

# **Spark+ Africa Fund:**

## **Clean Cooking Ecosystem Fund**

**OUTLINE OF ENVIRONMENTAL AND SOCIAL MANAGEMENT POLICY**

**FEBRUARY 2020**

# **ENVIRONMENTAL AND SOCIAL MANAGEMENT POLICY**

The Spark+ Africa Fund (Spark+, the Fund) has developed an Environmental and Social Management Policy (E&S Management Policy, E&S Policy, the Policy) which sets out objectives, procedures, and guidelines to manage risks and monitor and report the Fund's developmental impact in line with the aims of its principal shareholders. It is used for investee-company evaluation and reporting and the Fund reporting to the Limited Partners.

The E&S Management Policy is a framework that integrates environmental and social risk management and reporting into the Spark+ Fund's business processes. It is a set of actions and procedures that are implemented concurrently with the Fund's broader risk management procedures.

The E&S Management Policy ensures that the Fund's activities are in compliance with its environmental and social standards. It helps the Fund to avoid and manage investments with potential environmental and social risks by conducting environmental and social due diligence prior to deal completion and adequate supervision of activities during the term of the investment.

This E&S Management Policy is rooted in the AfDB's Integrated Safeguards System (ISS), as well as the associated ISS general and energy sector-specific guidelines outlined in its series of documents. In particular, this E&S Policy draws upon the December 2015 Volume 1 General Guidance on Implementation of Operational Safeguards (Volume 2, Issue 1), the December 2015 Volume 2 Guidance on Safeguard Issues (Volume 2, Issue 1), and the December 2015 Volume 3 Sector Keysheet for the Energy Sector (Volumes 2, Issue 1).

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## 1 INTRODUCTION

Three billion people, almost 40% of the world's population, rely on solid fuels such as charcoal, wood, dung, and coal to cook their food, contributing to negative effects on the environment, global climate, and health. Women and girls, who often spend hours cooking and collecting fuel, are disproportionately affected. And while the global access-deficit has remained at three billion since 2000, Sub-Saharan Africa's deficit has grown due to population growth, increasing from 585 million in 2000 to over 860 million in 2016. Ten of the top 20 access-deficit countries are in Africa.

The African Development Bank (AfDB) has committed to invest about US\$12 billion between 2016 and 2020, with an expectation to leverage between US\$45 billion and US\$50 billion in co-financing for energy projects in Africa during the period. These commitments have been enshrined in the AfDB's New Deal on Energy for Africa, which has the following broader targets:

- Increase off-grid generation to add 75 million connections by 2025, an increase that is twenty times more than what Africa generates today;
- Increase on-grid generation to add 160 gigawatts of new capacity by 2025;
- Increase on-grid transmission and grid connections by 160 percent in order to create 130 million new connections by 2025; and
- Increase access to clean cooking energy for 130 million households.

The Spark+ Africa Fund (Spark+, the Fund) is an impact investment fund being formed by the Clean Cooking Alliance (Alliance), a global organization working to build an inclusive clean cooking industry at scale, and its partner Fund Manager (collectively, the Sponsors) to invest in access to clean, efficient, and modern cooking solutions for rural, peri-urban, and urban communities in base-of-the-pyramid markets in sub-Saharan Africa.

The Fund will mainly invest in long-term debt instruments, and to a lesser degree equity and quasi-equity instruments in small and medium size enterprises (SMEs) active in the cooking energy value chain. The Fund will be a minority shareholder with regards to equity investments and will preferably invest alongside co-investors. The Fund is seeking total commitments of US\$50-70 million, with a first closing targeted at US\$30 million or more.

The AfDB is considering an investment in the Fund in line with its investment commitment to energy projects in Africa, particularly clean cooking energy. Spark+ will have a blended capital structure that will include a first-loss tranche, equity tranche, and senior debt tranche.

The E&S Management Policy represents one of several other policies that will govern the actions of the Fund.

E&S Management Policy processes will occur in parallel with investment due diligence, legal due diligence, and other investment activities, and are equal in importance to these other processes in determining how investments are made and managed.

## **2 ENVIRONMENTAL AND SOCIAL MANAGEMENT POLICY**

### **2.1 Principles**

The Fund, and its investors, recognize that the stewardship of the environment and the prosperity of local communities are integral aspects of its investment activities. It also recognizes that investments often benefit from following sound social and environmental practices. The Fund will, therefore, in compliance with relevant local and national legislation and international standards and agreements, and in view of best practices, seek to support both investees that minimize negative environmental and social impacts to the full extent possible, and investees that contribute to proactively improving environmental and social outcomes. This will be relatively achievable given that clean cooking solutions as a product segment inherently reduce environmental impact, and social impact, versus the status quo which is the inefficient production and combustion of biomass fuels for cooking and heating.

The Fund will ensure that the E&S Management Policy is fully communicated to, understood by, and implemented at all levels throughout the Fund, its investees, and its contractors, and will make it available publicly. The Fund will address complaints about breach of the Policy promptly and to the satisfaction of all concerned. The Fund will update the Policy when necessary.

In the case that investee activities are likely to result in moderate or severe environmental or social impacts, the Fund and its investees will conduct formal environmental and social impact assessments and will take all possible steps to mitigate these risks.

Across all environmental and social risk categories of their investments, the Fund commits to the following set of guiding principles:

- The Fund commits that each investment will be made in line with its E&S Policy and associated procedures.
- The Fund will ensure that each of its investees is evaluated on the basis of the five operational safeguards set out in AfDB's ISS and the added safeguard of climate change, as well as on additional safeguards if found relevant and requested by other investors or partners.
- Investees are financed only when they are expected to be designed, built, operated, and maintained in a manner consistent with the E&S Policy.
- Efforts are made to ensure that all investees activities are in compliance with the E&S Policy.
- The Fund commits to a process of continuous improvement in its Environmental and Social Management System (ESMS) design and implementation.
- The Fund will encourage and reward the adoption of E&S standards, which align with the E&S Policy, by investees.
- The Fund will monitor and report on E&S performance of investees in a transparent, credible, and timely manner to all relevant stakeholders.

## **2.2 Harmonization of Spark+ Africa Fund's E&S Policy with Other Investors' E&S Policies**

The Fund will work with its investors (other than AfDB) to maintain one single E&S Policy and reporting framework which meets investors' requirements.

Specifically, particular clauses from the other policies will be added to the exclusion list if not already included there. The Fund safeguards will be added to or incorporated into the current safeguards; additional procedural requirements under each investment risk category will be incorporated into the current fund procedures if the new requirements enhance potential risk evaluation or mitigation capacity and do not place undue burden on either the Fund Manager team or investees; additional reporting requirements will likewise be considered for addition to the E&S Policy if the requirements add value without placing undue burden on either the Fund, its investors, or its investees. Finally, the overall E&S Policy will be revised to incorporate the new additions and will be approved by Limited Partners of the Fund.

## **2.3 Applicable E&S Requirements**

The Fund Manager will ensure that all investments are evaluated against the following applicable Environmental and Social Requirements:

- **Exclusion List** (see Appendix A), which outlines categories of investments that will not be financeable through the Fund under any circumstances;
- **National and local environmental, health, safety, and labor laws and regulations**, including established requirements on public disclosure and engagement;
- **International standards, conventions, and agreements** on environmental, health, safety, and labor best practices to which the investee and the relevant nations are parties; and
- **The Fund and AfDB Operational Safeguards** (see below), to ensure that investees effectively avoid, manage, and mitigate against all E&S risks of their activities in accordance with environmental and social risk management procedures.

