

ENVIRONMENTAL, SOCIAL AND GOVERNANCE  
MANAGEMENT SYSTEM  
POLICIES AND PROCEDURES FRAMEWORK

INTEGRAL CAPITAL GROUP

FOR

EVOLVING EUROPE PRINCIPAL INVESTMENTS FUND I-II SCSP

APRIL 2024 – UPDATED

APPROVED BY MANAGEMENT COMMITTEE

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## 1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

**Integral Venture Capital Group (Integral)**, and its investment advisors on behalf of **Evolving Europe Principal Investments Fund I SCSP and Evolving Europe Principal Investments Fund II SCSP (EEPI I and EEPI II, or the Funds)** has committed to follow on Environmental, social and governance Policies established by Development Financial Institutions (DFIs): the European Bank for Reconstruction and Development (EBRD) the International Finance Corporation (IFC) and the European Investment Fund (EIF). Besides, Integral's investments are also in line with the 17 Sustainable Development Goals set out by the United Nations to solve economic, social, and environmental challenges by 2030.

Integral only invests in companies that currently meet, or through clearly defined actions are capable of meeting all applicable Environmental, social and governance laws, regulations and standards of relevant governmental authorities in the jurisdictions where they operate or are located.

All investments are and will be in compliance with performance standards on Environmental, social and governance Sustainability) established by the DFIs (see: <http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards> and <https://www.ebrd.com/who-we-are/our-values/environmental-and-social-policy/performance-requirements.html>).

Integral has established procedures to identify, assess, mitigate, and manage Environmental, social and governance risks not only to eliminate or reduce risks to the investments, but to further good social policy.

Integral works with and guides investee companies to improve ESG measurement and performance over the life of the investment.

The Fund does not invest in any companies whose activities found on EBRD's or IFC's Exclusion List (see: [https://www.ebrd.com/downloads/about/sustainability/Environmental\\_and\\_Social\\_Exclusion\\_and\\_Referral\\_Lists\\_15092008.pdf](https://www.ebrd.com/downloads/about/sustainability/Environmental_and_Social_Exclusion_and_Referral_Lists_15092008.pdf) and <http://www.ifc.org/ifcext/sustainability.nsf/Content/IFCExclusionList>).

Integral designated individual(s) responsible for execution of the ESG Policy with proper ESG training. It ensures that the Policy is known and understood at all levels of the managers and its advisors. It is reported and posted in Fund reports and on the website for Integral or the Fund. In addition, it will make the ESG Policy available to investee companies as applicable.

## 2. INVESTMENT APPRAISAL AND SUPERVISION PROCEDURES

Integral or the investment advisors make an initial and preliminary evaluation of the potential for the project under consideration to meet the Policy requirements: identifying the major ESG risks and determining whether any potential gaps with the Fund's requirements are surmountable and manageable within a reasonable period and subject to the Fund Manager's ability to effect any changes or remediation required using the following framework:

### **(1). Initial Screening and Notification – Lead Note Stage**

- At the initial write-up on the Company (the Lead Note) the Deal Team:
  - **screen against the Exclusion List: (See Annex I)** -- If the company activity falls into any of the categories on the List – **reject the potential investment**
  - **screen against the Category A List: (See Annex II)** – The Category A List describes activities that are **likely to have significant ESG impacts and which require a more formalized process of assessment than other projects**. Such projects will be required to meet EBRD's Performance Requirements 1 to 8 and 10. Integral will require third party support to assess Category A investments. Integral is required to provide a written report to EBRD and IFC on ESG risk assessment and obtain EBRD's written consent prior to approving any Category A investments. The Deal Team is required to **highlight and discuss with the investment committee before proceeding and getting final approval**.
  - Per IFC requirements, the Fund will not invest in any coal-related activities, or higher risk business activities that may include: a) involuntary resettlement, b) risk of adverse impacts on indigenous peoples, c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage or d) significant occupational health and safety risks.

### **(2). Preliminary Analysis – Preliminary Investment Note Stage**

- Re-enter the Exclusion List and Category A determinations
- **Determine the ESG risk rating**
  - An investee **company's business activity is the main driver** of ESG risk associated with an investment.
  - Refer to **EBRD's ESG Risk Categorisation List** which provides an index of business activities with corresponding Environmental, social and governance risk ratings (high, medium, low).  
<https://www.ebrd.com/documents/environment/procedures-active-eg...>  
<https://www.ebrd.com/downloads/about/sustainability/ebrd-risk-english.pdf>
- Identify the risk rating for environmental, social and governmental risk, respectively.
- Take the highest risk rating as the overall ESG risk rating.

**Exclusion List:** YES \_\_\_ NO \_\_\_\_\_

**Category A:** YES \_\_\_ NO \_\_\_\_\_

Code NACE	Category and Subcategory	Risk Level		
		Environmental	Social	Governance

- Based on the risk rating you must conduct the following risk assessment activities:

Risk Assessment Activity	Low	Medium	High
Regulatory Compliance Check	X	X	X
Engage Management on ESG Risk and how managed	X	X	X
Investigate Likelihood of Contamination Risk	X	X	X
Conduct a Site Visit			X

### **(3). Full Due Diligence Analysis – Final Investment Note Stage**

As part of full due diligence the Deal Team (with external experts as appropriate) should

- In all cases carry out a **regulatory compliance** check to confirm the investee company is meeting relevant laws, regulations and standards including – and report/record findings:
  - Environment
  - Health and Safety
  - Planning permissions
  - Operating Licences and permits
- In all cases
  - Discuss with **management** its understanding and **commitment to managing ESG issues** relevant to the business – and report/record findings
  - Identify **how management manages and reports on ESG issues** and responsible parties – and report/record findings
  - Determine past record of any breaches**, fines, complaint, including online search of publicly available reports, social media, etc
- In all cases **investigate the likelihood of contamination risk**
  - Determine if the **investee company owns any sites that are at risk of contamination** due to neighboring industrial activity, past industrial use of sites, or current activity. At minimum management should be questioned – and findings reported/recorded
- Where there is a risk (or risk is not clear) a **site visit and assessment** should be arranged. In cases where the **environmental risk is major or moderate** this will require **3<sup>rd</sup> party expert assistance**. See DD ToR below
- For those prospective investments where risks present significant, adverse Environmental, social and governance issues of concern, including reputational risk, and may likely require a major commitment of Fund ESG resources, notify via internal memorandum the Fund investment committee. For decisions to proceed, Integral endeavors to define the scope of the **Environmental, social and governance Due Diligence (ESG DD)** commensurate with the project and identify the needs and qualifications of consultants to conduct the due diligence - a full Environmental Impact Assessment (EIA). Integral notifies the project sponsor/company about the Fund’s ESG policy requirements and information needs and seeks the sponsor’s/company’s cooperation in the subsequent ESG DD activities, for which a section on ESG matters . Appendix A provides such sample language to be included in these pre-investment agreements.

