



# **Environmental and Social Management System Summary**

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**January 2020**

*Integrating & Investing in The Region's Economies*

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## 1. INTRODUCTION

The Environmental and Social Management System (ESMS) was developed to outline the requirements and obligations of The Eastern and Southern African Trade and Development Bank (TDB) as they relate to Environmental and Social (E&S) performance. The System is used to evaluate the Environmental and Social performance of all potential investment opportunities and to monitor the E&S performance of the current financed operations.

The ESMS will assist TDB to analyze, control and reduce the negative environmental and social impacts and improve on the positive benefits realized from financed operations. The ESMS addresses the Bank's current and future operations by providing guidance on E&S requirements during the investment decision-making process and on-going management of existing clients. Compliance with the ESMS is a condition for all TDB financed activities.

The Bank's ESMS builds on two previous ESMS Policies-ESMS Policy (June 2005) and ESMS policy (September 2010). In addition, the Bank's strategic focus emphasizes growth in infrastructure financing aimed at creating desired developmental impact for the region. This has resulted in the Bank increasing investment in large ticket and complex infrastructure projects which present significant environmental and social risks. The ESMS therefore seeks to:

- Ensure that ESMS procedures are adequate to assess and manage the risks associated with projects and transactions that are envisaged to be financed in the future;
- Ensure that ESMS is in line with internationally acceptable environmental and social standards and best practice.

## 2. TDB'S ENVIRONMENTAL AND SOCIAL POLICY STATEMENT

### 2.1. Overview

The Bank's environmental and social policy seeks to integrate environmental and social (E&S) considerations into the TDB's activities. TDB is committed to developing, implementing and continuously improving management of E&S risks and opportunities to contribute to sustainable development.

Sustainable development is core to delivering on the Bank's growth objectives. Underpinning our corporate philosophy and growth path is an appreciation that our growth drivers cannot be achieved effectively without a committed focus to E&S management and sustainable development. This policy implements applicable environmental and social requirements and procedures contained within COMESA countries. Additionally, this policy reflects specific policy commitments that have been made by TDB with respect to environmental and social policies and procedures.

### 2.2. Purpose of Policy

The policy describes the TDB's philosophy and approach to managing E&S risks and impacts in its investments.

## 2.3. Principles

TDB commits to the following principles:

- Caring for the environment by minimizing harm and encouraging environmentally responsible behavior to conserve biodiversity and maintain ecosystem services in all Bank financed activities.
- Meeting the requirements of national legislation in all the countries in which TDB resources are to be invested.
- Undertaking its activities in line with applicable international standards and industry good practice.
- Fostering value-driven ethical behavior and good governance practices informed by respect for human rights.
- Implementing all reasonable precautions to protect the health and safety of employees and promote the health and safety of workers within TDB and in all Bank financed activities.
- Mitigating against the project's climate change impacts, as far as reasonably possible.
- Ensuring that affected communities are appropriately engaged on issues that could potentially affect them.
- Promote Health, Safety and Environmental awareness and training within the Bank staff and its borrowers.
- Providing and maintaining appropriate environmental and social systems that support E&S best management practice and value addition.
- Engaging with stakeholders and regularly review environmental, social performance and continually evaluate environmental objectives and targets to achieve continuous improvement.

This policy and other elements of the ESMS shall be reviewed and updated periodically in order to ensure its continued applicability to the activities of TDB and its clients.

## 3. ENVIRONMENTAL AND SOCIAL ASSESSMENT AND RISK MANAGEMENT PROCESS

The ESMS procedures provide a clear step-by-step guidance for the application of the E&S Policy and identify relevant functions and individuals involved in the implementation process. The clear identification of roles played by the various departments in the ESMS is geared at ensuring that E&S matters are fully integrated within investment process and ensures that there is a sense of ownership by various individuals throughout the entire process.

### 3.1. Compliance Monitoring and Reporting

Compliance monitoring and reporting is an integral part of the ESMS. From disbursement and throughout the operational phase of the investments, operational departments i.e. Trade Finance, Project Infrastructure and Portfolio Management monitor performance of the

investments to ensure adherence to the loan agreement, national legal requirements in the host country and that they are in line with international best practices. Action plans and mitigation measures identified during the E&S appraisal are implemented during the monitoring process and the Bank further reports on post investment E & S activities in accordance with internal obligations and line of credit requirements.

### **3.2. Capacity Building and Awareness**

The policy provides for periodic training to create awareness on importance of E&S risks assessment and to build internal capacity in E&S assessment and also regarding emerging E&S risks.

### **3.3. Stakeholder Engagement and Grievance Mechanism**

The Bank advocates for stakeholder engagement with the aim of fostering cordial relationships between the client and stakeholders, especially those who are directly affected by the project activities. In this regard, a grievance procedure has been developed aimed at identifying and addressing E&S issues before they become grievances. On other hand, the Bank created structure and governance of the Mechanism, which allows External Parties to submit directly a complaint concerning any TDB's Investment in order to enable resolution of disputes and assist TDB in drawing lessons learned for current and future operations.

### **3.4. ESMS Review**

TDB's Environmental and Social Management System (ESMS) is reviewed periodically, and such reviews are informed by lessons learned across the portfolio and as well as other good practices that The Bank becomes aware of. The review tracks emerging E&S risks that may affect future business activities and ensures that they are incorporated into the ESMS.

