AFRICA FINANCE CORPORATION

AFC CAPITAL PARTNERS (ACP)

BIODIVERSITY MANAGEMENT FRAMEWORK
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<th>Abbreviation</th>
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<td>ACP</td>
<td>AFC Capital Partners</td>
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<td>AP</td>
<td>Affected Person(s)</td>
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<td>BAP</td>
<td>Biodiversity Action Plan</td>
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<td>CBD</td>
<td>Convention on Biological Diversity</td>
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<td>ESIA</td>
<td>Environmental and Social Impact Assessment</td>
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<td>ESMS</td>
<td>Environmental and Social Management System</td>
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<td>ESMP</td>
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<td>ESS</td>
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<td>ICRF</td>
<td>Infrastructure Climate Resilient Fund</td>
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<td>MA</td>
<td>Millennium Ecosystem Assessment</td>
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<td>M&amp;E</td>
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**Introduction**

AFC has emerged as the pre-eminent infrastructure solution’s provider in Africa with unrivalled experience in identifying, developing, executing, and delivering transformational infrastructure projects on the continent. AFC Capital Partners (ACP) is the 100% owned Asset Management Subsidiary of AFC, created to mobilize and manage third party funds to unlock new sources of capital to fund the African infrastructure investment gap estimated at USD 170 billion. ACP will leverage the scale and breadth of AFC’s investment track record to offer institutional investors with a unique access to attractive and de-risked investment opportunities in climate resilient infrastructure with strong returns.

Given the commitment of AFC through AFC Capital Partners (ACP), this document therefore presents the framework for the Environmental and Social Management System (ESMS) in ACP. It provides detailed policy and procedures to be followed in ensuring effective implementation of ESMS in all transactions and activities supported by the AFC/ACP Infrastructure Climate Resilient Fund (ICRF) facility across Africa.

The framework recognizes that investment activities involving project finance or project related corporate transactions may involve environmental and social risks and impacts. It therefore includes the guidance tools, templates and outlines of potential environmental and social documents that will be required for the sub-programme and/or projects to be supported by ICRF. In essence, the framework is to be applied to all sub-programmes and/or projects supported by the ICRF facility.

**FACILITY CONTEXT**

**Rationale**

At AFC Capital Partners, we believe that “Environmental, Social and Governance (ESG) considerations including climate change and human rights, are fundamental to long-term risk and return”. As a fund manager, we are committed on delivering competitive returns for our investors, as well as seeking to create businesses that benefit society through economic and social development. We believe that working towards implementing high ESG standards at the companies in which we invest, is the best way to mitigate risk and an opportunity to create value.

**Objectives of ICRF**

The principal objective of the Infrastructure Climate Resilient Fund (ICRF) is to deploy capital to develop, construct and own low carbon and climate resilient infrastructure projects in Africa, and to achieve medium to long-term returns for the Investors. The fund will focus on investments in high quality sustainable infrastructure (i.e. roads, ports, bridges, rail, telecommunications, clean energy and logistics projects in Africa) with the aim of making these assets more resilient to the impacts of climate change, while being in accordance with the Paris agreement.
**Investment Themes / Sectors**
ICRF will focus on development finance, private equity buy-out and growth financing in AFC’s traditional infrastructure core sectors— including:
1) Climate-resilient Transport and Logistics (Ports, Roads, Bridges, Railways, Airports etc.)
2) Climate-resilient Energy Systems
3) Climate-resilient Economic zones
4) Climate-resilient Telecommunication and Digital Infrastructures

In light of the above, the Green Climate Fund (GCF) investment will be earmarked to Climate resilient infrastructure investment, while the broader fund can investment in climate mitigation sectors such as renewable energy for investments.

**Investment Strategy**
ICRF will provide traditional private equity development, acquisition and growth equity financing combined with concessional capital from international and multilateral sources like the Green Climate Fund that have committed significant pools of capital to climate resilience financing for emerging market countries, including Africa.

ICRF will hold a significant or majority interest in the Project Companies in which it invests and will seek to exit its investments after approximately seven–ten years of the respective Project Company’s lifecycle. ICRF will invest up to ten percent (10%) of its committed capital in project development.