## 2.4 Operational Safeguards

The Fund Environmental and Social Management System (ESMS) draws upon AfDB's five operational safeguards, as defined in the December 2013 Integrated Safeguards System report and added an explicit safeguard focused on climate change:

- Environmental and Social Assessment
- Land Acquisition and Resettlement
- Biodiversity and Ecosystem Services
- Pollution Prevention and Control
- Labor Conditions, Health, and Safety
- Climate Change

Together, these six constitute the main framework for environmental and social risk considerations for all Fund investments. A more detailed explanation of each safeguard can be found in Appendix B.



*Figure 1: Spark+ Africa Fund  
Operational Safeguards based on  
AfDB Operational Safeguards*

### **3 ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM**

The core component of the Fund's E&S Policy is the Environmental and Social Management System (ESMS). Performance of a potential investee and its proposed activities along specific dimensions of the safeguards will determine whether the investment is suitable for investment in terms of E&S risk. Appendix A Investment Exclusion List and Appendix C E&S Assessment Checklist (which include a list of excluded activities that will not be funded under any circumstances, and a checklist of specific risks expected under each safeguard, respectively) are tools to be used by the Fund Manager to evaluate and categorize the potential risks posed by the investee's activities. Specific risks that may be encountered within each safeguard are discussed later in this section.

#### **3.1 E&S Risk Categorization**

Potential investments will all be evaluated for environmental and social risk and subsequently categorized into one of four levels of risk, which then informs subsequent investment and mitigation actions (see Table 1). This categorization follows that outlined in AfDB's Integrated Safeguards System.

*Table 1: Categorization of environmental and social risks associated with Spark+ Africa Fund investments, adapted from AfDB Integrated Safeguards System*

Risk Category	Description
1	Investee operations are likely to cause significant environmental and social risks
2	Investee operations are likely to cause less adverse environmental and social risks than Category 1 activities
3	Investee operations will likely have negligible adverse environmental and social risks
4	Investee operations involve lending to financial intermediaries

An investee would be categorized as Category 1 if the investee's activities are likely to experience at least one risk corresponding to Category 1 in the evaluation checklist (see Appendix C E&S Assessment Checklist), or at least three Category 2 risks across three separate safeguards. An investee would be categorized as Category 2 if the investee's activities are likely to experience at least one risk corresponding to Category 2. A Category 3 investee would be likely to experience fewer or lesser adverse Category 2 risks. The procedural repercussions of categorizing a potential investee's activities as Category 1, 2, 3, or 4 are discussed in the rest of this section.

*Table 2: Illustration of the differing due diligence requirements for each risk category.*

Category 1 High Risk	Category 2 Medium Risk	Category 3 Low Risk
<p><i>Compliance with:</i></p> <ul style="list-style-type: none"> <li>• Exclusion List</li> <li>• Local environmental, health, safety, and labor laws, and public disclosure requirements engendered therein</li> <li>• Relevant operational safeguards</li> </ul>	<p><i>Compliance with:</i></p> <ul style="list-style-type: none"> <li>• Exclusion List</li> <li>• Local environmental, health, safety, and labor laws, and public disclosure requirements engendered therein</li> <li>• Relevant operational safeguards</li> </ul>	<p><i>Compliance with:</i></p> <ul style="list-style-type: none"> <li>• Exclusion List</li> <li>• Local environmental, health, safety, and labor laws, and public disclosure requirements engendered therein</li> </ul>
<p><i>Focus on:</i> conclusions of independent assessments and the results of stakeholder consultations</p>	<p><i>Focus on:</i> investee capacity and willingness to manage E&amp;S risks and mitigate potential E&amp;S impacts</p>	<p><i>Focus on:</i> identifying investee non-compliance and ensuring the investee has a plan to remedy the non-compliance in a reasonable time frame</p>
<p><i>Required due diligence:</i> Full E&amp;S appraisal (prepared with the assistance of outside experts if necessary) commensurate with the severity of potential impacts and risks</p>	<p><i>Required due diligence:</i> Limited E&amp;S appraisal</p>	<p><i>Required due diligence:</i> Gender impacts or other analyses as needed</p>
<p><i>Required outputs:</i></p> <ul style="list-style-type: none"> <li>• Environmental and Social Assessment (ESIA),</li> <li>• Environmental and Social Management Plan (ESMP)</li> <li>• (If relevant) Full Resettlement Action Plan (FRAP)</li> </ul>	<p><i>Required outputs:</i></p> <ul style="list-style-type: none"> <li>• ESIA</li> <li>• ESMP</li> <li>• (If relevant) Abbreviated Resettlement Action Plan (ARAP)</li> </ul>	

**Risk Category 1:** The first category represents investments in which operations are likely to cause significant environmental and social impacts. More specifically, the potential investment is “likely to induce significant and/or irreversible adverse environmental and/or social impacts, or to significantly affect environmental or social components that the Bank or the borrowing country considers sensitive.” If classified as Category 1 (high risk), the investee must then conduct a full Environmental and Social Assessment (ESA) in the form of an Environmental and Social Impact Assessment (ESIA), which leads to the preparation of an Environmental and Social Management Plan (ESMP). If resettlement is expected, the investee must also prepare the social assessments necessary to write the Full Resettlement Action Plan (FRAP).

Examples of Category 1 investments may include investments in construction of a biomass plant where there is no plan for continued access to feedstock that is not native vegetation; a

manufacturing company where workers report working in unsafe conditions due to a lack of appropriate gear; or any company whose activities may result in the exploitation of children or other vulnerable people. The Fund does not anticipate making any Category 1 investments.

**Risk Category 2:** The second category represents investments in which operations are likely to cause fewer or lesser adverse environmental and social impacts than Category 1 activities. Likely impacts of the potential investment are few in number, site-specific, largely reversible, and readily minimized by applying appropriate management and mitigation measures or incorporating internationally recognized design criteria and standards. Investees in this category, as with Category 1, require an ESIA and an ESMP, as well as an Abbreviated Resettlement Action Plan (ARAP) when applicable. The Fund may make a very limited number of Category 2 investments, which are not expected to be a significant portion of the portfolio.

**Risk Category 3:** The third category represents investments in which operations will likely have negligible adverse environmental and social risks. Potential investments in this category do not directly or indirectly affect the environment adversely and are unlikely to induce adverse social impacts. They do not require an environmental and social assessment; they only require E&S risk categorization. The majority of the Fund's portfolio is likely to fall into Category 3.

**Risk Category 4:** Finally, the fourth category represents Facility investments channeled through other financial intermediaries. The Fund may lend to micro-finance institutions (MFIs) and other financial institutions that provide consumer credit for purchasing energy access products. If relevant, financial intermediary operations would be further classified as FI-A, FI-B, and FI-C to reflect the potential environmental and social impacts and risks of the financial intermediary's existing or proposed portfolio of activities, equivalent to Categories 1 through 3 in terms of the investee's risk profiles. Importantly, financial intermediary investments whose risks would be classified as either Category 1 or Category 2 are subject to the relevant operational safeguard requirements, as if they were Category 1 or Category 2 investees directly financed through the Fund. The Fund will also make some Category 4 FI-C (or in limited cases may make FI-B) investments.