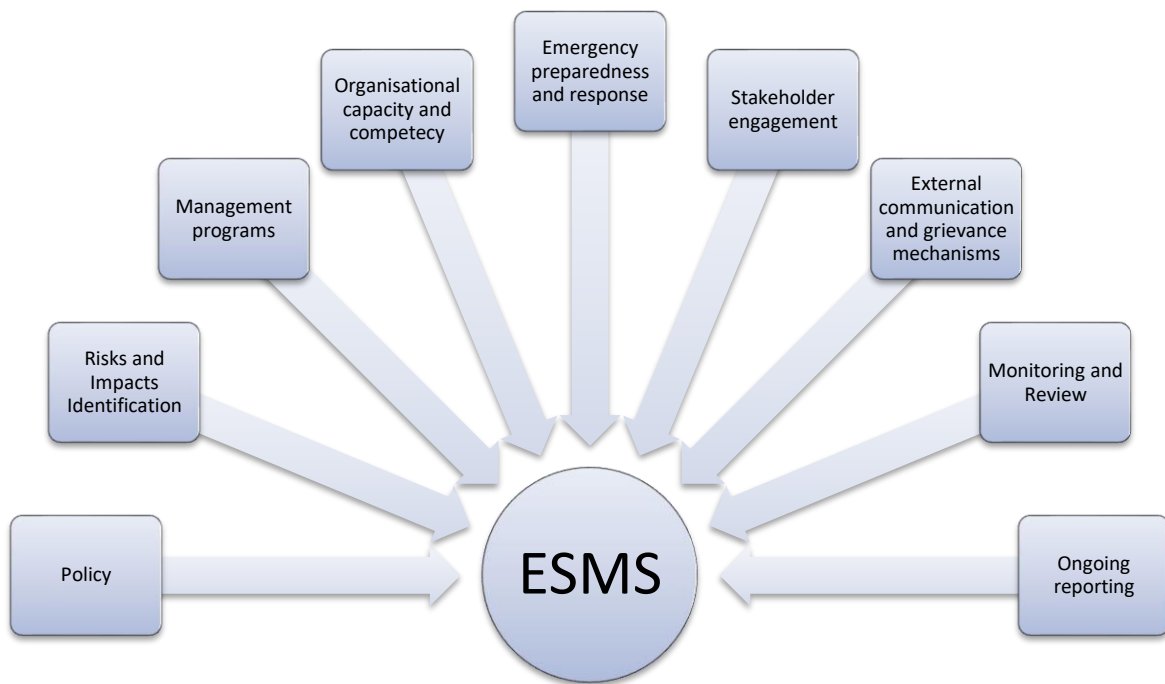
## **4. COMPONENTS OF TDB'S ESMS**

As mentioned above, the Bank's ESMS is meant to analyse, control and reduce the negative environmental and social impacts and improve on the positive benefits that are realised from financed operations during the financed period. The ESMS addresses the Bank's current and future operations by providing guidance on E&S requirements during the investment decision-making process and on-going management of clients. The ESMS describes the whole environmental management system of the TDB including the procedures designed to implement the ESMS. Therefore, the ESMS:

- Defines the Banks E&S policy.
- Describe how E&S issues are considered in the investment processes and how E&S management systems are maintained that meet the requirements of the E&S policy.
- Provides a summary of the environmental and social risks and impacts, as part of project categorization guidelines associated with investments undertaken by TDB within the COMESA region.
- Details the applicable E&S requirements and procedures against which all potential investments made by the Bank will be evaluated.
- Enhances E&S institutional capacity to execute the expanded mandate and increased business envisaged under the TDB's 5th Corporate Plan and enterprise wide risk management policy.
- Develop a structured process and tools for monitoring and recording E&S issues in its investment processes.

- Aim to create environmental and social awareness within the bank and its financed activities.
- Allocate roles and responsibilities to ensure that the ESMS is implemented within TDB and at Client companies.
- Ensure ongoing reporting on E&S performance and impact and incorporate E&S performance reporting in annual and integrated reports.
- Recommend a system for continuous tracking of the emerging Environmental and Social risks that may affect the Banks activities in the future and ensuring they are incorporated into the ESMS.

The Bank's ESMS encompasses the aspects contained in the figure 1 below.



**Figure 1-Contents of TDB's ESMS**

**4.1. Broad Environmental and Social Risks Related to TDB**

Whilst TDB financed operations are necessary for economic development within the COMESA region African Countries, there are a number of potential E&S risks and impacts that are diverse and vary in level and degree of severity.

Largely the potential E&S risk that may arise from the Bank's intervention, would be sector related risks as opposed to the Country where a specific transaction is located, save for a few markets where the basic environmental and social laws are not well developed. Another important factor to consider is the extent of exposure in respect to the product lines (financing windows) i.e. Trade Finance (TF) compared to Project and Infrastructure Finance (PIF). Between the two financing windows, the Bank is skewed towards Trade Finance. The predominant sectors of intervention on the Bank's portfolio are Manufacturing; Agribusiness

and Infrastructure (including Energy) in respect to the PIF financing window; whilst financing under TF financing window is mainly for strategic commodities (agricultural and petroleum) undertaken through issuance of Letters of Credit. Other specific E&S risk that are likely in the Bank's portfolio, the Bank recognizes that there are a number of issues that cut across sectors which include: Land related issues; labour conditions across the value chain; use of energy efficient technologies among other. Accordingly, the ESMS has been developed to ensure that the risks outlined in the table and emerging E&S risk are identified and adequately addressed throughout the investment cycle. The Bank also recognizes that if the highlighted E&S issues are not identified and mitigated, they may impact on the Bank's operations, as the ESMS is well aligned to it's the overall Enterprise Risk Management Framework. Some of the direct impacts that may affect the Bank from the highlighted E&S issues include:

- **Collateral/Guarantee Risk:** Reduction in the value of the collateral associated with transactions/clients due to E&S problems
- **Legal Risk:** E&S Impacts which result in any legal disputes/actions against the Bank
- **Credit/Financial Risk:** Clients unwilling or unable to fulfill contractual obligations from E&S issues e.g. civil liability, impaired solvency, settlements
- **Funding Risk:** Poor lending practices resulting in the Bank not being eligible for international development financing
- **Liability Risk:** Foreclosure and responsible for E&S liabilities with an asset used as a guarantee, joint liability, internal assets required
- **Reputational Risks:** Risk of negative publicity associated with the Bank's lending and client activity. Reduced brand value and image

#### 4.2. Principles applicable to TDB's ESMS

TDB commits to the following principles:

- Caring for the environment by minimizing harm and encouraging environmentally responsible behavior to conserve biodiversity and maintain ecosystem services in all Bank financed activities.
- Meeting the requirements of national legislation in all the countries in which TDB resources are to be invested.
- Undertaking its activities in line with applicable international standards and industry good practice.
- Fostering value-driven ethical behavior and good governance practices informed by respect for human rights.
- Implementing all reasonable precautions to protect the health and safety of employees and promote the health and safety of workers within TDB and in all Bank financed activities.
- Mitigating against the project's climate change impacts, as far as reasonably possible.



