

E&S
RISK MANAGEMENT
FRAMEWORK

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INTRODUCTION

Founded in 2010, the Regional MSME Investment Fund for Sub-Saharan Africa ("REGMIFA" or "the Fund") is an investment fund dedicated to promote economic development in Sub-Saharan Africa (SSA). The strategic goal of the Fund is to create employment, generate income and alleviate poverty by supporting Partner lending institutions (PLIs) serving micro, small and medium-sized enterprises ("MSMEs") as well as low- and middle- income households (LMIHs).

While REGMIFA predominantly targeted micro enterprises by lending to microfinance institutions ("MFIs"), the Board and Investors of the Fund have agreed on an expansion of REGMIFA's mandate to also serve SMEs. The Fund reaches this new target group through financial intermediaries' entities such as banks, leasing companies, factoring companies, fintech companies, financial holding companies and potentially investment funds. Over the past few years, REGMIFA has increased its exposure to SME finance to around 40% of its portfolio. This exposure is expected to continue increasing, reaching up to 50%, alongside the 50% dedicated to traditional micro finance.

The renewed focus on SME finance presents new challenges in terms of Environmental and Social ("E&S") risk management and stronger sustainability requirements from investors, since risk is perceived to be higher for SME finance compared to micro finance. Thus, REGMIFA's E&S risk management approach has been updated to add more scrutiny on environmental and social risks. To ensure that the Fund adheres to Sustainability Guidelines of its Investors as well as with the Sustainable Finance Disclosure regulations enacted by the EU in daily operations, the IM has implemented a set of policies, procedures and tools which are in turn structured in an Environmental & Social Risk Management Framework ("E&S Risk Management Framework").

This document further explains the Fund's E&S Risk Management Framework in four main sections: 1) The E&S Policy sets out the environmental and social principles and standards that the Fund adheres to. 2) The Methodology defines key concepts used to determine the level of E&S risks in the portfolio of PLI Investments as well as the E&S risk management quality that is expected from the different type of PLIs. 3) The E&S Procedure describes how these principles and standards are put in practice and 4) the E&S Governance section explains the different roles and responsibilities that are assigned to each team member involved in the application of the framework. The Annexes contain a set of supporting documents such as the Fund's Exclusion List (Annex A), E&S risk categories per sector (Annex B), E&S management requirements for PLIs (Annex C), E&S risk requirements per profile (Annex D), an initial information request for PLIs (Annex E), an E&S Due Diligence Memo Template (Annex F), an E&S contract clause template (Annex G), an E&S Action Plan

template (Annex H), an E&S Monitoring Report template (Annex I), an E&S coordinator job description (Annex J), Sources for training materials (Annex K), and E&S risk management building blocks for PLIs (Annex L).

This E&S Management Framework was approved with immediate effect by the REGMIFA Board in January 2022 and updated in July 2024. The framework will be reviewed and revised as necessary to reflect any changes to the Fund's policies, standards, and operations. At a minimum, this E&S Framework will be reviewed and possibly revised on a bi-annual basis. The next review is scheduled in July 2026.

1 POLICY

To adequately address the E&S risks of its transactions, REGMIFA requires its Partner Lending Institutions ("PLIs") to mitigate the negative environmental and social effects of their lending operations and improve their environmental and social risk management practices. This E&S Policy ("the Policy") lays the ground for that integrated E&S management approach.

1.1 OBJECTIVE

The purpose of this Policy is to define the principles and standards that REGMIFA adheres to for E&S risk management and to define the requirements for its PLIs.

1.2 SCOPE

The scope of this Policy extends to all transactions under the Fund. As the Investment Manager ("IM") of the Fund, Symbiotics commits to applying the Policy consistently across REGMIFA fund management activities. All staff involved in the Fund is expected to know the Policy and to act accordingly.

1.3 STANDARDS

The Fund does not provide financing to companies with activities or characteristics mentioned on the REGMIFA Exclusion List (Annex A), which is a combination of Symbiotics' own list of excluded activities with the Exclusion List defined by the Fund's shareholders. The Fund will also not make any PLI Investments which include category A sub-loans, i.e. activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. PLI Investments shall have the meaning set forth in the Issue Document of the Fund.

Furthermore, the Fund requires PLIs to achieve compliance with the legal and regulatory environmental and social requirements that are applicable in the jurisdictions where they operate.

In addition to the regulations of national jurisdictions and applicable international conventions, the Fund applies the KfW Sustainability Guidelines, and the IFC Performance Standards ("IFC PS") to its transactions.

In case of discrepancy between the national legal framework and these international standards, the institution will apply the stricter of the two standards.

