

ICGL ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

Introduction

Through a project spearheaded by the World Bank (WB), the Development Bank of Nigeria (DBN) set up a 100% owned subsidiary – Impact Credit Guarantee Limited (ICGL) – to guarantee facilities on loans made to eligible MSMEs and small corporates (the Borrowers) by Partner Financial Institutions (PFIs) in Nigeria. ICGL acknowledges the important role that it plays in ensuring that its resources are used in a way that supports preservation of a clean environment and earth's natural resources, as well as ensuring that people, workers and communities are not harmed and are treated fairly and equitably. ICGL, therefore, considers Environmental and Social Risk Management (ESRM) to be an important part of its mandate for facilitating increased access to finance for Nigerian MSME's.

As part of this mandate, ICGL is committed to incorporate Environmental & Social (E&S) risk considerations into its decision making and guarantee issuance processes in a manner that is aligned with Nigeria's legal requirements, International best practices, and its parent company's (DBN) E&S policy and procedures. As a wholly owned subsidiary of Development Bank of Nigeria (DBN), ICGL subscribes to DBN's Environmental and Social Policy and Procedures and will apply the same requirements to its PFIs.

Purpose of the E&S Policy

In delivering on its mandate, ICGL may be exposed– through the PFIs – to E&S risks associated with the business activities of the sub-borrowers that benefit from ICGL's guarantee. Accordingly, it is imperative that the Company develops and maintains adequate systems, procedures, personnel and capacity for identifying, managing, and monitoring risks and impacts of beneficiary borrower's E&S risks, commensurate with the type, scope and nature of financing guaranteed.

This policy outlines ICGL's approach, parameters, rules and procedures related to ESRM that need to be followed by all parties involved in the provision of credit guarantees to PFIs. It describes how ICGL and the PFIs work with each other in terms of ESRM to avoid, minimize or reduce, or compensate for/offset risks and negative impacts. The policy aims to achieve the following objectives

- That ICGL achieves its developmental objectives while promoting E&S sustainability of the activities financed with the support of its guarantees.
- Provide a pragmatic E&S system with methodology, personnel and tools that can easily integrate with ICGL and PFI's day-to-day operations and considers the local context in Nigeria.
- Integrate E&S considerations into ICGL's decision-making processes;
- Implement and comply with the national requirements for ESRM in Nigeria i.e. the NSBP;
- In line with the secondary business model that ICGL will employ, set out the minimum requirements for PFI's for assessment and management of E&S risks and impacts with guaranteed borrowers;
- Promote transparency and accountability on E&S issues internally and externally through reporting, disclosure and communication.

- That ICGL assesses climate risks and opportunities associated with its activities and integrate climate adaptation considerations to the Banking operations/products and services offerings.
- Include climate change risk in ICGL's internal governance procedures, in line with the existing financial corporate risk identification, controlling and reporting structures and best practice in reporting requirements.
- Integrate Natural Capital-related risks and opportunities in decision making.

Objective of the E&S Framework

ICGL employs a secondary business model by partnering with PFIs in Nigeria which provide the ultimate guaranteed financing to MSMEs and small corporates. ICGL does not originate any loans or deal with MSMEs without the involvement of the PFIs. Accordingly, ICGL aims to build strong partnerships with PFIs in Nigeria and achieve risk-adjusted returns through a strategy focused on incentivizing lending to the MSMEs and a strong risk management process.

Considering this secondary business model, the main objective of this policy is to provide a framework to avoid, mitigate or minimize adverse E&S impacts caused by MSMEs and small corporates whose loans are guaranteed by ICGL through the respective PFIs. The PFIs that ICGL partners with are licensed and regulated by the CBN, have implemented the NSBP as required, and have functioning ESRM systems in place as confirmed from the due diligence carried out at the onboarding stage.

The core components of the framework are:

1. E&S policy, with clearly specified applicable E&S requirements and standards.
2. E&S processes and procedures for PFI screening, including relevant checklists, monitoring and reporting. This includes specific roles and responsibilities, persons responsible, timing of the various steps in the E&S process.
3. Internal organizational capacity and competency
4. Monitoring and review of guarantee portfolio.
5. Reporting to internal and external stakeholders.
6. External communication mechanisms.
7. Grievance redress system.

Scope of Application of the ICGL's E&S Policy

The policy is relevant for all staff and activities of ICGL and, where applicable, the relevant points of contact in the PFIs. ICGL will designate an E&S Risk Coordinator who is the focal point and will be responsible for all E&S-related activities within the organization. The designated officer will work closely with the respective Operations & Risk management teams, as well as senior management and the Board of Directors.

Applicable Policy Requirements

As a condition of eligibility to receive the ICGL guarantee, the PFI will put in place and maintain an ESRM Framework to identify, assess, manage and monitor environmental and social risks associated with the

borrowers that they finance. Such framework will comply with ICGL's Environmental and Social Policy and Procedures. The framework should include the following elements, at a minimum:

- ESRM policy.
- Clearly defined environmental and social risk identification, assessment and management procedures.
- Organizational capacity including organogram, roles and responsibilities, and competency.
- Monitoring and review of E&S risks of individual transactions and the portfolio.
- External communication mechanism.