### **3.2 Spark+ Fund E&S Risk Profile**

The Fund is expected to maintain a low level of E&S Risk, since it predominantly targets investments in consumer-facing companies that provide more affordable access to clean cooking solutions and related services. Table sets out specific E&S risks to be expected for the investment categories set out in the Fund's Investment Policy. Specific risks identified within each safeguard and for each technology type are drawn from many sources. For reference, please see AfDB's ISS Sector Keysheet for hydroelectric power, transmission, thermal power, solar power, wind power, and biofuels production projects (Volume 3, 2015); as well as the IFC Environmental, Health, and Safety Guidelines for electric power transmission (2007) and for each energy production technology type (2015).

*Table 3: Illustrative and non-exhaustive matrix of potential environmental and social risks across some illustrative types of investees and the six operational safeguards*

Safeguard Category	Potential Risks
	Clean Cooking Companies
<b>Environmental and Social Assessment</b>	<ul style="list-style-type: none"> <li>Biomass Fuel Producers: May result in the exploitation of children or others who are traditionally tasked as biomass collectors (such as for investees which utilize woody biomass to produce cooking fuel)</li> </ul>
<b>Involuntary Resettlement and Land Acquisition</b>	<ul style="list-style-type: none"> <li>Stove manufacturers, Biomass Fuel Producers, LPG Distributors, Biogas System Companies: If land is to be acquired, the land parcel is currently used for productive use (to grow crops, for aquaculture, or for livestock ranching and herding)</li> </ul>
<b>Biodiversity and Ecosystem Services</b>	<ul style="list-style-type: none"> <li>Biomass Fuel Producers: May result in the loss of native, endemic, and/or endangered plant species if they are collected and used as fuel</li> </ul>
<b>Pollution Prevention and Control</b>	<ul style="list-style-type: none"> <li>Stove manufacturers, Biomass Fuel Producers, Biogas System Companies: Potential construction site and general (operational) waste generation; soil erosion from site preparation or right-of-way activities; potential water contamination from effluent</li> </ul>
<b>Labor Conditions, Health and Safety</b>	<ul style="list-style-type: none"> <li>Stove manufacturers, Biomass Fuel Producers, LPG Distributors, Biogas System Companies: Potential safety hazards from heavy equipment use during construction and from exposure to electrical hazards; workers report unsafe working conditions</li> <li>Stove manufacturers, Biomass Fuel Producers, Biofuel + stove distributors: May result in heavy air pollution and subsequent health impacts from biomass combustion</li> </ul>
<b>Climate Change</b>	<ul style="list-style-type: none"> <li>Biomass Fuel Producers: Activities include construction of a biomass plant rather than solar, wind, or other renewable source, and there is no plan for continued access to feedstock that is not native vegetation</li> <li>Stove manufacturers, Biomass Fuel Producers, LPG Distributors, Biogas System Companies: Proposed investee activities are likely to increase communities' vulnerability to climate change, including siting on currently productive land</li> <li>All: May result in net negative climate impacts (i.e., greater emissions) based on lifecycle analysis of fuel</li> </ul>

## **4 ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT**

### **4.1 Impact Objectives**

The Fund seeks to have a positive E&S impact. It starts with the premise that debt, equity, or quasi-equity finance helps to increase growth and sustainability of clean cooking companies, and that the use of clean cooking solutions results in positive environmental and social outcomes. This approach translates into the following impact objectives:

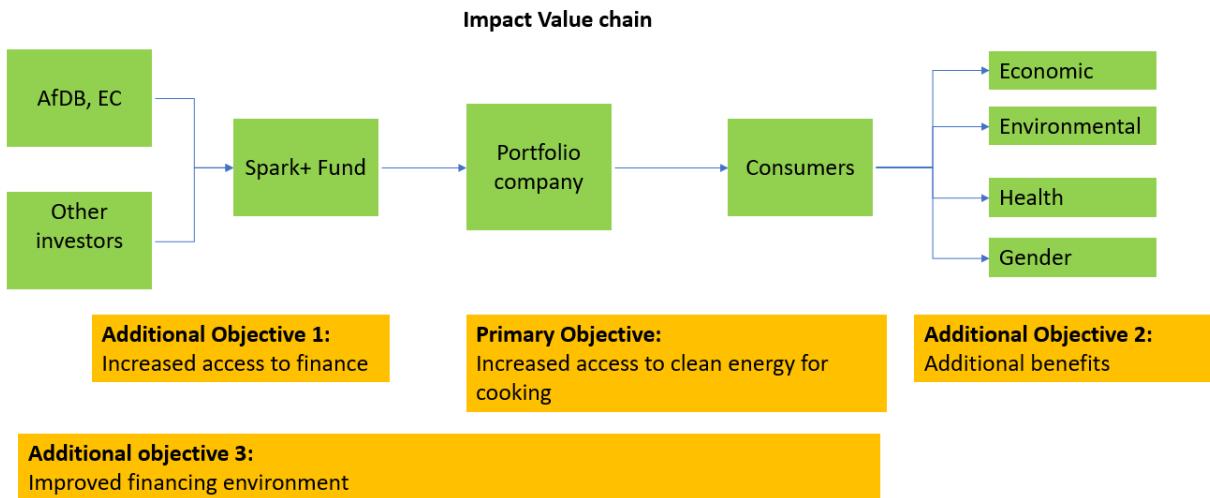
- (i) Increased energy access;
- (ii) Increased access to finance;
- (iii) Additional economic, social, and environmental benefits including CO2 emission reduction; and
- (iv) Improved financing environment.

### **4.2 Impact Framework**

A framework is derived to provide the analytical basis for assessing whether and how the Fund is meeting the objectives, each measured by several indicators (defined in more detail in Appendix F). The framework is based on an analysis of the Fund's strategy and best practice impact assessment as used for comparable investment funds and principals in the energy access sector.

The Fund in general focuses on metrics that are quantitative but recognizes that certain assumptions have to be made for indicators (see Appendix F) in particular related to certain market development parameters and the additional benefits of improved energy access (e.g., reduced/avoided greenhouse gas emissions). The Fund will itself not conduct separate industry studies to assess these impact indicators and will instead rely on and promote market best practice and information provided by the investees. In certain circumstances, the Fund may rely on technical assistance to fund third party reviews to support its impact reporting.

*Figure 2: Impact framework across the financing value chain*



### 4.3 Impact Scenarios

Taking a hypothetical portfolio of investments and reported indicators relative to the four objectives above, we can generate a set of high-level impact indicators for the Fund. Over the course of the fund life, these performance scenarios can be updated to reflect the activities of the fund and changes in the wider operating context.

## **5 IMPLEMENTATION**

### **5.1 Oversight**

The Fund shall apply its E&S Policy through its investment screening and due diligence; application of Portfolio Management/Technical Assistance; and subsequent reporting to stakeholders.

The Fund Manager will also ensure that during the whole investment cycle:

- The E&S Policy and systems are kept up to date;
- The Fund has set up an External Communication Mechanism in line with the requirements of operational safeguards; and
- The investment team will receive adequate E&S risk management training.

External consultants may be engaged at specific points in the investment process to provide objective, expert perspectives on E&S risk evaluation and performance. For sample terms of reference for external consultants, please see Appendix I.

### **5.2 Procedures Across the Investment Cycle**

The Fund Manager will follow a streamlined and thorough process to originate, screen, approve, and implement deals with investees.