- Ensuring that affected communities are appropriately engaged on issues that could potentially affect them.
- Providing and maintaining appropriate environmental and social systems that support E&S best management practice and value addition.
- Engaging with stakeholders and regularly review environmental, social performance and continually evaluate environmental objectives and targets to achieve continuous improvement.

### 4.3. Applicable Environmental and Social Standards and Guidelines

The Bank will ensure that all potential investment opportunities are reviewed and evaluated against the following applicable requirements and guidelines:

- National laws of an E&S nature applicable to the countries and sectors of interest.
- Lines of Credit Side-letters and E&S reporting requirements (such as AfDB, CDC, DBSA, FMO, AFD, EXIM Banks and other present or future Lender's).
- Applicable EU, UN and Office of Foreign Asset Control (OFAC) Sanction Lists, where applicable;
- TDB's E&S Categorisation Guidelines as detailed in Appendix 4.
- IFC Performance Standards 2012; and
- AfDB Operational safeguards.

The Bank shall, to the extent possible, ensure that its respective clients comply with all applicable laws, rules and regulations of any government, regulatory body, licensing agency, or professional association in the country of domicile where the financed operation will occur. In particular, TDB shall ensure, to the extent permitted under any domestic law, that the Client or, in the case where the transactions is structured for on-lending to specified eligible sub-borrowers, that such Client's sub-borrowers contract to observe the relevant E&S guidelines adopted by TDB. In the event of an absence of national standards in the country where the investment will be made, or a conflict between TDB's requirements and that of the country concerned, clients must comply with the more stringent standard, whether expressed as a law, rule or regulation.

### 4.4. Organization Responsibility, Resources and Capacity

The implementation of the ESMS is achieved by deploying the following resources:

**Table 1-Roles and Responsibilities in the Implementation of ESMS**

TITLE	RESPONSIBILITY
President	<ul style="list-style-type: none"> <li>▪ Overall responsibility for Business Principles and ESMS at the Bank.</li> <li>▪ ESMS reporting to the Board of Directors.</li> </ul>

TITLE	RESPONSIBILITY
Compliance and Risk Management (CRMD)	<ul style="list-style-type: none"> <li>▪ Responsible for managing and reporting (to Management and the Board) on Bank-wide risk including the E&amp;S Risk;</li> <li>▪ Assessing E&amp;S risks as part risk management during project appraisal and during the holding period.</li> <li>▪ Measuring and reporting on aggregated risk exposure across the Bank (including E&amp;S Risks);</li> <li>▪ Coordinating the design, implementation and monitoring of business continuity and other corporate risk management plans;</li> <li>▪ Monitoring of compliance with internal controls. (Governance, control and assurance department).</li> <li>▪ Monitor and report on progress with implementation of Departmental based risk management plans</li> <li>▪ Reviews Client submissions to ensure that they comply with the applicable regulations of the host country regulatory regime.</li> <li>▪ Review E&amp;S monitoring reports on a periodic basis and recommend enhancements where necessary.</li> </ul>
Investment/Trade Finance Officer	<ul style="list-style-type: none"> <li>▪ Ensure appropriate consideration of E&amp;S aspects at each stage of the investment process.</li> <li>▪ Ensure that appropriate environmental, social representations, warranties, and covenants are incorporated in each Client agreement.</li> <li>▪ Liaise with the ESMS Coordinator to ensure the correct E&amp;S requirements are included in the investment documents and adequate resources are committed to allow effective and appropriate implementation of the ESMS policy and procedures.</li> <li>▪ In consultation with E&amp;S manager, set an appropriate term of reference and budget for the SEDD.</li> </ul>
ESMS Manager	<ul style="list-style-type: none"> <li>▪ Ensure compliance with the Bank's E&amp;S Policies and overall responsibility for the implementation of the ESMS at the Bank and clients.</li> <li>▪ Participate in pipeline meetings and other appropriate forums to contribute to the investment process.</li> <li>▪ Prepare terms of reference for the E&amp;S consultant for completion of the Social and Environmental Due Diligence (SEDD) based on the list of sector specific questions.</li> <li>▪ Report E&amp;S issues/infringements to the lenders and ensure that risks are appropriately remedied.</li> <li>▪ Supervising and approving all E&amp;S reports.</li> <li>▪ Answering any queries from lenders of an E&amp;S nature.</li> <li>▪ Ensuring that E&amp;S training needs of staff are met.</li> <li>▪ Management of the ESMS document and ensuring that it is reviewed on a periodic basis.</li> </ul>
ESMS Coordinator	<ul style="list-style-type: none"> <li>▪ Ensure that resources are committed at the Client Level for E&amp;S and OHS management processes.</li> <li>▪ Evaluating environmental and social compliance of Clients activities with the applicable ESMS requirements.</li> <li>▪ Participate and contribute on all SEDDs whether it is being driven by external consultants or in-house E&amp;S Expert.</li> </ul>
TDB's E&S Expert	<ul style="list-style-type: none"> <li>▪ Ensure appropriate consideration of E&amp;S as part of the SEDD or investment monitoring process.</li> <li>▪ Ensure the correct E&amp;S requirements are included in the investment documents and adequate resources are committed to allow effective and appropriate implementation of the ESMS policy and procedures.</li> <li>▪ Report local E&amp;S issues/infringements/incidents to TDB and ensure that all emergency incidents are appropriately addressed, and risks remedied where possible.</li> </ul>

