



fsteel

Environment & Social Policy

Version 5

The African Local Currency Bond Fund's Environment & Social Policy ("E&S Policy") sets out objectives, procedures and guidelines to monitor and report the Fund's developmental impact in line with the aims of its principal shareholders. It will be used for investee-company reporting and Fund reporting to the Board and Shareholders.

This E&S Policy supersedes all previous E&S Policies and shall be superseded by all future E&S Policies approved by the Board.

CONFIDENTIAL

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1 Introduction

The African Local Currency Bond Fund (“ALCB Fund”, the “Fund”) invests in corporate local currency bonds across a number of African jurisdictions. The Fund’s overall objective is to generate risk adjusted returns, while meeting its development targets which are set out in the Fund’s Investment Policy.

1.1 Logical Framework

The chart below outlines the logical framework for the Fund. This starts with the premise that deeper and more active capital markets in Africa will improve the availability of long-term finance for development. The Fund’s approach is to offer financial services to enable local currency bond issuance based on a sustainable and professional business model.



1.2 Environmental & Social Due Diligence

The Fund shall apply its E&S Policy through its investment screening and due diligence; application of Technical Assistance to promote market and issuer development; and subsequent reporting to stakeholders. This is shown through the different FM functions below. The implementation of E&S due diligence shall be provided by the Fund Manager in detail through the Operations Manual.



1.3 Monitoring & Evaluation

The Fund Manager will undertake *Monitoring* on the Fund’s investments and overall portfolio on a regular basis through a standardized system based on indicators. The Fund Manager and Investment Committee (“IC”) will undertake *Evaluation* of the expected results and impact of the Fund before and after issuance.

This E&S Policy therefore provides a framework for *Monitoring and Evaluation (M&E)* of investments and the Fund’s portfolio. This has four primary functions:

- (i) Assess the progress of the Fund’s social impact;
- (ii) Assess the relevancy, effectiveness, efficiency and management of the Fund;
- (iii) Evaluate E&S Risk in line with the relevant Fund policies and benchmarks set.
- (iv) Deliver input for adjustment to the Fund where necessary in order to achieve the objectives; and

- (v) Analyse disparities between expected results and final results.

The E&S Policy outlines the Fund's target transactions, impact framework and monitoring/ evaluation/ reporting requirements for the Fund.

1.4 E&S Risk

The Fund is overall expected to maintain a low level of E&S Risk, since it predominantly targets investments in financial institutions that provide microfinance or financial institutions that provide SME, commercial and corporate (wholesale) financing to non-sensitive industries.

The key reference materials for assessing the E&S Risk of investments include:

- E&S "Performance Standards" established by the International Finance Corporation (IFC) (Appendix A) and Application of Performance Standards for FIs (Appendix B presents requirements for categorisation of FIs according to E&S risk, i.e. FI-1/ FI-2/ FI-3). Typically, *project finance and long-term corporate finance transactions carry increased E&S Risk compared to microfinance, mortgage finance, insurance and short-term finance products*. In addition, certain transactions, such as asset-backed finance for renewable energy and other target sectors, may involve additional E&S risk in relation to disposal of waste and inactive equipment, covered by IFC Performance Standard 3.
- Microfinance Exclusion List (shown in the Fund's Investment Policy).
- Adherence to the World Bank EHS Guidelines (if applicable)¹
- Adherence to ILO Core Labour Standards¹
- Adherence, or commitment to implement, the SMART Microfinance's Client Protection Principles in relation to responsible lending practices (shown in the Investment Policy).
- For infrastructure projects, the Fund shall require issuers demonstrate all required environmental consents according to national law, including an approved Environmental and Social Impact Assessment (ESIA) meeting World Bank Group standards of practice and/ or the Equator Principles (which refer to the IFC Standards). The Fund may seek external verification and validation of an ESIA to ensure compliance.

The Fund Manager shall implement these processes through upfront due diligence and shall require Issuers to remedy any material short comings prior to an investment or commit to remedy any shortcomings through a Side Letter entered into prior to any investment. The Fund Manager shall evaluate E&S risk in the portfolio on an ongoing basis and require reporting from Issuers every 12 months in relation to their progress in meeting the E&S standards set out at the time of execution.

The Fund recognizes that as bond investor it may not always have influence over an issuer that is breaching any E&S requirement post investment². Disposing of its investment in an issuer that is

¹ The World Bank EHS Guidelines and ILO Core Labour Standards are integrated within the IFC Performance standards and are thus not comprehensively referenced in the policy. ILO standards are applied for all investments as part of the Fund's IFC PS2 evaluation.

² The Fund invests in bonds which generally contain limited maintenance covenants. Furthermore, even in scenarios where an issuer breaks a covenant, the Fund may not be have enough voting rights to force corrective action against the will of other bond investors.

in breach of a material E&S requirement is considered the last resort if a consensual remedy cannot be found.

Target Sector	Focus	Method/ Reference Materials
General	E&S risk assessment e.g. SE Diligence Report	IFC Performance Standards Applicable local E&S laws/ regulations
Financial Institutions with no or limited exposure to E&S risk through lending	E&S Management System	IFC Performance Standard 1
	Sample survey of loans	Microfinance Exclusion List
	Lending practices	SMART Principles
	Labour practices	IFC Performance Standard 2
	Waste disposal	IFC Performance Standard 3
Companies and Financial Institutions with exposure to renewable energy, housing and agriculture	Social and environmental impact assessment e.g. review of ESIA	Equator Principles reconciled to <u>all</u> IFC Performance Standards and applicable local E&S laws/ regulations

2 Target Transactions

The Fund provides investments and technical assistance on the basis of eligible issuers, issuances and beneficiaries as follows. These criteria are set out in the Fund's Investment Policy.

2.1 Issuers

As per the Fund's Investment Policy, eligible Issuers include:

- All types of locally registered and licensed financial institutions, i.e. commercial MSME banks, micro finance institutions (MFIs), housing/ mortgage lenders, MSME leasing companies in addition to subsidiaries and branches of non-local institutions, which operate primarily in the Fund's regional focus.
- Issuers may also be agricultural and/ or renewable energy corporations which qualify for issuing bonds. On the corporate side, preference is given to Small and Medium Sized Enterprises (SME) that comply with the EU SME definition as updated from time to time.

SMEs are defined³ in the EU recommendation 2003/361 according to number of employees and turnover/ or balance sheet size.

Category	Employees	AND	Turnover	OR	Balance Sheet
Medium	<250		<= EUR 50 million		<= EUR 43 million
Small	<50		<= EUR 10 million		<= EUR 10 million

³ http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

Micro	<10	<= EUR 2 million	<= EUR 2 million
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2.2 Issuances

The Fund aspires to contribute to developing the capital markets of its focus region. As per the Investment Policy, particular emphasis will therefore be placed on supporting first-time issuers of bonds or active bond issuers who issue in a given eligible market for the first time. In addition, the Fund can invest in issuances that extend the maturity of an existing bond program or those that provide an innovation in the market in terms of structure, tenor or investor participation.

2.3 Beneficiaries

As per the Investment Policy, the Fund's ultimate beneficiaries are micro, small and medium enterprises (MSMEs) and private lower income households, who will benefit from the Issuer's improved or expanded capability to provide financial services for, or direct investments in, housing, education, infrastructure, agriculture, renewable energy and energy efficiency.

3 Impact Framework

The Fund's Impact Framework provides the analytical basis for assessing whether and how it is meeting the objectives set out above. There are three broad impact objectives:

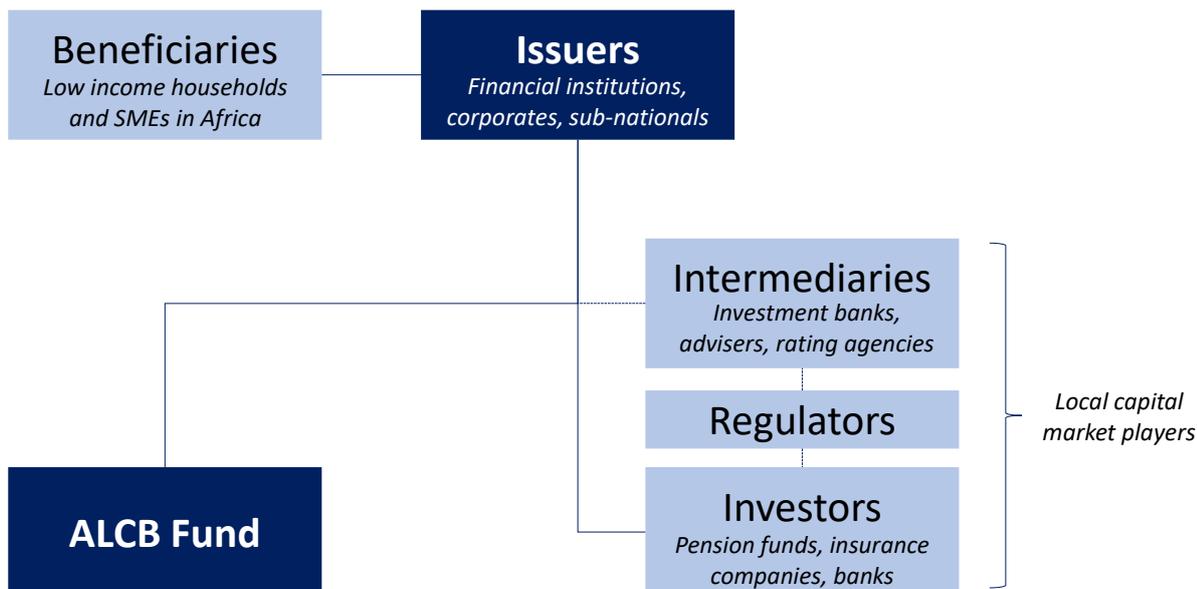
- (vi) Contributing to local capital market development;
- (vii) Improving the financial capacity of local issuers; and
- (viii) Supporting investment in certain key sectors.