1.4 REQUIREMENTS

To each transaction, the Fund applies requirements in order to mitigate any negative environmental and social risks and impacts associated with the investment. It should be recognized that REGMIFA's operations require a specific approach with respect to E&S impact and risk management as well as the requirements that REGMIFA defines for its PLIs. At the time of transaction approval, the end clients that will be financed with the use of proceeds of REGMIFA and their associated impacts and risks are not known. Therefore, REGMIFA bases its decision-making for individual transactions on a general understanding of the sectors and the type of clients within the PLI's portfolio. The Fund further reviews the PLI's E&S risks and management during the monitoring process. To guide and ensure appropriate assessment and management of E&S risks by the PLI, REGMIFA has defined an Environmental and Social Management System (ESMS). Consequently, the IM can rely on the PLI to assess the impacts and risks of each client, to supervise the implementation of the needed mitigation measures and to meet relevant E&S standards.

To manage the E&S risks of the indirect financing operations, the Fund defines requirements for a PLI with regards to its lending practices and its internal operations.

- ♦ Regarding its lending practices, a PLI must implement a risk management mechanism that is commensurate with the E&S risk of the portfolio financed with REGMIFA's proceeds. That mechanism typically consists of the following elements established by IFC Performance Standard 1: (i) an Environmental & Social Policy; (ii) internal organizational capacity; (iii) ESG due diligence procedures to identify risks and impacts of borrowers; (iv) monitoring and review mechanisms of portfolio; (v) external communications mechanism; and (vi) emergency preparedness and response systems.
- ♦ Regarding its own activities, the PLI must agree to manage the working conditions of its workforce in accordance with relevant aspects of IFC Performance Standard 2: Labor and Working Conditions.

1.5 COMPLIANCE

It is expected that not every PLI will be in compliance with these standards at the time a transaction closes. In such cases, the Fund and the portfolio company will agree on an E&S Action Plan defining the corrective measures to bring the PLI into compliance within an achievable timeframe. It should be noted that REGMIFA takes a realistic approach and requires PLIs to improve E&S management practices through means that are appropriate to the nature and scale of their operations and commensurate with the E&S risk associated with their operations. REGMIFA also has Technical Assistance resources available to help PLIs build the capacity and structures needed to comply with the Fund's requirements.

1.6 APPLICATION

REGMIFA applies a risk-based E&S management approach which means it enhances the resources it deploys to assess and mitigate a transaction's E&S risk when the potential E&S risks are higher. To ensure a consistent application of E&S risk management across operations, the Fund embeds it throughout the investment cycle which means that the IM commits to the following tasks:

- ◆ Screening a potential transaction for eligibility against the Exclusion List;
- ◆ Profiling a potential transaction on the E&S risk level triggered by the portfolio of the PLI;
- ◆ Defining mitigation measures to avoid or minimize E&S impacts to a risk level acceptable to the Fund's standards and risk appetite;
- ◆ Considering the findings and recommendations from the E&S due diligence as a key factor in the Investment Committee ("IC")'s decision-making;
- ◆ If needed, agreeing on an E&S Action Plan with the PLI describing clear measures to mitigate the negative E&S impacts of its clients in portfolio;
- ◆ Monitoring the PLI's compliance with the REGMIFA's standards in general and the activities from the mutually agreed Action Plan (if any) in specific;
- ◆ Supporting PLIs with the continuous improvement of their E&S management if needed and as commensurate with the risk of the financed portfolio, through the provision of Technical Assistance;
- ◆ Reviewing the E&S management framework on a regular basis to reflect on learnings and changing risk levels and if needed revising accordingly. Disclosing relevant extracts of this E&S Risk Management Framework on its website to inform the stakeholders of the Fund.

2 METHODOLOGY

REGMIFA's E&S risk management methodology requires E&S risk management techniques that fit the nature of the investment fund activities. The design of the E&S management framework aims to address identified constraints such as the absence of information on the end-clients and business activities to be financed and the diversity in nature and scope of the transactions, and considers the Fund's indirect lending approach.

The sections below 1) describe the E&S risk level by portfolio segment 2) give a definition of the different E&S risk categories that the Fund will use 3) provide the specific criteria and thresholds used to classify the PLIs in the different E&S Risk categories.

2.1 UNDERSTANDING E&S RISK

The E&S risk levels associated with micro finance and SME finance vary due to the different characteristics of these segments in terms of end use, sector exposure, tenor and loan size. A description of the E&S risk levels for each segment is provided below.

MICRO FINANCE

The E&S risk linked to the business activities of micro entrepreneurs and the characteristics of micro finance transactions are mostly limited. These clients (individuals or micro entrepreneurs) generally present limited E&S risk as they are mostly active in services and commerce which carry minimal negative E&S impacts. While the E&S impacts in production and agriculture could potentially be higher, the micro entrepreneurs from these sectors often still have low E&S risk levels due to their small operational size which keeps the magnitude of risk limited. An exception to this generic assumption are Occupational Health and Safety (OHS) risks, which are applicable to any client type including micro entrepreneurs.