TITLE	RESPONSIBILITY
	<ul style="list-style-type: none"> <li>▪ Ensure that the Client is compliant with the Bank's E&amp;S Policy.</li> <li>▪ Maintaining and updating a list of potential E&amp;S and OHS risks inherent in TDB's evolving business portfolio;</li> <li>▪ Maintain on-going liaison and correspondence with the Client ESMS representative.</li> <li>▪ Develop a program with the Client for the submission of quarterly or semi-annual E&amp;S reports to TDB.</li> <li>▪ Work with the Client and the Bank's E&amp;S Expert to ensure that adequate resources are committed to allow effective and appropriate implementation of the ESMS policy and procedures.</li> <li>▪ Prepare bi-annual reports on local E&amp;S issues/infringements and ensure that all serious incidents are appropriately addressed, and risks remedied where possible.</li> <li>▪ Prepare a lessons learned report on each investment on an annual basis.</li> <li>▪ Review annual E&amp;S reports on Banks projects.</li> </ul>
Legal Officer	<ul style="list-style-type: none"> <li>▪ Prepare loan conditions and covenants</li> <li>▪ Ensure appropriate E&amp;S clauses and action plan are included in the legal agreements signed with the Bank's clients.</li> <li>▪ Review any amendments to the loan conditions and covenants.</li> <li>▪ Liaising with the ESMS manager to maintain a current E&amp;S legal register for all the countries within which TDB operates.</li> </ul>
Client (Borrower)	<ul style="list-style-type: none"> <li>▪ Comply with TDB's ESMS</li> <li>▪ Provide project information as requested by TDB;</li> <li>▪ Carry out ESIA along with feasibility studies and public consultations including disclosure of the ESIA findings to the authorities and the public</li> <li>▪ Securing appropriate E&amp;S permits from the relevant authorities</li> <li>▪ Prepare and E&amp;S management plan and compensation schemes</li> <li>▪ Prepare appropriate agreements on impacts relating to resettlement, livelihood losses and indigenous people.</li> <li>▪ Monitor implementation of E&amp;S management plan and action plan to ensure compliance.</li> <li>▪ Submit regular monitoring reports to TDB</li> </ul>
Client ESMS representative	<ul style="list-style-type: none"> <li>▪ Engagement with the contractors and communities to ensure that E&amp;S requirements are met.</li> <li>▪ The implementation of TDB's E&amp;S policies and ESMS at the Client level.</li> <li>▪ Documenting and reporting local E&amp;S issues/infringements to the Bank's ESMS coordinator.</li> <li>▪ Ensure the implementation of remedial actions on serious incidents and appropriately address risks.</li> <li>▪ Monitoring the implementation of Environmental and Social Action Plans at a Client level.</li> <li>▪ Training client staff on an on-going basis on E&amp;S issues and impacts related to their activities and on the implementation of the ESMS.</li> </ul>

The ESMS reporting structure is shown in the diagram below:

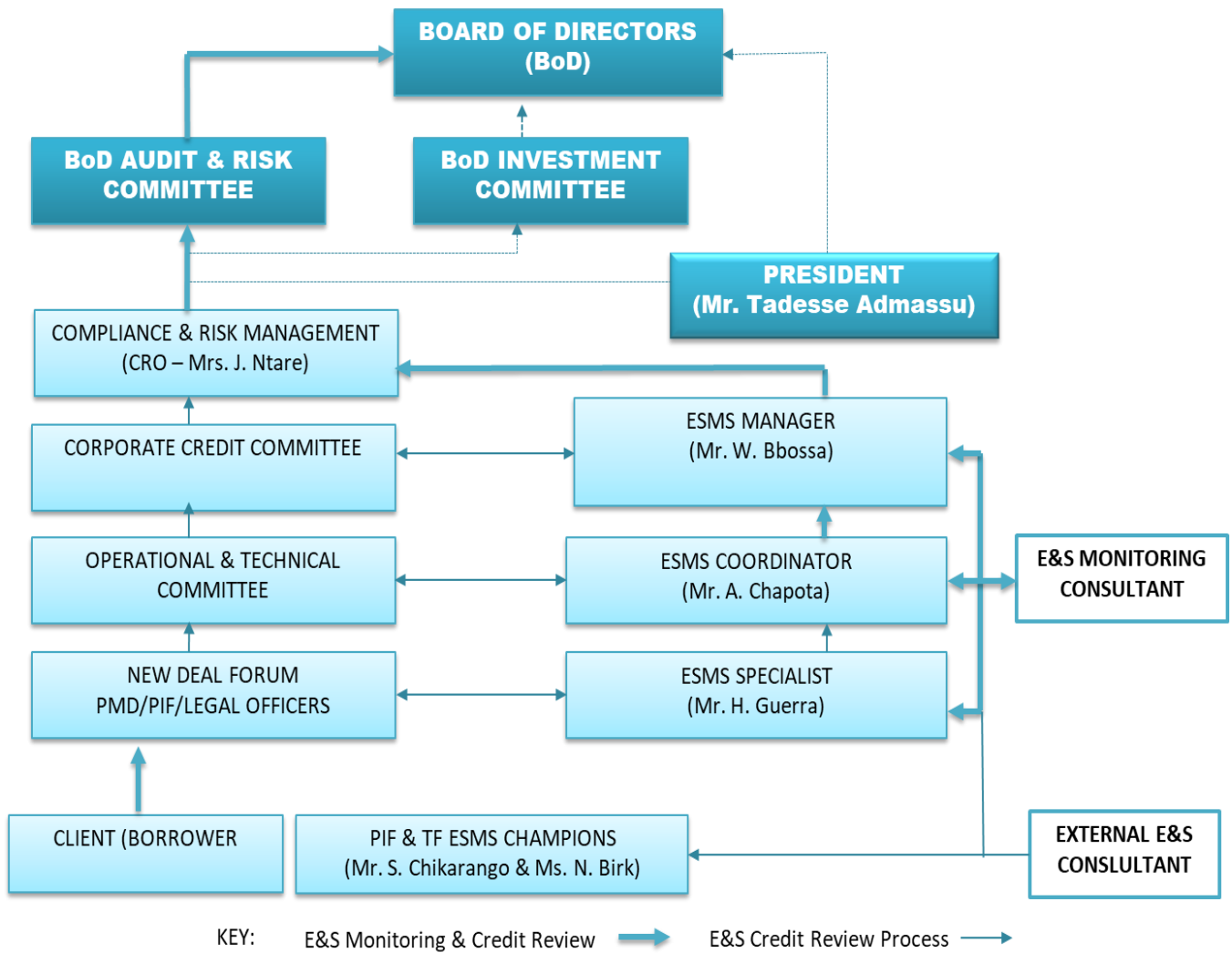


Figure 2-TDB's E&S Reporting Structure

## 5. APPLICATION OF TDB'S ENVIRONMENTAL AND SOCIAL POLICIES TO ITS INVESTMENTS

In order to meet the above principles, TDB has set the following E&S operational requirements to its financed operations, within the constraints of the financial targets set:

