



# **Environmental & Social Framework**

**NOVEMBER 2018**

*Updated version March 2025*

## I. Introduction

African Guarantee Fund (AGF) provides partial guarantees to financing for Small to Medium Enterprise (SME). The Environmental and Social (E&S) risks we encounter in our business are through the business activities we guarantee.

***Our vision is: 'to be the leading non-bank financial institution which meets Africa's financing provider's needs, effectively serving SMEs while maintaining our uncompromised principal as we grow'.***

This E&S Risks Safeguard Framework (E&S Framework) has been established to set out our approach to the identification, assessment, approval and management of these E&S risks.

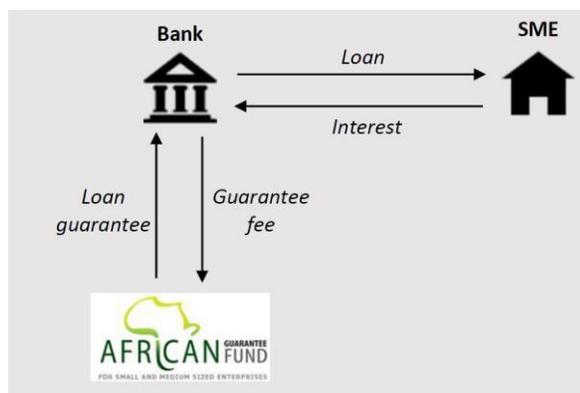
It has been prepared in line with our E&S Risk Policy, which presents our objectives and principles with respect to managing E&S risk, and that guides our business activities day by day.

## II. Our Business

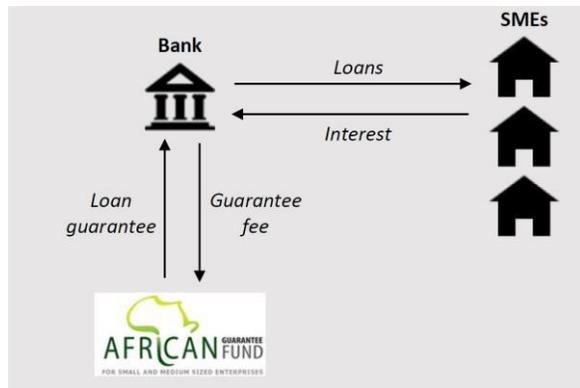
Through our guarantee facility, we assist Partner Financial Institutions (PFIs), by partially covering the risks associated with SME financing.

### II.1. Guarantee products

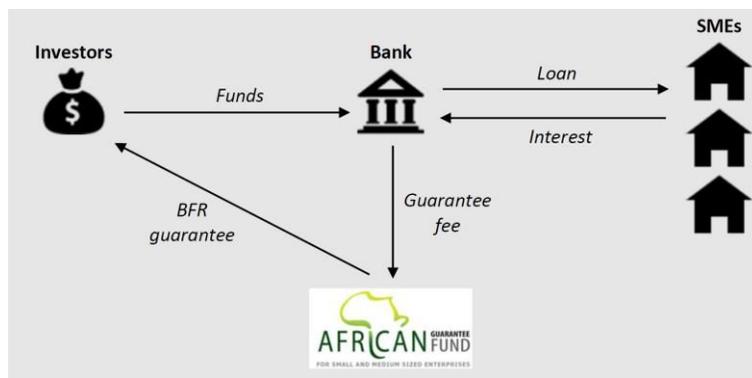
- **Loan Individual Guarantees (LIG):** a guarantee to an identified project for which the SME and project are known and therefore the E&S risk is assessed directly by us.



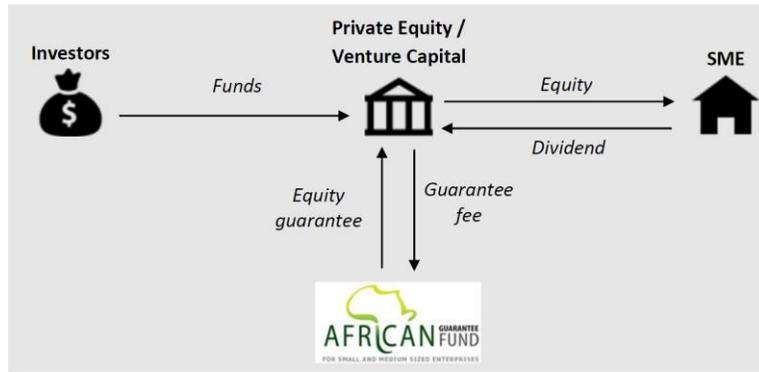
- Loan Portfolio Guarantees (LPG):** for which the lender is known, but the SMEs which are the final beneficiaries of AGF guarantee are not known (at the origination stage). In this case, the E&S assessment of the SME's activities is delegated to the lender. AGF has the responsibility of assessing the PFI's E&S Safeguard Framework.



- Bank Fundraising Guarantees (BFRG):** products through which we assist Partner Financial Institutions (PFIs) to raise funds and long-term resources to be able to finance SMEs long term needs. BFRG also intends to address regulatory requirements of Banks' limited use of short-term resources to finance medium and long-term facilities. SMEs financed with the funds raised under AGF BFRG are not identified, since fundraising has multiple sources, and may contribute to financing to any combination of SMEs in the lender's portfolio. In this case, we assess the PFI's E&S Safeguard Framework.



- **Equity Guarantees (EG):** a guarantee instrument through which AGF supports Private Equity Funds and other institutions seeking to invest through equities in SMEs which will enable them to easily access to the debt offered by the financial system. The SMEs are known and therefore the E&S risk is assessed directly by AGF.