Loan Cycle	E&S aspects to be followed	Existing formats/documents
Pipeline	<p>Prospects in Spark+ pipeline will preliminarily be screened against the Exclusion List.</p> <p>If a preliminary analysis shows the potential applicant's activities do not fall into the exclusion list, the company can be encouraged to apply for funding.</p>	Preliminary Investment Note
Investment Application and Review	<p>A list of E&amp;S question is sent to the prospect requesting a range of information. The prospect's responses will be used during a desk review to assess prospect on possible social and environmental risks.</p> <p>If prospect has higher risk activities such as manufacturing process, then independent verification of environmental, social, and governance (ESG) compliance on client's manufacturing process could be requested.</p>	Preliminary Investment Note / Investment Appraisal

	<p>In addition to the Fund's management team internal review and independent verification, the Investment Team will also, in some cases, hire external consultants well versed in technical aspects of ESG assessment to audit environmental health and safety issues relevant for the supply chain of the various subsectors of the Clean Cooking Industry.</p>	
Due diligence and compliance	<p>Information provided during investment application and review should be verified during on-site visit with management and clients.</p> <p>An on-site ESG checklist should be filled</p> <p>A Social Performance Scorecard will be filled and discussed in investment memorandum.</p> <p>The Investment Team will review prospective portfolio company's internal policies, objectives, and compensation levels and compare these against local and international standards to identify and highlight any risks. The Investment Team will encourage all borrowers to have anti-slavery and anti-child labor policies in their human resources policies.</p>	On-site ESG Checklist / Social Performance Scorecard
Investment Memorandum and Investment Committee	<p>The Investment Committee is required to discuss ESG risks and might stipulate compliance with specific industry standards, such as recently approved European Union standard EN 589:2018 for LPG, standards defined by the International Fuel Quality Center, and specific covenants related to managing environmental and social performance throughout the life of the investment as part of an Environmental and Social Monitoring System.</p> <p>Investment Committee will also monitor ESG risks over the investment term.</p>	Investment Memo
Legal	<p>The management team will have legal covenants (including encouraging female employment and female borrowers by setting target ratios, compliance with client protection laws, and others) in loan agreements to monitor risks.</p>	Investment Agreement

## **6 MONITORING AND REPORTING**

The Fund's Investment Policy outlines the approach for the Fund's monitoring and reporting. This section outlines those areas most relevant to the E&S Policy. Monitoring and reporting refers to measurement of E&S risk and impact for portfolio companies on an ongoing basis.

### **6.1 Monitoring**

The Fund Manager commits to monitoring all active investments for E&S performance, including using their expertise and insights from previous experiences to identify opportunities for proactive risk mitigation and achievement of positive impacts beyond those already planned. The Investment team will work with the investee to collect data on the E&S status of an investment on a quarterly basis and will inform the Fund's senior management, Investment Committee, and the Advisory Board of all investments' E&S statuses on a quarterly basis and in aggregate on an annual basis.

In the case of severe E&S incidents and breaches of conduct (such as those listed in Appendix H), the investee must inform the Fund within twenty-four hours of occurrence.

The extent of monitoring will correspond to an investee's risks, likely impacts, and compliance requirements, and will also be adjusted over time according to performance and feedback from investees and beneficiaries. For investment activities with significant diverse, irreversible, or unprecedented impacts, the Fund will retain qualified and experienced external experts to verify its monitoring information. Upon documenting and analyzing monitoring results, the Fund will identify any necessary corrective or preventive measures to the investee ESMP as well as to the Fund's own E&S policies and procedures to ensure continued relevance and effectiveness.

### **6.2 Reporting**

The Fund Manager commits to a reporting schedule that is set out in the Investment Policy and includes regular reporting on E&S performance to Fund investors and other stakeholders. Semi-annual and annual E&S reporting formats will be based on the requirements of the investors in the Fund. Semi-annual reports will profile the E&S performance of each individual investment, and the annual report will explain performance across all investments in aggregate.

## 7 EXTERNAL RELATIONS: GRIEVANCE AND REDRESS MECHANISMS

### 7.1 Fund Manager

The Fund Manager will ensure that members of the public have a channel to easily provide comments or express grievances. The Fund seeks to provide a clear Grievance and Redress Mechanism (GRM) that ensures grievances are appropriately addressed and are used to prevent similar complaints in the future. The methods of doing so are highlighted in the table below.

*Table 4: Summary of Fund Manager's GRM*

Consideration	Method
Provide public with the means to easily communicate grievances, including anonymous ones.	The Fund website provides an email address that members of the public may use to file complaints confidentially.
Implementation of a clear process that includes assignment of responsibility and monitoring of outcomes	The Fund Manager will maintain a logbook to monitor progress towards resolution of all. The Investment Team is responsible for reviewing and recording any complaints received and is also responsible for working with any relevant staff or stakeholders to investigate the complaints, determine the necessary response, and report on the outcome.
Ensure grievances are used as a source of continual learning	The Investment Team will periodically compile all grievances in order to improve operations and proactively prevent future grievances.

### 7.2 Investee

As per the first AfDB safeguard and AfDB ISS Volume 2, all investees are required to create a GRM prior to receiving investment from the Fund if they do not already have such mechanisms in place. Specifically, the GRM must be credible, independent, accessible to stakeholders at all times during the investee's activities, and have the capacity to receive, process, and resolve affected individuals' or communities' grievances regarding the environmental or social performance of an investee project or activities. All responses to grievances must be recorded and included in investee and Spark+ Africa Fund E&S reports.

To establish a GRM, the investee must allocate staff, financial resources, and equipment, with Category 1 activities due to higher expected severity and likelihood of negatively impacting communities. GRMs typically include a team of lawyers, anthropologists and other social scientists, and communication specialists. GRMs are generally designed during an ESMP for Category 1 activities, and as such should be in place as soon as the investment is finalized.

## 8 ESMS REVIEW AND CONTINUOUS IMPROVEMENT

An effective E&S management system is dynamic, responsive to changing circumstances, and continuously improved through iteration and feedback.

The Fund and its Fund Manager commit to soliciting feedback annually from internal and advisory stakeholders, investors, and external experts before or during Board meetings about the perception of the Fund E&S performance. Similarly, the Fund will survey investees, end-beneficiaries, and impacted communities (where relevant) each year to understand areas of success as well as concerns that have not been addressed. Feedback from these two sources will then be reviewed by the Fund Manager's senior team, and revisions will be made to the Fund ESMS to improve future performance both for investees already part of the portfolio and for future investees.

If severe incidents or breaches of E&S Policy occur, the Fund Manager commits to making rapid changes to the ESMS, including to future due diligence procedures.

## **Appendix A. Investment Exclusion List**

At all times, the Fund Manager shall ensure that the Fund does not provide funding or other support to any Clients that engage (or support other institutions involved) in any of the following activities:

- Production or activities involving harmful or exploitative forms of forced labor, or harmful child labor, or practices that are discriminatory or prevent employees from freely exercising their right to association and collective bargaining;
- Production or trade in any product or activity deemed illegal under host country laws or regulations or ratified international conventions and agreements;
- Production or trade in radioactive materials;
- Production or trade in wood or other forestry products from forests that lack sustainable management;
- Plantation projects that would require the removal of existing non-degraded natural forest;
- Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples;
- Activities which may affect adversely sites of cultural or archaeological significance;
- Production or trade in products containing polychlorinated biphenyls (PCBs);
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals;
- Transboundary trade in waste or waste products, except for non-hazardous waste destined for recycling;
- 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; or
- Energy generation using nuclear or thermal fuel sources, including hybrid production where more than 50% of energy production (on a MWh basis) will be generated from thermal fuels.