- Screen all investments financed by the TDB against the Exclusion List
- Screen all investments for E&S impacts and benefits prior to approving any finances through a well-defined due diligence analysis and decision-making process.
- Ensure clients comply with national and international environment, social, health and safety regulations applicable to the financed operations and services.
- Ensure TDB invests mainly in socially and environmentally responsible companies.
- Require the adoption of TDB's E&S Standards as defined in this ESMS by our clients, business partners and supply chain.
- Monitor and enforce compliance of E&S aspects/covenants of the Bank's clients in a legally acceptable manner.
- Ensure that the decision makers of the client companies are more active in taking preventive measures that avoid potential E&S risks that ultimately could result in future liability or insurance claims. This can be achieved through providing guidance to the decision makers as well as creating commitment with them towards putting in place the adequate preventive measures.
- Identify projects that provide environmental and social benefits such as in renewable energy, energy efficiency, water sector, etc.
- Where applicable, assist client companies with E&S value add propositions as part of the action plan to improve E&S awareness and management.
- Monitor and report on our contribution to the E&S development of our clients in a transparent, credible and timeous manner to all relevant stakeholders.
- Overall, actively supporting the development of businesses within member states and supply of goods and services that meet E&S international best standards.

### 5.1 E&S PROCESS FLOW

The E&S process (management of transaction's risks) flow and procedures which would apply during the investment process, from deal origination through to final loan repayment or exit is shown in the diagram below:

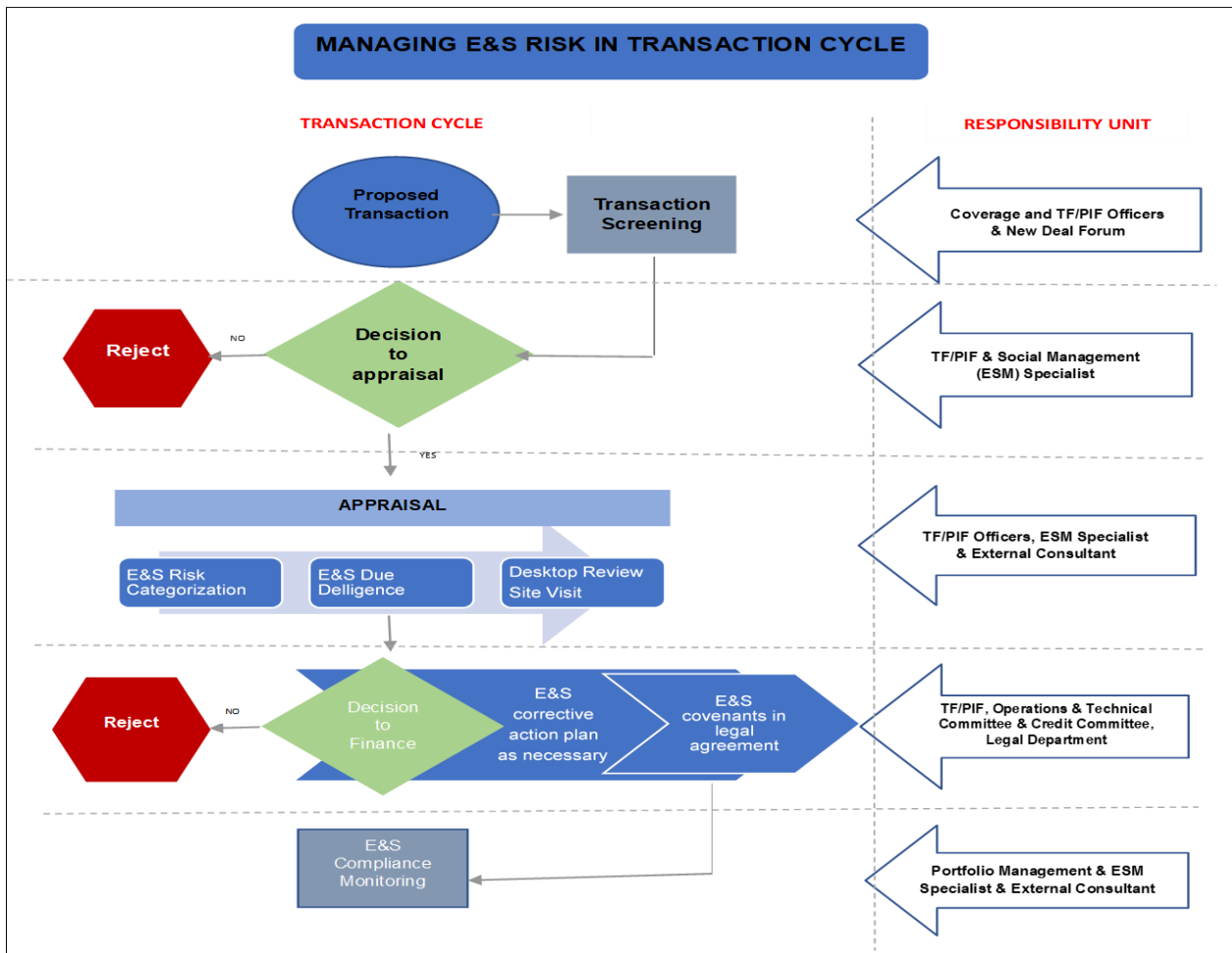


Figure 3-E&S Process Flow

## 5.2 PROJECT CATEGORISATION

Whilst TDB financed operations are necessary for economic development within the COMESA region, there are a number of potential E&S risks and impacts that are diverse and vary in level and degree of severity. TDB's E&S Categorisation Guidelines contained were developed to identify the potential E&S risks associated with potential financed investments based on the sectors and categorise the projects based on the significance of the anticipated impacts. Investments will fall into the following four categories listed below:

### i. Category 1

The project is likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented. A potential impact is considered "sensitive" if it may be irreversible (e.g., lead to loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites. A full Environmental and Social Impact Assessment (ESIA) is required.