The analytical basis for these objectives is set out below.

3.1 Market Development

Local currency capital markets in Africa face a number of challenges. While those relating to the macroeconomic environment, regulation and the depth of the investor base are market fundamentals outside of the scope of the Fund, there are various market bottlenecks that the Fund is able to overcome. These include limited application of credit standards and process among investors; a lack of experienced intermediaries; and limited market awareness and capacity among issuers.

As shown in the chart below, a proper functioning market requires interaction with a number of counterparties. The Fund aims to develop local capital markets by contributing towards deal-flow and intermediation in the market.



The table below sets out the tangible indicators for capital market development. Some of these require a market baseline, i.e. information on non-Sovereign issuance (number of deals, amount issued), typical maturities and structures, and track-record of sophisticated transactions. Working with local market counterparts, the Fund Manager will establish and update this baseline.

Metric	Purpose	Indicator
Local market co-investment	The Fund contributes towards market development by investing along-side local pension funds, insurance companies, asset managers and commercial banks.	<ul style="list-style-type: none"> ▪ Share of (i) bond and (ii) note program taken-up by different investor types ▪ Funds raised from local investors subsequent to the Fund’s investment (or initial bond issuance) ▪ Was the issuance fully subscribed?
Comparison with market activity	The Fund contributes towards market development by participating in transactions that push the boundaries of the market or introduce a new level of sophistication.	<ul style="list-style-type: none"> ▪ Number/ volume of bonds issued in ALCB Fund target markets ▪ Bonds issued by clients subsequent to ALCB Fund assistance (without ALCB Fund participation)
Sophistication of structure	The Fund contributes to market development by supporting more sophisticated structures. These might be particularly relevant for non-first time issuers.	<ul style="list-style-type: none"> ▪ Public listing vs. private placements ▪ Credit rating (national scale) ▪ Structural enhancement (such as a securitization, etc.)

The criteria in the Investment Policy are designed to ensure that the Fund makes an *a priori* contribution to capital markets development, i.e. focusing on non-Sovereign issuers, particularly first-time issuers. Specifically, the transaction must be *additional* in some way relative to typical

bond issuance in a particular country (which is generally Sovereign bonds or large commercial banks). If a bond has a Sovereign guarantee or is a second/ third time issuance, then it must satisfy other aspects of market development (e.g. sophistication of structure) or other criteria outlined below.

The Fund may undertake specific analysis of its own market impact from time-to-time, for example to assess how the Fund is working with local advisers or has promoted new structures or credit ratings in a given market. This will overlap with evaluation of activities under the Technical Assistance Facility (TAF).

3.2 Issuer Benefit

The Fund aims to build the financial capacity and resilience of non-Sovereign entities in African countries by enabling them to access long-term, local currency funding on a sustainable basis from local investors. In particular, the Fund should assist issuers in reducing balance sheet mismatch risks relating to foreign exchange (FX), interest rates and maturity. End borrowers should in turn benefit from more appropriate terms for on-lending through longer term local currency loans (for example local lenders may previously have restricted tenors or passed-on FX risk to end borrowers).

Those aspects of Issuer Benefit that also relate to capital market development, such as accessing the market in a second or third issuance or achieving sustainable long-term access to investors, are covered above.

Metric	Purpose	Indicator
FX Mismatch	The Fund will reduce FX risk for borrowers in African markets. This involves providing long-term local currency funding to match the revenues and assets of these entities. The Fund will either refinance foreign currency loans or reduce the need for future foreign currency borrowing.	<ul style="list-style-type: none"> Proportion of loan book denominated in foreign currency versus proportion of liabilities denominated in foreign currency before and after investment Size in local currency loan book before and after investment
Interest rate mismatch	The Fund will reduce interest rate risk for borrowers in African markets. This involves investing in either floating or fixed rate bonds, as requested. The Fund will refinance existing expensive fixed or variable rate loans as well as match the future loan portfolio.	<ul style="list-style-type: none"> Anecdotal evidence on interest rate mismatch and cost of borrowing N/A for non-financial sector
Maturity mismatch	The Fund wishes to reduce the maturity mismatch facing local entities but also enable them to offer longer-term loans to customers for productivity enhancing investments.	<ul style="list-style-type: none"> Average liability maturity before and after investment

Where an issuer is borrowing for the first time (i.e. where it doesn't have any liabilities), these mismatches will not be relevant. However, the key Issuer Benefit will be that there are no balance sheet mismatches going forward, for example if foreign currency borrowing was the only alternative to the bond. This will be assessed on a qualitative basis.

Most of the issues relating to mismatch are specific to the financial sector. However, the Fund contributes towards reduced financing risk and more efficient funding for corporate entities in the renewable energy and agriculture sectors. Long term funding in these sectors is often USD or EUR denominated due to the lack of local currency options. For example:

- FX risk for renewable energy projects is passed on to either consumers or utilities/government.
- Maturity risk (or “refinancing risk”) is assumed by projects where tenors do not match the affordable repayment profile of a fixed asset in agriculture or renewables.

The Issuer Benefit arising from the Fund's investment in corporate bonds in these sectors will be assessed on a qualitative basis.

3.3 Sector Impact

The measurement of end beneficiaries will vary by sector, primarily financial inclusion, renewable energy and agriculture. In general, the aim of these impacts is to understand the beneficiaries, in terms of number, gender and rural concentration. Where possible, the Fund will attempt to initiate the reporting of these indicators at the time of investment through issuance of a “Side Letter” at the time of investment.

Financial Inclusion

The metrics below will be recorded at the time of investment and every twelve months thereafter, both for the *total portfolio* and the *new portfolio* (since the investment was made).

Metric	Purpose	Indicator
End borrowers	Number	Total number of active borrowers
	Proportion women	Verified by loan application
	Proportion in rural areas	Verified by geography
	Reach	Branches, loan officers (per customer)
Borrower use of proceeds (e.g. reported for conventional consumer lending)	Micro-enterprise	Family business investment
	Agriculture	Inputs, tools and other investment
	Education	Fees for primary, secondary, tertiary
	Housing	Incremental housing investment
	Emergency	Often health-related
	Other	Durables (can be used for enterprise)
Portfolio/ product composition	Micro-enterprise	Traditional group-based microfinance

(e.g. designed to show the product offering expanding as the institution grows)	SME Agriculture lending Mortgages Project finance	SME-specific products Agriculture-specific products Secured lending for housing Investment in capital projects
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Financial sector borrowers (MFIs) are expected to EITHER (i) be certified according to the Smart Campaign for responsible lending, meaning they adhere to transparency in the pricing, terms, and conditions of all financial products; or obtain a favourable Social Rating. Issuers are expected to commit to this at the time of the investment and this will be monitored by the Fund Manager.

Renewable Energy

The metrics below will be recorded at the time of investment and every twelve months thereafter, both for the existing customers/ business as well as new customers/ investments. Where possible, the Fund will attempt to initiate the reporting of these indicators at the time of investment.

Metric	Purpose	Indicator
Energy access	The Fund aims to make investments that enable MSMEs and low income households to access clean energy on a sustainable basis.	<ul style="list-style-type: none"> Number of MSMEs and households with permanent access to renewable energy, either through grid, mini-grid or off-grid connection.
Generating capacity	The Fund aims to make investments that increase the availability of renewable energy through new generating capacity.	<ul style="list-style-type: none"> Additional generating capacity in kw attributable to the investment Estimated additional output in kwh attributable to the investment
Carbon displacement	The Fund aims to promote sustainable development and global greenhouse gas emission reductions through renewable energy investments.	<ul style="list-style-type: none"> Carbon displacement can be estimated as a function of renewable power output relative to the equivalent carbon produced through diesel generation or the grid

Infrastructure

The metrics below will be recorded at the time of investment and every twelve months thereafter, both for the existing customers/ business as well as new customers/ investments. Where possible, the Fund will attempt to initiate the reporting of these indicators at the time of investment.