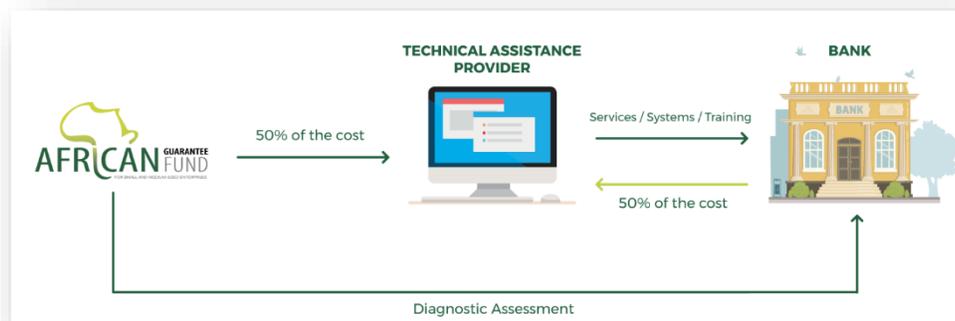


## II.2. Capacity Development

AGF's Capacity Development initiative constitutes a major positive externality of the guarantee scheme. To mitigate risks associated with the guarantee, AGF extends capacity development to PFIs and SMEs. This is basically assistance to participating institutions designed to increase their SME's financing and risk management capabilities.

Improving SME business management capability is also critical to the success of the guarantee scheme, leading to an overall increase in SME financing, and in this regard, AGF also provides capacity building assistance to SME Business Development Support companies and SMEs themselves.

Capacity Development is managed through our PFIs, with no direct access to the SMEs. In this case, the E&S assessment of the SME's activities is delegated to the PFI. AGF has the responsibility of assessing the PFI's E&S Safeguard Framework.



## II.3. Treasury Management

AGF's manages its treasury through investments in different financial instruments: cash, fixed deposit, bonds and other financial instruments as soon as these have low liquidity and market risk. In the event the investment is related to a corporate company, an E&S assessment will be performed



directly by AGF on the corporate company. When the investment is directed to a PFI (fixed deposit or bonds), AGF has the responsibility to assess the PFI's E&S Safeguard Framework.

#### ***II.4. Our Target Sectors and Exclusion List***

We target all the sectors that are driven by the economies of African countries such as: agriculture and agro industry; small and medium scale mining and oil related services; manufacturing; building and construction; power (energy); telecommunications; Other infrastructure; transport; tourism; trade; etc.

AGF has adopted the exclusion list attached in **Appendix B**, and such will not guarantee or provide capacity development to any activity, production, use, distribution, business or trade in activities on this list.

### **III. Our E&S Requirements**

At The African Guarantee Fund (AGF), we are committed to manage Environmental and Social risk matters as an integral part of our business. It is our policy to make sure that Environmental and Social risks are assessed and considered in all our Guarantee, Capacity Development and Treasury Management activities wherever we operate.

To achieve that, the following principles will guide our activities:

- **Compliance:** We will comply with all existing applicable laws and regulations and will implement programs and procedures to assure compliance. Compliance with Environmental and Social risk standards will be key topics for our training and capacity building program. AGF expects its PFIs and beneficiary SMEs to be in compliance with host country legislation at all times. AGF will make its staff expertise available to help PFIs and/or SMEs in identifying and adopting sector best practice.
- **Prevention:** Through our environmental and social risk management system, we will prevent to the best of our capacity all sorts of environmental and social risks and our operations will follow a low carbon emission path. Our financial, material and human resources will be managed sustainably, and efficiently. Important efficiency measures and programs will be taken on the specific resources such as energy, generated waste and water.
- **Communication:** Our Environmental and Social Risk Policy will be communicated to all our staff, shareholders and other relevant stakeholders and we will welcome comments from those stakeholders.
- **Continuous Improvement:** We are committed to continual improvement through the setting up of a set of indicators that will help us assess and improve our adherence to these principles. Report on our progress will be made and communicated periodically to our stakeholders. The E&S Risk Policy and Framework will be subject to review and update on an annual basis.

Collectively, these commitments are termed our 'E&S Requirements'.

The E&S risks we encounter are through our business activities. To achieve long-term sustainable growth, we will identify and manage those E&S risks.

AGF expects its PFIs and beneficiary SMEs to be in compliance with host country legislation related to E&S at all times. AGF will make its staff expertise available to help PFIs and/or SMEs in

identifying and adopting E&S sector-best-practice.

Other than that, there are certain types of activities AGF will not guarantee or grant capacity development to any activity falling in the Exclusion List in Appendix B.

The prerequisite for AGF support is that the PFIs and SMEs comply with local environmental and social laws. Whenever any significant environmental and social issues are identified in a PFI or SME, AGF applies the following international standards when applicable:

- The World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines)<sup>1</sup>,
- IFC Performance Standards 1-4<sup>2</sup> (+ accompanying Guidance Documents) and if applicable, IFC Performance Standards 5-8 (+ accompanying Guidance Documents),
- IFC Good Practice Notes where relevant<sup>3</sup>,
- EDFI Principles for Responsible Financing<sup>4</sup>,
- AfDB Environmental and Social Operational Safeguards<sup>5</sup>,
- Any relevant sector sustainability Guideline or Directive.

As an important part of our environmental and social risk assessment process, we determine the commitment and capacity of the PFI and/or SME to manage the risks involved in and/or the impacts of its activities. Their approach to managing environmental and social risks and impacts should focus on avoiding, or at least reducing, mitigating or compensating for, negative risks and impacts where possible, and engaging with local communities on matters that directly and materially affect them. To help our PFI and SME beneficiaries achieve these objectives, we actively engage them and may provide support and assistance as needed, through capacity development.

When guaranteeing the SME portfolio of PFI, AGF's focus is both on identifying the Environmental and Social risk exposure in the guaranteed portfolio, as well as on assessing the capacity of the institution to manage the indirect environmental and social impact of its business.

By providing guarantees, granting capacity development and/or investing responsibly, we can generate value for both our shareholders and our clients by improving their E&S performance. In recognition of this, we have developed this E&S Framework that is applied to each of our guarantee, capacity development and treasury investment transactions.

Our approach is to engage early and proactively with our clients to convey the E&S standards we require them to meet. Where we delegate E&S responsibilities, we will follow the E&S assurance procedure outlined in the E&S Framework to confirm proper identification, management, approval and monitoring of the E&S risks.

## IV. E&S Risks Safeguard Framework

### IV.1 Overview

All E&S risks associated with the business activities we guarantee or provide capacity development will be managed in compliance with this E&S Framework to ensure that E&S risk remains within a range acceptable to AGF.