### ii. Category 2

The project may result in specific environmental impacts, but these impacts are site specific and few if any of them are irreversible. In most cases mitigation measures are predetermined Performance Standards, Guidelines, or design criteria. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of Category 1 projects. Although a full EIA is not required, environmental assessment focusing on the anticipated impacts is required.

### iii. Category 3

The project is likely to have minimal or no adverse environmental impacts. No further environmental assessment is required.

### iv. Category 4

The project involves investment of funds through a financial intermediary in subprojects that may result in adverse environmental impacts, or the FI has operations which may have adverse environmental impacts (e.g. project finance). Verification that the project sponsor is capable of and committed to conducting environmental review of projects and managing relevant operations to ensure that financed projects meet certain environmental requirements is required. This category is further divided into:-

- *FI-1:*  
When an FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
- *FI-2:*  
When an FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
- *FI-3:*  
When an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

## 5.3 TDB'S E&S RISK RATING MATRIX

TDB has developed the E&S risk rating matrix below to provide guidance on the requirements to ensure that project appraisal are undertaken to identify and rate inherent E&S risks that may be associated with a potential project. The matrix provides guidelines on rating impacts during the review of E&S information for the purposes of the appraisal and will assist the current staff members undertaking project appraisal and categorisation to rate E&S impacts according to their anticipated significance.

### **E&S Risk Rating Matrix**

- **Likelihood** - The likelihood variables are determined by the probability of the event to occur and were based on past experience at the site with regards to the reported incidents as detailed in table below:

- A 99% probability, or  
Impact is occurring now, or  
Could occur within "days to weeks"
- B >50% probability, or  
Balance of probability will occur, or  
Could occur within "weeks to months"
- C >20% probability, or  
May occur shortly but a distinct probability it won't, or  
Could occur within "months to years"
- D >5% probability, or  
May occur but not anticipated, or  
Could occur in "years to decades"
- E <5% probability, or  
Occurrence requires exceptional circumstances, or  
Exceptionally unlikely even in the long term future, or  
Only occurs as a "100 year event"

- **Consequence** - The consequence variables were determined by the severity of the likely impact and are based on the assessment of residual risks on people, environment and legal compliance as per the rating Table below.

**Table 2-Consequence Rating Criteria**

RATING	SOCIAL	ENVIRONMENT	LEGAL AND COMPLIANCE
<b>5 - catastrophic</b>	<ul style="list-style-type: none"> <li>• Multiple fatalities or;</li> <li>• Significant irreversible effects to 10's of people.</li> <li>• Massive relocation of indigenous communities and minority groups that will irreversibly affect their livelihoods</li> <li>• High profile community concern raised requiring significant rectification measures.</li> </ul>	<ul style="list-style-type: none"> <li>• Prolonged environmental impact.</li> <li>• Government agency inquiry.</li> <li>• Environmental licenses revoked and directives issued.</li> </ul>	<ul style="list-style-type: none"> <li>• Major litigation costing USD1M+.</li> <li>• Investigation by regulatory body resulting in long term interruption to operations.</li> <li>• Possibility of custodial sentence.</li> </ul>
<b>4 - major</b>	<ul style="list-style-type: none"> <li>• Single fatality and/or;</li> <li>• Severe irreversible disability to one or more persons.</li> </ul>	<ul style="list-style-type: none"> <li>• Measurable environmental harm medium term recovery.</li> </ul>	<ul style="list-style-type: none"> <li>• Major breach of regulation with punitive fine.</li> </ul>



	<ul style="list-style-type: none"> <li>• Relocation of over 1000 households that will negatively and irreversibly affect their livelihoods.</li> <li>• High potential for complaints from stakeholders and community.</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental directives issued by authorities.</li> </ul>	
<b>3 - moderate</b>	<ul style="list-style-type: none"> <li>• Extensive injuries or irreversible disability or impairment to one or more persons.</li> <li>• Long term negative reversible impact on the surrounding host communities.</li> </ul>	<ul style="list-style-type: none"> <li>• Medium term recovery, immaterial effect on environment.</li> <li>• Required to inform Government agency.</li> </ul>	<ul style="list-style-type: none"> <li>• Breach of regulation with investigation or report to authority with prosecution and/or moderate fine possible.</li> </ul>
<b>2 - minor</b>	<ul style="list-style-type: none"> <li>• Medium term largely reversible disability to one or more persons.</li> <li>• Significant medical treatment, disabling or lost time injury &lt;2 weeks.</li> <li>• Short term reversible negative impacts on the surrounding communities</li> </ul>	<ul style="list-style-type: none"> <li>• Short term transient environmental impact - some clean-up costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Minor legal issues, non-compliance and breaches of regulation.</li> </ul>
<b>1 - insignificant</b>	<ul style="list-style-type: none"> <li>• First aid treatment or minor medical treatment.</li> <li>• Minimal negative impacts on the surrounding communities.</li> </ul>	<ul style="list-style-type: none"> <li>• Negligible impact on the environment, little or no ecological effect and no measurable impact on human health.</li> </ul>	No breach.

Table 3 below shows the risk rating matrix used to determine the significance of the identified risks.

**Table 3-Risk Rating Matrix**

	CONSEQUENCE				
	1	2	3	4	5

<b>LIKELIHOOD</b>	Acccb	High (3)	High (3)	Extreme (4)	Extreme (4)	Extreme (4)
	<b>B</b>	Moderate (2)	High (3)	High (3)	Extreme (4)	Extreme (4)
	<b>C</b>	Low (1)	Moderate (2)	High (3)	Extreme (4)	Extreme (4)
	<b>D</b>	Low (1)	Low (1)	Moderate (2)	High (3)	Extreme (4)
	<b>E</b>	Low (1)	Low (1)	Moderate (2)	High (3)	High (3)

The outcome of E&S Risk Rating is an E&S Risk Score which ranges on a scale of 1 (Low Risk) to 4 (Extremely High Risk) as per the above Risk rating matrix combining the Likelihood Rating and the Consequence Rating of the more significant E&S Risk identified during the SEDD. The E&S Risk Score shall be reported in the Template for Final Evaluation and Screening Paper.