### **Records and Documentation:**

- **Risk Rating table** presented at PIM stage indicating assessment and work to be done
- **ESG Due Diligence Report** for FIM - findings reported
- Fund **Investment Committee ESG risk notification memo** for projects that present significant risks

### **(4). Due Diligence**

- **The level of ESG due diligence is based on the project's ESG risk profile and potential impacts**, for example, where risks are low, and evidence of compliance is readily available the DD can usually be conducted by the Deal Team with the assistance of the investee company management.
- Where **potential risks are major** (e.g., irreversible, unprecedented, involving large resettlement) or moderate (generally site-specific, largely reversible and mitigable) **the ESG DD will be contracted to an external consultant** or consultant team, for which the Fund Manager prepares the Terms of References (ToR) to ensure that the necessary due diligences is conducted. Appendix B includes such a typical consultant ToR.

The ESG due diligence typically **consist of:**

- (i) **review of all relevant documents** and information provided by the investee and other sources; and
- (ii) **site reconnaissance** comprising visual observations of relevant areas and meetings and interviews with relevant stakeholders (investee personnel, governmental officials, affected communities, etc.).

Upon completion of the due diligence, the **findings**, conclusions, and recommendations are **presented in the ESG DD report**. The recommendations include the necessary actions which must be implemented for the proposed investment to proceed to financial closure. At a minimum, these consist of a set of mitigation, management, monitoring, and institutional measures to be taken during project implementation and operation to address any gaps with the Fund's Environmental, social and governance Policy. Any mitigating actions addressed in the ESG DD report (see indicative content requirements in Appendix C) clearly indicate the (achievable) level of environmental compliance with the Policy, the existing performance gaps, and the corrective actions that need to be taken to close these gaps along with reasonable timelines (collectively, the action plan), and are thoroughly discussed and agreed with the project sponsor. The Fund Manager **should** remain engaged in the due diligence process and involve other investors or stakeholders as appropriate in reviewing the due diligence report and determining the soundness of the action plan. Additional reviews or due diligence work may be triggered as a result of such stakeholder engagement.

Finally, the **results of the ESG due diligence** should be **presented** to the Fund's **investment committee** in concert with the results of the other due diligence conducted on the prospective investment.

### **Records and Documentation:**

- Consultant Due Diligence ToR;
- Environmental, social and governance Due Diligence Report – actions undertaking and risk findings;
- ESG Due Diligence Summary Memo to Fund Investment Committee (usually part if FIM)
- Action plan outlining any improvements and/or remediations necessary

## **(5). ESG Conditions of Investment**

Integral or the investment advisors **negotiate** and agree with the sponsor/Company **the ESG provisions and investment conditions** in the term-sheet and **investment agreements**. These typically consist of **standard ESG terms** applicable to all Fund investments, **and project-specific conditions** identified during the ESG due diligence of a proposed investment. They are represented in legal documents as general ESG definitions, representations and warranties, disbursement conditions, and/or covenants regarding compliance with the requirements as defined by the Fund's Environmental, social and governance Policy.

**Critical mitigating actions** that address gaps with the Fund's environmental, social and governance Policy **must be included in the investment agreement as conditions of investment** (See Appendix D for sample wording for this purpose.) These actions are represented in an **action plan**, as appropriate.

**Post-investment reporting** requirements for the investee, particularly on the status of the implementation of the mitigating measures (or action plan, as appropriate) should be included as **covenants in the investment agreement** as well. As soon as practicable the investee is provided with a format for annual monitoring of environmental, social and governance KPIs to be submitted to the Fund Manager based on DFIs reporting requirements.

### **Records and Documentation:**

- Environmental, social and governance investment conditions in the Term Sheet and Investment Agreements;
- ESG reporting templates

## **(6). Disbursement**

Integral has developed and implemented a **review process mechanism** to **ensure that any Conditions of Investment** tied to disbursement of funds, as specified in the investment agreement, **are met before disbursing funds**. This sometimes necessitates further ESG evaluations or even site visits. Under certain circumstances, the project sponsor may request waivers or extensions of some or all these conditions. The Fund Manager is extremely careful in granting such exceptions and make sure all other stakeholders are properly informed and such waivers or extensions will not significantly affect the project sponsor/company's commitment to mitigation of the project's ESG risks, as well as the project's ability to perform consistently with the Fund's policy requirements.

### **Records and Documentation:**

- Disbursement Memo to Investment Committee indicating status of compliance with Conditions of Investment, additional corrective actions, or waiver justification, as necessary;

## **(7). Monitoring**

Integral or the investment advisors actively **supervise and monitor the ESG performances of each of its portfolio projects**. As noted above, the investment agreements require the investee to report periodically (at least once a year) on its ESG performance. Integral also requires timely reports from the investee regarding the implementation of the critical mitigating actions and

any significant ESG incidents. Based on this reporting, Integral discusses with the investee any outstanding or potential ESG performance issues and if needed, agree to additional measures to address them.

During construction (if any) and at project completion Integral makes supervision site visits to confirm that all related ESG requirements are being implemented. From time to time during the operation phase, the Fund Manager also makes supervision site visits and for higher risk investments consider making independent ESG audits (involving external consultants if necessary, see the sample ToR in Appendix B) as part of its overall supervision and monitoring process. A Supervision Report (see Annex C for an example) should be prepared after each of such visits or audits. In certain cases, a pre-divestment Environmental, social and governance audit may be needed to determine whether there are any potential issues requiring attention prior to disposal.

**Records and Documentation:**

- Consultant supervision ToR;
- Supervision Reports;
- Communications to investee requiring additional corrective actions or requirements.

**(8). External Communication Mechanism**

All stakeholders will be encouraged to notify Integral about any ESG events which may affect stakeholders to any activities of fund portfolio companies in respect to the ESG impacts. The e-mail address [info@integralvp.com](mailto:info@integralvp.com) and online enquiry forms are established and available on the Integral website. Such enquiries or comments are received and reviewed by Veselina Atanasova, the Chief Operational Officer and discussed with relevant Deal Team member(s) and the ESG manager.

Action plans are taken to screen, verify and assess the information and interaction/response to a notification is addressed within a defined period (30 days). A plan to address the issue raised is agreed in case of serious ESG issues. Registration of received communication is kept by Veselina Atanasova. Note: no such enquiry received so far.

**3. ORGANIZATION AND RESPONSIBILITIES. TRAINING**

Integral and the investment advisors established appropriate organizational structures, roles and responsibilities, and capacity to ensure the policies and procedures described above will be duly implemented. The ESG responsible Integral Partner assume responsibility for overseeing all ESG matters, ensure resources are made available for the ESG management, and sign the Fund's Annual ESG report to investors or similar reports to other stakeholders.

The responsible Partner is supported by an ESG Manager, who is technically qualified, to implement and oversee project-level and day-to-day ESG due diligence and supervision activities. The ESG Manager ensures Integral's investment teams (particularly the Investment Transaction Leaders or Investment Officers) and legal counsels are all trained on the ESG Policy and Procedures, and can call for Fund-wide meetings to discuss any policy or project related issues.