The Fund will co-invest alongside AFC in opportunities that fit in mandate and investment criteria, hence benefit from AFC’s strong track record through a co-investment approach.

ICRF will target projects that exhibit the following characteristics:
1. Ability to generate sustainable positive cash flows and offer returns commensurate with the risk associated with the investment
2. Demonstrated potential to reduce GHG emissions or strengthen climate change resilience, as well commitment to best practice ESG standards
3. Strong sponsors with deep pockets, solid experience, and track record, as well as technical expertise in the relevant sector and region.
4. Credible, experienced, and independent EPC and O&M contractors
5. Offer a strategic competitive advantage: Projects with manageable or predictable market dynamics, as well as proven and stable or growing demand from credible off-takers or a broad and deep marketplace
6. Projects that have all relevant permits/licenses/concessions and authorizations or have a clear and realistic plan to secure all relevant permits and authorizations in a timely manner.
7. Sound and transparent governance
8. Predominantly exhibit equity characteristics
OVERVIEW OF ACP

• Mandate

AFC Capital Partners proposition integrates the impact of Climate Change as a core investment thesis in its unique offering ACP will create various investment vehicles using fund structure guided by sustainable investment themes that align strongly with AFC Mandate and investor interest and evolving trends on the continent, with the aim to mobilize 3rd party funds including leading sovereign wealth funds, pension funds, insurance companies, and development finance institutions.

The fund will drive infrastructure projects across the African continent and will be managed by AFC Capital Partners (ACP), the asset management subsidiary of one of Africa’s leading infrastructure solutions providers – the Africa Finance Corporation.

Africa is today one of the most promising markets in the world: Africa has experienced significant growth momentum in recent years and business climate improvements have transformed a multitude of African economies. Despite setbacks from the Covid-19 pandemic, the continents’ growth prospects remain bullish supported by (i) Rich and diverse natural resource base; (ii) Rapid urbanization and demographic growth; and (iii) Rapid digitalization, among other factors.

Africa contributes only 4% to global Green House Gas emissions but is overburdened by the severe impacts of climate change. With over 2/3 of African countries in coastal areas, the impact of high temperature, hurricanes, sea rise, and other climate risks have a significant impact on the returns of infrastructure investments due to increased cost.

This is a major opportunity for you to invest with AFC Capital Partners in a unique offering – Africa’s First Infrastructure Climate Resilient Fund (ICRF). ICRF integrates climate risks in its offering and supports the building of climate resiliency in AFC core strategic sectors, namely: Transport and Logistics, Power, Telecom and Industrial Parks. This unique structure is supported by two funds: (i) concessional finance funded by grants or soft equity and (ii) commercial equity supported by leading investors such as IFIs, DFIs, and commercial institutional investors. This unique offering supports the development of strong infrastructure assets that are climate resilient while offering strong returns for investors.
ACP/ICRF Capital Structure

ICRF will blend commercial and concessional equity capital to deliver attractive returns for institutional investors. The Fund will have a capital structure with two tiers of investors:

i) Tier 1: non-commercial investors such as Green Climate Fund (GCF), Foundations, and other philanthropic investors that have committed significant pools of capital to climate resilience financing for emerging market countries including Africa.

ii) Tier 2: Commercial investors including Sovereign Wealth Funds, Pension Funds, Insurance companies and DFIs

Blended Finance: Infrastructure assets that are climate resilient have the benefits of longevity and durability in the face climate risks, as well as lower maintenance costs, all of which can enhance long term return prospects. However, the integration of climate resilience in the design and construction of Infrastructure assets would typically require an estimated premium of 9–27% which is required to make infrastructure low carbon and climate- resilient.

The concessional equity tranche which has lower return requirements (typically 1–3%) will:
1. compensate the incremental finance required for adaptation and climate resilient measures, hence support the overall return objective of the Fund, and
2. de-risk the participation of institutional investors to mobilize funding at scale. The concessional equity tranche (Tier 1) will be subordinated to the commercial equity tranche (Tier 2) in the waterfall structure – hence offering a first loss shield to the later.