#### 5.4 STAKEHOLDER ENGAGEMENT

Stakeholder engagement measures will work pro-actively towards developing and fostering positive relationships between the Client and stakeholders, particularly those directly affected by the project activities. Stakeholder engagement will aim to:

- Provide stakeholders with project information at appropriate times and in accessible forms.
- Communicate planned project phases, developments and changes to all stakeholders in good time (e.g. opening of new operations).
- Involve stakeholders in project decision-making that will affect/influence their lives.
- Enhance stakeholders' capacity to identify unanticipated projects impacts, and to be able to communicate these to the Client such that they can be resolved.
- Assist affected people in adapting to the social and economic changes brought about by the Project through information and participation.
- Ensure that stakeholders can report concerns and grievances easily.

The management of impacts through stakeholder engagement can be divided into two main strategies.

- Proactive engagement where portfolio company goes out to stakeholders to elicit their involvement and to share information in order to address issues that may be of concern prior to their arising. This process is ongoing throughout the project implementation.

- Reactive engagement i.e. responding to concerns or grievances raised by stakeholders in a coherent and predetermined manner. This approach is facilitated through the establishment of a Grievance Procedure as described below.

#### **5.4.1 Disclosure of Information**

Disclosure of relevant project information helps Affected Communities and other stakeholders understand the risks, impacts and opportunities of the project. The client will provide Affected Communities with access to relevant information on:

- (i) the purpose, nature, and scale of the project.
- (ii) the duration of proposed project activities.
- (iii) any risks to and potential impacts on such communities and relevant mitigation measures.
- (iv) the envisaged stakeholder engagement process; and
- (v) the grievance mechanism.

#### **5.4.2 Grievance procedure**

Stakeholder engagement measures will work pro-actively towards identifying and addressing E&S issues before they become grievances. However, when grievances are reported they need to be addressed in a consistent and verifiable manner as part of the implementation of the ESMS. For this reason, a Grievance Procedure needs to be followed to:

- Enable stakeholders to easily identify and report any grievance regarding the project's performance; and
- Ensure that, through a defined process and within a predictable timeframe, stakeholders receive a response and/or resolution to the grievance.

A grievance is when stakeholders report a complaint or what they perceive to be poor performance linked to an operation within a Client company, with the expectation of an explanation, or a change to the activity that has caused the grievance, or redress/compensation. The Bank's Grievance Procedure was developed in accordance with the requirements of the IFC Performance Standard 1, Guidance Note 1 on assessment and management of environmental and social risks and impacts, 2012. The focus of this procedure is on grievances raised by external stakeholder groups such as affected communities, local government authorities, non-governmental and other civil society organizations, local institutions and other interested or affected parties. The procedure does not address engagement with suppliers, contractors, distributors, or customers, because interaction with these parties is a core business function for most companies and subject to national regulations and/or established corporate policies and procedure. The Grievance Procedure is divided into six key steps as discussed below:

##### **Step 1: receive and log grievance**

- The grievance is received by a Client representative. Regardless of who receives the grievance, it needs to be forwarded to the ESMS officer within the Client Company for attention.

- The Client company ESMS officer logs the grievance using the official Grievance Log Form included below and ensures that actions are taken against the grievance.

### **Step 2: acknowledge grievance**

- The Client company ESMS officer will communicate in writing to the complainant acknowledging receipt of the grievance.
- This communication will be provided within 5 days of receiving the grievance.

### **Step 3: Assess and priorities grievance and forward to responsible individual**

- The Client ESMS officer will assess the grievance, and assign it a risk rating level, as per the risk rating described below.
- Once the grievance has been rated the grievance will be forwarded to the relevant individual to be addressed (e.g. Human Resource, Production, Procurement etc). Repeated or continuous Level 1 or 2 complaints must be escalated to the next management level up, if the cause is not rectified within an acceptable period of time.
- TDB must be notified, as soon as possible and in any case in not more than 5 days of receipt of the grievance, if it is assessed to be Level 2 or Level 3.

### **Step 4: Grievance Rating**

The following criteria will be used as a basis for the prioritisation of different levels of complaints received.

- A Risk Level 1 complaint is one which is isolated, or "once-off" (within a given reporting period), and essentially local in nature, and has little potential to cause long term damage to stakeholder relations locally and nationally.
- A Risk Level 2 complaint is one which is widespread and repeated, has resulted in attention from the media at local / regional level, and has the potential to cause damage to stakeholder relations locally and nationally.
- A Risk Level 3 complaint is one which is both widespread and / or repeated and which, in addition, has resulted in a serious breach of Company policies, or the law and / or has led to negative national / international media attention, or is judged to have the potential to generate negative comment from the media, or other key stakeholders. A Risk Level 3 complaint also has the potential to cause major damage to stakeholder relations, locally, nationally and internationally.

### **Step 5: investigate and resolve grievance**

- An Investigation Team (overseen by the Client company ESMS officer) will be assigned within 10 days of receipt of the grievance by the Client company ESMS officer. The team will be tasked with investigating the underlying cause of the grievance and action any changes required to internal systems to prevent a recurrence of a similar grievance. An Investigation Report will be completed within 28 days.

- During the 28 days of investigation, the Client company ESMS officer will co-ordinate conflict resolution activities necessary to contain and resolve any actual or potential conflicts arising from the reported grievance.

#### **Step 6: sign-off on grievance**

- The Client company ESMS officer will seek sign-off from the stakeholder that the grievance has been resolved.
- In instances where the stakeholder is not satisfied with actions taken, the grievance will be escalated to senior management and a decision will be taken either to implement supplementary actions or to consider initiating an additional engagement process.
- Following additional engagement with the complainant, the Client company ESMS officer will again approach the stakeholder to obtain sign-off on actions implemented in accordance with agreed outcomes.

#### **Step 7: Monitor**

- The Client company ESMS officer will monitor the satisfaction of the stakeholder and project personnel following sign-off (this will take place within 28 days of final sign-off).