There are two types of E&S assessment we undertake:

<sup>1</sup> <http://www.ifc.org/ifcext/sustainability.nsf/Content/EnvironmentalGuidelines>

<sup>2</sup> <http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards>

<sup>3</sup> IFC issued Good Practice documents in the following fields: Animal Welfare, Biodiversity, Community Development, Health Assessment, HIV/AIDS, Labor, Pollution Prevention, Resettlement, Social Assessment and Stakeholder Engagement.

<sup>4</sup> [EDFI Principles for Responsible Financing of Sustainable Development](#)

<sup>5</sup> [Final - Updated Integrated Safeguards System \(EN\).pdf](#)

1. Direct assessment of SME's E&S risks (applicable to Loan Individual Guarantees, Equity Guarantees and Treasury Investment on the Corporate Companies)
2. Indirect assessment of SME's E&S risks through delegation of assessment to PFI and direct assessment of the PFI's E&S Framework by AGF (applicable to Loan Portfolio Guarantees, Bank Fundraising Guarantees, Capacity Development and Treasury Investment on PFI).

## **IV. 2 Direct Assessment of SMEs**

There are five stages to the process of directly assessing SME's E&S risk:

1. **Screening:** AGF will apply the Exclusion List to the prospective SME.
2. **Categorization:** AGF will categorize all guarantee, capacity development and treasury management transactions with a project component according to the categorization process of the International Finance Corporation (IFC)<sup>6</sup>, and as outlined in the Equator Principles IV (2020)<sup>7</sup>.
3. **E&S Due Diligence:** AGF will subject all guarantee, capacity development and treasury management transactions to E&S due diligence, the level of which will be commensurate with the level of E&S risk of the SME's activities.
4. **Approval:** All guarantee, capacity development and treasury management transactions are subject to AGF's approval and E&S conditions may be included in the transaction documentation.
5. **Monitoring:** Guarantee, capacity development and treasury management transactions will be routinely monitored, and findings reported back to AGF. AGF will report to its investors annually.

### **Stage 1: Screening**

Depending on the type of transaction, the Relationship Manager assigned to the transaction will apply the AGF Exclusion List (*Appendix B*) to the prospective SME. If the prospective SME is involved in an excluded activity, the Relationship Manager will notify the AGF Group Chief Risk Officer (GCRO). The Relationship Manager will complete the Screening Template (*Appendix A*) and will save it in the E&S Review folder. The transaction will be terminated, and the SME will be added to a database of excluded companies.

For companies that are not on the Exclusion List, the Relationship Manager will pass the case onto the E&S Manager, who will proceed to the next stage of the assessment (Categorization).

### **Stage 2: Categorization**

The E&S Manager<sup>8</sup> will categorize those activities of the SME being guaranteed by AGF in accordance with the categorization process of the International Finance Corporation (IFC), as outlined in Equator Principles IV (2020).

The categories are:

- **Category A (High Risk)** – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented.
- **Category B (Medium Risk)** – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.
- **Category C (Low Risk)** – Projects with minimal or no adverse environmental and social

<sup>6</sup> [Environmental and Social Categorization | International Finance Corporation \(IFC\)](#)

<sup>7</sup> [The Equator Principles EP4 July2020](#)

<sup>8</sup> The E&S Manager must have relevant E&S training and experience, and knowledge of AGF's E&S Requirements, to competently perform the role outlined in this E&S framework.

risks and/or impacts.

An example of the types of projects/sectors and receptors triggering 'Category A' is provided in *Appendix C*.

The category of the project will determine the level of E&S risk associated with the project, as well as the type of E&S documentation that should have been prepared by the SME and be available to AGF for review during the next step of the assessment process (E&S Due Diligence).

A project already categorized may have its category elevated during the assessment process, as more information relating to the project becomes available. In this case, additional assessment may be required to align the assessment process with that for the elevated category.

The E&S Manager will record the outcome of categorization, by completing the Categorization Template (*Appendix A*) and will save it in the E&S Review folder.

Once categorization is complete, the E&S Manager will move to the next stage of the assessment (E&S Due Diligence).

### ***Stage 3: E&S Due Diligence***

AGF will subject all guarantee, capacity development and treasury management transactions to E&S Due Diligence to identify key E&S risks of the SME's activities; evaluate the SME's approach to E&S risk assessment, management and monitoring; and assess the SME's capacity to manage E&S risks in line with AGF's E&S requirements. The E&S Due Diligence will be managed by the E&S Manager. Any gaps in compliance with AGF's E&S requirements will be highlighted, and actions put forward to address those gaps.

The level of detail of the due diligence will be commensurate with the level of E&S risk of the SME's activities and be guided by the categorization (Stage 2).

Category A (and some Category B Projects<sup>9</sup>) projects will be subject to a full E&S Due Diligence (i.e. involving desk-based assessment and a site visit), to be undertaken by an independent environmental and social consultant (IESC) at the cost of the borrower/ SME. Should any of the IFC PS 5 – 8 likely to be triggered (as identified during the E&S screening phase), the involvement of an external expert for this (these) particular IFC PS(s) will also be recommended.

All other projects will be subject to a limited or focused desk-based E&S Due Diligence, undertaken by the E&S Manager.

**Desk-Based Due Diligence:** All guarantee, capacity development and treasury management transactions require a desk-based E&S Due Diligence, which will involve the following:

- Understanding of the SME's organization (specifically with respect to E&S governance) and their Environmental and Social Management System (ESMS).
- Search for information in the public domain regarding any E&S controversies related to the SME and/or project.
- Understanding of the SME's activities and associated E&S impacts (including receptors).
- Review and evaluation of the SME's E&S documentation.
- Review and evaluation of any third-party due diligence or audit reports.

The E&S documentation that the SME is required to have prepared depends on the project's category and is summarized below.

All Category A and Category B Projects require an assessment process to address E&S risks and

<sup>9</sup> Category B Projects that generally meet the Category B specification, but that may have one or two issues with the potential to cause significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented.

impacts, and the assessment documentation should propose measures to minimize, mitigate, and offset adverse impacts. All Category A and Category B Projects require the SME to develop and maintain an (ESMS) and prepare a project Environmental and Social Management Plan (ESMP) to capture the issues and measures identified by the assessment.

Category A (and some Category B Projects<sup>9</sup>) require an Environmental and Social Impact Assessment (ESIA). For all other Projects, a limited or focused assessment (e.g. audit), or application of environmental siting, pollution standards, design criteria, or construction standards, may be adequate.