The framework will be endorsed by senior management of the PFI and have adequate resources and personnel dedicated to its implementation. The PFI's E&S framework must include an E&S categorization system. The PFI's categorization procedures will incorporate the requirements of the NSBP, and will consider type, size, and tenor of financing, nature of activities financed, including sectors and locations; and borrower's capacity to manage E&S risks.

The PFI's E&S framework will clearly outline the following applicable requirements, depending on the level of risk associated with sub-borrowers and sub-projects that are guaranteed by ICGL:

- Require that all sub-borrowers and sub-projects follow relevant environmental and social national laws and local laws and regulations.
- Comply with the requirements of the NSBP on ESRM and ICGL's E&S requirements.
- Where ICGL, as a result of its E&S screening and review of the PFI, is not satisfied that adequate capacity exists in a PFI for identifying, assessing and managing risks and impacts, ICGL may exclude some or all the activities on ICGL's List of Sensitive Activities from its guarantee support to the PFI, until it is able to confirm that the PFI has developed adequate capacity over time.
- All sub-borrowers and sub-projects categorized by the PFI as High Risk, in accordance with the PFI's E&S categorization system, will not be eligible for coverage under ICGL's guarantee.

Where necessary, ICGL will require the PFIs to strengthen their E&S framework as well as organizational capacity, responsibilities and accountability for implementing the framework.

ICGL will also require the PFIs to maintain labor management practices in line with national laws.

The PFI will prepare and submit to ICGL an E&S Report on the implementation of its E&S framework during biennial reviews on request by ICGL. This will include information on the E&S risk profile of the portfolio that is guaranteed by ICGL. The PFI will promptly notify ICGL on any significant accidents or incidents associated with sub-borrowers that are covered under the guarantee.

Communications and Disclosure

ICGL will communicate the provisions of this Policy internally at all levels of the institution and adequate disclosure of the ESRM framework on its official website. ICGL will also maintain a process for external communications to deal with public inquiries and concerns related to E&S matters, including grievance redress system as stated within the Company's ESRM framework. ICGL is committed to reporting on its E&S activities in accordance with the NSBPs obligations and the requirements of other stakeholders. ICGL will put in place a system for internal reporting to senior management on implementation of its E&S

framework. In addition, ICGL will also seek to incorporate such reporting into its annual external publications.

ICGL Internal Channels:

- Hotline: 0812-048-2163
- E-mail: whistleblow@impactguaranteeng.com
- ICGL's website: www.impactguaranteeng.com

ICGL External Channels:

- Toll-Free Hotlines: 0800-TIP-OFFS (0800-847-6337)
- Mobile App: Download deloitte tip-offs anonymous app on google play store or app store
- E-mail: tip-offs@deloitte.com.ng

Changes to E&S Policy and New Policy Development

ICGL's E&S policy and procedures are approved by the Board of Directors and implemented by Management. The policy and procedures will be reviewed on an annual basis to ensure adequacy in line with any changes in ICGL's operations, compliance with relevant laws and alignment with the needs of various stakeholders. ICGL may also develop complementary policies and procedures to deal with specific issues e.g. a specific sector, borrower type, E&S risk category etc. Such specific policies & procedures will be approved by the Board of Directors.

Environmental And Social Risk Management Procedures

Purpose

This section sets out ICGL's institutional arrangements and processes that aim to support the implementation of its ESRM framework. It describes the procedures to be used, defines the roles, and explains/provides the tools to be used for all E&S-related activities. The processes and procedures are an integral part of ICGL's risk management framework and are embedded in the overall credit guarantee processes. As such, they are to be continually improved to account for prevailing operating conditions.

Considering the secondary business model employed by ICGL, the following form the key components for E&S processes and procedures:

- The screening processes that ICGL will carry out on PFIs to satisfy itself as to the robustness and completeness of their E&S policy, processes and procedures, and suitability in managing the E&S risk of guaranteed sub-borrowers.
- The ongoing E&S monitoring and reporting processes of the PFI's E&S risks as relates to guaranteed sub-borrowers.

Applicability

ESRM procedures apply to all of ICGL's operating activities.

Revisions and Approval

The E&S processes and procedures are approved by the Board of Directors as part of ICGL's overall ESRM framework. Senior management, through the officer assigned with the responsibility for ESRM (i.e. the E&S Risk Coordinator), is responsible for their implementation. ICGL reviews the processes and procedures on a bi-annual basis, or as the need arises, to ensure compliance with the prevailing operating environment, as well as the requirements of various stakeholders.

ICGL's E&S Processes and Procedures

The E&S procedures are comprised of five distinct steps, with each step representing a critical step of ICGL's E&S approach. The sequencing of the processes and procedures follows the typical chronology of events in the credit guarantee cycle and takes into consideration the secondary business model adopted.

Grievance Mechanism

As part of the Guarantee Framework Agreement (GFA) between ICGL and the PFIs, it is a requirement that the PFIs communicate to ICGL, among others, any complaints with sub-borrowers related to the sub-loan. ICGL does not impose any additional procedures on its PFIs as long as the PFIs internal grievance mechanism accommodates individual grievances and is accessible to all borrowers guaranteed by the Company.