Integral has built and maintains a contact list of qualified ESG consultants who can be called upon to assist ESG due diligence. ESG responsibilities be included in Fund employees' performance measurement system



Integral with input and assistance from EBRD and/or IFC ensures that the investment team and environmental managers have appropriate and sufficient training and understanding of EBRD and IFC ESG policies, requirements, and standards including completion of IFC's online training resources: Sustainability Training and E-Learning Program (STEP), and E-Learning Course on Managing Environmental & Social Performance.

- *ESG Partner: Barna Papay*
- *ESG Manager: Gerda Gáti*

#### 4. REPORTING (INTERNAL AND EXTERNAL)

Integral requires its Environmental Manager along with the investment team to prepare periodic reports on any significant ESG issues for investments in the Fund's pipeline and portfolio projects. It will develop and maintain a **watch list** of portfolio projects with significant ESG performance issues/footprint and regularly provide their status updates to the Fund's senior management team as well as investors.

At least **once a year a meeting is called for the full investment team** where key issues for the portfolio from the previous year are discussed as well as ensuring that ESG performance of the projects and new ESG topics are introduced by fund operations on the meeting.

Integral also provides **proper and periodic ESG updates to its investors in frame of the Limited Partners Advisory Committee (LPAC) and Annual Investor Meetings (AIM)**. These reports properly summarize the portfolio companies ESG initiatives and accomplishments. Additionally, **Integral aims to develop an Annual ESG report** incorporating selected ESG KPIs, achievements and targets for both Fund I and Fund II portfolio companies, as well as describing highlights of Integral's ESG Management System.

These internal and external reports can also form the basis of the **reports** which Integral is **required to prepare annually to IFC, EBRD and EIF**. Internally and in addition to the annual external investor/stakeholder report, Integral should use all these opportunities to **review and adjust its ESG policies** and procedures and identify areas for improving their implementations if and as necessary.

#### ANNEXES

#### **Annex I: Combined EBRD/IFC Environmental and Social Exclusion List**

**1. All financial intermediaries (FIs) must apply the following exclusions:**

- a) 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<sup>1</sup>, ozone depleting substances<sup>2</sup> PCBs<sup>3</sup>, wildlife or products regulated under CITES<sup>4</sup> and transboundary movements of waste prohibited under international law<sup>5</sup>.
- b) Activities in the nuclear fuel production cycle (uranium mining, production, enrichment, storage or transport of nuclear fuels) and production of or trade in radioactive materials. This does not apply to: (i) the purchase of medical equipment, quality control (measurement) equipment and any equipment where **IFC/EBRD** consider the radioactive source to be trivial and/or adequately shielded
- c) Production of or trade in weapons and munitions<sup>6</sup>
  - a) Production of or trade in alcoholic beverages (excluding beer and wine) <sup>6</sup>,
  - e) Production of or trade in tobacco, <sup>6</sup>
  - f) Gambling, casinos and equivalent enterprises,<sup>6</sup>
  - g) Production of or trade in or use of unbonded asbestos fibers <sup>7</sup>
- h) Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage, <sup>8</sup>,
- i) Commercial logging operations for use in primary tropical moist forest
- j) Production of or trade in wood or other forestry products other than from sustainably managed forests.
- k) Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit
- l) Drift net fishing in the marine environment using nets in excess of 2.5 km in length

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<sup>1</sup> Reference documents include EU Regulation (EEC) No 2455/92 Concerning the Export and Import of Certain Dangerous Chemicals, as amended; UN Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; WHO Classification of Pesticides by Hazard

<sup>2</sup> Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicised ‘ozone holes’. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from IFC or EBRD

<sup>3</sup> PCBs: Polychlorinated biphenyls—a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

<sup>4</sup> CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. The lists of CITES protected species are available at [www.cites.org/eng/app/index.shtml](http://www.cites.org/eng/app/index.shtml).

<sup>5</sup> Reference to documents are: Regulation (EC) No 1013/2006 of 14 June 2006 on shipments of waste; Decision C(2001) 107/Final of the OECD Council concerning the revision of Decision C(92)39/Final on the control of transboundary movements of wastes destined for recovery operations; Basel Convention of 22 March 1989 on the control of transboundary movements of hazardous wastes and their disposal.

<sup>6</sup> This does not apply to project sponsors who are not substantially involved in these activities. “Not substantially involved” means that the activity concerned is ancillary to a project sponsor’s primary operations.

<sup>7</sup> In countries that are not EU Member States, EU accession or EU candidate countries, this does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is <20%

<sup>8</sup> Relevant international conventions include, without limitation: Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention); Convention on Wetlands of International Importance, especially as Waterfowl Habitat (Ramsar Convention); Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention); World Heritage Convention; Convention on Biological Diversity.

- m) Shipment of oil or other hazardous substances in tankers which do not comply with International Maritime Organization (IMO) requirements<sup>9</sup>
- n) Production or activities involving harmful or exploitative forms of forced labour/harmful child labour <sup>10</sup>

**2. When financing micro-finance activities, FIs will also apply the following additional exclusions:**

- a) 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.
- b) Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

**3. All FIs must refer the proposed financing of the following environmentally or socially sensitive business activities to IFC/EBRD for approval.**

*The principal EBRD Performance Requirement that proposed transactions will be expected to meet is indicated in italics.*

- a) Activities involving involuntary resettlement - *EBRD Performance Requirement 5*
- b) Activities within, adjacent to, or upstream of designated protected areas under national law or international conventions, sites of scientific interest, habitats of rare/endangered species, fisheries of economic importance, and primary/old growth forests of ecological significance - *EBRD Performance Requirement 6*
- c) Activities within, adjacent to, or upstream of land occupied by Indigenous Peoples and/or vulnerable groups including lands and watercourses used for subsistence activities such as livestock grazing, hunting, or fishing - *EBRD Performance Requirement 7*
- d) Activities which may affect adversely sites of cultural or archaeological significance - *EBRD Performance Requirement 8*
- f) Energy generation using nuclear fuels (excluding electricity import/export) <sup>11</sup>
- g) Activities involving the release of GMOs into the natural environment - *EBRD Performance Requirement 6*
- h) Construction of mini-hydro cascades – *EBRD Eligibility Criteria for Small Hydro Projects*
- i) Wind farm development -*EBRD Eligibility Criteria for On-Shore Wind Power Projects*

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<sup>9</sup> This includes: tankers which do not have all required MARPOL SOLAS certificates (including, without limitation, ISM Code compliance); tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU); and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used.

<sup>10</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. Harmful child labour means the employment of children that is economically exploitative, 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.

<sup>11</sup> In compliance with EBRD's Energy Policy, the Bank is permitted to use its funding (directly or indirectly through FIs) in relation to nuclear safety improvements, or for the safe and secure management of radioactive waste and spent nuclear fuels, as well as for decommissioning, without a direct link to the closure of high risk reactors. Any other activities in the nuclear fuel production cycle are therefore excluded from financing.