When it comes to the characteristics of micro finance loans, these are generally small transactions resulting in small exposure to a client's E&S risk for a lender. One exception to this assumption is the possibility of accumulative risk which occurs if a micro finance lender has exposure to an above-average number of clients dealing with the same E&S risk due to shared business activity, geography or other circumstances.

SME FINANCE

The potential E&S impact of SME finance can vary depending on the size of the companies being financed, the type of business activity they are involved in, and their locations. In general though, E&S risk levels for SMEs is medium and only increases to high risk in an exceptional case.

Relatively small-sized entrepreneurs (taking into account local economic context) in commercial sectors (services) are generally considered to have a low E&S impact and, as a

result, this business activity's E&S risk is low. Relatively large SMEs (taking into account local economic context) in production or infrastructure sectors are generally considered to have a higher E&S impact, and thus the E&S risk of the transaction is high.

All transactions providing financing to clients between these two extremes are generally considered to have a medium E&S risk level.

OTHER SEGMENTS

The Fund will also occasionally invest in other segments that are neither microfinance institutions nor SME banks (renewable energy companies, companies in sustainable agriculture, etc.).

The risk profiles of such segments will be assessed on an ad hoc basis by the E&S Coordinator of the IM or appoint an external consultant if deemed necessary. REGMIFA will apply the same risk classification and associated risk management requirements to these segments as to the rest of its portfolio, even if it might rely on specific best practices that exist for a given segment.

2.2 CLASSIFYING E&S RISK

To determine the E&S risk level of a transaction ex-ante in the best possible way, REGMIFA follows a classification method based on the risk that is associated with the full portfolio of the PLI's clients. This means that the classification takes place based on the scope of all sub-borrowers in a PLI's portfolio, beyond the eventual selection of MSMEs in portfolio that REGMIFA chooses to support through its use of funds. The classification methodology works as follows:

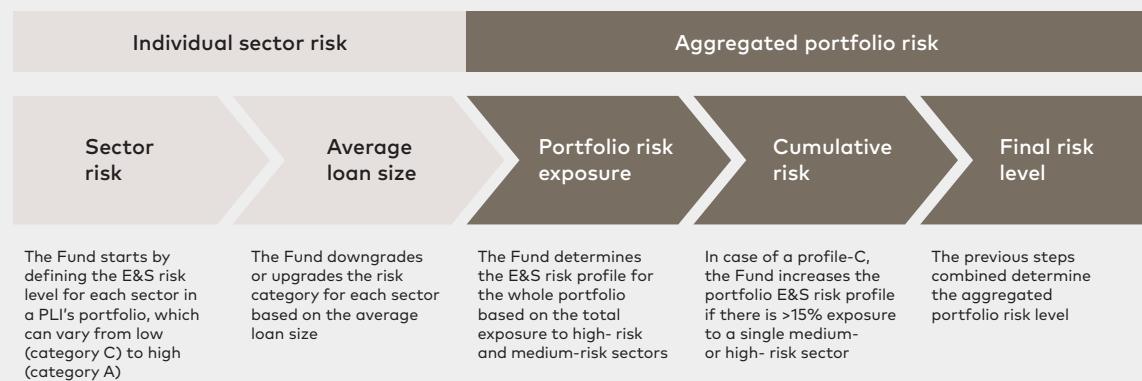
- ◆ **PROFILE-A:** when a portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented;
- ◆ **PROFILE-B:** when a portfolio includes, or is expected to include, activities with potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or when a PLI's portfolio includes a very limited number of activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented;
- ◆ **PROFILE-C+:** when a PLI's existing or proposed portfolio includes, or is expected to include, activities that predominantly have minimal or no adverse environmental or social impacts, but with a concentrated exposure (>15%) to a single medium- or high-risk sector;
- ◆ **PROFILE-C:** when a PLI's existing or proposed portfolio includes, or is expected to include, activities that predominantly have minimal or no adverse environmental or social impacts.

2.3 ESTABLISHING E&S RISK PROFILES

Microfinance institutions are typically considered Profile-C, with a few exceptional cases being increased to Profile-C+ if a PLI specifically focuses on a particular client group (e.g. smallholder farmers). SME finance, on the other hand, is more volatile and can range from Profile-C if the portfolio predominantly consists of low risk sectors (e.g. trade) or low risk products (e.g. leasing) to Profile-A if the portfolio has exposure to high risk sectors (e.g. mining).

To establish the right E&S risk classification for a transaction, REGMIFA applies an E&S risk profiling method consisting of two levels. The first level determines the sector risk level for every sector in portfolio based on the sector inherent risk and the average loan size. The second level aggregates the sector risk levels to a portfolio level sector risk, as illustrated in Figure 1 below.

