



Environmental & Social Policy

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I. Policy Objectives

We have established this policy to set out the Environmental & Social (E&S) objectives and principles that guide our business activities to achieve sound E&S performance. It is applicable to African Guarantee Fund Group.

This Policy provides the framework for E&S identification, management, approval and monitoring, and demonstrates our commitment to the prevention of pollution and complying with the applicable laws and regulations of the jurisdictions in which we and our clients operate. We shall also apply the IFC Performance Standards (2012) to our transactions and seek to undertake our governance in a manner consistent with the Equator Principles III (2013).

The E&S assessment process to be applied to each of our Guarantee, Capacity Development and Treasury Management activities is detailed in the E&S Risks Safeguard Framework (the E&S Framework).

II. Our Business Activities

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.

We facilitate access to finance to Small and Medium Enterprise's (SME) by providing partial guarantees to their financings. We do this through offering the following range of products:

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 to assess the PFI's E&S Safeguard Framework.
- **Bank Fundraising Guarantees (BFRG):** products through which we assist Partner Financial Institutions (PFIs) to raise funds 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 fund 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 is also providing capacity building assistance to SME Business Development Support companies and SMEs themselves.

III. Our target sectors and exclusion list

We target all the sectors that drive the economies of the 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***, and such will not guarantee any activity, production, use, distribution, business or trade on this list.

IV. Our commitment to sustainable growth

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 processes and facilities wherever we operate, regarding our guarantee, capacity development and treasury management activities. To achieve that, the following principles will guide our activities:

IV.1. Sustainable Growth Principles

AGF is committed to the following key guiding principles:

Social

- Support and respect the protection of nationally and internationally proclaimed human rights;
- Promote the prohibition of child labour and forced labour;
- Foster fair labour and working conditions and support economic growth and job creation;
- Promote diversity, social inclusion and gender equity; and
- Protect the health and safety of workers, surrounding communities and customers.

Environment:

- Contribute to environmental protection and the reduction of pollution;
- Promote resource efficiency and pursue opportunities to provide innovative approaches; and
- Support climate action mitigation measures to help reduce contribution to the effects of climate change where possible.

IV.2. 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.

IV.3. Prevention

Through our environmental and social risk management system, we will prevent to the best of our capacity all sort 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.

IV.4. 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.

IV.5. Continuous Improvement

We are committed to continual improvement through the setup 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 Policy and Framework will be subject to review and update on an annual basis.

V. Our E&S Management Approach

The E&S risks we encounter are through the business activities we guarantee. 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. These are in the Exclusion List in Appendix.

Prerequisite for AGF support is that the PFIs and SMEs comply with local environmental and social laws. Whenever 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)¹,
- IFC Performance Standards 1-4² (+ accompanying Guidance Documents) and if applicable, IFC Performance Standards 5-8 (+ accompanying Guidance Documents),
- IFC Good Practice Notes where relevant ^{3 and 4},
- EDFI Principles for Responsible Financing,
- AfDB Operational Safeguards,

- Any relevant sector sustainability Guideline or Directive⁵.

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 a capacity development.

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

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

³ http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_GPN

⁴ 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.

⁵ Like for example the Round Table on Responsible Soy (RTRS), Forest Stewardship Council (FSC) etc.

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 and managing our treasury 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 Policy, as well as an E&S Framework that is applied to each of our guarantee, capacity development and treasury management 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.

As detailed in the E&S Framework, there are six stages to our E&S assessment process:

- **Screening:** AGF (or delegated Partner Financial Institution; PFI) will apply the Exclusion List to the prospective SME.
- **Categorization:** AGF (or PFI) 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), as outlined in the Equator Principles III (2013).
- **E&S Due Diligence:** AGF (or PFI) will subject all guarantee, capacity development and treasury management transactions to an E&S due diligence, the level of which will be commensurate with the level of E&S risk of the SME's activities.
- **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. In the case of Treasury Management, BFRG and LPG, where the final borrower is unknown by AGF during the origination, the E&S assessment of the SME's activities is delegated to the PFI. AGF has the responsibility to assess the PFI's E&S Safeguard Framework.
- **Monitoring:** Guarantee, capacity development and treasury management transactions will be routinely monitored and findings reported back to AGF as per the conditions of the agreement.

VI. Ownership and Governance Structure

AGF is a company limited by shares incorporated under the business laws of Mauritius. It is owned by the Government of Denmark through the Danish International Development Agency (DANIDA), the Government of Spain through the Spanish Agency for International Development Co-operation (AECID), the African Development Bank (AfDB), The Nordic Development Fund (NDF), the Government of France through Agence Française de Développement (AFD), The Danish Investment Fund for Developing Countries (IFU) and the Government of Germany through the Kreditanstalt für Wiederaufbau (KfW).

AGF's GCEO will take overall responsibility for the E&S Policy and Framework, including its execution and communication to all levels of AGF.

Day to day responsibility for implementation of the E&S Framework is delegated to the E&S Manager. All employees of the Risk Department, and the Group Chief Risk Officer, are provided with training in this E&S Policy and the E&S Framework to assist them in fulfilling their responsibilities with respect to E&S risk identification and management.

The GCEO will receive periodic performance reviews of the effectiveness of the E&S Policy and Framework, based on systematic data collection and analysis, and will take the necessary and appropriate steps to ensure the intent of the E&S Policy is met, and that the E&S Framework is being properly implemented.

Mr. Jules NGANKAM, AGF GCEO

APPENDIX: AGF EXCLUSIONS 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 munitions¹
3. Production or trade in alcoholic beverages (excluding beer and wine).¹
4. Production or trade in tobacco.¹
5. Gambling, casinos and equivalent enterprises¹
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.²

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 labor³/harmful child labor⁴.
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 labor³/harmful child labor⁴.

¹ 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.

² 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.

³ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁴ 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.



2. Commercial logging operations for use in primary tropical moist forest.
3. Production or trade in products containing PCBs.
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 labor³/harmful child labor⁴.