## **Appendix B. E&S Operational Safeguards**

### ***Safeguard 1: Environmental and Social Assessment (ESA)***

The first safeguard represents the Fund's overarching requirements for its staff to identify, assess, and manage E&S risks, and for investees to prevent, prepare for, and mitigate against negative social and economic impacts at the same time that they foster positive impacts. All activities that reflect the potential for medium to severe social or environmental risks are required to undergo an ESA. In addition to evaluation along the five other safeguards, the ESA explicitly evaluates the potential impacts of the investee's activities on indigenous peoples, vulnerable groups, gender inequality, cultural heritage preservation, community consultation and engagement, and potential transboundary and regional impacts. It should also include considerations for grievance mechanisms and redress procedures.

### ***Safeguard 2: Land acquisition and resettlement***

The second safeguard ensures that all possible actions are taken to avoid forced land acquisition, displacement, and resettlement. Most importantly, it requires sustained stakeholder engagement throughout the life of the investment. If it is not possible to avoid displacement, stakeholders must be able to set their own requirements for fair compensation or other mitigation measures.

### ***Safeguard 3: Biodiversity and ecosystem services***

The third safeguard ensures that investee activities do not negatively impact, and to the full extent possible, positively impact, local and national biodiversity, conservation, and the provision of ecosystem services and environmental resources. It includes specific considerations on access to clean water, access to clean air, deforestation, and habitat loss and degradation. It also considers the potential for direct harm to ecosystem service providers like pollinators (namely, bees, birds, and bats); seed dispersers (insects and larger animals); water purifiers (mangroves and other plants near water bodies); and decomposers (fungi, vultures, and others).

### ***Safeguard 4: Pollution prevention and control***

The fourth safeguard ensures that all possible actions are taken to prevent pollution and strive for efficiency. Pollution includes the release of toxic or hazardous substances during any stage of activities operation, including after completion and unintentional release. Efficiency refers to energy efficiency (including efficient electricity transmission) as well as resource use efficiency (such as in the case of diesel or gas use for combined power generation).

### ***Safeguard 5: Labor conditions, health, and safety***

The fifth safeguard aims to ensure that investees operate safely and with mutually beneficial labor conditions, and ultimately improve rather than harm human health. In particular, it addresses considerations about child labor and forced labor; fair wages; the ability for workers to organize; food security, HIV-AIDS, air pollution-related illnesses, and other health issues; and safety for both investee staff and contractors (in transportation, construction, operation, and maintenance) as well as for consumer users.

### ***Safeguard 6: Climate change***

The sixth and final safeguard ensures that all possible actions are taken to structure the activities such that it maximizes positive climate change impacts (both in terms of mitigation and adaptation) and minimizes either exacerbating climate change impacts or increasing the vulnerability of local communities to climate change.

## Appendix C. E&S Assessment Checklist

This checklist represents a list of potential E&S risks and opportunities against which a potential investee will be evaluated, and its activities categorized (as Category 1, 2, 3, or 4). This is used to directly inform each investment's ESA and the screening as well as investment review paper, both of which must receive approval prior to the investee receiving approval for the investment. This checklist may be modified and added to by the Fund Manager.

*Table 3: Illustrative assessment checklist for evaluating potential Spark+ Africa Fund investees based on the four AfDB categories of risk*

Environmental & Social Management System (ESMS) Assessment Checklist				
General information				
Name of investee:				
Pipeline segment: <input type="checkbox"/> Stove manufacturer <input type="checkbox"/> Biomass stove and/or fuel distributor <input type="checkbox"/> Biomass fuel producer <input type="checkbox"/> Biogas company <input type="checkbox"/> LPG distributor <input type="checkbox"/> Financing company (e.g., MFI)				
Investment amount and financial purpose:				
Proposed location of activities:				
Brief description of proposed activities:				
ESMS policy and management commitment				
Y	N	N	Description	Comment
A			All categories:	
			Investee organization (or financial intermediary) has a policy with regard to Environmental and Social (E&S) risk management that was approved by Senior Management	
			Investee organization already complies with international and national agreements, such as on child and forced labor, pollution, and fair wages	
			Investee organization (or financial intermediary) has a documented process to assess E&S impacts and risks of its operations	
			If classified as Category 1 or 2, the potential investee is willing to create an Environmental and Social Management Plan (ESMP)	
			If classified as Category 1 or 2, the potential investee is willing to create a mitigation action plan as part of its ESMP outlining all actions it will take to proactively mitigate against risk	
			If classified as Category 3, the potential investee commits to proactively mitigating all potential E&S risk, and understands that it may be classified as 'Category 2' if it is unable to mitigate risks	
			If applicable, the potential investee is willing to create a Resettlement Action Plan (RAP)	

		The potential investee expresses willingness to cooperate and identify opportunity for positive E&S impacts beyond those already planned for or identified	
		<b>Category 4:</b>	
		Organization is a distribution company or a financial intermediary	
<b>Risk evaluation across operational safeguards</b>			
<b>Safeguard 1: Environmental and social assessment</b>			
		<b>All categories:</b>	
		Investee involves civil society groups, academics, and potentially impacted communities in decision-making	
		Investee has already established a credible, independent Grievance and Redress Mechanism (GRM)	
		Project site is:	
		Rural	
		Urban	
		Industrial	
		Forested	
		Proximate to a water body	
		Proximate to a protected area	
		Proximate to a culturally sensitive or indigenous area	
		<b>Category 2:</b>	
		Proposed investee activities require beneficiaries to have access to capital that is not typically available to women-led or minority households in the area, and thereby activities may further marginalize women and minorities in the community	
		Proposed investee activities may indirectly pose physical, psychological, or economic harm to one or more individuals or communities	
		Proposed investee activities may damage a community or group's historical, cultural, religious, or archeological heritage	
		Proposed investee activities may take place on, or to flood and damage, land previously used as farmland or for other productive use, and may therefore have negative economic impacts on affected communities; investees plan to actively compensate for lost income and offer at least as equally attractive alternative income generation opportunities	
		<b>Category 1:</b>	
		Proposed investee activities entail construction of power generation plants producing more than 30 MW	
		Proposed investee activities directly pose physical, psychological, or economic harm to women, minorities, or other marginalized communities	
		Proposed investee activities involve destruction of a community or group's historical, cultural, religious, or archeological heritage	
		Proposed investee activities may result in the exploitation of children or others who are traditionally tasked as biomass collectors (such as for biomass plants using woody biomass for fuel)	