FIGURE 1: METHODOLOGY FOR E&S RISK PROFILING



2.3.1 SECTOR RISK LEVEL

The classification methodology works as follows:

- ♦ **SECTOR RISK:** the first step in determining the sector risk level is to assess which sectors the PLI's portfolio is exposed to and the associated E&S risk levels. This exercise produces the default E&S risk classification, which can vary from low (category C) to high (category A).
- ♦ **AVERAGE SUB-LOAN SIZE:** the second step establishes the average loan size of each sector within portfolio to confirm or adjust the default risk categories based on the financial exposure to risk. In case the average loan size is small (<\$10.000) the risk category can be downgraded by one category, and in case the average loan size is large (≥\$1.000.000) the risk category can be lifted by one category.

The risk level per sector, depending on the average loan size, is derived from the Environmental and Social Risk by Industry Sector defined by IFC "First For Sustainability"¹ and is found in Annex B.

2.3.2 AGGREGATED PORTFOLIO RISK

To determine a final risk level that concerns portfolio E&S risks, REGMIFA applies a two-step approach. The first step is an aggregation process for the individual sector risk levels to establish an overall risk level. The second step concerns a cumulative risk assessment to incorporate accumulated single-sector exposure risk.

RISK AGGREGATION: To aggregate the sector risk categories, REGMIFA applies an aggregation method that classifies portfolios into profile-A, profile-B or profile-C depending on their relative exposure to risk categories. By default, a portfolio is considered a profile B, but the risk profile can be increased to profile-A or decreased to profile-C as follows:

- ♦ If a portfolio has more than 10% exposure to adjusted category A sectors, the portfolio is increased to profile A.
- ♦ If a portfolio has less than 5% exposure to adjusted category A sectors and less than 30% exposure to adjusted category B sectors, the portfolio is decreased to profile C.

CUMULATIVE RISK: the last step to get to the final risk level is to establish whether there is significant exposure to a single sector (>15%) in a medium- or high-risk category. In such cases, when the aggregated risk profile is profile-C, the profile will be increased to profile-C+ in order to mitigate the potential cumulative risk associated with this specific sector.

Based on these steps, the E&S risk profile for the PLI is determined which in turn defines the requirements for a PLI's E&S risk management performance. The higher the E&S risk profile, the higher the risk management quality level should be according to REGMIFA requirements.

Note that the classification is done on full portfolio level. Regardless of the final risk profile, REGMIFA will not finance any category A sub-loans. To ensure the exclusion of Category A sub-loans from REGMIFA's portfolio, the Fund includes a use of funds clause, found in Annex G.

2.4 ASSESSING E&S RISK MANAGEMENT QUALITY

Once the PLI's E&S risk is established, the adequate level of E&S risk management can be determined. REGMIFA has specific expectations for each E&S risk profile detailed in Annex D. To evaluate if the PLI's E&S risk management performance meets these expectations, REGMIFA uses an E&S risk management quality assessment. This assessment covers 4 dimensions:

¹ <https://firstforsustainability.org/risk-management/risk-by-industry-sector/>

- ♦ **POLICIES:** these are the principles and standards that a PLI needs to formally commit to in its E&S Risk Management Policy, HR Policy and lending policy.
- ♦ **PROCEDURES:** these are the structures that need to be integrated in a PLI's credit operations such as approaches for screening, classifying, evaluating and monitoring E&S risk at the level of sub-loans.
- ♦ **GOVERNANCE:** these are the roles and responsibilities that need to be assigned within a PLI to operationalize the policies and procedures for E&S risk management.
- ♦ **ACCOUNTABILITY:** these are the grievance mechanism and reporting procedures that need to be integrated within a PLI to formally address any incidents or breaches of contract.

The management quality assessment is performed as part of the Due Diligence and is incorporated in the ESG rating. It is formalized in a specific separate output generated by the ESG rating tool.

If the management quality assessment demonstrates that a PLI meets REGMIFA's expectations for the E&S risk level of the transaction, there is no need for additional requirements or action plans. If there is a gap though between the PLI's E&S risk management performance and REGMIFA's expectations, additional E&S requirements will be defined in an Action Plan proposed by the IM and validated by the IC. What these requirements are exactly, depends on the needs of the transaction.