Metric	Purpose	Indicator
Productivity	The Fund aims to improve access to housing, education, healthcare, infrastructure, agriculture, renewable energy and energy	<ul style="list-style-type: none"> # of new connections made # of population connected # of MSMEs connected

	efficiency for its target MSME and low-income households.	<ul style="list-style-type: none"> ▪ % residential connections ▪ % rural electrification ▪ % of technical losses ▪ Qualitative assessment of productivity improvements as a result of the investment
Environmental Impact	The Fund aims to improve the lives (health, atmosphere and environment) of its ultimate beneficiaries through positive investment in infrastructure.	<ul style="list-style-type: none"> ▪ # of additional MW of renewable energy added ▪ % renewable energy generated over the Grid ▪ Qualitative assessment of the positive environmental impact of the investment
Employment	The Fund aims to contribute towards job creation, employment and job security by investment in infrastructure.	<ul style="list-style-type: none"> ▪ # total employees, including % of direct / indirect employees ▪ # of jobs created (indirect / direct) ▪ # of jobs created (long-term / short-term) ▪ Breakdown of individuals in formal (salary, pension etc.) vs. informal employment.

Agriculture

The metrics below will be recorded at the time of investment and every twelve months thereafter, both for the existing business as well as new investments. Given the wide variety of business models among potential agriculture clients, the below indicators are indicative and will depend on the specific investment and use of proceeds. Where possible, the Fund will attempt to initiate the reporting of these indicators at the time of investment.

Metric	Purpose	Indicator
Productivity	The Fund aims to improve rural productivity through investments in agricultural value chains (farm inputs, infrastructure, storage, value addition through processing, market access).	<ul style="list-style-type: none"> ▪ Metrics such as agricultural yields, transport costs and other mark-ups. ▪ Qualitative assessment of investment.
Food security	The Fund aims to contribute towards food security by encouraging local food production and market efficiency.	<ul style="list-style-type: none"> ▪ Change in volume of food produced and supplied to markets by the Issuer before and after the investment.
Rural employment	The Fund aims to contribute towards rural job creation by investments in agricultural value chains and MSMEs.	<ul style="list-style-type: none"> ▪ Employment by the Issuer and jobs added as a result of the investment.

Housing

The metrics below will be recorded at the time of investment and every twelve months thereafter, both for the existing business as well as new investments. They focus both on mortgage companies and housing developers, and aim to measure the scope of the impact and affordability.

Metric	Purpose	Indicator
Mortgage borrowers	Number	Total number of active borrowers
	New mortgages	Excluding rollover mortgages
	Mortgage tenor	% of mortgages > 10 years
	Proportion women	Verified by loan application
	Regional distribution	Number of states/provinces
Housing	New homes	Excluding home acquisitions
	Affordability	Average house price
		Proportion house price below \$40,000
		Average monthly payment (\$)

4 Implementation in the Investment Cycle

The Fund will implement its E&S Policy an integral part of the investment process as well as risk assessment process at all stages of the investment cycle. Specifically, the following measures apply at various stages of the investment cycle.

4.1 Exclusion List

In accordance with international standards, the Fund has developed a list of financing purposes that should be excluded from financing due to non-compliance with internationally recognised E&S standards. The Exclusion List (see 0) shows the financing activities not permitted for beneficiaries of the Fund and shall be part of the Fund’s Eligibility Check. Furthermore, the Fund shall ensure issuers in applicable sectors abide by the Fund’s Sectoral Guidelines (see Appendix D).

4.2 Origination

General communication: The Fund’s E&S approach is addressed in its general external communication (e.g. in the Annual Report, presentations, internet site, etc.).

First contact with beneficiary: During the initial discussion about a prospective investment, the investment advisor will openly address the Fund’s commitment towards ensuring E&S standards as part of its investment practices.

Screening of investment: The Fund Manager will summarise the key E&S features of the prospective investment in the Preliminary Investment Committee Memo.

4.3 Due Diligence

As part of Due Diligence, the Fund carries out an E&S review of the prospective investment to get an overview of the institution’s commitment and capacity to manage E&S risks and to screen out institutions that indicate a heightened risk of E&S non-compliance. For financial institutions, this will include categorisation according to E&S risk (i.e. FI-1/ FI-2/ FI-3). Performance Standards 1-2 will be applied for FIs, plus Standard 3 for asset finance companies (e.g. home solar finance). For non-financial institutions, this will also include the categorisation of use of proceeds according to

Category A/ B/ C projects. The implementation of E&S due diligence shall be provided by the Fund Manager in detail through the Operations Manual. The E&S review shall ensure institutions' compliance with the E&S Policy including the IFC Performance Standards and the Exclusion List. The following guiding topics are addressed when discussing E&S issues during the due diligence in order to gain a better understanding of the prospective investee's social and environmental policies and management in place:

- Other International Financial Institution (IFI) involvement – Investments from other IFIs with binding E&S guidelines and information thereon. Close cooperation with other IFI (debt, equity) usually means that the prospective investee already underwent some form of E&S screening and possibly implementation of measures to strengthen their approach. Such activities shall be analysed and documented during due diligence and highlighted in investment proposals for the Fund.
- Proactive and communicative management regarding social and environmental issues – Communication of social and environmental guidelines within the organisation, in particular how E&S may already be implemented in lending practices or, for infrastructure-related companies, publication of Environmental and Social Impact Assessments (ESIAs).
- Environmental and Social Activities and Conflicts – The entity's past and current activities relating to E&S issues and any impacts/effects on the organisation's reputation are analysed and monitored on an ongoing basis.
- Portfolio Analysis – Brief analysis of the entity's portfolio to detect E&S risks as an outcome of lending and other operations.

The specific screening methodology and techniques applied by the due diligence team and during monitoring of outstanding Fund investments should be appropriate to the nature of the institution and its businesses. Overall E&S risk will be analysed by review of the sector breakdown in their loan portfolio, detecting high-risk industries such as mining and metal processing and collecting summary information on the underlying portfolio as well as measures to mitigate E&S risks. This will focus in particular on large enterprises within the lending portfolio, and on the E&S strategy applied by infrastructure related companies.

For infrastructure related companies, the Fund Manager shall ensure that each investee undertakes to: (i) implement and operate projects in compliance with relevant Environmental Laws and other applicable legislation; (ii) confirm, upon request, that they have obtained all relevant authorizations (for construction and operation) to comply with national laws on environment and competition and ensure that Fund exclusion list is applied at all times.

The findings of the due diligence are subsequently summarised in the Investment Committee Proposal (IC Proposal) presented to the Investment Committee (IC) of the Fund. E&S related findings during monitoring of outstanding Fund exposures are reported in regular monitoring and risk reports as appropriate.

If red flags are revealed during due diligence, the institution may either fail for consideration for investment, or be subject to recommendations to be decided on a case by case basis. An action plan may be developed which defines the roles and responsibilities of all relevant parties involved in order to enable the institution to achieve compliance with this policy and with internationally

accepted principles of responsible finance. The action plan needs to be satisfactory to the Fund, and ensures compliance with the Fund's requirements in a technically and financially feasible and cost-effective manner within a time frame acceptable to the Fund.

In cases where considerable shortcomings are identified within the E&S monitoring of the institution or the Fund identifies a lack of capacity within the institution to ensure compliance with the Fund's exclusion list, it may be appropriate to make the entity a recipient of technical assistance facility.

4.4 Side Letter

The Fund requires its investees to use the proceeds of the bond in accordance with the Fund's E&S Policy. This requirement is specified in any preliminary Term Sheet provided to the Issuer, and then formalised in an official Side Letter at the time of issuance.

Note, as a bond investor, the Fund may not always impose formal and legally binding covenants on issuers in relation to the E&S Policy. If the issuer fails to comply with its E&S commitments, as expressed in the Side Letter, the Fund can rely on the following measures:

- Technical assistance and training on social and environmental aspects of financing, offered by the Fund's Technical Assistance Facility.
- If the issuer fails to re-establish compliance, or in any event of non-compliance where an agreement on remedial measures cannot be reached, the Fund may mandate a local issuance house or placement agent to sell its bonds and exit the investment.