#### **Step 8: Reporting and documentation**

The Client company ESMS officer will compile concise quarterly and annual reports of all grievances logged, results of these activities and grievances, and monitoring of the success of the stakeholder engagement and grievance resolution process. This will be made available for internal reporting to TDB's ESMS manager and ESMS officer.

## 6. PROJECT COMPLIANCE MONITORING AND REPORTING

### 6.1 COMPLIANCE MONITORING

From the first disbursement and during the operational phase of the investment, TDB's Portfolio Management Department (PMD) and Trade Finance (TF) Department monitors the progress and performance of the investment in line with the loan agreement. Monitoring among other issues, aims to ensure that the client complies with the environmental and social (E&S) conditions stipulated in the loan agreement and ensure ongoing compliance with the national and local legal requirements within the host country and where applicable international best practices. Monitoring also ensures that the action plan and mitigation and management measures identified in the E&S appraisal are implemented and where the recommended management measures are ineffective or adequate, corrective alternatives are implemented. In addition, TDB's PMD and TF teams provide assistance in building institutional capacity of the client with regards to E&S performance of the project. E&S conditions at the project level will be captured and monitored by the use of TDB's defined reporting tools, including the following:

- Major Incidents Reporting Form;
- Semi-Annual E&S Monitoring Report;
- Annual Environmental and Social Performance Monitoring Report;
- Project E&S Information Checklist for Handover to PMD (Appendix 17); and
- Grievance Log Form;
- Annual Environmental and Social audit Report based on PS Guidance Notes for PS1-PS8 - by both internal and independent external experts/specialist
- Annual ESMS review and self-assessment - by both internal and independent external experts/specialist

The forms and reports listed above are to be completed by the Client at the project level. Together with the internal supervision reports prepared by the Bank's Officers, the E&S status of TDB financed projects are compiled and to be further reported. TDB will then report on post investment ESMS activities on projects in accordance with internal obligations and the requirements of its stakeholders/lines of credit. The risk rating will be updated based on findings of the E&S monitoring reports. The following reporting tools will be used to monitor E&S situations at various stages of the investment.

#### 6.1.1 Reporting on Major Incidents

Within 24 hours of their occurrence, the Client SEMS representative will be required to provide reports to TDB for further reporting to the Lenders on significant incidents which have, or could potentially have material impacts on the client's operations, the welfare of employees, contractors or members of the public, or the environment, including, but not limited to:

- Fires or explosions.
- Significant fuel/chemical spills.
- Significant pollution discharges above limits of normal operation.
- Major work-related injuries (including injured employees, contractors and members of public).
- Work-related fatalities (including deaths of employees, contractors and members of public).

- Incidents significantly affecting the health of employees, contractors or members of public).
- Regulator enforcement actions/notices.
- Major security breaches.
- Strikes or employee unrest.
- Incidents requiring operations to be substantially curtailed or shutdown; and
- Significant community unrest or public relations incidents.

Clients should use the Major Incident Reporting Form to report incidents and detail what actions have been taken to remedy the situation to TDB.

Based on the information garnered from the Major Incident Reporting Form (Appendix 10), TDB will notify in writing the lenders (providers of that specific credit line) of the incident.

### **6.1.2 Project E&S Information Checklist**

The Clients are required to complete a Project E&S Information Checklist for every project prior to handover to the Bank. The checklist consists of a brief description of the intended project, environmental and social categorization, and a list of documents in accordance to the project category required to be provided to the PMD.

### **6.1.3 Grievance Log**

Following the grievance procedure established by the Bank, Clients will develop a grievance procedure to ensure that all grievances raised by external stakeholder groups will be logged. External stakeholders include affected communities, local government authorities, non-governmental and other civil society organizations, local institutions and other interested or affected parties.

The Client SEMS Officer will compile concise quarterly and annual reports of all grievances logged, results of these activities and grievances, and monitoring of the success of the stakeholder engagement and grievance resolution process. This will be made available for internal reporting to TDB's SEMS Manager and SEMS Officer.

### **6.1.4 Semi-Annual Reporting**

The E&S coordinator will be responsible for compiling the semi-annual reports, which must detail all ESMS processes and changes enacted during the period. Should it not be feasible to compile a semi-annual report, a reason shall be provided for this and agreed with TDB and an annual report will be required. The reports must describe possible foreseeable risks and possible implementation of E&S standards during the investment. The report findings will be reported to the CRMD who will then report to TDB's Board of Directors, when necessary.

### **6.1.5 Annual Reporting to Investors**

TDB will report to the lenders and shareholders through an annual E&S Performance Monitoring Report and Development Effects Report within 90 days of the end of the financial year. The above reporting steps will afford TDB an opportunity to review or adjust the E&S Policy and reporting procedures and identify areas for improving their implementation as necessary. This will include reporting on the following:

- Implementation and operation of the ESMS.

- E&S performance of the Clients.
- Status of Clients respective E&S Action Plans (if applicable).

#### **6.1.6 Completion/Exit**

Investment completion reviews the performance of the investment against the loan agreement. The aim is to generate lessons learnt which find their way into a consolidated report on key learning experiences and recommendations for consideration in future interventions. The inclusion of the environmental specialist in post-project evaluation is highly recommended for Category 1 and Category 2 projects.

### **7. AWARENESS AND TRAINING**

A comprehensive training for employees of the Bank is undertaken as part of the implementation of ESMS. The training covers the application of the ESMS policy, procedures and tools to particular projects or investment. In addition, operational staff are trained in relevant Environmental and Social Risk Analysis courses to enhance their knowledge and skills.

### **8. ESMS REVIEW**

This ESMS will be reviewed periodically by TDB and will be informed by lessons learned across the portfolio as well as other good practices that TDB becomes aware of. This review will include a review of the Appendices. The review will continuously track emerging E&S risks that may affect the Banks activities in the future and ensuring they are incorporated into the ESMS.

A review of the ESMS may also be triggered by any change in the scope of the Shareholders Charter, any change in the operations which introduce or changes any material environmental, social or occupational health and safety risk, any failures of this ESMS to appropriately manage E&S risks to the satisfaction of the Lenders or change in TDB's E&S Policies.

TDB will inform the Lenders and shareholders of significant proposed changes.