FIGURE 2: E&S RISK MANAGEMENT REQUIREMENTS

Dimension	Subdimension	Description
Policy	E&S risk management policy	This describes basic standards, procedures, and responsibilities for lending operations regarding E&S management
	HR policy	This describes the guidelines on the approach an organisation adopts to managing its people
Procedures	Eligibility screening	This includes an exclusion list and screening clients for potential E&S violations or adverse impacts
	Categorization	This classifies the E&S risk level of individual transactions
	Due Diligence	This assesses the E&S risks associated with individual transactions
	Contracting	This includes E&S clauses and conditions in client contracts
	Monitoring	This is a check for compliance with applicable standards and of progress on agreed E&S conditions and actions
Governance	Roles and responsibilities	This concerns the division of tasks for integration and application of the policies and procedures
	Capacity	This concerns the knowledge and skills of the employees responsible for E&S management
Accountability	Grievance mechanism	This ensures incidents and breaches of contract can be reported by external stakeholder and employees
	Reporting	This is an ad-hoc or periodically report on E&S compliance

2.5 DEFINING E&S REQUIREMENTS

The process and steps needed to fill the gap from the PLI's current E&S risk management performance to the typical E&S requirements is agreed upon with the PLI in the form of an E&S Action Plan (Annex H) with a chronogram for the implementation of the E&S requirements.

2.5.1 APPROPRIATE MEASURES

The E&S requirements need to reflect and address the E&S risk level of the transaction. A portfolio with high E&S risk needs an extensive risk management mechanism, compared with a medium-risk portfolio where the mechanism is more basic (emphasis on screening and mitigation of individual sub-loans), and a low-risk portfolio where generally no mechanism is required (although a few E&S requirements still apply).

2.5.2 FEASIBLE MEASURES

Besides being appropriate, the measures to be adopted by the PLI also need to be feasible. The implementation of the appropriate measures described above needs to be done according to a time schedule that is feasible.

If the transaction requires an E&S Action Plan, then this plan should be drafted and agreed upon prior to the first disbursement. In general, E&S Action Plans define timelines of typically 6, 12 or 24 months for the establishment and integration of E&S risk management components, but these timelines will not extend beyond the term of the loan agreement.

3 PROCEDURE

To ensure adequate and consistent application of the E&S Policy in the investment cycle, REGMIFA has an E&S Procedure in place broken down in 4 main blocks and 7 steps (Figure 3). Each step of the procedure is further described in the sections below.

FIGURE 3: OVERVIEW OF E&S PROCEDURE

Dimension	A. Screening	B. Due Diligence	C. Approval	D. Monitoring
Process	1. Exclusion List check 2. E&S risk profiling	3. E&S Management Quality Assessment 4. E&S risk due diligence	5. E&S Due Diligence Memo ratification 6. Risk mitigants definition	7. E&S monitoring
Responsibility	◆ Investment Analyst ◆ E&S coordinator	◆ Investment Analyst ◆ E&S coordinator	◆ Investment Analyst ◆ E&S coordinator ◆ Structuring team ◆ Pipeline Manager ◆ Investment Committee	◆ Investment Analyst ◆ E&S coordinator
Output	◆ E&S risk profile	◆ ESG rating score ◆ E&S Due Diligence Memo	◆ E&S covenants ◆ E&S Action Plan	◆ Update of the E&S Due Diligence Memo ◆ E&S Monitoring Report (if applicable) ◆ Revised E&S Action Plan (if applicable)

3.1 SCREENING

As a first step of the investment process, the Investment Analyst verifies if the PLI is eligible for financing by checking if any of the activities in its loan portfolio appear on the REGMIFA Exclusion List (Annex A). If a PLI's loan portfolio contains excluded activities, the Investment Analyst confirms the next steps with the E&S Coordinator which is to inform the PLI that they are not eligible for REGMIFA financing and to cease the investment process. If the Investment Analyst and E&S Coordinator see reason to override the exclusion, they inform the Investment Committee and request approval for the exception. Such an approval shall be confirmed by the Board.

As a second step, the Investment Analyst identifies the exposure to E&S risk in the PLI's portfolio as this (a) determines the depth of the due diligence required to adequately evaluate the E&S risk associated with the transaction and (b) checks what the E&S requirements are based on the risk profiling exercise.

The identification of the E&S risk for the entire portfolio ensures the consideration of critical factors of indirect (reputational) risk in terms of exposure to high risk asset classes and to high risk sectors regardless of whether a 'use of funds' clause is applied. It follows that the E&S due diligence will anyhow cover the entire current and projected PLI portfolio.

To offset high risk portfolios, the Investment Analyst looks into potential mitigating factors such as involvement of Development Finance Institutions – which apply strict E&S risk management requirements to their capital – and the application of IFC Performance Standards – which suggests a sophisticated E&S management system. The E&S risk profiling is done by using the ESG Rating of the IM.

- **Responsible staff member:** Investment Analyst, E&S Coordinator
- **Output:** E&S risk profile, Reputational risk level

3.2 DUE DILIGENCE

During the E&S due diligence, the Investment Analyst gains more detailed insight into the nature and scope of a transaction. By looking at the business activities in the PLI's full portfolio and the planned portfolio developments, the Investment Analyst identifies and evaluates the E&S risks associated with the transaction. Second, the Investment Analyst assesses the adequacy of the PLI's E&S management policies, procedures, governance and accountability to manage E&S liabilities, risks, and impacts of its portfolio.