5 Monitoring and Reporting

The Investment Policy outlines the approach for the Fund's monitoring and reporting. This section outlines those areas most relevant to the E&S Policy. Notwithstanding anything herein, the Fund recognizes that it generally subscribes for a minority portion of the bonds issued. Whilst it will endeavour to obtain commitments from the issuer to report on the development metrics outlined above, the level of effort required for the issuer in relation to the investment made by the Fund will at times determine the level of detail provided by the issuer.

Monitoring and reporting refers to measurement of E&S risk and impact for portfolio companies on an ongoing basis.

5.1 Monitoring

E&S Risk

The Fund Manager will monitor E&S risk among its portfolio companies, including compliance with the IFC Performance Standards. For financial institutions, this will include categorisation according to E&S risk (i.e. FI-1/ FI-2/ FI-3). Performance Standards 1-2 will be applied for FIs, plus Standard 3 for asset finance companies (e.g. home solar finance). For non-financial institutions, this will also include the categorisation of use of proceeds according to Category A/ B/ C projects, in keeping with all the IFC Performance Standards, the Equator Principles and local law.

In the event of a material increase in E&S risk at the investee level, the Fund Manager shall take remedial action to ensure a low overall level of E&S risk in the portfolio. Such measures, in line with the IFC Standards, will include: (i) issuer plans and implements actions to remove or mitigate

additional E&S risk; (ii) engagement with other investors in the note program in relation to E&S risk and possible remedial measures; and (iii) ultimately, in the event that such measures are not implemented to the satisfaction of the Board, the Fund Manager will make best efforts to sell its position and unwind the swap. As a bond investor, the Fund cannot enforce any remedial actions on the issuer above and beyond those available to all investors in the note program.

E&S Impact

The Fund Manager will monitor E&S impact at the fund-level by amalgamating the quantitative indicators outlined above into a portfolio monitor, to be updated every twelve months.

In order to build this monitor, the Fund Manager will monitor social impact at the investment-level and will provide investee companies with a template for recording the quantitative indicators above. These templates shall be updated every twelve months and will enable the Fund Manager to track the progress and benchmark each portfolio entity. The Fund Manager shall also provide a questionnaire to investee-companies to assess qualitative milestones (e.g. has the issuer completed Smart Certification).

5.2 Reporting

The requirements for Fund reporting are specified in the Investment Policy. This includes regular monthly, quarterly and annual reporting as well as reporting upon request and on the Fund Manager's own initiative.

The Fund Manager will prepare an annual Environmental and Social Performance Report ("E&S Report") in a format and template agreed with the Fund. The E&S Report will provide consolidated and consistent data for each active investment, as well as evaluation across the portfolio.

Investee companies will report to the Fund Manager based on the template shared with them at the time of the investment and updated every twelve months.

E&S Risk

E&S Risk will be reported across the portfolio on an annual basis. Any material developments or incident⁴ in relation to investee and portfolio E&S risk will be immediately reported back to the Fund and Investment Committee. Where necessary, the Fund Manager will recommend remedial actions and measures to the Fund and Investment Committee. The Investment Committee shall also decide whether it is deemed appropriate to inform investors, or a broader group of stakeholders, of the developments.

⁴ Defined as any significant social, labor, health and safety, security or environmental incident relating to an issuer or project for which the ALCB Fund has invested which could reasonably be expected to have a material adverse effect on the implementation or operation of the issuer or project in accordance with the ALCB Fund's E&S requirements and applicable standards.

E&S Impact

Social impact will be reported on an annual basis. Any significant developments from a social impact perspective, for example fulfilment of Smart Certification as required by the Fund, will be reported back to the Fund and Investment Committee during the regular course of business.

In addition, the Fund will provide indicators on a Quarterly, Semi-Annual and Annual basis to its Board and Shareholders as part of its regular reporting. The template is provided in Appendix D.

6 Sustainability Bond Framework

The ALCB Fund has in place a Sustainability Bond Framework (SBF) for the issuance of sustainability bonds. The Framework establishes guidelines with respect to eligible assets/ use of proceeds, the process of asset selection and evaluation, and reporting requirements.

The ALCB Fund’s Sustainability Framework requirements, and selection of assets, is overseen by the Fund’s Sustainability Committee; composed of at least two members of the Investment Committee. The Fund Manager also has in place a designated Sustainability Officer responsible for the initial evaluation of investments against the SBF requirements and proposing applicable transactions to the Sustainability Committee.

7 E&S Policy Updates

To ensure continuous improvement, the Fund will review the E&S Policy at a minimum once every two years. The policy will be amended to ensure alignment with possible changes to international best practices, reference materials, investor requirements and Fund investment activities. Changes to the E&S Policy is approved by the Fund’s board of directors.

8 Policy Log

Version	Date Approved	Approval Process
4	7 May 2019	Board Minutes
3	11 April 2018	Board Minutes
2	23 November 2017	Board Minutes
1	17 February 2016	Board Minutes

Appendix A. IFC Performance Standards

Introduction

In 2012 the IFC updated the Environment and Social Sustainability Performance Standards (PSs) and associated documents:

1. Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
2. Performance Standard 2: Labor and Working Conditions
3. Performance Standard 3: Resource Efficiency and Pollution Prevention
4. Performance Standard 4: Community Health, Safety and Security
5. Performance Standard 5: Land Acquisition and Involuntary Resettlement
6. Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
7. Performance Standard 7: Indigenous Peoples
8. Performance Standard 8: Cultural Heritage

These eight PSs define clients' responsibilities for managing their environmental and social risks. The most significant change is the role expected of 'the client' (the project developer in the case of a loan, or the investee company in the case of equity).

IFC's Sustainability Policy also contains an important new consultation requirement. In the case of fund managers, investments should not be made unless there is free, prior, informed consultation (FPIC) with affected communities, if relevant. Additionally, the investee should be able to demonstrate support for the project. The record of consultation in the environmental and social assessment should address this requirement.

Summary:

The following sections summarize the Performance Standards. These should be read in conjunction with the PS Guidance Notes as well as the various IFC Good Practice Notes that have been developed by IFC⁵.

NB: This section provides a quick overview of the standards and their requirements and provides guidance to the investment team for due diligence.

PS 1: ASSESSMENT AND MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS AND IMPACTS

Environmental and Social Assessment and Management Program

- Does the investee company have a management system in place to identify the environmental and social impacts and risks of their operations? Does the system identify

⁵ <http://www.ifc.org/sustainabilitypublications>

mitigation and performance measures that address the impacts and risks of their operations? (For example, Quality Assurance; Environmental, Health, Safety & Social)

- How often does the investee review and update the system?
- Does the company have resources earmarked to support this?
- Do they have any best practice certification (ISO)?

Organization

- Are there persons responsible for implementation of the management system?
- Include an outline of the persons responsible including S&E management.

Training

- Does the company have training programs in place for the persons responsible?

Community Engagement

- Does the company have a community engagement process for affected communities?
- If applicable, does this process ensure free, prior and informed consultation of the affected community?
- Does the company have a grievance mechanism in place for affected communities?

Monitoring

- Does the company have procedures in place to monitor management program performance?

Reporting

- Is appropriate environmental and social performance information periodically reported internally to senior management, investors and stakeholders as relevant?

PS 2: LABOR AND WORKING CONDITIONS

Human Resources Policy and Management

- Does the investee company have an HR policy? Is it clearly understandable and easily accessible to all employees? Does it provide information on rights under national labor and employment law?
- Has the company documented and communicated working conditions and terms of employment to all workers directly contracted? Does this include guidelines on working hours, overtime procedures, wages paid, types of contracts, frequency of payments and sick and maternity leave?
- What is the language of communication with workers and employees?
- Are the terms and conditions in accordance with any collective agreement with workers?
- Has the company implemented a grievance mechanism to review and address employee complaints?
- Is there a person responsible to review complaints and follow up on them in a timely and transparent manner?

Worker's Organization

- Does the company comply with national law in allowing workers to form and join workers organizations and bargain collectively? Does it have a workers organization or trade union? If yes, when was this formed? What percentage of the workforce are members? Are members entitled to special benefits?

Non-Discrimination and Equal Opportunity

- Does the company have documented transparent procedures with respect to discipline, performance and grievance procedures to ensure that employment decisions are not made on the basis of personal characteristics unrelated to job requirements? Does the company have any preferential employment policies in place?

Retrenchment

- Does the company anticipate retrenchment of a significant number of employees? If yes, is there a retrenchment procedure in place? Have workers been consulted appropriately. IFC has produced a Good Practice Note for managing retrenchment⁶
- If the investment entails an expansion will this create additional jobs?

Protecting the Work Force

- Does the company ensure child or forced labor is not used directly, or through contractors or in the supply chain? Does the company check the ages of all employees? Does the company ensure that young workers (15-18 years) are not employed in dangerous work? Does the company commit contractors and suppliers to not use child or forced labor?