**ICRF Programme with the Green Climate Fund (GCF)**

The GCF ICRF programme is structured around three components:

**Component 1: Blended finance at scale and innovative climate risk insurance products are deployed for climate-resilient infrastructure (CRI)**

Equity investment into ICRF: The objective is to leverage private and institutional capital at the fund level and at the project level for further investments into green resilient infrastructure projects in Africa thanks to GCF’s catalytic first-loss capital position.

Climate Risk transfer: ICRF seeks to operationalize an innovative parametric climate risk insurance scheme for infrastructure projects which will de-risk investments, raise awareness about current and future climate risks and reduce associated “implicit” hurdle rates due to climate risks.

**Component 2: Improved climate risk assessments and adaptation solutions for CRI Asset Classes and improved capacity for scaling up CRI in Africa.**

ICRF program will use USD 8M for technical assistance (TA) to create capacity and deploy climate risk assessment and adaptation solutions with climate innovations for CRI Asset Classes. Also, ICRF will identify and bridge gaps in the technical capacity and infrastructure for collecting, processing, and disseminating data on climate hazards and climate change, and its impact on infrastructure in the participating countries.

**Component 3: Strengthened regulatory framework and enabling environment for investments in CRI Asset Classes in Africa.**

USD 2M for TA is set aside to support ICRF’s efforts in policy dialogue and regulatory framework development. ICRF will promote stakeholder engagement and public/private sector dialogue that enables the development of markets for ICRF portfolio companies to operate in.

The main targeted sectors are transport, clean energy, and telecoms infrastructure. The program will directly benefit 42,300,000 beneficiaries. It will focus particularly on women and youth. They are among the most vulnerable population groups to climate change and constitute the largest segment of the populations in the targeted countries. The National Designated Authorities (NDA) of the twelve selected countries have issued a no-objection letter as the program truly reflects one of key priorities of their countries, including their NDCs.

**a. ICRF GCF IMPLEMENTATION ARRANGEMENTS**
b. ROLES AND RESPONSIBILITIES OF AE AND EE

ACCREDITED ENTITY

AFC, in its role of AE will oversee the program implementation and will ensure that relevant GCF policies are passed down to the Fund level and portfolio company-level. Specifically, it will dedicate full-time team members to monitor EE’s compliance with FAA and AMA obligations, including retro-active policy compliance to the GCF’s policies, to analyze quarterly and annual performance reports, to disburse GCF equity proceeds and represent the GCF on ICRF Advisory Board. It will assess achievement of program, targeted outcomes, and results as per log-frame / the Integrated Results Management Framework (IRMF), while commissioning independent interim and final evaluation reports as per GCF’s requirements.

The GCF will enter into Funded Activity Agreement (FAA) with the AFC, which will detail key implementation arrangements, commercial terms, and legal obligations, including obligation of AE to pass down GCF policies to ICRF. These key terms will be summarized in the Term Sheet.

The AE on behalf of GCF shall channel funds to ICRF. AFC will enter into Share Subscription Agreement with ACP in respect of GCF equity investment and its own commitment in ICRF. The Subscription Agreement will detail terms of investment, in line with the FAA signed between GCF and AFC.

ICRF consists of 2 investor classes: Concessional Investors “Tier 1”, and Commercial Investors “Tier 2”. Investors in the Tier 2 Class benefit from first loss capital protection provided by Investors in the Tier 1 Class. The Tier 2 Class shall target investors with appetite for commercial risk adjusted returns, which would not have participated in the Fund without capital protection offered by GCF.

AFC acting as the AE will invest GCF’s fund commitment in the Tier 1 Class of ICRF by absorbing higher risk in the underlying ICRF fund performance and thereby providing the required capital protection to de-risk and mobilize commercial investors (including AFC’s commitment into the Fund from its own balance sheet resources) under the Tier 2 Class.

AFC, as Tier 2 shareholder of the ICRF Fund: AFC will also participate as a Tier 2 shareholder in the ICRF and benefit from capital protection provided by Tier 1 shareholders.