The Investment Analyst has primary responsibility for conducting this E&S assessment by means of desk research, interviews with the PLI and possibly stakeholders like employees, suppliers, clients, communities. The information is gathered through an Investee questionnaire (Annex E) and in-person meetings.

Based on the gathered information, the Investment Analyst completes the relevant Dimensions of the ESG Rating to (a) establish the PLI's compliance with the E&S requirements (see Annex D) that are commensurate with its E&S risk profile and (b) identify potential gaps and areas for improvement. In case the PLI does not comply with the E&S requirements for the transaction, the Investment Analyst determines which actions and steps need to be included in an E&S Action Plan in order to bring the PLI in compliance.

During the process of due diligence, the Investment Analyst closely collaborates with the E&S Coordinator. Only in the case of Profile-A PLIs, the key responsibility for conducting the E&S due diligence is handed over to the E&S Coordinator. For these cases, together, the Investment Analyst and E&S Coordinator discuss the findings of the E&S due diligence and the proposed mitigation measures and E&S Action Plan.

As a last step, the Investment Analyst documents all findings and recommendations from the assessment in the E&S Due Diligence Memo.

- **Responsible staff member:** Investment Analyst, E&S Coordinator
- **Output:** ESG Rating Scores, E&S Due Diligence Memo

3.3 APPROVAL

As part of the investment decision, the Investment Committee reviews and ratifies the findings and recommendations from the E&S due diligence, including the proposed E&S Action Plan when mitigation measures are necessary. The measures should be described in most concrete terms with tangible deliverables and timelines. To formulate these terms and conditions, the Investment Analyst and E&S Coordinator work together with the Structuring team. If the portfolio of the PLI includes Category-A projects, a Use of Funds clause which excludes these projects is added to the legal agreement.

The Pipeline Manager presents the legal agreement to the PLI in which the E&S Clause and E&S Covenants and Action Plan are formalized, as well as any reporting and supervision provisions. The Pipeline Manager discusses the content and meaning of this section with the PLI and formalizes the agreement with a signature from the counterpart's legal representative.

- **Responsible staff member:** Investment committee, Investment Analyst, E&S Coordinator, Structuring team and Pipeline Manager
- **Output:** E&S clause, E&S Action Plan

3.4 MONITORING

The Investment Analyst conducts a periodic review of the PLI's E&S performance as part of the periodic Due Diligence on the PLI, including the compliance with the E&S requirements and covenants defined in the Use of Funds and/or E&S Clause. This periodic review takes place on a regular basis and at least every two years and leads to an update of the E&S Due Diligence Memo.

When relevant, the Investment Analyst also reviews the PLI's progress on the actions defined in the E&S Action Plan. The findings and conclusion of this monitoring of the Action Plan are reflected in an E&S Monitoring Report which is prepared by the Investment Analyst. – Monitoring of the Action Plan is as frequent as the E&S Action Plan requires.

In case of non-compliance with the E&S Action Plan, this is considered an event of default which shall trigger a review and may result in the establishment of a Corrective E&S Action Plan agreed upon by the IM and the PLI to bring the transaction back into compliance within a reasonable time period based on the ESAP complexity. The PLI submits the revised E&S Action Plan to the IM for review and approval, any extension should be reported to the IC, notably through the Monthly Report. The Investment Analyst, possibly assisted by the E&S Coordinator, will take all reasonable efforts to assist the PLI to implement the revised E&S Action Plan to bring the transaction back into compliance. If after the repair period the operation is still non-compliant, this is considered an act of default and the transaction is officially in default.

In case of an E&S incident (reported by the PLI or otherwise identified by the IM), the Investment Analyst produces an E&S Monitoring report that is submitted to the IC for information and decision.

- **Responsible staff member:** Investment Analyst, E&S Coordinator
- **Output:** Updated E&S Due Diligence Memo, E&S Monitoring Report, Corrective E&S Action Plan (if needed)

4 GOVERNANCE

E&S management is considered an integrated part of fund management for REGMIFA. All the IM staff involved in REGMIFA participate in the implementation of the E&S Framework. The responsibilities for the framework are divided between six key roles.

4.1 BOARD

The Board carries ultimate responsibility of E&S risk management and reviews the E&S management system at minimum on a bi-annual basis. If addition, the Board will approve revisions - proposed by the E&S Coordinator - in the framework which reflect any changes to the Fund's policies, standards and operations or a change in risk levels.

4.2 INVESTMENT COMMITTEE

The Investment Committee reviews and ratifies the findings and recommendations from the E&S Due Diligence Memo, as well as the proposed E&S Action Plan (if applicable) and takes these into consideration in their decision making. The IC is ultimately responsible for the investment decision and notably can amend the proposed Use of Proceeds, E&S clauses, Action Plan, etc. For the avoidance of a doubt, the IC can also decline the investment proposals due to insufficient fit of the proposed PLI Investment with the E&S Risk Appetite of the Fund.