## **Annex II: Category A Projects**

*This list applies to “greenfield” or major extension or transformation-conversion projects in the categories listed below. The indicative types of projects listed below are examples of projects that could result in potentially significant adverse future environmental and/or social impacts and therefore require an environmental and social impact assessment. The categorisation of each project will depend on the nature and significance of any actual or potential adverse future environmental or social impacts, as determined by the specifics of nature, location, sensitivity and scale of the project.*

1. Crude oil refineries (excluding undertakings manufacturing only lubricants from crude oil) and installations for the gasification and liquefaction of 500 tonnes or more of coal or bituminous shale per day.
2. Thermal power stations and other combustion installations with a heat output of 300 megawatts (*8 Equivalent to a gross electrical output of 140 MW for steam and single cycle gas turbines power stations*) or more and nuclear power stations and other nuclear reactors, including the dismantling or decommissioning of such power stations or reactors (except research installations for the production and conversion of fissionable and fertile materials, whose maximum power does not exceed 1 kilowatt continuous thermal load).
3. Installations designed for the production or enrichment of nuclear fuels, the reprocessing, storage or final disposal of irradiated nuclear fuels, or for the storage, disposal or processing of radioactive waste.
4. Integrated works for the initial smelting of cast-iron and steel; installations for the production of non-ferrous crude metals from ore, concentrates or secondary raw materials by metallurgical, chemical or electrolytic processes.
5. Integrated chemical installations, i.e. those installations for the manufacture on an industrial scale of substances using chemical conversion processes, in which several units are juxtaposed and are functionally linked to one another and which are for the production of: basic organic chemicals; basic inorganic chemicals; phosphorous, nitrogen or potassium-based fertilisers (simple or compound fertilisers); basic plant health products and biocides; basic pharmaceutical products using a chemical or biological process; explosives.
6. Construction of motorways, express roads and lines for long-distance railway traffic; airports with a basic runway length of 2,100 metres or more; new roads of four or more lanes, or realignment and/or widening of existing roads to provide four or more lanes, where such new roads, or realigned and/or widened sections of road would be 10 km or more in a continuous length.
7. Pipelines, terminals and associated facilities for the large-scale transport of gas, oil and chemicals.
8. Large scale sea ports and also inland waterways and ports for inland-waterway traffic; trading ports, piers for loading and unloading connected to land, and outside ports (excluding ferry piers).
9. Waste-processing and disposal installations for the incineration, chemical treatment or landfill of hazardous, toxic or dangerous wastes.
10. Large scale waste disposal installations for the incineration or chemical treatment of non-hazardous wastes.

## **Annex III - EBRD's Environmental & Social (E&S) Risk Management Procedures for Active Equity Investments**

<https://www.ebrd.com/documents/environment/procedures-active-equity.pdf?blobnocache=true>

Any EBRD partner Financial Intermediary (FI) must have clearly defined environmental and social management systems in place, commensurate with the nature of the FI and the level of environmental and social risks associated with its business activities and consistent with EBRD's Performance Requirement 9.

### **Introduction**

The objectives of the E&S risk management procedures for Active Equity Investments are to:

- Support EBRD FIs to meet EBRD requirements to manage environmental and social risks in business activities; and to
- Provide step-by-step guidance on identifying, assessing and managing E&S risks with respect to equity investments.

These procedures should be integrated into the FI's standard process for assessing equity investments.

### **Scope of Application**

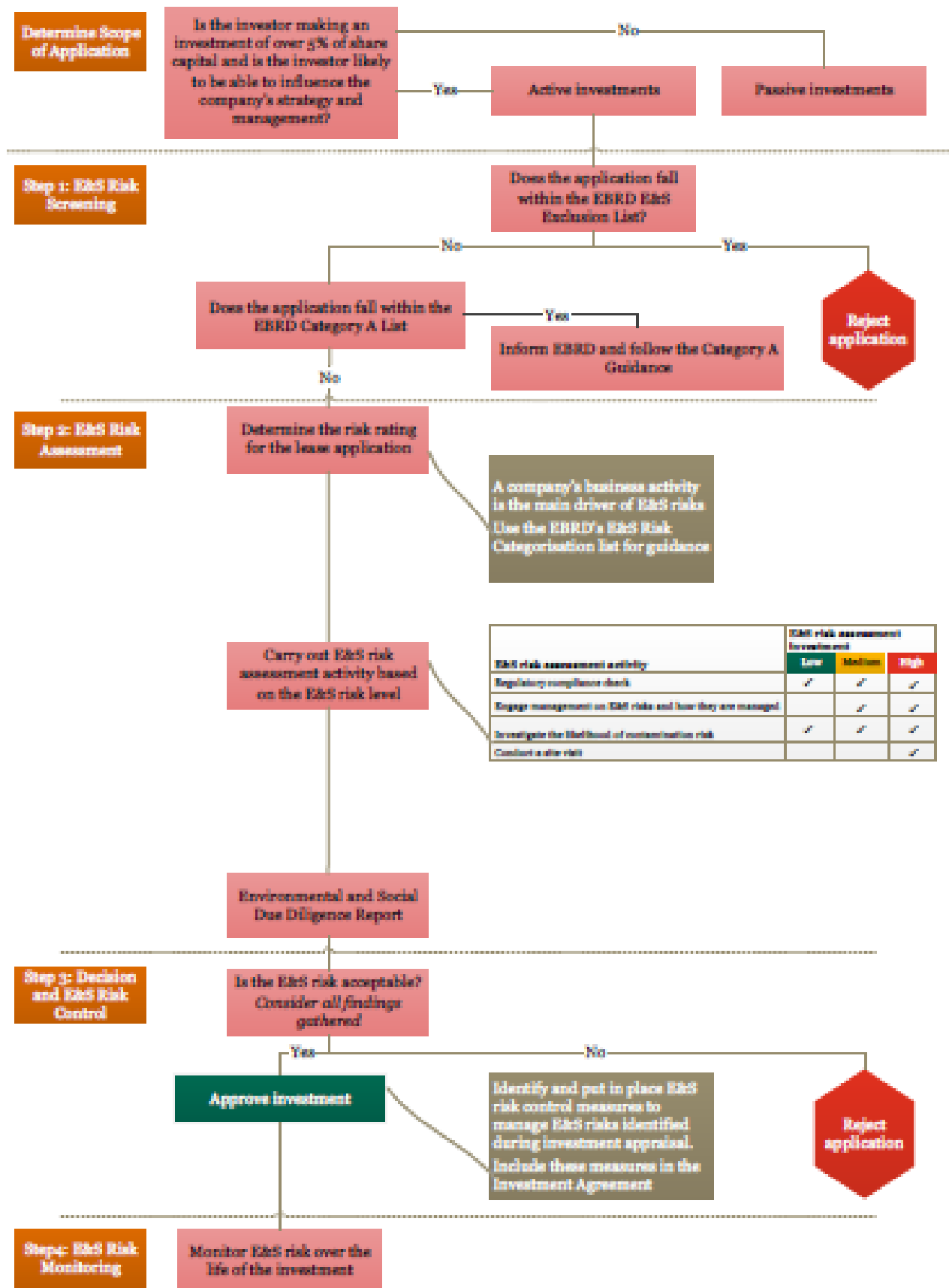
Different procedures apply depending on whether the investment is active or passive. For passive investments refer to EBRD E&S Risk Management Procedures for Passive Investments.