EXECUTING ENTITIES

Component 1: AFC Capital Partners (ACP) is the Executing Entity for Output 1.1 - ICRF is fully operational and raised capital at the fund level and Output 1.2 - ICRF de-risks CRI Asset Classes mobilizing commercial capital at scale, under Component 1. APC will act as the Investment Manager of the Fund and is responsible for investing the funds and managing the day–today activities of the Fund. The detailed role and responsibilities will be enumerated in the fund documents. Some of the key responsibilities of the Investment Manager inter alia include the
The following: acquire, manage, fund, pledge, sell, transfer, convey, assign, grant options with respect to dispose of or otherwise deal in and transact any activities with respect to investments in the portfolio companies of the Fund, including the power to acquire or dispose of such investments.

The GCF will enter into Funded Activity Agreement (FAA) with the AFC, which will detail key implementation arrangements, commercial terms, and legal obligations, including obligation of AE to pass down GCF policies to ICRF. These key terms will be summarized in the Term Sheet.

The equity capital invested into ICRF by the investors will be then invested into the portfolio companies across Target Sectors. The proceeds collected from the process of exiting the portfolio companies will be distributed to the investors (Limited Partners) of ICRF on a pro-rata basis, as per its specific distribution waterfall that ensures capital protection of Tier 2 investors by Tier 1 investors in terms of capital distribution.

Components 2 and 3: AFC shall be the Executing Entity responsible for the implementation of the technical assistance support to the ICRF program as outlined under Components 2 and 3. AFC shall also be the EE for Output 1.3 under Component 1 - ICRF launches climate-risk parametric insurance (CRPI) scheme for CRI Asset Classes.

Relationship between AFC and ACP

The contractual relationships between AFC (AE) and ACP (EE) are governed by the Share Subscription Agreement (SSA). In addition, ACP will enter into support services agreements with AFC and the ICRF will enter into a co-investment agreement with AFC. Under the support services agreements, AFC provides investment sourcing services, as well as support in investment processing and portfolio management. This ensures access to AFC’s sector and country expertise and its specialists in environmental, social and governance matters. The co-investment agreement will define the allocation of investment opportunities and the co-investment process between AFC and the ICRF, thereby ensuring access to AFC’s pipeline on a pre-agreed basis.

Forms of investments

ICRF’s investment in a suitable project will primarily be in the form of Equity investments. The Fund may also involve quasi-equity, subordinated debt, convertible debt, options/warrants, hybrid securities and/or a combination of these instruments. The form of the funding provided will be structured to match the specific requirements of the project.

Approach to ICRF Biodiversity Framework

In line with the World Bank ESS6 and the IFC Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources), AFC, in particularly the ICRF programme recognizes the protection and conservation of biodiversity, maintenance of
ecosystem services, and sustainably management of living natural resources are fundamental to sustainable development. In so doing, AFC/ACP is committed to ensuring that project implementation activities under ICRF are carried out in compliance with guidance of the Convention on Biological Diversity (CBD), which defines biodiversity as the variability among living organisms from all sources, including inter-alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part.

Recognizing that ICRF projects across all ACP target sectors can potentially result in induced impacts from increased access to previously undeveloped areas, fragment habitats and immigration thereby posing increased threats to biodiversity. In this regard, all ICRF projects will ensure biodiversity is sustainably managed and conserved for future generations.

Relatedly, the framework highlights adaptable Environmental and Social Management Systems IFC’s Performance Standard 1: Environmental and Social Assessment and Management Systems as the foundation of all other Performance Standards and establishes the importance of:

(i) An integrated assessment to identify the environmental and social impacts, risks, and opportunities of projects;

(ii) Effective community engagement through disclosure of project-related information and consultation with local communities on matters that directly affect them; and

(iii) The client’s management of environmental and social performance throughout the life of the project.

A key component of developing a flexible and robust Environmental and Social Management System (ESMS) is the concept of continuous improvement, as a methodology for monitoring implementation effectiveness. Using this methodology, it will help the project proponent to create a pragmatic ESMS that can be modified over time to accommodate new information and emerging issues.