		Proposed investee activities are to take place on, or to flood and damage, land previously used as farmland or for other productive use, and may therefore have negative economic impacts on affected communities; investees do not plan to actively compensate for lost income	
		Proposed investee activities are likely to reduce women's participation in decision-making processes	
		Proposed investee activities are likely to intensify discriminatory practices against women or other minorities or vulnerable populations	
<b>Safeguard 2: Involuntary resettlement and land acquisition</b>			
		<b>Category 3:</b>	
		If land is to be acquired, the land parcel is currently not used for productive use (to grow crops or for aquaculture, or for livestock ranching and herding, or for active commercial or industrial activity)	
		Proposed investee activities will not require the resettlement of any individuals	
		<b>Category 2:</b>	
		Proposed investee activities will require the acquisition of rights to land not currently leased or owned by the organization	
		Proposed investee activities will require the resettlement of between one to 200 persons	
		Proposed investee activities will require the transplantation of businesses or other productive ventures	
		Proposed investees have experience with compensation agreements for displacement of individuals or communities	
		<b>Category 1:</b>	
		If land is to be acquired, the land parcel is currently used for productive use (to grow crops or for aquaculture, or for livestock ranching and herding)	
		If land is to be acquired, the land parcel is currently lived on, leased by, or used by indigenous peoples, ethnic or religious minorities, by those in the lowest income quintile, or by other vulnerable populations, such as the elderly or widows	
		Proposed investee activities will require the resettlement of at least 200 people	
		Proposed investee activities will require the resettlement of minorities or vulnerable populations	
		Proposed investee activities will flood at least 1000 ha of land currently used by local populations (such as in the case of hydropower independent power producers)	
		Potential investees do not have experience with compensation agreements for displacement of individuals or communities, or have a poor reputation with previous arrangements with communities	
<b>Safeguard 3: Biodiversity and ecosystem services</b>			
		<b>Category 2:</b>	

		Proposed investee activities are to be sited within 20 km of a protected area or wildlife corridor, including bird and bat migration routes or rookeries (nesting areas)	
		In the case of hydropower, proposed investee activities are to be sited within a waterway that is known habitat for endangered aquatic or riparian species that are not likely to be able to move upstream after construction of the hydropower infrastructure	
		In the case of hydropower, proposed investee activities are likely to take place during reproduction or spawning season, or are likely to affect underwater habitat used for reproduction or spawning, such as eelgrass	
		Proposed investee activities are likely to adversely affect bees, birds, bats, and other pollinators through poisoning, loss of food sources or nesting areas, introduction of disease, or other reasons	
		Proposed investee activities are likely to adversely affect non-managed forests, including secondary-growth forests, through deforestation, fire, or other means	
		Proposed investee activities are likely to require planting and harvesting managed forests with exotic tree species on land that was previously "degraded," "dryland," or previously used for occasional food production	
		<b>Category 1:</b>	
		Proposed investee activities will occupy a land area of 2000 ha or more	
		Proposed investee activities will require the construction of roads or other means of right-of-way that are 50 km or longer, in highly populated, cultivated, or forested regions	
		Proposed investee activities will require the construction of 110 kV or greater-voltage above-ground transmission lines	
		Proposed investee activities are to be sited within a protected area or wildlife corridor, including bird and bat migration routes or rookeries (nesting areas)	
		Proposed investee activities are likely to affect populations of endangered species	
		Proposed investee activities are likely to adversely affect riparian and near-riparian habitats through compromised water quality, increased sediment loading, or habitat loss	
		Proposed investee activities are located in fish or amphibian spawning areas and are likely to prevent movement of these species upstream or downstream, thereby threatening species survival	
		Proposed investee activities are likely to require planting and harvesting managed forests with exotic tree species on land that was previously forested with native species, in wetlands, or on lands used for food production for at least one growing season per year	
<b>Safeguard 4: Pollution prevention and control</b>			
		<b>Category 2:</b>	
		Proposed investee activities are likely to result in increased soil or water pollution, such as if they require clearing of forested or planted areas on slopes or sandy soils, and therefore result in erosion	

		Proposed investee activities use resources, including energy, less efficiently than competitors in similar geographies	
		Proposed investee activities include the use of lead acid or lithium ion batteries, but investees have a system in place for the collection, refilling, replacement, and safe recycling of these batteries	
		Proposed investee activities may result in the release of dust, smoke, odors, noise, fumes, vibrations, or traffic congestion over a period of at least 15 days	
		Proposed investee activities require the use of pesticides, herbicides, or fungicides	
		In the case of biomass, smokestacks will be filled with pollutant capture devices that prevent 95% or more of air pollutants from entering outdoors, and these will be cleaned and maintained regularly	
		In the case of hydropower, Proposed investee activities are likely to increase water turbidity and sedimentation, and thereby decrease water quality	
		<b>Category 1:</b>	
		Proposed investee activities are likely to release toxic chemicals into the environment, including known carcinogens or teratogens	
		Proposed investee activities do not mitigate against the release of hazardous substances into the environment	
		Proposed investee activities include the use of lead acid or lithium ion batteries, and investees do not have a system in place for the collection, refilling (for lead acid), replacement, and safe recycling of these batteries	
		Proposed investee activities may result in the release of dust, smoke, odors, noise, fumes, vibrations, or traffic congestion for a period of over 3 months	
		Proposed investee activities require the use of pesticides, herbicides, fungicides, solvents, or asbestos	
		In the case of biomass, smokestacks will not be filled with pollutant capture devices that prevent 95% or more of air pollutants from entering outdoors	
<b>Safeguard 5: Labour conditions, health, and safety</b>			
		<b>All Categories:</b>	
		Potential investee commits to comply with all international and national labor and workers' rights agreements and regulations	
		Investee will not directly or indirectly employ children (under the age of 18) or forced labor	
		Investee will not discriminate against employees on the basis of gender, age, ethnicity, religion, sexual orientation, or HIV status	
		<b>Category 2:</b>	
		Investee organization has been investigated for previous safety, labor, or health violations	
		Investee employees report wages paid are below average for the area and insufficient to pay for basic necessities	
		Past or future investee activities resulted in or are likely to result in worse physical or mental health outcomes for at least one individual	

		Proposed investee activities increase women's workloads	
		Proposed investee activities may increase HIV/AIDS and other health risks	
		<b>Category 1:</b>	
		Investee organization has been investigated for previous safety, labor, or health violations, and current conditions during site visits do not demonstrate improvement in conditions to comply with health, safety, or labor codes	
		Investee employees report wages paid are below average for the area and insufficient to pay for basic necessities	
		Workers report working in unsafe conditions, including a lack of appropriate gear	
		Past or future investee activities resulted in or are likely to result in worse physical or mental health outcomes for at least one member of vulnerable communities, including among those earning less than the equivalent of less than \$1 per day, women, children, the elderly, or the disabled	
		Proposed investee activities will likely result in irreversible damage to health, including from exposure to toxins, unsafe drinking water, or air pollution (where PM 2.5 concentrations doubly exceed nationally allowed levels for at least 10 days per year, or are above nationally allowed on average annually)	
<b>Safeguard 6: Climate change</b>			
		<b>All Categories:</b>	
		Proposed investee activities are likely to result in the replacement of previously used thermal energy sources with renewable energy sources	
		Proposed investee activities are likely to offset 100,000 MT CO <sub>2</sub> -equivalent or more per year	
		<b>Category 2:</b>	
		Proposed investee activities during construction, transportation, operations, or completion of activities may result in the emissions of greenhouse gases exceeding 100 MT CO <sub>2</sub> -equivalent	
		Proposed investee activities include construction of a biomass plant rather than solar, wind, or other renewable source	
		<b>Category 1:</b>	
		Proposed investee activities during construction, transportation, operations, or completion of activities may result in the emissions of greenhouse gases exceeding 1,000 MT CO <sub>2</sub> -equivalent	
		Proposed investee activities are likely to increase greenhouse gas emissions compared to not undertaking the operations	
		Proposed investee activities include use of thermal generation	
		Proposed investee activities are likely to increase communities' vulnerability to climate change, including siting on currently productive land	
		Activities include construction of a biomass plant rather than solar, wind, or other renewable source, and there is no plan for continued access to feedstock that is not native vegetation	
<b>E&amp;S monitoring and external reporting</b>			

		Potential investee has sufficient capacity for periodic reports as well as annual reporting on E&S performance to the Fund	
		Potential investee agrees to conduct baseline, midterm, and final evaluations, including greenhouse gas emissions calculations	
<b>Final risk categorization</b>			
<b>Tally</b>			
Category 1: _____ statements			
Category 2: _____ statements			
Category 3: _____ statements			
Category 4: _____ statements			
<b>Risk categorization</b>			
<input type="checkbox"/> Category 1 (if 1+ Category 1 statements or 3+ Category 2 statements) <input type="checkbox"/> Category 2 (if 1+ Category 2 statements) <input type="checkbox"/> Category 3 (if no Category 2 statements) <input type="checkbox"/> Category 4 (if through a financial intermediary)			

## Appendix D. E&S Due Diligence Reporting Template

This reporting template presents the types of information to be gathered for E&S due diligence for each prospective investment.

