPlus or made by CapPlus following the date of the latest policy update hereof and will be interpreted in accordance with local laws and regulations. In cases where CapPlus determines it has limited ability to conduct due diligence or to influence and control the integration of ESG considerations in the provisions of its services, or where other circumstances affect CapPlus' ability to assess, set, or monitor ESG-related performance goals, it will not necessarily be feasible to implement ESG-related principles. In such instances where CapPlus believes it to be appropriate, reasonable efforts will be made to encourage the partner banks or financial institutions to consider relevant ESG-related principles.

Roles and responsibilities

CapPlus management and professionals, where appropriate, are primarily responsible for ensuring that the consideration of ESG issues are integrated into services decisions in collaboration with the Legal & Compliance management as needed. Where additional subject matter expertise is needed, the teams are authorized to utilize external resources as relevant and necessary.

CapPlus team is responsible for facilitating the implementation of this policy in all services provision in identified target markets and for maintaining and updating the policy to ensure its continued relevance.

Goals

In connection with its provision of long term technical assistance and other services, CapPlus seeks to:

- a. Consider environmental, public health, safety, and social issues associated with the lending activities of target banks and financial institutions when evaluating whether to provide services to a particular bank or financial institution
- b. Ensure that all investee target banks and financial institutions have in place, or are taking active steps to put in place, an ESG Policy which will ensure that:
 - Investee banks and financial institutions do not provide loans and/or other facilities to client's whose activities appear on IFC Exclusion List (2007) – Refer **Appendix I**

- All investees receiving financing from CapPlus comply with all national E&S regulations and the ILO's fundamental principles and rights at work.
 - Investees maintain records on their E&S performance and report to CapPlus as determined in relevant underlying loan agreement.
 - CapPlus monitors investee banks and financial institutions' activities where required such as investees with higher E&S risk profiles.
- c. Be accessible to, and engage with, relevant CapPlus stakeholders as appropriate.
 - d. Improve the banks and financial institutions in which CapPlus invests to benefit women, youth and other disadvantaged groups including on environmental, social, and governance issues. To that end, CapPlus will work through appropriate governance structures (e.g., board of directors) with investee banks and financial institutions with respect to environmental, public health, safety, and social issues, with the goal of improving performance and minimizing adverse impacts in these areas.
 - e. Use governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interests.
 - f. Remain committed to compliance with applicable national, state, and local labor laws in the countries in which CapPlus is active; support the payment of competitive wages and benefits to employees and the provision of a safe and healthy workplace in conformance with national and local law.
 - g. Encourage strict policies that prohibit bribery and other improper payments to public officials consistent with the U.S. Foreign Corrupt Practices Act, similar laws in other countries, and the OECD Anti-Bribery Convention.
 - h. Respect the human rights of those affected by CapPlus' activities and seek to confirm that CapPlus does not invest in banks of financial institutions that utilize child or forced labor or maintain discriminatory policies.
 - i. Provide timely information to CapPlus' Board of Directors and Stakeholders and Funders on the matters addressed herein, and work to foster transparency about CapPlus' activities.
 - j. Encourage CapPlus' investee banks and financial institutions to advance these same principles in a way that is consistent with their fiduciary duties.

[CapPlus' approach to ESG integration in its provision of services](#)

CapPlus will seek to integrate the consideration and thoughtful management of ESG issues throughout its operations.

To ensure the integration of ESG considerations in the pre-engagement phase of investment or services provision and subject to CapPlus' determination of what is reasonable and appropriate for each service or package of services provided, CapPlus will:

Undertake ESG due diligence: Involve internal or external (as appropriate) subject matter experts with ESG-related competence to conduct an assessment of the ESG Policy of banks and financial institutions receiving potential services. When material ESG issues are identified, they may be included in discussions with the applicable party, and external advisors may be engaged to carry out additional ESG-related due diligence as needed. Where management of, or performance on, a material issue is considered by CapPlus to need improvement, CapPlus will work with bank or financial institution management to support the development of a corrective action plan.

Monitor progress: Where there are material issues identified during the due diligence process, include the management of these issues in a **100-day action plan** or otherwise monitor ongoing progress on ESG issues as applicable. Where management of, or performance on, a material issue is considered by CapPlus to need improvement, CapPlus will work with the bank or financial institution's management to support the development of a corrective action plan.

CapPlus will encourage the management of banks and financial institutions to identify and raise material ESG issues to the relevant decision-makers, including, where appropriate, board-level individuals.

Transparency and stakeholder engagement

CapPlus will seek to be transparent in its approach to incorporating ESG considerations in its provision of services by reporting at least annually to its board. The format of this reporting may vary among written public reports, or verbal informal reports, or confidential reports to CapPlus' funders.

Where appropriate, CapPlus will seek to actively engage relevant stakeholders in an effort to make informed decisions that may affect those stakeholders.

[Performance standards](#)

Where and if applicable, where and if local laws and regulations are considered to be insufficient, CapPlus will apply its judgment and expertise in assessing risks and opportunities related to material ESG issues. To support this effort, CapPlus will consider the applicability of existing voluntary performance standards as frameworks to help improved ESG practices.

Review and categorization

To prioritize and focus its ESG assessment and management efforts during due diligence and the life of the long term services provision, CapPlus will consider the magnitude of ESG-related risks and impacts associated with each individual bank and financial institution as follows:

Magnitude of impact: When a bank or financial institution is being evaluated for investment and/or technical assistance, CapPlus will, as part of its internal due diligence, assess the bank or financial institution based on what it considers to be the magnitude of its potential ESG risks and impacts.

Area of operation: In addition, CapPlus will consider the country of operations of the bank or financial institution to further prioritize its efforts for those regions where existing standards are considered to be less robust.

Applicable standards

When making an investment decision regarding a bank or financial institution that CapPlus determines to be high-priority through the review and categorization process described above, the assessment may consider as a guide the International Finance Corporation (IFC) 2012 Performance Standards on Environmental and Social Sustainability (Performance Standards) – as they apply to the CapPlus’ investment model, as well as any additional ESG guidance that CapPlus considers to be applicable. CapPlus’ loan investment ESG Policy does not, however, strictly adopt any external policy or set of standards beyond what is defined above.

When making any loan investment decision regarding a bank or financial institution that CapPlus determines to be lower-priority through the review and categorization process, the assessment process will include the consideration of ESG issues that CapPlus considers to be material.

CapPlus’ ESG Policy and Practices can be found on CapPlus’ web-site (www.capplus.org).

CapPlus also grants permission to its Funders and Investors to publish its ESG policy on their web-sites. ESG policy reviewed and accepted by CapPlus.



Lynn Pikholtz
President and CEO, CapitalPlus Exchange

Appendix I

IFC Exclusion List (2007)

The IFC Exclusion List defines the types of projects that IFC **does not** finance.

IFC does not finance the following projects:

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

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

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

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

* When investing in **microfinance** activities, FIs will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.

- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

* **Trade finance projects**, given the nature of the transactions, FIs will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³

Footnotes

¹This 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.

² Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

³ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.