Category A and Category B Projects require evidence that the SME is undertaking effective and ongoing Stakeholder Engagement with affected communities and other stakeholders, in line with the requirements of IFC PS1 (including due consideration of any vulnerable and/or indigenous peoples).

Category A (and some Category B Projects<sup>9</sup>) require that a Grievance Mechanism is in place to record and resolve concerns of the affected community promptly.

For projects that are expected to or currently produce more than 25,000 tons of CO<sub>2</sub>-equivalent annually, the SME must annually quantify and report on direct emissions from the facilities owned or controlled within the physical project boundary, as well as indirect emissions associated with the off-site production of energy used by the project.

**E&S Due Diligence Site Visit:** The site visit component of a due diligence may involve the following:

- Interviews with company (and contractor) managers and site workers, specifically those with E&S responsibilities.
- Observations of operations, specifically to identify E&S risks and the existence and effectiveness of E&S management measures.
- In some cases, it may be appropriate to interview stakeholders, e.g. regulators and affected communities regarding any E&S concerns, including how they perceive their concerns to have been dealt with.

**Assessment and Reporting:** The E&S Manager (or IESC) will evaluate the information gathered during the E&S Due Diligence and either confirm that the activities of the SME complies with AGF's E&S Requirements, or otherwise highlight gaps in compliance and put forward actions to address those gaps. Actions identified to address any gaps in compliance will be assigned to a party responsible for the action, and an action completion date. This document is referred to as the draft **Environmental and Social Action Plan (ESAP)**.

The E&S Due Diligence Report and draft ESAP will be prepared by the E&S Manager in the E&S Due Diligence Report and Draft ESAP Template (Appendix A), which includes the following:

- Conformance with the Exclusion List.
- Project Categorization (A, B or C).
- The E&S Due Diligence, including a summary of the:
  - SME's organization (specifically those with E&S responsibilities) and ESMS.
  - SME's activities and key E&S impacts (including the biophysical and social receptors).
  - Conformance, or gaps in conformance with AGF's E&S Requirements, and actions to address the gaps (i.e. the draft ESAP).

The Due Diligence Report and Draft ESAP will be saved in the E&S Review folder and submitted to AGF's GCRO for review and approval (Approval).

#### ***Stage 4: Approval***

All guarantee, capacity development and treasury management transactions are subject to approval by AGF's GCRO. If there are significant E&S risks or gaps in alignment to AGF's E&S Requirements, the GCRO – with support from the E&S Manager – will negotiate and agree with the SME actions from the draft ESAP required to be completed in order to address risks or gaps to a level that is acceptable to AGF. These actions will be the content of the final ESAP, in addition to applicable E&S covenants.

Actions from the Final ESAP will be included in the transaction agreement, along with monitoring and reporting requirements (see Stage 5). Financial close will be met once both parties have signed the transaction agreement.

Should risk or gaps in compliance be deemed unacceptable, or in cases where the SME cannot commit to adequately addressing risks to an acceptable level, the GCRO will reject the transaction. The decision will be recorded, with justification, in the Final ESAP and Approval Template (Appendix A), which will be saved in the E&S Review folder.

#### ***Stage 5: Monitoring***

Following financial close, transactions will be monitored by the SME (or IESC) and the findings reported back to AGF's E&S Manager, as per the conditions of the transaction agreement. The agreement will specify both the frequency of monitoring and whether it should be self-monitoring or carried out by an IESC. This will be determined on the basis of the Project Category as it relates to the nature and scale of the risks as well as the stage of the project, with more frequent monitoring during construction activities.

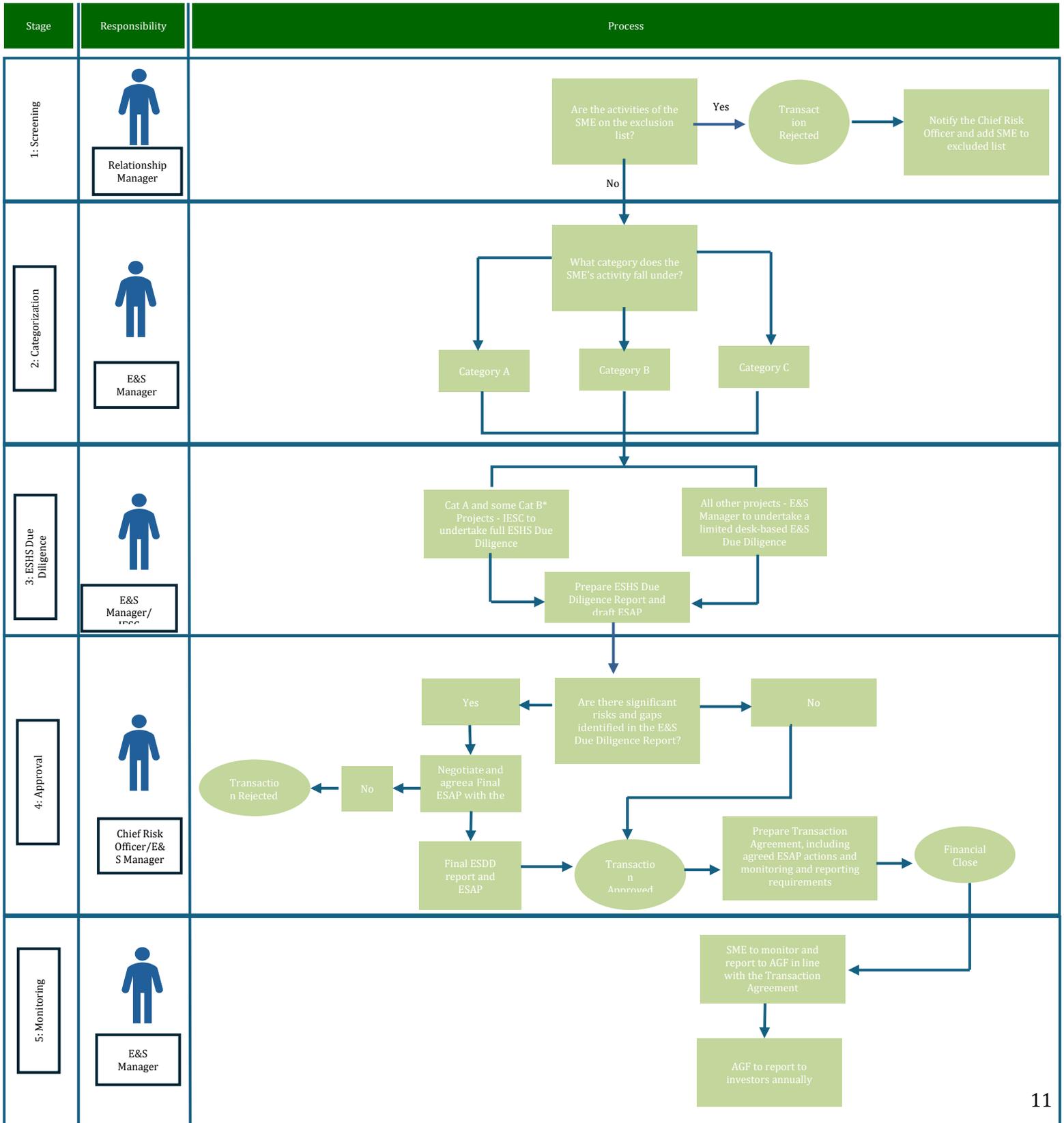
In turn, AGF shall report to its board on the fund's activities on an annual basis. The E&S Manager shall generate the reports and include data such as:

