

AFRICA FINANCE CORPORATION

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT MANUAL

This is a summary of Africa Finance Corporation (AFC) Environmental and Social Risk Management (ESRM) Manual and it showcases the procedures for ESRM in the Corporation across all its focus sectors. The procedure is applicable to all project finance, trade finance and financial intermediary transactions.

Africa Finance Corporation (AFC) is committed to identifying, managing, and monitoring environmental and social (E&S) risk¹ in all areas of its business activities on an ongoing basis.

In practice, this means adhering to international standards and best practice in the assessment and management of E&S risks, by incorporating standards developed by other international institutions into AFC's decision-making process. The Corporation adopted an Enterprise-wide Risk-based management approach to its implementation of E&S Risk Management (ESRM).

AFC recognizes that the failure to identify and manage E&S risks can represent a serious threat to AFC's reputation and its business. Thus, adherence to the Corporation's E&S Risk Management Policy represents a fundamental objective for AFC, to minimize the risk of damage to the Corporation's business. Adherence also provides significant benefits to the Corporation, its clients and all stakeholders.

Applicable Standards and Scope

AFC's E&S Risk Management System (ESMS) is based on the following best practice standards:

1. The Equator Principles;
2. International Finance Corporation Performance Standards;
3. World Bank Group's Environmental, Health, and Safety Guidelines;
4. African Development Bank Integrated Safeguards System;

By adhering to these standards AFC is committed to promoting E&S sustainability in its investments.

ESMS Implementation

AFC has developed an E&S Risk Manual that serves as detailed practical guidance on the approach and tools for the ESMS implementation. The E&S Risk Officer (ESRO) and Transaction Teams are responsible for ESMS implementation, under the guidance of

¹ This includes consideration of health, safety and security.

AFC's E&S Manager (Chief Risk Officer) and oversight of relevant Management and Board Committees.

Updates or Revision

AFC's E&S Policy and Manual are reviewed annually by AFC's Risk Management department, and then recommended to Executive Management Committee for endorsement approval and Board Risk and Investment Committee for approval.

E&S Risk Management procedures: AFC conducts ESRM for all transactions. The ESRM is from the identification stage and helps to analyse the expected intensity of environmental and/or social considerations inherent in a transaction. The procedures take into account the direct, indirect, cumulative and induced risks and potential impacts in the area of influence of the operation.

The ESRM procedures, in accordance with the ESG reference frameworks and standards, starts with E&S screening of transactions against AFC's Exclusion List as well as completion of the AFC Know Your Client (KYC) questionnaire. E&S screening is performed at the Identification Stage of AFC's investment appraisal process. AFC's Exclusion List is informed by globally recognized ESG principles and defines the type of projects that AFC does not finance and is informed by. The Business Officer in the transaction team is required to carry out the screening and complete the KYC form for satisfactory review by the E&S team.

The Categorization or classification according to the degree of risks and impacts severity follows the screening stage. Classification is informed by Sectors of the transactions (Power, Natural Resource, Transport and Logistics, and Heavy Industries and Telecommunications). It is also informed by the Client's E&S policy, Risk and Impact identifications, Management Programme, Organizational Capacity and Competency, Emergency preparedness and response, Stakeholder engagement, External Communication and Grievance Redress Mechanism, as well as monitoring, reporting and review process. In carrying out the classification, the location and sensitivity of the transaction to the E&S issues such as the IFC Performance Standards 1-8 as well as Climate Change and Human Rights are recognized benchmarks for the classification. The classification is into 3 main categories, namely Category A (High), Category B (Medium) and Category C (Low) Risk. The categorization is supported by an Early Investment Memorandum (EIM) and other supporting E&S related documents obtained by the Business Officer (BO) from the client for preliminary analysis. The EIM and other relevant documents are reviewed for satisfaction and where additional information is required, the E&S team will inform the BO, who will ensure the information is availed and possibly arrange a meeting for the E&S team to interface with the concerned client to directly elicit additional information.



Fig 1. Investment Appraisal Process

Following the Categorisation stage is the Due Diligence, which corresponds to the Final Investment Memo stage of the Investment Appraisal process. The Due Diligence stage involves a detailed Environmental and Social Assessment (ESA) for projects in both the Category A and Category B. In general, no environmental and social assessment is required for projects in the Low Risks category. The detailed ESA is conducted at the same time as the feasibility study. It is typically outsourced to a qualified consultant but can also be carried out internally, subject to capacity. It covers a range of issues ranging from the basic E&S Management System (ESMS) to complex Resettlement Action Plan (RAP) and Biodiversity Action Plan (BAP), among others. The due diligence report will produce the E&S Action Plan (ESAP) aimed at ensuring the client's E&S practice comply with the AFC E&S standards and align with the globally recognized ESG frameworks. ESAP is discussed and consensus is reached with the clients on the contents towards a timely implementation.

Consensus on ESAP is incorporated in the Facility Agreement as E&S contractual obligations to be implemented by the client in the life of transactions. ESAP is monitored for compliance, evaluation and periodic reporting, typically, by Independent E&S Consultants (IESCs) based on a defined Terms of Reference. The IESC reports usually quarterly, semi-annually or annually to AFC or the wider lender group in the case of syndications.

The above E&S risk management procedure will inform the generation of E&S risk rating as an integral part of the overall risk rating of every transaction. The procedure also makes clients commit to achieving progress and improving their environmental and social performance, while monitoring results and impacts. It also helps to enhance the effectiveness and physical impact of infrastructure financing, assist the clients in fulfilling their environmental and social obligations and at the same time contribute to the environmental and social sustainability stewardship in AFC.

Besides the clients' requirement for Grievance Redress mechanism (GRM), AFC has a channel for escalation of E&S complaints involving its projects financed. Contact information for E&S complaints escalation to AFC is available on the AFC website.