**Need for Biodiversity Framework in ICRF**

In line with the AFC/ACP commitment to creation of profound linkages between healthy investments, transition to resilient low carbon development and pursuit of long-term sustainable climate smart economy, the ICRF biodiversity framework is an integral component for delivery efficiency in AFC/ACP. In this regard, the ICRF biodiversity framework presents a plan for the protection and conservation of habitats and the biodiversity they support.

The framework draws impetus from the Convention on Biological Diversity (CBD) and the Convention’s Strategic Plan for Biodiversity 2011–2020, which was created in 2010 (Aichi Targets). Both CBD and the Strategic Plan highlight the importance of the private sector in meeting the convention’s three main objectives through multi-stakeholder partnerships and industry-driven initiatives. These objectives are:

- to promote conservation of biological diversity,
• to promote sustainable use of its components, and
• to promote fair and equitable sharing of the benefits arising out of the utilization of genetic resources.

In an attempt to stimulate the private sectors involvement in driving the implementation of CBD’s objectives, the World Bank Group, including IFC have designed a public–private initiative tool, the Millennium Ecosystem Assessment (MA) to meet the assessment needs of the CBD and other international environmental conventions.

The MA report highlights ways in which businesses depend on ecosystem services (such as the provision of water and food, control of pests, flood control and others), how those services are changing, and the ramifications for business and industry. Thus, the findings from MA coupled with AFC/ACP commitment to the pursuit of sustainability underpinned the need for development of a biodiversity framework towards the implementation of ICRF funded projects.

In relations to the need, the framework is also to help elicit information on the direct, indirect and cumulative impacts of ICRF projects on the biodiversity conservation and sustainable management of living natural resources, as presented below.

Direct Impacts:

- Stem primarily from land use and waste generation.
- Usually occur at the same time and place as business activities.
- Can include habitat loss and degradation, erosion, species loss, air and water pollution, soil and water contamination.
- Introduction of non-native species can disrupt surrounding ecosystems.
- Can affect local communities by reducing access to natural resources or disrupting ecosystem services, such as erosion control.
- Location is key for determining the potential for direct impacts: original or remote locations may pose higher risks.
- Can frequently be reduced, and even avoided, through early identification and careful planning.

Indirect Impacts:

- Result from the actions of others, triggered or caused by business activities.
- Can occur in a different place and at a different time from the actions that trigger them.
  May represent a client’s most significant risk for damage to biodiversity.
- Often the most challenging to predict, identify, manage and control.
- Can be caused by third party suppliers in the sourcing and production of goods and services used by a client.
- Can result from the use or disposal of a client’s products by consumers or other business users.
Changes in behavior by others, including local people and employees, that are prompted by a client’s operations may lead to induced negative impacts to biodiversity, including habitat loss and conversion from unplanned settlements and agricultural expansion, or increased demand for and depletion of natural resources as a result of in-migration.

Cumulative Impacts:

- Arise when the operations of several companies in close proximity begin to collectively affect biodiversity.
- Although individual business decisions or activities may have insignificant direct impacts on biodiversity, when combined, their impact may be significant.

Justification

The World Bank ESS6 and IFC PS 6 alike, recognize the need to consider the livelihood of project-affected parties, including Indigenous People, whose access to or use of biodiversity or living natural resources may be affected by ICRF projects. The potential, positive role of project-affected parties, including Indigenous Peoples, in biodiversity conservation and sustainable management of living natural resources is also considered.

In light of the above and to protect and conserve biodiversity and habitats; appropriately apply mitigation hierarchy and precautionary approach in the design and implementation of projects that could have an adverse impact on biodiversity; promote the sustainable management of living natural resources; as well as support livelihoods of local communities, including indigenous People; and inclusive economic development, through the adoption of practices that integrate conservation needs and development priorities, a robust management framework system is essential to achieve good environmental, social and health and safety performance and thereby build trust among stakeholders, hence the justification for development of ICRF biodiversity framework.

Applicable Biodiversity Conservation references and related frameworks

The following references and frameworks will be the benchmark standards for the ICRF biodiversity frameworks.