ICGL's E&S Risk Coordinator is responsible for reviewing reports prepared by PFIs as regards complaints & grievances received (including a complaints log, recording information such as date of complaint, object of complaint, assessment result, actions taken and/or follow-up plan) and to ensure that the grievances were addressed and/or forwarded to regulators, CBN's dispute resolution process. ICGL monitors the implementation of agreed actions and follow-up plan (if this action is warranted) developed by the PFI (with ICGL's input as per need) until the complaint is resolved or referred to the regulator. Failure by the PFI to report to ICGL of serious complaints by borrowers guaranteed by the Company is considered a substantial breach of contract.

Also, ICGL maintains a communication channel through which complaints and grievances from other interested parties are received to expedite resolution. Details of the communication channel is provided in the "**Communication and Disclosure**" section of this policy document.

ICGL's Exclusion List

ICGL's Exclusion List outlines activities that the Company will not support through the provision of credit guarantees. The Exclusion List is compliant with Nigerian laws and is aligned to the exclusion requirements of its shareholders and stakeholders. The Exclusion List is reviewed annually to ensure compliance with national regulations in Nigeria and alignment to its shareholders & stakeholders prohibited activities.

ICGL will not guarantee any activity involving:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or International conventions and agreements.

2. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs) subject to International phase outs or bans.
3. Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species (CITES).
4. Production or trade in weapons and ammunitions.¹
5. Production or trade in alcoholic beverages (excluding beer and wine).¹
6. Production or trade in tobacco.
7. Pornography and/or prostitution.
8. Gambling, casinos and equivalent enterprises.¹
9. Production or activities involving forced labor² or child labor⁴.
10. Production/trade in wood or other forestry products other than from sustainably managed forests.⁴
11. Racist and/or undemocratic and/or neo-Nazi media.
12. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where ICGL considers the radioactive source to be trivial and/or adequately shielded.
13. Cross-border trade in waste and waste products, unless compliant to the Basel convention and the underlying regulations.
14. Production or trade in or use of asbestos fibers.
15. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.
16. Any activities involving significant degradation or conversion of natural^{5,7} and/or critical habitats^{6,7} and/or any activities in legally protected areas.
17. Activities involving live animals in scientific and experimental purposes, including the breeding of these animals.
18. Military or police equipment and infrastructure.

Foot notes

1. This does not apply to project sponsors who are not substantially involved in these activities. “Not substantially involved” means that the activity concerned is ancillary to a project sponsor’s primary operations.
2. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
3. Employees may only be taken if they are at least 15 years old, as defined by ILO Minimum Age Convention (C138, Art. 2) and ratified by Nigeria in 2002. Children under the age of 18 will not be employed in hazardous work. Children will not be employed in any manner that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child’s education, or to be harmful to the child’s health, or physical, mental, spiritual, moral, or social development.
4. Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/verification or progress towards certification/verification under a credible standards system.
5. Natural habitats are areas composed of viable assemblages of plant and/or animal species of largely native origin, and/or where human activity has not essentially modified an area’s primary ecological functions and species composition.

6. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance required for critically endangered or endangered species as defined by IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and/or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.
7. This includes High Conservation Value (HCV) forests. HCV areas do not directly correspond with definitions for modified, natural or critical habitat. The HCV Resource Network, an internationally recognized group, provides information and support on the evolving usage of HCV to ensure a consistent approach. <https://www.hcvnetwork.org/>

ICGL's List of E&S Sensitive Activities

The following environmentally and socially sensitive activities are subject to restrictions in PFI loans guaranteed by ICGL, where the Company is not satisfied that adequate systems and capacity exists within the PFI to screen, assess, and manage the associated risks.

ICGL will revise this list on a regular basis to ensure it meets the requirements of relevant Nigerian laws and regulations and those of bilateral and multilateral stakeholders.

1. Activities involving the risk of work performed by children.
2. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.⁸
3. Industrial-scale activities in or near critical habitats.⁹
4. Industrial-scale activities involving production,¹⁰ harvesting,¹¹ or trade in wood or forestry products from plantation and natural forests or wild fish and other aquatic species.
5. Industrial-scale production, trade, storage or transport of significant volumes of hazardous chemicals or commercial-scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, other petroleum products, textile dyes etc.
6. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage that are used as livelihoods by vulnerable and/or historically underserved traditional local communities.¹²
7. Activities involving significant adverse impacts on critical cultural heritage.¹³

Foot Notes

8. Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced).
9. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance required for critically endangered or endangered species as defined by IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant

concentrations of migratory species and/or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.

10. Production means cultivation or rearing of plants or animals, including annual and perennial crop farming, animal husbandry (including livestock), aquaculture, plantation forestry, etc.
11. Harvesting refers to productive activities that include extraction of these resources from natural ecosystems and habitats.
12. Vulnerable and/or historically underserved traditional local communities refers to those communities that may be most marginalized in the country context and lack access to resources and public services.
13. Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory, the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation.

PUBLIC