*What is an active investment?*

- The investor makes significant investments of over 5% of share capital.
- The investor is likely to be able to influence the investee company's strategy and management.

The procedures for active equity investments are explained in detail below.

The diagram below summarises the E&S risk management procedures for active equity investments. Detailed guidance is provided for each step outlined below.



## Step 1: E&S Risk Screening

### 1.1 Screen against EBRD's E&S Exclusion List

- Screen the investee company's business activity against EBRD's E&S Exclusion List (refer to Annex I attached to this document).
- If the investee company is involved in any activity listed here, reject the application.

### 1.2 Screen against EBRD's Category A List

- Screen the investee company's business activity against EBRD's Category A List (refer to Annex II attached to this document).
- FIs are required to provide a written report to EBRD on E&S risk assessment and obtain EBRD's written consent prior to approving any Category A investments.

## Further Guidance

### *What are EBRD's E&S Exclusion List and Category A List?*

- EBRD's E&S Exclusion List contains activities that are excluded under all circumstances because they are illegal or severely restricted under national or international law.
- The Category A List describes activities that are likely to have significant E&S impacts and which require a more formalised process of assessment than other projects. Such projects will be required to meet EBRD's Performance Requirements 1 to 8 and 10. FIs will likely require third party support to assess Category A investments.

## Step 2: E&S Risk Assessment

### 2.1 Determine the E&S risk rating

- An investee company's business activity is the main driver of E&S risk associated with an investment.
- Refer to EBRD's E&S Risk Categorisation List which provides an index of business activities with corresponding environmental and social risk ratings (high, medium, low).
- Identify the risk rating for social and environmental risk respectively.
- Take the highest risk rating as the overall E&S risk rating.

### 2.2. Assess E&S risks associated with the potential investment

The table below summarises the E&S risk assessment activities to carry out for investments of low, medium and high E&S risk levels.

E&S Risk Assessment Activity	E&S risk level of investment		
	Low	Medium	High
Regulatory Compliance Check	X	X	X
Engage Management on E&S Risk and how managed		X	X
Investigate Likelihood of Contamination Risk	X	X	X
Conduct a Site Visit			X

### *Regulatory compliance check:*

- Carry out a regulatory compliance check to confirm that the investee is meeting relevant laws, regulations and standards, including environmental and health and safety regulations, planning permissions, operating licences and permits.

### *Engaging management on E&S risks*

- Engage in discussions with the investee company's management team to assess:
  - Commitment to managing E&S issues relevant to the business.

- Presence of effective systems to manage E&S issues, including accountability.
- Past record of regulatory breaches, fines, lawsuits, negative media or stakeholder protests/complaints that demonstrate how well the company has been managing E&S issues. FIs can also investigate past track record through an online search of publicly available information such as media reports, social media and non-governmental organisation websites.

#### *Investigate the likelihood of contamination risk*

- For all investments, regardless of the level of E&S risk, determine whether the investee company owns any sites that are at risk of contamination due to neighbouring industrial activity, past industrial activity on the site or current industrial activity. This can be done by questioning management and/or visiting the company's sites.
- Where there is a risk of contamination, conduct a site visit to the property/properties to assess contamination risk and identify mitigation and/or clean up measures required.

#### *Conduct a site visit*

- Conduct a site visit to the company's operations to further evaluate E&S risks identified during management discussions and investigate how the company's E&S management systems are applied in practice.
- If appropriate, speak to site managers and other employees on how E&S risks are managed.
- FIs can conduct site visits themselves or commission an E&S expert to do so on their behalf.

EBRD has provided guidance for FIs on how to conduct a site visit (refer to EBRD's web-site <http://www.ebrd.com/downloads/about/sustainability/14-site-visit.pdf>)

- If the FI has access to previously commissioned E&S due diligence reports on the company's operations, the FI may choose to rely on these instead of carrying out a new site visit, if the report can be considered appropriate (see below for guidance).

### **Further Guidance**

#### *How can and FI carry out a regulatory compliance check regarding E&S laws and regulations?*

FIs can use these methods to confirm an investee's compliance with E&S laws and regulations.

- Obtain written representation from the company of its full compliance with laws and regulations. Include this in investment agreements and require the investee to inform investors of any regulatory breaches.
- Employ in-house legal expertise to investigate and monitor legal compliance, including with E&S laws and regulations.

Additional checks can include:

- Search online media for the company's past history of fines or legal action taken against it.
- Check for visits by regulatory authorities and any improvement actions imposed upon the company.
- Check for licences and permits in place during site visits.
- Check for any criminal or civil action in recent years (e.g. past three years) for any liabilities (current or potential) that may affect the business in the future.

#### *How can and FI assess whether an existing E&S due diligence report can be relied upon?*

Consider the following:

- Is the report recent enough to be relevant to the investee company's business?
- Does it cover all material issues identified through the assessment thus far?
- Is the organisation which carried out the due diligence reputable, competent and impartial? Does it have sufficient professional indemnity insurance cover?
- Who is the report addressed to? Can the investee company /the investor seek legal recourse?



*What key tools are available to help FI's understand and assess E&S risks?*

- EBRD's Sub-Sectoral E&S Guidelines can help FI's understand the E&S issues relevant to businesses in different sectors and good practice measures for managing them.

<http://www.ebrd.com/who-we-are/our-values/environmental-and-social-policy/tools-for-financial-intermediaries.html%20>

EBRD has provided guidance to help FIs prepare for site visits

<http://www.ebrd.com/downloads/about/sustainability/14-site-visit.pdf>

*How can an FI check if the investee company owns any properties with contamination risk?*

- The FI can investigate this risk by asking the company's management about the sites' current, past or neighbouring activities. The FI manager can also visit the sites .
- There is a risk of contamination if the investee company owns property that is used for, or nearby, industrial activities, or if using previously developed land, particularly if it was once used for industrial purposes.
- The risk of contamination is lower for properties built on greenfield sites or those that have always contained residential dwellings.
- Where there is contamination risk, conduct a site visit to the properties to check for contamination and engage with management to understand how this risk is managed.

*Document the findings from the E&S risk assessment*

- Document the results of the E&S risk assessment in the Investment Committee papers.
- The length and scope of the E&S risk section should be determined by the level of E&S risk.

*Documentation for low E&S risk investments*

- State the E&S risk level as 'low'.
- Confirm that the company is not engaged in activities covered by EBRD's E&S Exclusion and Category A Lists.
- Describe the company's E&S regulatory compliance status.

*Documentation for medium E&S risk investments*

In addition to requirements outlined for low E&S risk investments, document the following:

- Outline the E&S risk assessment activities that were carried out.
- Summarise the key E&S issues facing the investee company.
- Describe the actual or potential E&S risks, liabilities or opportunities and their likely or potential legal, financial and reputational impacts.

*Documentation for high E&S risk investments*

In addition to requirements outlined for low and medium E&S risk investments, document the following:

- Describe the findings from the site visit, including E&S risks identified, any discussions with site managers and any mitigation measures discussed to manage E&S risks.
- Where a third party E&S consultant was retained to carry out the site visit, provide the full findings report in the annex of the Investment Committee paper.