*Table 6: Illustrative template for conducting due diligence on E&S risks and likely performance for each potential investee*

Environmental & Social (E&S) Due Diligence Reporting Template	
<b>General information</b>	
<i>Name of potential investee:</i>	
<i>Type of investment:</i> <input type="checkbox"/> Stove manufacturer <input type="checkbox"/> Biomass stove or fuel distributor <input type="checkbox"/> Biomass fuel producer <input type="checkbox"/> Biogas company <input type="checkbox"/> LPG distributor <input type="checkbox"/> Financing or distribution company (e.g., MFI)	
<i>Investment amount and financial purpose:</i>	<i>Proposed location of activities:</i>
<i>Brief description of proposed activities:</i>	
<b>Management commitment to ESMS</b>	
<ul style="list-style-type: none"><li><input type="checkbox"/> Investee organization has a policy with regard to Environmental and Social (E&amp;S) risk management that was approved by Senior Management, including if the organization is Category 4 (financial intermediary or distribution company)</li><li><input type="checkbox"/> Investee organization has a documented process to assess E&amp;S impacts and risks of its operations (or investments in the case of financial intermediaries)</li><li><input type="checkbox"/> If classified as Category 1 or 2, the potential investee is willing to create an Environmental and Social Management Plan (ESMP)</li><li><input type="checkbox"/> If classified as Category 1 or 2, the potential investee is willing to create a mitigation action plan as part of its ESMP outlining all actions it will take to proactively mitigate against risk</li><li><input type="checkbox"/> If classified as Category 3, the potential investee commits to proactively mitigating all potential E&amp;S risk, and understands that it may be classified as 'Category 2' if it is unable to mitigate risks</li><li><input type="checkbox"/> If applicable, the potential investee is willing to create a Resettlement Action Plan (RAP)</li><li><input type="checkbox"/> The potential investee expresses willingness to cooperate and identify opportunity for positive E&amp;S impacts beyond those already planned for or identified; in the case of financial intermediaries, the intermediary is willing to financially support investees' mitigation efforts</li></ul>	
<b>Risk evaluation for proposed activities across operational safeguards</b>	

Overall risk categorization based on E&S risk assessment checklist:

- Category 1 (high risk)
- Category 2 (medium risk)
- Category 3 (low to no risk)
- Category 4 (through a financial intermediary)

#### **Safeguard 1: Environmental and social assessment**

- Category 1 (high risk)
- Category 2 (medium risk)
- Category 3 (low to no risk)
- Category 4 (through a financial intermediary)

Reasoning:

Necessary mitigation measures:

#### **Safeguard 2: Involuntary resettlement and land acquisition**

- Category 1 (high risk)
- Category 2 (medium risk)
- Category 3 (low to no risk)
- Category 4 (through a financial intermediary)

Reasoning:

Necessary mitigation measures:

#### **Safeguard 3: Biodiversity and ecosystem services**

- Category 1 (high risk)
- Category 2 (medium risk)
- Category 3 (low to no risk)
- Category 4 (through a financial intermediary)

Reasoning:

Necessary mitigation measures:

#### **Safeguard 4: Pollution prevention and control**

- Category 1 (high risk)
- Category 2 (medium risk)
- Category 3 (low to no risk)
- Category 4 (through a financial intermediary)

Reasoning:

Necessary mitigation measures:

#### **Safeguard 5: Labor conditions, health, and safety**

- Category 1 (high risk)
- Category 2 (medium risk)
- Category 3 (low to no risk)
- Category 4 (through a financial intermediary)

Reasoning:

Necessary mitigation measures:

#### **Safeguard 6: Climate change**

- Category 1 (high risk)
- Category 2 (medium risk)
- Category 3 (low to no risk)
- Category 4 (through a financial intermediary)

Reasoning:

Necessary mitigation measures:

#### Mitigation potential

- Potential investee has full human capacity and other resources necessary to mitigate against all Category 1 and Category 2 risks.

Detail:

- Potential investee plans to invest in all of the mitigation measures identified.

Detail:

#### Risk evaluation of broader investee portfolio

##### Risks

- During the two years prior to the due diligence period, the potential investee engaged in activities on the Fund ESMS exclusion list.

Detail:

- During the two years prior to the due diligence period, the potential investee experienced incidents of severe E&S incidents or policy breaches, including forced resettlement.

Detail:

##### Opportunities

- Beneficiaries of and community members affected by the potential investees' previous activities maintain positive opinions of the investee organization and their activities.

Detail:

- If severe incidents have occurred, the potential investee has since modified their own E&S policy and procedures to prevent against future such incidents.

Detail:

- If proposed activities are classified as Category 1 or 2, the potential investee has experience with previously, successfully mitigating against the risk of such activities.

Detail:

## **Appendix E. E&S Portfolio Monitoring Report Template**

This reporting template represents the types of information to be gathered for E&S monitoring on a quarterly basis for each investment. This template can be modified and added to by the Fund Manager.

*Table 7: Illustrative template for monitoring investee E&S performance, including to allow for communication of emerging risks to investors during quarterly reports*

<b>Environmental &amp; Social Management System (ESMS) Portfolio Monitoring Template</b>	
<b>General information</b>	
Name of investee:	
Type of investment and amount:	
Percent disbursed so far:	
Brief description of the status of financed activities, including location:	
<b>E&amp;S Risk</b>	
ESMS risk categorization:	
Reasoning for categorization (previously identified potential ESMS risks, i.e. reduced household income from loss of livelihoods, pollution, death of wild animals, etc.):	
Status of mitigation actions:	
Ongoing or newly reported ESMS risks and issues since the last reporting period:	
Recommended corrective actions and implementation schedule for ongoing and new risks or issues:	
<b>E&amp;S Impact</b>	
Number of beneficiary households with a new or newly renewable source of energy:	
Number of beneficiary households with increased income as a result of greater access to energy:	
Number of beneficiary households whose annual incomes have increased by 20% or more:	
Number of beneficiary household below poverty line:	
Volume of new financing raised:	
(For financing institutions) Volume of credit extended to end-consumers for purchase of clean cooking products:	
Related (net) GHG emissions impact of products sold:	
Number of new jobs created split by gender:	

*Opportunities for further positive E&S impact:*

## Appendix F. E&S Impact Indicators

The Fund uses different indicators to measure its performance on the four Fund impact objectives. The indicators are derived from best practice impact assessment as used for comparable investment funds in the energy sector.