- The number and value of transactions made in each sector type, confirming no sectors in AGF's Exclusion List.
- The number and total value of investments made in each Category (A, B and C).
- The number of due diligences undertaken (differentiating between desktop and full E&S Due Diligence, as well as the number undertaken by an IESC).
- A summary of E&S issues or incidents for each of the SMEs.

This E&S Framework will be subject to an annual review and amendment.

**Summary: Direct Assessment of SME**

**Process of directly assessing SMES**



**Table 1: Key outputs and associated responsibility**

| <i>Stage 1: Screening</i>  |   |                          |
|--|---|--------------------------|
| <b>Output/s</b>  | <b>Template</b>   | <b>Responsibility</b>    |
| Screening decision   | Recorded in the Screening Template (Appendix A)                               | Relationship Manager     |
| <i>Stage 2: Categorization</i>   |   |                          |
| <b>Output/s</b>  | <b>Template</b>   | <b>Responsibility</b>    |
| Categorization of SME's activities   | Recorded in the Categorization Template (Appendix A)                          | E&S Manager              |
| <i>Stage 3: E&amp;S Due Diligence</i>  |   |                          |
| <b>Output/s</b>  | <b>Template</b>   | <b>Responsibility</b>    |
| E&S Due Diligence Report and Draft ESAP  | Recorded in the E&S Due Diligence Report and Draft ESAP Template (Appendix A) | E&S Manager              |
| <i>Stage 4: Approval</i>   |   |                          |
| <b>Output/s</b>  | <b>Template</b>   | <b>Responsibility</b>    |
| If significant risks and gaps are identified in the E&S Due Diligence Report, negotiate and agree a final ESAP   | n/a   | Group Chief Risk Officer |
| Transaction agreement and covenants, incorporating the Final ESAP, and requirements for monitoring and reporting | n/a   |                          |
| Approve transaction  | Recorded in the Final ESAP and Approval Template (Appendix A)                 |                          |
| <i>Stage 5: Monitoring</i>   |   |                          |
| <b>Output/s</b>  | <b>Template</b>   | <b>Responsibility</b>    |
| SME's monitoring reports   | E&S Monitoring Report (Direct) (Appendix A)                                   | E&S Manager              |
| AGF's Annual Report to investors   | n/a   |                          |

### IV. 3 Indirect Assessment of SMEs through the PFI's E&S Framework

In cases where the SME is not known to AGF at the time of the transaction (i.e. for Loan Portfolio Guarantees, Bank Fundraising Guarantees, Capacity Development and Treasury Investment on a PFI), the E&S Manager will undertake a due diligence of the PFI's E&S Framework, in order to confirm that the PFI is identifying, managing, reporting, approving and monitoring E&S risk in a manner that is acceptable to AGF.

The PFI's framework must include the following steps, as a minimum:

1. **Screening:** Application of the Exclusion List that is used by AGF (Appendix B) or otherwise aligned to the intent of AGF's Exclusion List.
2. **Categorization:** Categorization of PFI's activities according to the International Finance Corporation (IFC) as outlined in IFC's Interpretation Note on E&S Categorization<sup>10</sup>
  - Category FI-1 (High Risk)** - When a PFI's existing or proposed portfolio includes or is expected to include substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
  - Category FI-2 (Medium Risk)** - when a PFI's existing or proposed portfolio is comprised of or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
  - Category FI-3 (Low Risk)** - when a PFI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.
3. **E&S Due Diligence:** E&S due diligence, the level of which will be commensurate with the level of E&S risk of the SME's activities. In cases where the PFI invests in an SME undertaking Category A and some Category B activities, the PFI must engage an IESC.
4. **Approval:** A transparent approval process that considers E&S risk and allows for incorporation of E&S conditions in the transaction documentation.
5. **Monitoring and Reporting:** Routine monitoring of transactions and annual reporting to funders.

PFI FI-1 (some PFI FI-2 ) requires an Environmental and Social Due Diligence to assess whether adequate ESMS exists, is implemented and supported by sufficient E&S resources.

PFI's should demonstrate to the E&S Manager the effective application of their E&S Framework. The E&S Manager will highlight gaps in the PFI's E&S Framework, along with actions to address the gaps. Actions will be assigned to the responsible party and given a completion date (i.e. the draft ESAP).

The E&S Manager will present the findings of the review, including the draft ESAP, in a short report (the PFI E&S Due Diligence Report and Draft ESAP Template; Appendix A), which is to be submitted to AGF's GCRO and saved in the PFI E&S Review folder.

All guarantee, capacity development and treasury management transactions are subject to approval by AGF's GCRO. If there are significant E&S risks or gaps in alignment of the PFI's E&S framework to AGF's E&S Requirements, the GCRO – with support from the E&S Manager – will negotiate and agree with the PFI actions from the draft ESAP required to be completed in order to address risks

<sup>10</sup> [Interpretation Note on E&S Categorization December 21.docx](#)

or gaps to a level that is acceptable to AGF. These actions will be the content of the final ESAP.