1. African Ministerial Declaration on Biodiversity
2. UN Convention on Biological Diversity (CBD) – Strategic Plan 2011–2020 (Aichi Biodiversity Targets)
3. WWF – Responsible Investment framework for resilient and sustainable portfolios
5. IFC Performance Standards on Environmental and Social Sustainability
6. World Bank Environmental and Social Framework
Methodology

Project activities face a growing pressure from the stakeholders, including the clients, financial partners, shareholders, governments, NGOs and the public to identify and report on their social and environmental performance, and biodiversity is one of the key areas of interest. Positive performance on biodiversity can create real business value for the client’s business. At the same time, poor performance or negative impacts on biodiversity can seriously undermine corporate value and affect the business’s ability to operate and survive in today’s markets.

In AFC/ACP, methodology for the implementation of biodiversity management framework is underpinned by the continual improvement system. The system is pragmatic and based on a four steps approach, comprising: planning, doing, checking, and acting.

![Fig 1. Continual improvement](image)

In implementing the continual improvement system, ICRF project sponsor will be required to implement an environmental and social risk management system (ESMS) that is appropriate to the nature and scale of the project as well as commensurate with the level of environmental risks and impacts in relation to Performance Standard 1. Furthermore, the continual improvement system should be adaptive, robust and flexible enough to respond to environmental, social and occupational health and safety risks relevant to them.

The ESMS will be followed by a review of the project’s Environmental and Social Impact Assessment (ESIA) process to ascertain whether pertinent E&S material issues have been identified and assessed, including the biodiversity impacts and potential opportunities for conservation associated with business activities. Where applicable and a compelling evidence of biodiversity impacts exist, a supplementary biodiversity impact study may be requested.
This is to ensure full consideration of seasonal issues, migratory species and other emerging biodiversity related issues.

In the same vein and depending on the nature of complexity of the project, a detailed stakeholder consultations may be required to help identify risks and concerns from the immediate affected communities and the project affected people, alike. The consultation will help to build strong relationships between the project and affected community, foster inclusiveness and promote clarity and trust.

The review findings and feedbacks from the stakeholder engagement, particularly where project operations may have a significant impact on biodiversity or use of natural resources, the client will be required to develop a Biodiversity Action Plan (BAP), either as a stand-alone management system or, preferably, integrated into the broader ESMS.

Another component of the biodiversity management framework and tenet of Continual Improvement is a monitoring program. The program is to evaluate the impacts of project activities and determine the effectiveness of mitigation measures.

Biodiversity issues can often result in complex inter-relationships and sensitive ecosystems and their impacts may not be predictable. In such instance, an adaptive management approach will be required for continually monitoring of ecological change and effectiveness of management policy, practice and systems accordingly.

Finally, documentary evidence of the client’s biodiversity performance, which enable better understanding of a client’s biodiversity impacts and performance will help communicate commitments, progress towards implementation and challenges to be faced in the implementation and build trust and credibility with key stakeholders. Such document will be incorporated in the standard reporting procedures, as may be required by the financial institutions, regulators and other stakeholders.

**Scope of Biodiversity Framework**

This framework is prepared to support ICRF funded projects that may impact on the modified habitat, natural habitat and critical habitat, including a terrestrial, freshwater, or marine geographical unit of living organisms and their interactions with the nonliving environment. The impacts coverage may also include areas managed for agriculture, forest plantations, reclaimed coastal zones and reclaimed coastal wetlands, as well as areas with significant biodiversity values as determined by the risks and impacts identification process required in Performance Standard 1. For the protection and conservation of habitats and the biodiversity they support, ICRF funded projects will be required to develop a mitigation hierarchy to include biodiversity offsets, as a last resort after all technically and financially feasible avoidance, minimization and restoration measures have been considered.
Fig. 2 Mitigation hierarchy

The framework is also applicable to legally protected and internationally recognized areas of high biodiversity value, Invasive alien species and Sustainable management of living natural resources.

Recognizing the evolution and unpredictability in biodiversity discourse, the ICRF biodiversity framework is also applicable to the adaptive management in response to new information and changes in the contexts of biodiversity values for continually management of biodiversity practices. The adaptive management offers a basis for implementation, monitoring, and evaluation and adjustment in biodiversity plans and practices in a pragmatic manner.