*Table 8: Summary of the Fund E&S Impact Indicators*

Metric	Units	Indicator
<b>Impact Objective 1: Increased access to finance</b>		
For direct operations: Access to finance: number of units served among relevant target group	Nr.	Number of outstanding loans/investments at the end of their fiscal year; annual number of new loans/investments disbursed/made during the year
For direct operations: Access to finance: amount of outstanding loans to relevant target group	Currency	Amount of outstanding loans/investments at the end of their fiscal year; annual volume of new loans/investments disbursed/made during the year
For indirect operations: New financing made available to financial intermediaries (e.g., banks, microfinance institutions, funds)	Currency	Volume of credit lines/guarantees/capital investment extended to financial intermediaries for on-lending to target groups (target groups being understood as microfinance/MSME/Agribusiness/Energy Efficiency/Renewable Energy/Student Loans/Housing Finance/Retail Finance/Total Portfolio/Other to be specified in each instance)
For indirect operations: Access to finance: number of units served among relevant target group	Nr.	Number of outstanding loans/investments in the portfolio of relevant financial intermediaries at the end of their fiscal year and annual number of new loans/investments disbursed/made during the year
For indirect operations: Access to finance: amount of outstanding loans to relevant target group	Currency	Amount of outstanding loans/investments in the portfolio of relevant financial intermediaries at the end of their fiscal year and annual volume of new loans/investments disbursed/made during the year

For direct operations: Number of MSMEs reporting increased turnover (as a result of direct support received from the Fis)	Nr.	Number of MSMEs receiving direct assistance from FI that have increased the volume of their turnover
<b>Impact objective 2: Increased renewable energy access</b>		
Total number of beneficiaries	#	Estimated number of people with improved access to services (financial services, social and environmental infrastructure, etc.)
Number of beneficiaries living below the poverty line	# (and/or %)	Sub-group of total beneficiaries above (if applicable); reference point used (e.g., national or international definitions of poverty – should be made transparent)
<b>Impact objective 3: Additional economic, social, and environmental benefits</b>		
Relative (net) Greenhouse gas emissions impact	CO <sub>2</sub> ktons eq/year	Average amount of GHG emissions induced, avoided, reduced, or sequestered per year by the project during its lifetime or for a typical year of operation; net balance between gross emissions and emissions that would occur in a baseline scenario
Direct employment: Construction phase	# (FTE)	Number of full-time equivalent construction workers employed for the construction of the company or project's hard assets during the reporting period
Direct employment: Operations phase	# (FTE)	Number of full-time equivalent employees as per local definition working for the client company or project at the end of the reporting period
For both direct and, where feasible, indirect operations: Number of jobs sustained (resulting from the project)	FTE	Number of full-time equivalent employees at the end of the reporting period (includes full-time equivalent worked by seasonal, contractual, and part-time employees); part-time jobs are converted to full-time equivalent jobs on a pro rata basis
<b>Impact objective 4: Increased sustainable financing</b>		
Additional financing raised by portfolio companies	USD	Financing raised split by equity, debts and grants
Local sourcing	USD	Value of purchases of goods and services from domestic suppliers (including raw materials, security, cleaning, marketing and research)

## **Appendix G. Example of E&S Clauses for Investment Agreements**

The investment agreement (or equivalent instrument) between the Fund and all investees will include appropriate social and environmental clauses that address and protect E&S objectives in contractual agreements. These clauses may include:

1. A general environmental warranty/covenant that the investee organization is currently in compliance with, and will continue to comply with, all applicable national social and environmental laws and regulation, and with all ratified international agreements:

*"The Investee has not received nor is it aware of any existing or threatened complaint, claim, citation, or notice from any authority under applicable [specify country] law and local requirements."*

*"The Investee shall design, construct, operate, maintain and monitor its operations in compliance with the Government of [specify country] and local requirements, and with all international conventions and agreements ratified by the Government."*

2. A general environmental and social warranty or covenant that the investee organization will comply with all relevant policies of the Fund ESMS:

*"The Investee shall use all reasonable efforts to ensure the social and environmental performance of the activities are in compliance with the Fund Environmental and Social Policy."*

*"The Investee shall provide the Fund with quarterly updates on its environmental and social performance, including about compensation implementation when applicable, and respond within a reasonable time period to requests for further information."*

3. Notification clause which requests the Investee to notify the Fund of any serious adverse environmental and social incident:

*"Immediately and no later than 24 hours after its occurrence, the Investee shall notify the Fund of any major social and environmental incident as a result of the Investee's operations (e.g., death, riot, spills, explosions, exhaustive negative media coverage, etc.). Notification will be in the form of an email and formal letter to the Fund Manager."*

## **Appendix H. Major Incidents Requiring Immediate Reporting**

In the event that any of the below incidents occurs at an investee site, the investee must report the incident to the Fund within twenty-four hours of occurrence, including a description of remediation measures already taken and to be taken:

- Fires or explosions;
- Significant fuel/chemical spills;
- Significant pollution discharges above limits of normal operation;
- Major work-related injuries (including employees, contractors, and/or members of public);
- Work-related fatalities (including by employees, contractors, and/or 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 shut down; and
- Significant community unrest or public relations incidents.

## **Appendix I.      Sample ToRs for E&S Due Diligence Consultants**

The template below can be used as a guide for developing Terms of Reference (ToR) for a Consultant to perform certain aspects of the Environmental and Social appraisal of prospective investments of the Fund as well as ongoing supervision of the investment portfolio.

### ***Introduction***

The purpose of this Terms of Reference is to ensure that the Consultant performs the environmental and social review of a prospective investment, and later, the ongoing evaluation and supervision of activities according to the Fund's environmental and social management policies and procedures.

The Fund is committed to promoting sustainable development through the use of clean cooking solutions, which contributes to economic growth, social development and improved health, and environmental conservation. The Fund realizes this aim by carrying out appropriate Environmental and Social (E&S) due diligence of proposed and committed investments. The Fund will ensure that all investees it finances comply with the Fund's Environmental and Social Management System (ESMS).

### ***Consultant Qualifications***

The Consultant must have substantial experience in the E&S review in the African energy sector, with particular focus on the support of finance activities. They must be thoroughly knowledgeable of the Fund's ESMS policy and procedures.

### ***Scope of Work***

The Consultant will conduct the E&S appraisal of a prospective investee, as well as the ongoing supervision of E&S performance of all investee activities consistent with the Fund's E&S policy and procedures.

For **new appraisals**, the four tasks include:

1. *Preliminary Review:* Review all available information and documentation related to investee's environmental and social 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. *E&S Performance Gaps and Necessary Corrective Actions Analyses:* Analyze investee's environmental and social performance in relation to the Fund's Environmental & Social Policy as outlined in the ESMS. Identify these gaps and any corresponding corrective actions that will be necessary. Prioritize these and recommend acceptable and justified implementation schedules; and
4. *Due Diligence Documentation:* Prepare a report summarizing the results of the E&S due diligence. The report shall include a summary of the impacts and risks associated with the investee's activities, 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 investment portfolio, the three tasks include:

- *Review Monitoring Reports:* Review periodic documentation submitted by the investee regarding implementation of any corrective actions included as conditions of investment, as well as overall environmental and social performance. Also, review information submitted by the sponsor concerning significant incidents or fatalities. Identify any follow-up corrective actions that might be necessary;
- *Site Visit and Further Review (Optional):* Where directed by the Fund, conduct a site visit to confirm E&S performance and/or to investigate incidents. Identify any follow-up corrective actions that might be necessary; and
- *Supervision Documentation:* Prepare a report summarizing the findings of the supervision activity.

### ***Schedule***

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