Actions from the Final ESAP will be included in the transaction agreement, along with monitoring and reporting requirements. Financial close will be met once both parties have signed the transaction agreement.

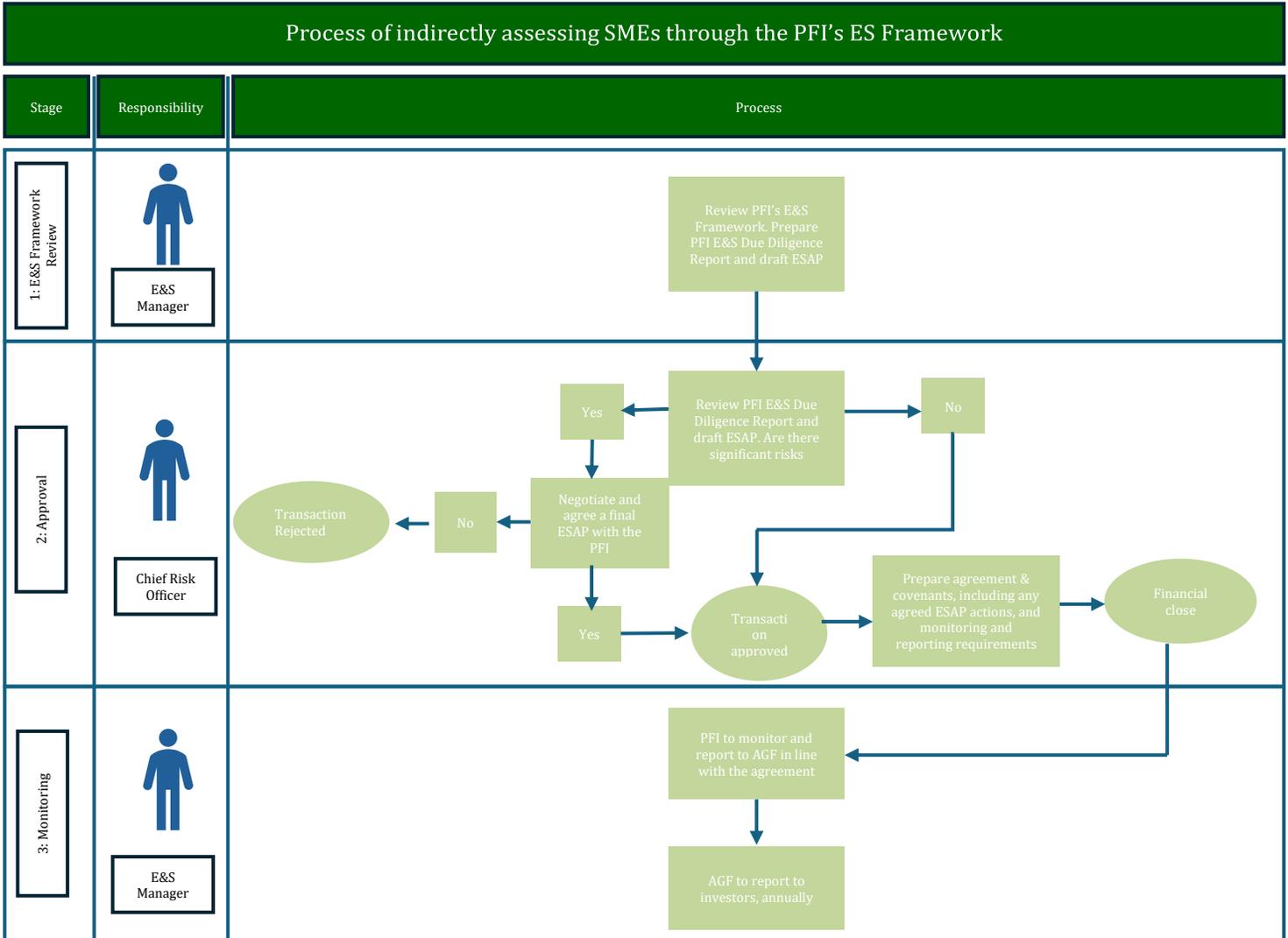
Should risk or gaps in compliance be deemed unacceptable, or in cases where the PFI cannot commit to adequately addressing risks to an acceptable level, the GCRO will reject the transaction. The decision will be recorded, with justification, in the PFI E&S Final ESAP and Approval Template (Appendix A), which will be saved in the PFI E&S Review folder.

The PFI must report to AGF annually, as per the conditions of the agreement. As appropriate, AGF will categorize PFIs based portfolio risk using IFC's categorization of financial intermediaries (FI-1, FI-2, FI-3)<sup>10</sup>

Reports must include:

- Summary of the Categorization of the PFI according to portfolio risk, (FI-1, FI-2, FI-3).
- Summary of the PFI's organization chart (specifically identifying those individuals with E&S responsibilities) and E&S Framework.
- The type of sectors in which the PFI is investing in (via SMEs), highlighting any sectors on AGF's Exclusion List (including the number and value to investments in those sectors).
- The number and total value of investments made in each Category (A, B and C).
- The number of due diligences undertaken (differentiating between desktop and full due diligence, as well as the number undertaken by an IESC).
- Any other data deemed relevant by AGF, including efforts and initiatives relating to E&S matters.

**Summary: Indirect Assessment of SMEs through the PFI's E&S Framework**



**Table 2: Key outputs and associated responsibility**

| <i>Stage 1: E&amp;S Due Diligence</i>   |   |                          |
|---|---|--------------------------|
| <b>Output/s</b>   | <b>Template</b>   | <b>Responsibility</b>    |
| PFI E&S Due Diligence Report and Draft ESAP   | Recorded in the PFI E&S Due Diligence Report and Draft ESAP Template (Appendix A) | E&S Manager              |
| <i>Stage 2: Approval</i>  |   |                          |
| <b>Output/s</b>   | <b>Template</b>   | <b>Responsibility</b>    |
| If significant risks and gaps are identified in the E&S Due Diligence Report, negotiate and agree on a final ESAP | n/a   | Group Chief Risk Officer |
| Transaction agreements and covenants, incorporating the Final ESAP, and requirements for monitoring and reporting | n/a   |                          |
| Approve transaction   | Recorded in the PFI E&S Final ESAP and Approval Template (Appendix A)             |                          |
| <i>Stage 3: Monitoring</i>  |   |                          |
| <b>Output/s</b>   | <b>Template</b>   | <b>Responsibility</b>    |
| SME's monitoring reports  | E&S Monitoring Report (Indirect) (Appendix A)                                     | E&S Manager              |
| AGF's Annual Report to investors  | n/a   |                          |

### ***Roles and Responsibilities***

#### **Relationship Manager**

- With assistance from the E&S Manager, liaise with clients on E&S matters;
- Notify the E&S Manager of new opportunities;
- Undertake screening of new opportunities and properly record the outcomes of the process.