### **Step 3: Decision and E&S Risk Control**

- Consider the findings of the E&S risk assessment in deciding whether or not to invest.
  - If E&S risks are acceptable and/or the investee agrees to measures to manage any E&S risks, consider approving the investment.
  - Consider declining the investment if E&S risks are significant and/or the investee is unable or unwilling to mitigate the risks.

- If the investment is approved, decide what, if any, controls are needed to manage and minimize E&S risk to the investee company and the FI.

### **Further Guidance**

*What kinds of E&S risk control measures can be employed?*

FIs may be able to employ these E&S risk control measures, if appropriate:

- Change the business plan to use options or processes that reduce E&S risks (e.g. improving machinery or facilities).
- Obtain warranties or indemnities from the vendor or insurance cover (e.g. environmental liability insurance) where there is concern about specific E&S risks (e.g. contamination). Agree improvements in an E&S action plan that contains a timeline for implementation, potential costs and roles and responsibilities.
- Limit liability through seeking limited partner status or by securing state indemnification for E&S liabilities during privatization.
- Seek representation on the company's Board and use this influence to improve E&S performance.
- Consider the investee company's ability to comply with pending regulatory changes or trends.
- Make sure any E&S conditions are clearly defined and, where appropriate, incorporated into the investment agreement.

### **Step 4: E&S Risk Monitoring**

- Monitor the investment for E&S risks as they may change during the life of the investment.
- There are two areas to consider when monitoring E&S risks:
  - Events or changes that could present new or increased E&S risks (see further guidance).
  - The investee company's progress in meeting agreed E&S risk control measures.
- Monitoring of E&S risks can take place alongside regular investment reporting and reviews.
- FIs are required to notify EBRD as soon as they are aware of any material environmental or social incidents related to an investee.

### **Further Guidance**

*What events or changes should FIs look out for when monitoring investments for E&S risk?*

Events or changes that could raise E&S risks include:

- Change in business activities (e.g. changes to products sold, raw materials, wastes emitted).
- Regulatory investigations, fines or penalties imposed on the investee.
- Public complaints or adverse media reports.
- Accidents or incidents causing significant damage to the environment or human health and safety.
- Amendments to relevant E&S laws and regulations, or to the level of enforcement.

*Who is responsible for monitoring and reporting of E&S risks?*

- Responsibility for managing and monitoring E&S risk falls to both the investee company and investor.
- Responsibility for E&S risk management should be clearly defined at the investee company.
- Both FIs and investees are responsible for taking action in the case of material E&S incidents.
- Require investee companies to report regularly to investors on E&S performance, in line with the frequency of financial reporting.
- Require investee companies to notify the FI of any significant E&S issues that arise.

*What is considered a "material incident" where FIs are required to inform EBRD?*

A material incident is one that involves any one or more of the following:

- Fatality or multiple injuries requiring hospitalization;
- Significant pollution;
- The applicable law requires notification of the incident to a government authority; or
- The incident has become public knowledge through media coverage or otherwise.

*What should FIs do if an investee is not meeting agreed E&S risk control measures?*

- Engage in discussions to address areas of non-compliance.
- Potentially make changes to investment agreements to manage new or heightened E&S risks.
- Consider exiting the investment if necessary.

### **Step 5: Exiting the Investment**

- Consider E&S issues when developing the exit strategy for an investment, as prospective buyers are likely to be interested in the investee company's E&S performance and potential liabilities.
- Include appropriate disclaimers related to E&S issues in sale agreements, although this may not always be acceptable to buyers.
- Provide full disclosure (e.g. in the data room or initial public offering prospectus) of the material E&S issues affecting the company and steps taken to improve E&S performance during the ownership period.

### **Further Guidance**

*Why consider E&S issues when exiting an investment?*

- The company's E&S performance could affect the value of its shares or property.
- For Initial Public Offerings (IPO), stock markets are increasingly requiring E&S disclosures.
- Where the investor has management control, it could be held responsible for E&S liabilities for incidents or contamination that occurred during the management period.

### **Reporting to EBRD**

Under the requirements of PR 9, an FI is required to report annually to EBRD on the implementation of its Environmental and Social Management System (ESMS) and the E&S performance of its portfolio.

The level of reporting required on a FI's portfolio depends on the nature of the contractual relationship with EBRD.

- If EBRD has an equity stake in the FI, the FI is required to report on the E&S risk management of its full portfolio of business activities.
- If EBRD does not have an equity stake in the FI, but provides, for example, a credit line, the FI is required to report on the E&S risk management of transactions carried out using EBRD financing.

EBRD recommends that FIs document E&S risk management activities on an ongoing basis in order to have easily accessible information for reporting.

### **Reporting format**

The EBRD FI Sustainability Index is an online tool designed to help FIs understand and report on how they are responding to the E&S risks in their own operations and business activities, as required by EBRD's PR 9. The Index should be completed by the FI's Authorised Representative and submitted to EBRD. FI's should e-mail: [ebrdsusindex@ebrd.com](mailto:ebrdsusindex@ebrd.com) for access to the Index.

*Projects need to be screened against the exclusion list, the applicable E&S national laws and the Performance Standards depending on the scale and risk of the project. The criteria for this are normally elaborated in the Financial Institution's ESMS. This guidance note is to help Financial Institutions review projects that need to be screened against the Performance Standards as per the ESMS.*

## **PS 1: Environmental and Social Assessment and Management System**

### **A. Environmental and Social Assessment and Management Program**

1. Does the company have a management system in place to identify the environmental and social impacts and risks of their operations?
2. Does the system identify mitigation and performance measures that address the impacts and risks of their operations? (For example, Quality Assurance; Environmental, Health, Safety & Social, OHS)
3. How often does the company review and update the system?
4. Does the company have resources earmarked to support this?
5. Do they have any best practice certifications (ISO etc)?

### **B. Organization**

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

### **C. Training**

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

### **D. Community Engagement**

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

### **E. Monitoring**

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

### **F. Reporting**

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

## **PS 2: Labor and Working Conditions**

### **A. Human Resources Policy and Management**

1. Does the 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?
2. Has the company documented and communicated working conditions and terms of employment to all workers directly contracted?
3. Does this include guidelines on working hours, overtime procedures, wages paid, types of contracts, frequency of payments and sick and maternity leave?
4. What is the language of communication with workers and employees?
5. Are the terms and conditions in accordance with any collective agreement with workers?
6. Has the company implemented a grievance mechanism to review and address employee complaints?

7. Is there a person responsible to review complaints and follow up on them in a timely and transparent manner?

#### **B. Worker's Organization**

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

#### **C. Non-Discrimination and Equal Opportunity**

1. 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?
2. Does the company have any preferential employment policies in place?

#### **D. Retrenchment**

1. Does the company anticipate retrenchment of a significant number of employees?
2. If yes, is there a retrenchment procedure in place?
3. Have workers been consulted appropriately
4. If the investment entails an expansion will this create additional jobs?