In addition, the IC is responsible for supervising the ESG policies and procedures as approved by the Board into decision-making on an individual transaction basis.

4.3 E&S COORDINATOR

The E&S Coordinator is responsible for ensuring that all PLIs financed by REGMIFA comply with applicable standards and requirements by assisting the Investment Team with the screening, assessing, and monitoring E&S risk associated with transactions as well as the E&S risk management capacity of the involved PLI. The E&S Coordinator is in close contact with the Portfolio Manager to ensure that all investment opportunities presented to the Investment Committee by the Portfolio Manager include the proper E&S risk assessment.

Next to that, the E&S Coordinator carries responsibility for the development and maintenance of the E&S Framework including all policies, procedures and tools.

The coordinator also builds capacity of the Investment Team and Investment Committee by means of on-the-job assistance and capacity building. The E&S Coordinator may also be consulted by the IC for advice on specific challenges and dilemmas regarding a transaction's E&S risk. For a more comprehensive job description, please refer to Annex J.

4.4 INVESTMENT TEAM

The Investment Analysts are responsible for applying the E&S Framework to the portfolio and engage with PLIs on REGMIFA's E&S standards and requirements. Throughout the investment process, Investment Analysts carry responsibility for a PLI's E&S due diligence, agree on corrective measures with the PLIs in case it does not comply with the Fund's E&S standards and requirements, and they monitor performance over time. If needed, the Investment Analysts can involve the E&S Coordinator in case of questions or specific issues.

In case of transactions with high E&S risk or complex E&S Action Plans, responsibility for monitoring can be shared with or handed over to the E&S Coordinator.

4.5 STRUCTURING TEAM

The Structuring Team ensures that the applicable E&S standards and requirements are adequately included in a transaction's legal agreement. This should fortify the Investment Team's leverage to keep a PLI to the commitments and mitigation measures and to take action in case of any breaches of law or activities contrary to REGMIFA's E&S Policy.

4.6 RISK AND COMPLIANCE

The Risk and Compliance Team is responsible for risk assurance and verifies if the Investment Team, Portfolio Manager and E&S Coordinator apply REGMIFA's E&S Policy effectively.

The IM staff involved in REGMIFA reports to the Board and Audit and Risk Committee of the Fund and informs external auditors on the effectiveness of the organization's control function in terms of design and operation.

5 ACCOUNTABILITY

A detailed grievance mechanism can be found in REGMIFA's complaints policy (<https://regmifa.com/contact/>).

ANNEX A: EXCLUSION LIST

REGMIFA will not finance any activity, production, use of, trade in, distribution of or involving:

- ◆ Production of or trade in any product or activity deemed illegal under applicable laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides and other toxic substances, ozone depleting substances, PCBs², wildlife or products regulated under CITES³.
- ◆ Production or trade in weapons or components thereof and munitions.
- ◆ Production or trade in alcoholic beverages (excluding beer and wine).
- ◆ Production or trade in tobacco.
- ◆ Pornography and/or Prostitution.
- ◆ Activities involving or relating to racist and/or anti-democratic media.
- ◆ Activities leading to, or which could be associated with, the destruction or significant impairment of High Conservation Value Areas⁴ without adequate compensation in accordance with international standards.
- ◆ Gambling, casinos and equivalent enterprises.
- ◆ Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source can be demonstrated to be trivial and/or adequately shielded.
- ◆ Production or trade in unbounded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- ◆ Destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- ◆ Production or activities involving harmful or exploitative forms of forced labor⁵, harmful child labor⁶ or any form of human trafficking.
- ◆ Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- ◆ Production or activities leading to cross-border waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
- ◆ Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- ◆ Nuclear power plants and mines with uranium as an essential source of extraction.

2 PCBs: Polychlorinated biphenils – a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

3 CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora

4 An area designated on the basis of High Conservation Values (HCVs) which are biological, ecological, social or cultural values considered outstandingly significant at the national, regional or global level

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

6 Harmful child labor means the employment of children that is economically exploitative, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development

- ◆ Prospection, exploration and mining of coal; land-based means of transport and related infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines⁷
- ◆ Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.

REGMIFA will not finance any new project that would not respect all of the following conditions:

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

⁷ Investments in power transmission grids with significant coal-based power feed-in will only be pursued in countries and regions with an ambitious national climate protection policy or strategy (NDC), or where the investments are targeted at reducing the share of coal-based power in the relevant grid. In developing countries, heating stations and cogeneration facilities (CHP) essentially fired with coal can be co-financed in individual cases based on a rigid assessment, if there is a particularly high sustainability contribution, major environmental hazards are reduced, and if there demonstrably is no more climate-friendly alternative.