Occupational Health and Safety

Does the company:

- provide its workers with a safe and healthy work environment? Does this include providing workers with and mandating that workers use personal protective equipment (PPE)? Has the company taken steps to prevent accidents, injury, and disease by minimizing the causes of hazards?
- conduct appropriate monitoring and inspections to ensure worker safety? Does this include monitoring ambient and workplace exposure to noise, and workplace illumination, air quality and temperature as applicable?
- track and report on rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities? Does the company track staff turnover?
- have training programs in place for workers in occupational health and safety?
- have a fire, life and safety plan?

⁶ <http://www.ifc.org/wps/wcm/connect/8b14b6004885555db65cf66a6515bb18/Retrenchment.pdf?MOD=AJPERES>

PS 3: RESOURCE EFFICIENCY AND POLLUTION PREVENTION

Pollution Prevention, Resource Conservation and Energy Efficiency

- Provide details about the company's resource use including sources and estimates of daily use for energy and water. Has the company ever conducted a cleaner production audit? Do the company's operations incorporate energy efficiency and water conservation measures? (See also. guidance under PS 6, Management and Use of Renewable Natural Resources.)
- Does the company monitor air and water emissions? Is ambient air quality monitored on site?
- Does the company apply project-specific pollution prevention and control techniques?

Waste management

- Does the company have procedures for storage, handling, and disposal of solid wastes? Does this include waste management techniques?
- Does the company treat effluents prior to disposal?

Hazardous Materials

- Does the company have procedures for storage, handling and disposal of hazardous materials?

Emergency Preparedness and Response

- Does the company have an emergency prevention, preparedness and response plan?

PS 4: COMMUNITY HEALTH, SAFETY AND SECURITY

Community Health and Safety

- Are there any communities in close proximity to the investee company's facilities? What is the relationship of the company with the local community? Does the company take community, health and safety considerations into account in the context of its operations? Do its requirements take into account company infrastructure and equipment safety, hazardous material release, transport and disposal considerations, natural resource use and community exposure to disease?
- Has the company designated contact persons within the organization responsible for receiving and responding to questions, concerns or complaints raised by nearby communities or other stakeholders? If yes, are the contact details for these persons will be displayed prominently on the company facility signage?

Emergency Preparedness and Response

- Does the company's emergency preparedness and response plan take into account risks and impacts from project activities to local communities? Does this include the requirement to inform affected communities of significant potential hazards in a culturally appropriate manner?

Security Personnel Requirements

- Does the company engage security personnel to provide security services at their facilities? If yes, do the contract provisions include guidelines on how security personnel shall interact with communities in close proximity to the facility?
- Are security personnel armed? If yes, has the company provided training on the appropriate conduct towards workers and the nearby communities? Have there been any allegations of unlawful and/or abusive acts by security personnel towards workers or nearby communities? If yes, how were these dealt with by the company?

PS 5: LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT

Project design

- Is there any land acquisition for the proposed investment? If yes, what was the previous use of the land and how was the land acquired? Was the land acquisition managed by the government?

Compensation and Benefits for Displaced Persons

- Has there been any physical and/or economic displacement and resettlement as a result of land acquisition for this project? If yes, provide detailed information with regard to the type of displacement and the displaced persons and communities.
- Has the investee company engaged with the displaced persons and communities and/or provided opportunities to derive appropriate development benefits from the project? If yes, provide details.

Consultation and Grievance Mechanism

Has the investee company:

- disclosed all relevant information, consulted with affected persons and communities and facilitated their informed participation in the decision making process relating to resettlement?
- established an effective grievance mechanism?

Resettlement Planning and Implementation

Has the investee company:

- considered alternative designs to avoid or minimize economic and physical displacement?
- identified persons to be displaced by the project and those eligible for compensation and assistance through a baseline census with appropriate socio-economic baseline data? Has the census established the status of displaced persons according to their legal rights or claim to land?
- prepared a Resettlement Action Plan (RAP) or resettlement framework (if physical displacement is involved) that mitigates the negative impacts of displacement, identifies development opportunities and establishes entitlement for all affected persons?

- developed procedures to offer compensation or other assistance that will establish entitlement for affected persons or communities (if economic but not physical displacement is involved)? Has this included providing replacement property, compensation, targeted assistance and/or transitional support in accordance with PS 5 requirements?
- Has the cut-off date for eligibility been established or disseminated?

Private Sector Responsibilities under Government-Managed Resettlement

- Was resettlement managed by the government? If yes, has the company supplemented government actions and bridged the gaps (if applicable) between the government-assigned entitlements and procedures and the requirements of this PS?

PS 6: BIODIVERSITY CONSERVATION AND SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES

Protection and Conservation of Biodiversity

- Has the investee company identified and addressed the impacts on biodiversity as part of their operations?
- Will modified, natural and critical habitat (as defined by PS 6) be impacted by the company's activities?
 - -In the case of natural habitat, has the company considered alternatives and adequately mitigated any potential degradation?
 - -In the case of critical habitat, has the company suitably determined that there will be no measurable adverse impact on species or habitat?
- Does the company conduct any operations in legally protected areas? If yes, has the company addressed the requirements for legally protected areas outlined in PS 6?
- Has the company identified any alien species which may be intentionally or unintentionally introduced through its activities? If intentional introduction of alien species is planned, has this received appropriate government regulatory approval?

Management and Use of Renewable Natural Resources

- Has the investee company identified renewable natural resources which it will use, and committed to managing them in a sustainable manner?
- In the case of projects in natural and plantation forests, has the client obtained independent certification to ensure that these natural forests and plantations are being managed sustainably? If no, or pending then has a time-bound phased action plan been developed to achieve such certification?
- In the case of projects in freshwater and marine environments, has the client obtained independent certification of the sustainable management of these aquatic resources, or provided other independent studies to show these resources are sustainably managed?

PS 7: INDIGENOUS PEOPLES

Avoidance of Adverse Impacts

- Is it likely that Indigenous Peoples (IPs) will be adversely impact as a result of the project's operations? Does the ESIA conducted by the investee company identify the adverse impacts to IPs and identify ways to avoid these where possible?
- Has the investee company compensated in a culturally appropriate manner consistent with the guidance provided in PS 7.

Consultation and Informed Participation

- Has the investee company established a process for Informed Participation through an FPIC process centred on mitigation measures, sharing of developmental benefits and opportunities and implementation issues as outlined in PS 7?

Impacts on Traditional or Customary Lands under Use

Has the investee company:

- informed IPs of their rights according to national laws including those recognizing traditional/customary rights?
- offered at least compensation and due process to those with full legal title to land together with culturally appropriate development opportunities
- provided land-based compensation or compensation-in-kind in lieu of cash compensation where feasible?
- entered in good faith negotiations with affected communities and documented their informed participation and the successful outcome?

Relocation of Indigenous Peoples (IPs) from Traditional or Customary Lands

- Has the investee company conducted a successful good faith negotiation, applied the requirements of the Performance Standards and, where feasible, ensured that IPs can return to their traditional or customary lands should the reason for their relocation cease to exist?

PS 8: CULTURAL HERITAGE

Protection of Cultural heritage in Project Design and Execution

- Is the project located in an area where cultural heritage is expected to be found? If yes, has a Chance Find Procedure been established as outlined in PS 8?
- Is it possible that the project may affect cultural heritage or has critical cultural heritage been identified where significant damage is unavoidable? If yes, has the company complied with the requirements of PS 8?
- Is the project located in a legally protected area or a legally defined buffer zone? If yes, has the company complied with requirements of PS 8?

Project use of Cultural Heritage

- Has the investee company identified proposed project use of cultural resources, knowledge, innovations, or practices of local communities embodying traditional lifestyles for commercial purposes? If so, has the client informed these communities of:
 - their rights under national law
 - -the scope and nature of the proposed commercial development
 - -the potential consequences of such development
- If commercialization has proceeded, has the investee company:
 - -entered into good faith negotiation with the affected community embodying traditional lifestyle
 - -documented their informed participation and successful outcome of the negotiation
 - -provided fair and equitable sharing of benefits from commercialization

Appendix B. Application of IFC Performance Standards

This Appendix summarises how the IFC Performance Standards are implemented for Financial Institutions.

Implementation Note for Financial Institutions

Financial Institutions are engaged in a diverse range of financial activities including, but not limited to, corporate finance; project finance; lending to MSMEs; trade finance; and housing finance, among others, each with different E&S risk. IFC Sustainability Policy requires a review of the business activities of prospective FI clients to identify areas where the FI could be exposed to potential E&S risk. The FI is then required to undertake lending/investment-level actions commensurate with the level of E&S risk.