#### **E&S Manager:**

- Oversee AGF's E&S risk management practices;
- Coordinate and integrating E&S Framework implementation with AGF's other approvals procedures;
- Maintain AGF's Environmental and Social Management System, including undertaking an annual review and revision of the E&S Framework;
- Provide annual training in the E&S Framework, including an overview of AGF's E&S Requirements and emerging trends in relevant sectors;
- Monitor and confirm correct and effective implementation of the E&S Framework, including correct completion and filing of E&S Framework documentation;
- Categorize SME activities;

- Undertake E&S Due Diligence of SME's activities, directly or via an IESC;
- Undertake E&S Due Diligence of PFI's E&S Frameworks;
- Support the GCRO in negotiating and agreeing to the E&S requirements of the transaction agreement (including ESAP) with SMEs and PFIs;
- Receive and review SME's and PFI's E&S monitoring reports;
- Report to AGF's investors on AGF's E&S performance, annually.

**Group Chief Risk Officer:**

- Review of the E&S Due Diligence Reports and draft ESAPs;
- With support from the E&S Manager, prepare an Investment Committee E&S Information Note;
- With support from the E&S Manager, negotiate and agree a Final ESAP with SMEs and PFIs;
- With support from the E&S Manager, prepare the Transaction Agreement, including any agreed ESAP actions, and monitoring and reporting requirements;
- Properly record approval and rejection of transactions.

**Investment Committee:**

- Review the E&S Information Note;
- Ensure that categorization is aligned with E&S framework, relevant documentation is available, and key risks are adequately identified;
- With the support of the GCRO, properly record approval and rejection of transactions.

**Internal Auditor:**

- Conduct an internal audit on a yearly basis to ensure alignment with the E&S Framework with respect to screening, categorization, approval, and monitoring phases and processes;
- Document E&S internal audit and associated corrective action plans.

## V. Stakeholder Engagement and Grievance Management

Stakeholder engagement denotes proactive on-going dialogue, information sharing and interactions between AGF and its stakeholders. Effective stakeholder engagement with stakeholders is a key tool to facilitate the integration of E&S throughout AGF, the participating Financial Institutions (PFIs) and the SMEs and ensure the sustainability of their businesses. Stakeholder engagement aims to:

- Facilitate learnings, transparency and accountability between investors, AGF, PFIs and SMEs;
- Ensure AGF remains in touch with the interests, needs and perspectives of its stakeholders;
- Pre-empt any internal or external risks or challenges;
- Drive continual improvement;
- Reduce opposition to change and solicit advocates for E&S at both AGF and underlying PFI level;
- Generate robust, consistent and appropriate E&S disclosures; and
- Assist the identification of new opportunities for superior returns, growth and innovation.

The E&S Framework outlines AGF's stakeholder engagement framework, outlining a practical and proactive approach to engaging with stakeholders (refer to the *Stakeholder Engagement Framework*). This involves the identification of all stakeholder groups and designing and initiating frequent engagements at appropriate levels with each of these groups (e.g. informal dialogues, structured and formal regular consultation, reporting and information sharing). The level, frequency, and methods of engagement deployed to engage with stakeholders (e.g. direct engagement, questionnaires/surveys, etc.) is commensurate with the risks, impacts and interests associated with the investment in question as well as the role AGF plays (active vs more of an oversight type role).



As part of ensuring effective engagement, AGF has established a grievance mechanism (refer to *Grievance Management Procedure*) which will be communicated, implemented, and monitored to ensure that any complaints or feedback received from internal or external stakeholders are formally recorded (refer to *Grievance Form and Grievance Register*), appropriately responded to and reported to Executive Management.

## **APPENDIX A:**

AGF has developed a set of tools for the implementation of the E&S Framework which are listed hereunder.

1. E&S Screening Questionnaires
2. E&S Categorization Reports
3. E&S Internal Due Diligence Questionnaires
4. E&S Due Diligence Report Template (including Environmental and Social Action Plan)
5. Investment Committee E&S Information Note
6. E&S Incident Reporting
7. E&S Monitoring Report Templates
8. External E&S Due Diligence Terms of Reference
9. Example of Agreement Standard E&S Clauses
10. E&S Approval Summary
11. Grievance Submission Form
12. Grievance Register

## **APPENDIX B: AGF EXCLUSION LIST**

AGF will not invest, guarantee or provide capacity development to any activity, production, use, distribution, business or trade listed in the following list of industries:

1. 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 or chemicals, ozone depleting substances, PCB, wildlife or products regulated under CITES.
2. Production or trade in weapons and munitions<sup>11</sup>
3. Production or trade in alcoholic beverages (excluding beer and wine).<sup>11</sup>
4. Production or trade in tobacco.<sup>11</sup>
5. Gambling, casinos and equivalent enterprises<sup>11</sup>
6. Pornography and/or prostitution.
7. Racist and/or anti-democratic media.
8. 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.
9. 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%.
10. Unsustainable fishing methods (e.g. drift net fishing in the marine environment using nets in excess of 2.5 km. in length).
11. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
12. Destruction of High Conservation Value areas.<sup>12</sup>

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. AGF bank partners, except those engaged in microfinance or Trade finance projects, must apply the following exclusions, in addition to AGF Exclusion List:

1. Production or activities involving harmful or exploitative forms of forced labor<sup>13</sup>/harmful child labor<sup>14</sup>.
2. Commercial logging operations for use in primary tropical moist forest.
3. Production or trade in wood or other forestry products other than from sustainably managed forests.