#### **E. Protecting the Work Force**

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

#### **F. Occupational Health and Safety**

1. Does the company provide its workers with a safe and healthy work environment?
2. Does this include providing workers with and mandating that workers use personal protective equipment (PPE)?
3. Has the company taken steps to prevent accidents, injury, and disease by minimizing the causes of hazards?
4. Does the company conduct appropriate monitoring and inspections to ensure worker safety?
5. Does this include monitoring ambient and workplace exposure to noise, and workplace illumination, air quality and temperature as applicable?
6. Does the company 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?
7. Does the company have training programs in place for workers in occupational health and safety?
8. Does the company have a fire, life and safety plan?

**A. Pollution Prevention, Resource Conservation and Energy Efficiency**

1. Provide details about the company's resource use including sources and estimates of daily use for energy and water.
2. Has the company ever conducted a cleaner production audit?
3. 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.)
4. 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?

**B. Waste management**

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

**C. Hazardous Materials**

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

**D. Emergency Preparedness and Response**

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

**E. Green House Gas Emissions**

1. What are the company's GHG emissions ( direct plus indirect from purchased electricity)?
2. If these exceed 100,000 tons CO2 annually, does the company conduct annual monitoring, and have options for emissions reductions or offsets been discussed with the company?

**F. Pesticide Use and Management**

1. How are pests monitored and controlled? If pesticides are used:
  - a. Is their selection made with the following considerations in mind: low in human toxicity, effective against the target species, known to have minimal effects on non-target species and the environment?
  - b. Are the pesticides packaged appropriately and labeled (including directions for safe and appropriate use)?
  - c. Have the pesticides been manufactured by an entity licensed by the relevant regulatory agencies?
  - d. Are the pesticides handled, stored, applied, and disposed of in accordance with the Food and Agriculture Organization's International Code of Conduct on the Distribution and Use of Pesticides or other good international industry practice?
  - e. Are any of the pesticides in use on the World Health Organization Recommended Classification of Pesticides by Hazard Classes I a (extremely hazardous) and I b(highly hazardous); or Class II (moderately hazardous)?

## **PS 4: Community Health, Safety and Security**

### **A. Community Health and Safety**

1. Are there communities in close proximity to the company's facilities?
2. What is the relationship of the company with the local community?
3. Does the company take community, health and safety considerations into account in the context of its operations?
4. 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?
5. 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?

### **B. Emergency Preparedness and Response**

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

### **C. Security Personnel Requirements**

1. 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?
2. Are security personnel armed? If yes, has the company provided training on the appropriate conduct towards workers and the nearby communities?
3. 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**

### **A. Project design**

1. 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?
2. Was the land acquisition managed by the government?

### **B. Compensation and Benefits for Displaced Persons**

1. 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.
2. Has the company engaged with the displaced persons and communities and/or provided opportunities to derive appropriate development benefits from the project? If yes, provide details.

### **C. Consultation and Grievance Mechanism**

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

### **D. Resettlement Planning and Implementation**

1. Has the company considered alternative designs to avoid or minimize economic and physical displacement?
2. Has the company 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?
3. Has the census established the status of displaced persons according to their legal rights or claim to land?
4. Has the cut-off date for eligibility been established or disseminated?
5. Has the company 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?
6. Has the company (if economic but not physical displacement is involved) developed procedures to offer compensation or other assistance that will establish entitlement for affected persons or communities? Has this included providing replacement property, compensation, targeted assistance and/or transitional support in accordance with PS 5 requirements?

### **E. Private Sector Responsibilities under Government-Managed Resettlement**

1. 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 Natural Resource Management**

### **A. Protection and Conservation of Biodiversity**

1. Has the company identified and addressed the impacts on biodiversity as part of their operations?
2. Will modified, natural and critical habitat (as defined by PS 6) be impacted by the company 's activities?
3. In the case of natural habitat, has the company considered alternatives and adequately mitigated any potential degradation?
4. In the case of critical habitat, has the company suitably determined that there will be no measurable adverse impact on species or habitat?
5. 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?
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?

## **B. Management and Use of Renewable Natural Resources**

1. Has the company identified renewable natural resources which it will use, and committed to managing them in a sustainable manner?
2. 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?
3. 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**

### **A. Avoidance of Adverse Impacts**

Is it likely that Indigenous Peoples (IPs) will be adversely impacted as a result of the project's operations?

Does the ESIA conducted by the company identify the adverse impacts to IPs and identify ways to avoid these where possible?

Has the company compensated in a culturally appropriate manner consistent with the guidance provided in PS 7.

### **B. Consultation and Informed Participation**

1. Has the company established a process for Informed Participation through an FPIC process centered on mitigation measures, sharing of developmental benefits and opportunities and implementation issues as outlined in PS 72

### **C. Impacts on Traditional or Customary Lands under Use**

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

### **D. Relocation of Indigenous Peoples (TPs) from Traditional or Customary Lands**

1. Has the 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

1. **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?
2. 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?
3. 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?

### A. Project use of Cultural Heritage

1. Has the 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:
  - a. their rights under national law
  - b. the scope and nature of the proposed commercial development
  - c. the potential consequences of such development
2. If commercialization has proceeded, has the client:
  - d. entered into good faith negotiation with the affected community embodying traditional lifestyle
  - e. documented their informed participation and successful outcome of the **negotiation**
  - f. provided fair and equitable sharing of benefits from commercialization

## Appendices

- A. SAMPLE ESG LANGUAGE TO BE INCLUDED IN PRE-INVESTMENT AGREEMENTS (I.E., CONFIDENTIALITY AGREEMENTS, MANDATE LETTERS, MEMORANDA OF UNDERSTANDING)
- B. SAMPLE CONSULTANT TERMS OF REFERENCE – ENVIRONMENTAL, SOCIAL AND GOVERNANCE DUE DILIGENCE AND SUPERVISION
- C. SAMPLE ESG DUE DILIGENCE AND SUPERVISION FINDINGS SUMMARY FORMAT
- D. SAMPLE GENERAL INVESTMENT AGREEMENT ESG CONDITIONS LANGUAGE

### **A. SAMPLE ESG LANGUAGE TO BE INCLUDED IN PRE-INVESTMENT AGREEMENTS WITH PROSPECTIVE INVESTEES**

“When a project is proposed for financing, the Fund’s appraisal team conducts a Environmental, social and governance review as part of its overall due diligence. This review will be appropriate to the nature and scale of the investment, and commensurate with the level of Environmental, social and governance risks and impacts. The purpose of the review is to ensure that the project conforms to the Fund’s Environmental, social and governance Policy. This specifically includes compliance with all applicable ESG laws and regulations of the host country in which the project is located and operated, as well as with EBRD/IFC’s “Performance Standards on Environmental, social and governance Sustainability” (<http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards>). The Fund’s Environmental, social and governance review is integrated into the Fund’s overall appraisal of the project, including the evaluation of financial risks.

“To conduct its review, the Fund may request project-specific information be provided. This information will be treated in accordance with the terms of this agreement.