The IFC's Sustainability Policy categorizes investments into FIs based on the relative magnitude of E&S risks and impacts in their existing and/ or proposed portfolio. This considers the tenor, type, size, and sector exposure of the FIs and defines three categories:

Category FI-1: 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: exposure to business activities that have limited adverse E&S risks/ impacts and/or are few in number, site-specific, reversible and/ or readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse E&S risks (as per FI-1).

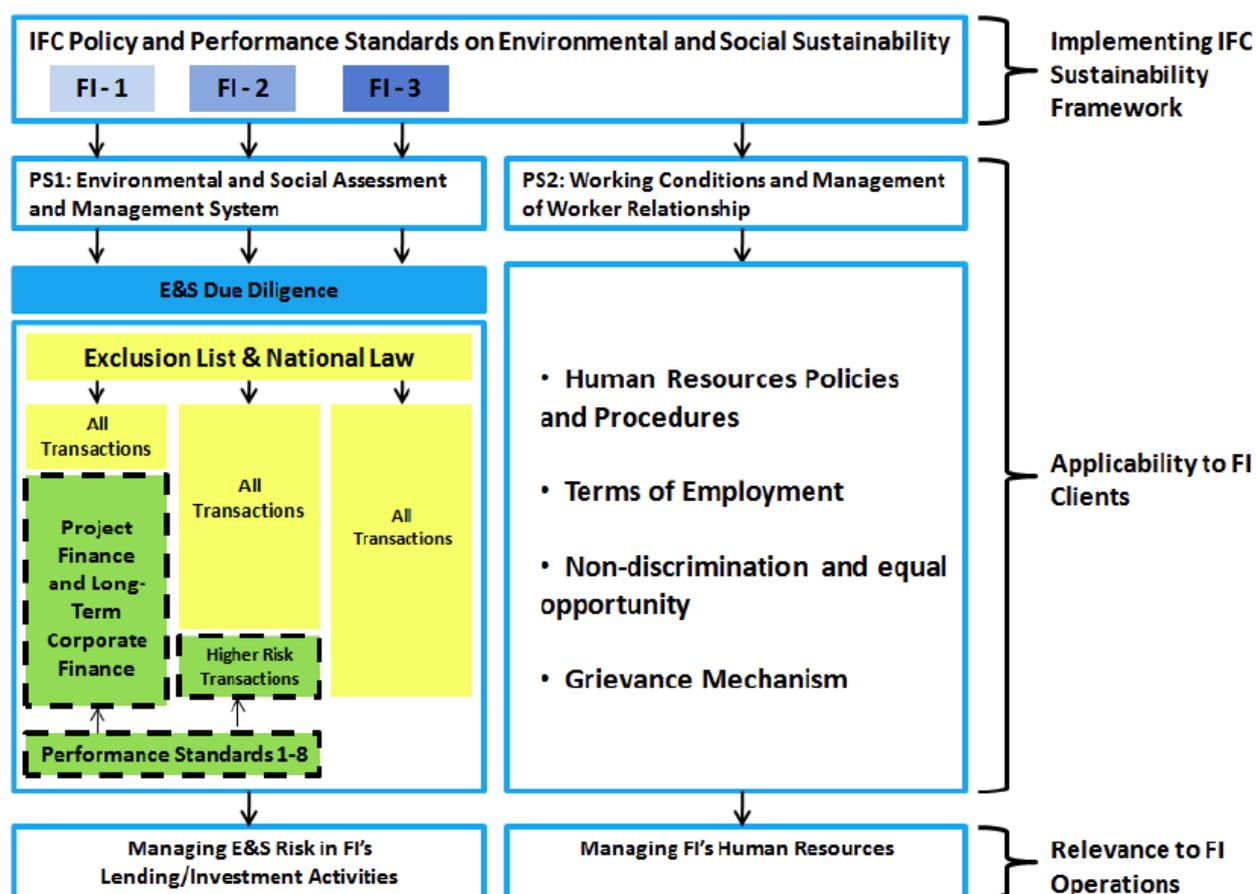
Category FI-3: financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

All FI clients must demonstrate and operate an Environmental and Social Management System (ESMS) commensurate with the level of E&S Risk in their portfolio and prospective business activities. The scope and complexity of the ESMS will depend on the E&S Risk of the FI's lending/ investment activities. Typically, project finance and long-term corporate finance transactions carry increased E&S Risk compared to microfinance, mortgage finance, insurance and short-term finance products. Under IFC's Sustainability Policy, higher risk subprojects must apply the Performance Standards when they are receiving project finance or long-term corporate finance from an FI. In effect, these higher risk subprojects are those that would be considered Category A or B projects if financed directly by IFC. For the avoidance of doubt, FIs categorized as FI-1 and FI-2 are required to apply the Performance Standards to transactions involving project finance and long-term corporate finance.

All FI clients must also manage the working conditions of their workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions. In the case of the financial sector this typically relates to employment practices and conditions.

The diagram below illustrates:

- (i) the general E&S requirements that apply to FI clients;
- (ii) the specific E&S Risk management requirements that are associated with the E&S categorization determined during the review process; and
- (iii) how these requirements apply to internal and external aspects of an FI's operations.



All FI clients must avoid supporting activities on the IFC Exclusion List and must review the operations of borrowers/ investees, where they present E&S Risks, for compliance with national E&S laws and regulations where they exist and are applicable.

Applying Standard 1

For FI categorized as FI-3, which constitute the majority of the ALCB Fund's investments, the Fund shall undertake a simple review of the underlying ESMS.

Otherwise, the scope of application of the ESMS is determined by the use of proceeds:

- If the FI supports specified end use (e.g., a credit line for a specific sector), the E&S Risk management approach will apply to the entire asset class, regardless of whether the ALCB Fund applies has required a specific use of proceeds.
- If there is no specified use of proceeds, the approach to E&S risk management will apply to the entire portfolio that the FI originates from the time IFC becomes a shareholder or lender.
- If changes in the FI business result in different E&S Risks than those identified at the time of investment, the FI will need to adjust its ESMS in a manner consistent with the E&S risk profile resulting from the new business activities.

ESMS Assessment

An FI's ESMS should typically consist of the following elements:

Stage	E&S Risk Management
E&S Policy	<p>States the requirements and standards that apply to the FIs lending/ investment activities in relation to E&S Risk</p> <p>FI-3 institutions with low E&S Risk must include excluded or restricted activities including the IFC Exclusion List</p> <p>In addition, FI-2 institutions with some E&S Risk must apply relevant national E&S laws and regulations of the host jurisdiction(s) and Performance Standards 1-8 if the financial intermediary has a corporate/project finance portfolio.</p> <p>In addition, FI-1 institutions with SE Risk should reference the Performance Standards 1-8 and any other relevant standards⁷</p> <p>The E&S Policy should be approved by senior management, communicated internally to employees and externally through corporate statements, reports and online</p>
Internal Capacity and Competency	<p>Organizational structure defines roles, responsibilities and authority to implement the ESMS</p> <p>Designated personnel with responsibility and resources to implement the ESMS (in proportion to the organisation's E&S Risk)</p> <p>FI-2/3 institutions may require in-house staff or external experts to conduct the E&S diligence for transactions with higher E&S Risk in order to comply with national laws, regulations and, where applicable, the Performance Standards</p> <p>Senior management is ultimately responsible for E&S risk management and should allocate sufficient resources to implement the ESMS, including due diligence, communication and monitoring</p> <p>Training programs are an important component to ensure that all relevant personnel understand their E&S responsibilities</p>
SE Due Diligence Processes	<p>Establish and maintain a process to identify the E&S Risks and how these impact their operations</p> <p>Develop Environmental and Social Action Plans (ESAPs) which include mitigation and performance improvement measures;</p> <p>ESAPs may range from basic mitigation measures to detailed management plans, with actions that can be measured quantitatively or qualitatively</p> <p>Transaction level due diligence for borrowers and any necessary mitigation or corrective measures</p> <p>FI-3 institutions must check if investees have all necessary permits where required and that their operations are not unlawful</p> <p>In addition, FI-1 and FI-2 institutions must include a more in-depth review against the relevant national laws and regulations, and, where applicable, against the Performance Standards</p>

⁷ International protocols, industry-specific codes of practice, and other voluntary standards (e.g., Equator Principles, UNEP-FI, Global Compact, UN-PRI, etc.), where applicable.