When investing in microfinance activities, bank partners will apply the following items in addition to the AGF Exclusion List:

1. Production or activities involving harmful or exploitative forms of forced labor<sup>13</sup>/harmful child labor<sup>14</sup>.
2. Commercial logging operations for use in primary tropical moist forest.
3. Production or trade in products containing PCBs.

<sup>11</sup> 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.

<sup>12</sup> Destruction means the 1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or 2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

<sup>13</sup> Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>14</sup> 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.



4. Production or trade in ozone depleting substances subject to international phase out.
5. Production or trade in wood or other forestry products from unmanaged forests. 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.
6. 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, bank partners will apply the following items in addition to the AGF Exclusion List:

1. Production or activities involving harmful or exploitative forms of forced labor<sup>13</sup>/harmful child labor<sup>14</sup>.

## **APPENDIX C: CATEGORY A PROJECTS/ SECTORS AND RECEIVING ENVIRONMENTS**

The following is an illustrative list containing examples of the types of new projects and major expansion projects that may be classified as Category A. It is not a definitive list but can be used for guidance. It is recognized and adopted by a number of financial organizations including OECD Export Credit Agencies<sup>15</sup>.

1. Crude oil refineries (excluding undertakings manufacturing only lubricants from crude oil) and installations for the gasification and liquefaction of 500 tons or more of coal or bituminous shale per day.
2. Thermal power stations and other combustion installations (including cogeneration) with a heat output of not less than 300 megawatts (equivalent to a gross electrical output of 140 MWe for steam and single cycle gas turbines power stations) and nuclear power stations and other nuclear reactors, including the dismantling or decommissioning of such power stations or reactors (except research installations for the production and conversion of fissionable and fertile materials, whose maximum power does not exceed 1 kilowatt continuous thermal load).
3. Installations designed for the production, or enrichment of nuclear fuels, the reprocessing, storage or final disposal of irradiated nuclear fuels, or for the storage, disposal or processing of radioactive waste.
4. Integrated works for the initial smelting of cast-iron and steel, e.g. installations for the production of primary steel by blast furnace route or direct reduction; installations for the production of non-ferrous crude metals from ore, concentrates or secondary raw materials by metallurgical, chemical or electrolytic processes.
5. Installations for the extraction of asbestos and for the processing and transformation of asbestos and products containing asbestos: for asbestos-cement products, with an annual production of more than 20,000 tons finished product; for friction material, with an annual production of more than 50 tons finished product; and for other asbestos utilization, of more than 200 tons per year.
6. Installations for the manufacture and/or recovery of chemicals (including but not limited to
7. petrochemicals, fertilizers, pesticides & herbicides, health care products, detergents, paints, adhesives, agro-chemicals, pharmaceuticals, explosives) on an industrial scale using physical, chemical and/or bio-chemical processes and for large scale distribution of such chemicals via pipelines/terminals and associated facilities.
8. Construction of airports with a basic runway length of 2,100 meters or more.
9. Construction of motorways and express roads.
10. Construction of a new road, or realignment and/or widening of an existing road, where such new road, or realigned and/or widened section of road, would be 10 km or more in a continuous length.
11. Construction of railway lines that go beyond urban areas and of long-distance railway lines.
12. Sea ports and also inland waterways and ports for inland-waterway traffic which permit the passage of vessels of over 1,350 tons; trading ports, piers for loading and unloading connected to land and outside ports (excluding ferry piers) which can take vessels of over 1,350 tons.
13. Waste-processing and disposal installations for the incineration, chemical treatment or landfill of hazardous, toxic or dangerous wastes.
14. Large<sup>16</sup> dams and other impoundments designed for the holding back or permanent storage of water.
15. Groundwater abstraction activities or artificial groundwater recharge schemes in cases where the

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<sup>15</sup> *The Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the "Common Approaches") (The "Common Approaches"). Document is accessible at: <http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/ECG%282016%293&doclanguage=en>*

<sup>16</sup> *As per the definition of the International Commission on Large Dams (ICOLD). ICOLD defines a large dam as a dam with a height of 15m or more from the foundation. Dams that are between 5 and 15m high and have a reservoir volume of more than 3 million m<sup>3</sup> are also classified as large dams.*

- annual volume of water to be abstracted or recharged amounts to 10 million cubic meters or more.
16. Industrial plants for the production of pulp, paper and board from timber or similar fibrous materials.
  17. Operations that involve large scale extraction, via underground or open-pit mining, solution mining, or marine or riverine operations to obtain precious metals, base metals, energy and industrial minerals, or construction materials. It may also include the processing of the extracted material.
  18. Greenfield cement plants where the project includes a greenfield quarry.
  19. Large scale oil, gas, or liquefied natural gas development that may include any or all of:
    - Exploration (seismic and drilling);
    - Field development and production activities;
    - Transport activities, including pipelines/terminals, pump stations, pigging stations, compressors
    - Stations and associated facilities; or
    - Gas liquefaction facilities.
  20. Installations for storage of petroleum, petrochemical, or chemical products with a capacity of 200,000 tons or more.
  21. Large-scale logging.
  22. Municipal wastewater treatment plants with a capacity exceeding 150,000 population equivalent.
  23. Municipal solid waste-processing and disposal facilities.
  24. Large-scale tourism and retail development.
  25. Construction of overhead electrical power transmission lines with a length of 15 km or above<sup>17</sup> and a voltage of 110 kV or above.
  26. Large-scale land reclamation.
  27. Large-scale primary agriculture/ sylviculture involving intensification or conversion of natural habitats.
  28. Plants for the tanning of hides and skins where the treatment capacity exceeds 12 tons of finished products per day.
  29. Installations for the intensive rearing of poultry or pigs with more than: (i) 85,000 places for broilers and 60,000 places for hens; (ii) 3,000 places for production pigs (over 30 kg); or (iii) 900 places for sows.
  30. Projects which are planned to be carried out in sensitive areas or are likely to have a perceptible impact on such areas, even if the project category does not appear in the above list.
  31. Projects which may result in significant adverse social impacts to local communities or other project affected parties, including those involved in the construction and/or operation of the project.
  32. Projects involving land acquisition and involuntary resettlement of a significant number of affected people.

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<sup>17</sup> This 'limit' can be found in Directive EC 97/11.