“The Fund does not finance new business activity that cannot be expected to meet the Environmental, social and governance Policy over a reasonable period of time. In addition, there are several types of activities that the Fund does not finance. A list of these activities can be found in IFC’s “Exclusion List” (<http://www.ifc.org/ifcext/sustainability.nsf/Content/IFCExclusionList>).”

## **B. CONSULTANT TERMS OF REFERENCE – ENVIRONMENTAL, SOCIAL AND GOVERNANCE DUE DILIGENCE AND SUPERVISION**

*This template can be used as a guide for developing a Terms of Reference (ToR) for a Consultant to perform certain aspects of the ESG appraisal of prospective investments of the Fund, as well as ongoing supervision of the investment portfolio. The ToR will be dictated by the perceived risk level in the investment.*

### **“Introduction**

The purpose of this Terms of Reference is to ensure that the Consultant performs the Environmental, social and governance review of a prospective investment, and later, the ongoing evaluation and supervision of portfolio projects according to the Fund’s Environmental, social and governance management policies and procedures.

*It is Integral’s policy that [provide a summary statement of the ESG Policy, including a reference to that all projects/companies in which the Fund invests will comply with all applicable ESG laws and regulations of the host country(ies) in which the project is located and operated. In addition, it should explicitly indicate that it will seek to ensure that these same projects are operated in a manner consistent with EBRD/IFC’s Performance Standards on Environmental, social and governance Sustainability. These eight standards establish clear requirements for investee performance and project outcomes. The Fund’s review of a prospective investment in relation to the IFC Performance Standards shall determine the scope of the ESG conditions of the Fund’s financing.*

### **“Consultant Qualifications**

The Consultant must have substantial experience in the ESG review of projects/companies located in the region. He/she must be thoroughly knowledgeable of the Fund’s Environmental, social and governance management policies and procedures, including the EBRD/IFC Performance Standards.

### **“Scope of Work**

The Consultant will conduct the ESG appraisal of a prospective project/investee company, as well as the ongoing supervision of ESG performance of a portfolio project/company consistent with the Fund’s policies and procedures. For **new project/company appraisals**, the four tasks include:

1. Preliminary Review. Review all available information and documentation related to project Environmental, social and governance impacts and risks. Prepare a list of additional information and/or questions that will be needed to continue the appraisal.
2. Site Visit and Further Review. Conduct site inspections, review facility-based records, and interview key staff, including both sponsor personnel and relevant stakeholders (regulatory officials, community leaders, suppliers, and customers).
3. ESG Performance Gaps and Necessary Corrective Actions Analyses. Analyze project Environmental, social and governance performance in relation to the Fund’s Environmental, social and governance policy, including EBRD/IFC Performance Standards. Identify these gaps and any corresponding corrective actions that will be necessary. Prioritize these and recommend acceptable and justified implementation schedules.

4. Due Diligence Documentation. Prepare a report (see Appendix C) summarizing the results of the ESG due diligence (ESDD). The ESDD report shall include a summary of the impacts and risks associated with the project, including the related performance gaps and corresponding correction actions that will be necessary in order for the Fund to invest.

For **supervision** of the Fund’s portfolio projects, the three tasks include:

1. Review Monitoring Reports. Review periodic documentation submitted by the project sponsor regarding implementation of any corrective actions included as conditions of investment, as well as overall Environmental, social and governance performance. Also, review information submitted by the sponsor concerning significant incidents or fatalities. Identify any follow-up corrective actions that might be necessary.
2. Site Visit and Further Review (Optional). Where directed by Integral, conduct site visit to confirm ESG performance and/or to investigate incidents. Identify any follow-up corrective actions that might be necessary.
3. Supervision Documentation. Prepare a report summarizing the findings of the supervision activity.

#### **“Schedule**

The Consultant shall submit a draft *[Due Diligence/Supervision]* Report by *[insert date]*. The final Report shall be submitted within [2] week(s) after receiving comments from Integral on the draft report. All reports should be written and prepared in English and delivered in electronic and hard copy.”

### C. ESG DUE DILIGENCE AND SUPERVISION FINDINGS SUMMARY FORMATS

#### DUE DILIGENCE SUMMARY REPORT

1. Project Description (including the site and Environmental, social and governance setting, surrounding land uses)
  - a. Category A determination (Yes/No)
  - b. NACE Code and risk rating
  - c. Risk Assessment Activities Table
2. Company Environmental, social and governance Management Systems (the processes by which the Company manages Environmental, social and governance performance, including community engagement activities)
3. Significant Environmental, social and governance Impacts and Risks (summarized according to the topics covered by the applicable EBRD/IFC Performance Standards –
  - a. Labor and Working Conditions;
  - b. Pollution Prevention and Abatement;
  - c. Community Health Safety and Security;
  - d. Land Acquisition and Involuntary Resettlement;
  - e. Biodiversity Conservation and Sustainable Natural Resource Management;
  - f. Indigenous Peoples; Cultural Heritage)
4. Recommended Corrective Actions (for performance gaps, recommend corrective actions corresponding schedules, indicate priorities, and advise as to how to incorporate these into the Investment Agreement)

#### SUPERVISION REPORT

1. Project/Company Business Status (i.e., construction, operation, expansion, shut-down)
2. Status of ESG Corrective Action Implementation
3. ESG Performance (ongoing compliance with host country laws, EBRD/IFC Performance Standards)
4. Significant Incidents and Other Issues

**D. GENERAL INVESTMENT AGREEMENT ESG CONDITIONS LANGUAGE**

“The Borrower has not received nor is aware of any existing or threatened complaint, order, directive, claim, citation or notice from any Authority under applicable *[specify country]* law and local requirements which has, or could reasonably be expected to have, a Material Adverse Effect or any material impact on the implementation or operation of the Project”;

“Design, construct, operate, maintain and monitor the project in compliance with the Government of *[specify country]* and local requirements, as well as the Fund’s Environmental, social and governance Policy”;

“Use all reasonable efforts to ensure the Environmental, social and governance performance of the Project is in compliance with the Fund’s Environmental, social and governance Policy”;

“Implement the environmental mitigation and management measures specified in the *[Corrective Action Plan]*”;

*“[Specify any particular conditions of disbursement addressing certain corrective actions recommended for the project]”;*

“Within [90] days after the end of each Financial Year, deliver to the Fund the Annual Monitoring Report consistent with the requirements of this Agreement confirming compliance with the Action Plan, the Environmental, social and governance covenants set forth in Section \_\_, or, as the case may be, identifying any non-compliance or failure, and the actions being taken to remedy any such deficiency”;

“Within three days after its occurrence, notify the Fund of any social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on the implementation or operation of the Project in compliance with the Fund’s Environmental, social and governance Policy or a Material Adverse Effect, specifying in each case the nature of the incident, accident, or circumstance and the impact or effect arising or likely to arise therefrom, and the measures the Borrower is taking or plans to take to address them and to prevent any future similar event; and keep the Fund informed of the on-going implementation of those measures”;

*“[Specify additional covenants – e.g., additional monitoring or reporting requirements, or provisions addressing certain corrective actions recommended for the project]”;*