Stage	E&S Risk Management
	<p>FI-1 and FI-2 institutions must also develop a categorization system (e.g. high, medium, low)</p> <p>F-1 and F2 institutions must undertake the following:</p> <ul style="list-style-type: none"> (i) review all relevant documents and information on risks related to the relevant sector and investee’s operations; (ii) review against pre-determined criteria such as the IFC Exclusion List, national laws and regulations, and where applicable, the Performance Standards; (iii) conduct site visits to facilities and meetings/ interviews with relevant stakeholders; and (iv) review SE track record, e.g. potential non-compliance with national regulations or negative publicity. <p>If the due diligence indicates the existence of E&S Risks or potential impacts, the institution may consider further detailed DD, e.g. appointing an external expert; and take corrective actions to comply</p> <p>Institutions should document the findings of the DD in a report, including identification of gaps, remedial actions to ensure compliance, and recommendations/ conditions to proceed; implementation timelines should be agreed with the investee</p> <p>The E&S Risk management process should be applied to ongoing activities and future operations to be financed</p> <p>Investees will submit regular updates in relation to conditions on investment and annual updates on general operations</p> <p>Standard E&S terms (including reporting) are represented as definitions/representations/warranties, disbursement conditions, and/or covenants on compliance with the institution’s E&S Policy</p> <p>To support the due diligence process, the institution should develop the necessary supporting guidance documents and checklists for use by its staff to comply with the E&S Policy</p>
<p>Monitoring and Review of Portfolio</p>	<p>Institutions should establish monitoring procedures to review progress with ESAPs and compliance of operations with the E&S policy, legal/ transactional obligations and regulatory requirements</p> <p>The level and regularity of monitoring is commensurate with E&S Risk</p> <p>For FI-1 and FI-2 institutions, the monitoring process should: (i) focus on the key risks and impacts of the borrower’s/investee’s operations on their workers, communities, and the natural environment as identified during the due diligence process; and (ii) review progress with regard to implementing the agreed ESAP</p> <p>Monitoring should be conducted as part of the ESMS, and typically involves using reports prepared by the borrower as part of their relevant activities/ compliance with relevant authorities</p> <p>Reporting mechanisms between relevant staff and management to ensure responsible officials are informed</p>

Stage	E&S Risk Management
<p>External Communications and Grievance Mechanisms</p>	<p>The ESMS should be periodically reviewed to ensure relevance</p> <p>Implement and maintain a process and procedure for external communications and a grievance mechanism to receive external complaints from the public regarding any aspects of operations</p> <p>Provide publicly available and easily accessible channels (e.g., phone number, website, e-mail address, etc.) to receive communications and requests from the public</p> <p>E&S Performance Reports for external investors include:</p> <ul style="list-style-type: none"> (i) Portfolio breakdown by sector, high-risk transactions and SE due diligence process (e.g. SE Risk categories); (ii) Cases of non-compliance and significant SE incidents related to a transaction; (iii) Information on the implementation of and changes to the FI's ESMS; and (iv) Information on SE impact indicators as agreed.
<p>Emergency Prepared-ness and Response</p>	<p>Where impacts are identified, Performance Standard 1 requires clients to establish and maintain an emergency preparedness and response system to respond to accidental and emergency situations</p> <p>Investees must ensure that the emergency preparedness and response plans are in place within its premises to protect the health and safety of employees and visitors, identifying responsibilities and procedures for communicating different types of emergencies (e.g., fire, earthquake or robbery) to the appropriate authorities and for safe evacuation</p> <p>Plans should include specific training and practice requirements (i.e. simulations and drills)</p> <p>Buildings that are owned or rented/leased by the FI that are accessible to the public should be designed, constructed, and operated in full compliance with local building codes, local fire department regulations, local legal/insurance requirements, and in accordance with internationally accepted life and fire safety standards</p>

Applying Standard 2

ALCB Fund investees are expected to commit to the fair treatment, non-discrimination and equal opportunity of employees, to maintain or improve employee-management relationships, and to promote compliance with national employment and labor laws. Performance Standard 2 also requires IFC clients to extend the same rights to certain third-party (contracted) employees.

Applying Performance Standard 2 has the following elements:

Stage	Assessment of Labour and Working Conditions for FIs
Human Resources Policies and Procedures	<p>Clients must adopt and implement human resources policies and procedures appropriate to the size of their operations and workforce, consistent with relevant national laws and regulations</p> <p>These must be documented and communicated to all employees; all employees should have a contract or letter of employment referencing these policies and consistent with national law</p> <p>The policy should cover inappropriate behaviour and measures for reporting and mitigating such behaviour; and should also cover employees' right to privacy</p>
Working Conditions and Terms of Employment	<p>Clients must provide reasonable working conditions for all employees, free of discrimination, harassment and excessive working hours; and including overtime pay, health insurance, pension, leave, sick cover and maternity</p> <p>These features and any collective bargaining must comply with national law and Performance Standard 2</p> <p>Working conditions, benefits and services such as training should be provided to staff in a non-discriminatory manner</p>
Employees' Organizations	<p>Clients must recognise the right of employees to organise where permitted by law, with free choice over which organisations they join</p> <p>Where freedom of association and/or collective bargaining is substantially restricted by law, the client should engage directly with employees to address issues relating to their conditions and terms of employment and recognize alternative means of employee representation</p>
Non-Discrimination and Equal Opportunity	<p>Clients must not make employment decisions on the basis of personal characteristics unrelated to job requirements, other than measures to aid disadvantaged groups as envisaged by Performance Standard 2</p> <p>Clients must apply the principles of equal opportunity and non-discrimination by basing all employment decisions (such as recruitment, hiring, working conditions, and terms of employment) on the ability of a person to perform their job duties</p>
Retrenchment	<p>Clients must develop and implement retrenchment plans to reduce the adverse impacts on affected employees</p> <p>Such plans must be based on the principle of non-discrimination and consider the outcomes of consultations with employees, their organizations, and, where appropriate, the government as well as any specific requirements stipulated in any collective bargaining agreements</p> <p>The plan must include an analysis of potential alternatives (options considered, number of positions saved, and a cost analysis) based on consultation with employees, transparent criteria for selection, proposed compensation payments, and a grievance mechanism</p> <p>Where retrenchment cannot be avoided, the client should pay any outstanding back pay and benefits (pension, health), as well as severance payments mandated by national law and/or collective agreements</p>

Stage	Assessment of Labour and Working Conditions for FIs
Grievance Mechanism for Employees	<p>Clients must provide a mechanism for employees to raise workplace concerns and provide feedback; this must be communicated to employees and allow for anonymous complaints to be raised and addressed</p> <p>Employees must be able to state their concerns directly to human resources or management, bypassing their immediate supervisors if needed, and ensuring that matters are brought to management’s attention and addressed in a timely manner</p>
Workers Engaged by Third Parties	<p>Clients to take reasonable efforts to ensure that third parties that hire contracted workers are reputable and legitimate enterprises and have appropriate labour practices</p> <p>Contractors hired for core functions to have the same rights and benefits as regular employees; for non-core functions, the FI should establish policies and procedures to ensure that their labour practices are consistent with the requirements of Performance Standard 2</p> <p>If a client requires armed security during the course of its operations, it should follow safety standards and guidelines when hiring security companies, covering the use of force, conflict resolutions, etc.</p>

Appendix C. Investment Exclusion List

At all times, the Fund Manager shall ensure that the Fund does not subscribe bonds or provides funding or other support to any institution that provides loans, funding or other support to Clients that engage in any of the following activities:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons, munitions or critical components thereof.
- Integrated works for the initial smelting of cast-iron and steel; installations for the production of non-ferrous crude metals from ore, concentrates or secondary raw materials by metallurgical, chemical or electrolytic processes.
- Production or trade in alcoholic beverages (excluding beer and wine).¹
- Production or trade in tobacco.¹
- Gambling, casinos and equivalent enterprises.¹
- Pornography and/or prostitution
- Racist or anti/democratic media
- Production, trade or storage of 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.
- Extraction, production or trade in unbonded asbestos fibers: This does not apply to the purchase or use of cement linings with bound asbestos and an asbestos content of less than 20%. In addition, restrictions apply 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.
- Destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 km.
- Production or activities involving harmful or exploitative forms of forced labour²/harmful child labour.³
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.
- Projects that involve conversion or degradation of Critical Forest Areas or related Critical Natural Habitats. "Critical Natural Habitats" means (1) existing internationally recognized protected areas, areas initially recognized as protected by traditional local communities (e.g., sacred groves), and sites that maintain conditions vital to the viability of protected areas (as determined by the environmental assessment procedure); and (2) sites identified on supplementary lists by authoritative sources (such sites may include areas recognized by traditional local communities (e.g., sacred groves), areas with known high suitability for biodiversity conservation and sites that are critical for vulnerable, migratory or endangered species; listings are based on systematic evaluations of such factors as species richness, the degree of endemism, rarity, and vulnerability of component species,

representativeness and the integrity of ecosystem processes). “Critical Forest Areas” means a type of natural forest that qualifies as Critical Natural Habitat.

- 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 as well as ozone depleting substances (Polychlorinated Biphenyls).
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- Projects involving the construction of large dams that significantly and irreversibly: (A) disrupt natural ecosystems upstream or downstream of the dam, or (B) alter natural hydrology, or (C) inundate large land areas, or (D) impact biodiversity, or (E) displace large numbers of inhabitants (5,000 persons or more) or (F) impact local inhabitants' ability to earn a livelihood.
- Projects that require resettlement of 5000 or more persons.
- Projects in or impacting natural World Heritage Sites (Areas of significant ecological value that have been internationally recognized as necessary for strict protection by members of the World Heritage Convention) unless it can be demonstrated through an environmental assessment that the project (i) will not result in the degradation of the protected area and (ii) will produce positive environmental and social benefits.
- Projects in or impacting areas on the United Nations List of National Parks and Protected Areas unless it can be demonstrated through an environmental assessment that the project (i) will not result in the degradation of the protected area and (ii) will produce positive environmental and social benefits.
- Extraction or infrastructure projects in or impacting: protected area Categories I, II, III, and IV (Strict Nature Reserve/Wilderness Areas and National Parks unless it can be demonstrated through an environmental assessment that the project (i) will not result in the degradation of the protected area and (ii) will produce positive environmental and social benefits. Natural Monuments and Habitat/ Species Management Areas), as defined by the International Union for the Conservation of Nature. Projects in IUCN Categories V (Protected Landscape/Seascape) and VI (Managed Resource Protected Area) must be consistent with IUCN management objectives. Areas protected by the Ramsar Convention are considered within the appropriate IUCN Category to which they are assigned.
- Investments in projects responsible for the direct emissions of more than 100,000 tons CO₂eq per year of green-house gases.
- Involves the destruction or significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with international standards).
- Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
- Category A Projects

Identification of Category A Projects:

The following projects are indicative of Category A Projects and investments are only permitted if the E&S assessment is considered medium (i.e. as Category B or C) and the rationale for this assessment has been adequately documented.

- Large-scale industrial plants

- Large-scale industrial estates
- Thermal power stations and other combustion installations with a heat output of 200 megawatts or more.
- All projects that pose potentially serious occupational or health risks.
- Cement manufacturing with an annual production rate of greater than one million dry weight tons.
- Construction of motorways, express roads and lines for long-distance railway traffic 10 km or more in a continuous length; airports or airport expansions with a basic runway length of 2,100 meters or more.
- Sea ports and also inland waterways and ports for inland-waterway traffic that 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) that can take vessels of over 1,350 tons.
- Construction or significant expansion of dams and reservoirs not otherwise prohibited.
- Groundwater abstraction activities or artificial groundwater recharge schemes in cases where the annual volume of water to be abstracted or recharged amounts to 10 million cubic meters or more.
- Industrial plants for the (a) production of pulp from timber or similar fibrous materials; (b) production of paper and board with a production capacity exceeding 200 air-dried metric tons per day.
- Peat extraction.
- Quarries, mining, or processing of metal ores or coal;
- Prospection, exploration and mining of coal; land-based means of transport and related infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines
- Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.
- Large-scale power transmission.
- Municipal wastewater treatment plants servicing more than 150,000 people.
- Municipal solid waste-processing and disposal facilities.
- Large-scale tourism and retail development.
- Large-scale land reclamation.
- Large-scale primary agriculture/silviculture involving intensification or conversion of previously undisturbed land.
- Plants for the tanning of hides and skins where the treatment capacity exceeds 12 tons of finished products per day.
- Installations for the intensive rearing of poultry or pigs with more than: 40,000 places for poultry; 2,000 places for production pigs (over 30 kg); or 750 places for sows.
- All projects with potentially major impacts on people or which pose serious socio-economic risk.
- Housing developments that contain more than 2,500 residential units.
- Projects, not categorically prohibited, but located in or sufficiently near sensitive locations of national or regional importance to have perceptible environmental impacts on:
 - Wetlands;
 - Areas of archaeological significance;

- Areas prone to erosion and/or desertification;
- Areas of importance to ethnic groups/indigenous peoples;
- Primary temperate/boreal forests;
- Coral reefs;
- Mangrove swamps;
- Nationally-designated seashore areas;
- Managed resource protected areas, protected landscape/seascape (IUCN categories V and VI) as defined by IUCN's Guidelines for Protected Area Management Categories; additionally, these projects must meet IUCN's management objectives and follow the spirit of IUCN definitions.

Notes:

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

³ Harmful child labour 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.

Appendix D. Sectoral Guidelines

In selected sectors, the ALCB Fund shall tie its direct financial commitment for concrete new projects to the following qualitative conditions:

- Outside the EU and the OECD high income countries, large agricultural or forestry enterprises producing palm oil or wood must either comply with recognised international certification systems (RSPO or FSC) or equivalent regulations to ensure sustainable cultivation conditions, or must be in the process of achieving compliance.
- Large dam and hydropower projects use the recommendations of the World Commission on Dams (WCD) as orientation.
- Projects for non-conventional prospecting, exploration and extraction of gas will disclose in accordance with international standards: (a) that no material groundwater drawdown or contamination is to be expected, (b) that measures for resource protection (in particular water) and recycling are taken, and (c) that suitable technology is used for safe drilling, which includes integrated bore piping and pressure testing.

Appendix E. Board/Shareholder Impact Indicators

ALCBF Innovative Finance					
Results chain level	Result	FSDA Ref	Indicator	MoV	Frequency of Assessment
Impacts	SDG 8 – Good jobs and economic growth		1.1.2 # of MSMEs supported by issuers	Annual ALCB Fund	Annual
Outcomes	More financial instruments are available to the capital market in focus countries/ sectors.		2.1.1 # of <i>listed</i> local currency bonds issued in SSA target countries and sectors.	Annual ALCB Fund	Annual
	Issuers expand / improve their operations		2.2.1 Change in # of clients / customers;	Annual ALCB Fund	Annual
			2.2.2 Change in \$ value of issuers' loan book (for financial institutions) or revenues (for corporates)	Annual ALCB Fund	Annual
	Ripple effect: other organisations in the sector issue bonds and investors crowd in to finance these bonds		2.3.1 # of issuances in SSA	Annual ALCB Fund	Annual
	The issuer issues further bonds where appropriate, enhancing the sophistication of their funding and liability management		2.4.1 % issuers who report issuing further bonds without ALCBF participation;	Annual ALCB Fund	Annual
		2.4.2 \$ value of additional bonds issued post ALCBF involvement	Annual ALCB Fund	Annual	
Outputs	A bond is issued by the issuers		3.1.1 % of book filled	Quarterly ALCBF Fund	Quarterly
			3.1.2 % of bond filled by ALCBF	Quarterly ALCBF Fund	Quarterly
	Invest: Provide anchor investment to local currency bond issuance of issuers only if necessary		3.2.1 # Investments closed this quarter	Quarterly ALCBF Fund	Quarterly
			3.2.2 \$ value invested disaggregated by sector (Micro-Lending, SME Finance, Housing, Renewable Energy Infrastructure, Agriculture, Health/Education)	Quarterly ALCBF Fund	Quarterly
	Crowding-in funding: Price the market to ensure there is sufficient demand and encourage investment		3.3.1 \$ value invested by third parties into bonds closed this quarter, <i>disaggregated by pension funds, assets managers, insurance cos, other FI, other</i>	Quarterly ALCBF Fund	Quarterly
			3.3.2 # of third party investors (split by type) <i>disaggregated by pension funds, assets managers, insurance cos, other FI, other</i>	Quarterly ALCBF Fund	Quarterly
	Assist company in meeting due diligence requirements: ES risk assessment, transaction standards, impact and financial reporting.		3.4.1 \$ value of assistance provided	Annual ALCB Fund	Annual
	Technical advisory to the issuers as well as third parties on best practice for bond issuances		3.5.1 # of issuers supported with: -- social ratings (or equivalent CPP) -- ESMS and/or ESAP -- credit rating -- listing the bond (For closed deals, with and without support of TAF)	Annual ALCB Fund	Annual
	Market development initiatives: • Assessment of local capital markets • Support to African market regulators		3.6.1 # of institutions (regulators, forums) formally assisted by the TAF	Quarterly ALCBF Fund	Quarterly
			3.6.2 # of research products developed	Quarterly ALCBF Fund	Quarterly
Generate opportunities to initiate or progress the reach of local currency bond funding for issuers		3.8.1 # of Pipeline Deals with ongoing Hand Holding	Quarterly ALCBF Fund	Quarterly	