ANNEX B: E&S RISK CATEGORIES PER SECTOR

Sector	Average loan size		
	Default risk category	Adjusted risk category avg loan <\$10,000	Adjusted risk category avg loan ≥\$1,000,000
Agriculture	B	C	A
Mining	A	C	A
Manufacturing	B/A	C	B/A
Energy supply	A	C	A
Water & Waste	B/A	C	B/A
Construction	B	C	B
Trade	C	C	C
Garages	C	C	C
Transport	B	C	B
Financial services	C	C	C
Real Estate	C	C	C
Laundry	C	C	C
Health	C	C	C
Other Services	C	C	C
Non-productive loans	C	C	C

ANNEX C: E&S RISK MANAGEMENT COMPONENTS FOR PLIS

Below is a description of the different components of E&S risk management that are considered appropriate for PLIs according to REGMIFA standards. The Fund also assesses the E&S risk management performance of each PLIs on the basis of these parameters.

E&S RISK MANAGEMENT POLICY

An E&S Risk Management Policy is considered appropriate when it adequately spells out the objectives of the E&S risk management approach, including the PLI's vision, mission and role concerning the environment and society as a whole. The policy can be a short and concise document that contains a general declaration on the PLI's position regarding E&S issues. The policy should be approved and pro-actively supported by senior management, as evidenced by internal communications.

HR POLICY

An HR policy is considered appropriate when it describes fair, safe and healthy working conditions in line with IFC Performance Standard 2. The policy should include a commitment statement to no discrimination, no use of child or forced labor and a description of the approach to identify human resource related risks at operational and investee level.

ELIGIBILITY SCREENING CRITERIA

Eligibility screening is considered appropriate when its scope and application is in accordance with KfW Sustainability Guidelines.

E&S DUE DILIGENCE PROCEDURE

An E&S due diligence procedure is considered to be appropriate when it provides a sufficient and adequate basis for the implementation of the E&S policy and describes in detail the procedural steps of identifying, evaluating, mitigating, and monitoring the E&S risks in the credit appraisal process. For each of these steps, the procedures should define the decision-making authorities, show the lines of responsibilities and clarify the documentation requirements, including the titles of any required documents (such as environmental and social management report) and forms.

E&S RISK CATEGORIZATION

E&S risk categorization is considered appropriate when it enables the PLI to systematically classify the potential level of E&S risk and impact associated with an individual transaction as well as the appropriate depth and intensity of the E&S due diligence. The categorization should stipulate the different potential E&S risk and impact levels in accordance with international standards based on the IFC Performance Standards and KfW Sustainability Guidelines where the different categories usually range from low, medium to high for a client's activities.

SECTOR-SPECIFIC GUIDELINES

Such guidelines can be useful for providing specific sector guidance (such as for housing, agriculture, manufacturing) on identifying and managing E&S risks and impacts. They are required for Profile-A and Profile-B portfolios for every sector with a medium- or high E&S risk and required for Profile-C+ when there is large single sector exposure to a sector with a medium- or high default risk. The sector guidelines are generally short documents that describe the potential E&S risks in the specific sector, propose possible mitigation measures, identify business and market opportunities, and can make reference to national legislation or include examples of good practices for the sector. Sector guidelines should be a tool for client-facing staff to help them identify relevant E&S issues in their sector. To be useful, sector guidelines should be brief (approximately 3 pages) and regularly updated. The IFC published standard guidelines for E&S sector risks, which can be used as starting point⁸.

GRIEVANCE MECHANISM

A Grievance Mechanism is considered to be appropriate when it enables the PLI to ensure that grievances from affected communities and external communications from other stakeholders are responded to and managed appropriately. Such a mechanism should also promote and provide means for adequate engagement with affected communities on issues that could potentially affect them and to ensure that relevant environmental and social information is disclosed and disseminated.

CONTRACT CLAUSE

The contracting clause is considered to be appropriate when it clearly documents the different steps and decisions of the E&S risk management process and systematically enables Loan Officers and Credit Analysts to keep track of the E&S issues involved in the client's activities as well as the potential risks, possible mitigation measures, planning and monitoring activity in the credit process.

E&S MONITORING MODEL

An E&S Monitoring Model is considered appropriate when it enables the PLI to structurally monitor, evaluate and report on the E&S risks in its portfolio. Such model should be based on quantitative indicators defining the E&S risk at sector level as well as individual client level, and show changes over time, to help identify portfolio risks.

⁸ <https://firstforsustainability.org/risk-management/risk-by-industry-sector/>

E&S CAPACITY, ROLES AND RESPONSIBILITIES

E&S risk management is considered to be appropriately staffed when the PLI has provided its staff with the necessary capabilities to implement an E&S risk management mechanism and conducts appropriate capacity building to this effect. Depending on the size and nature of the PLI's portfolio, the PLI should assign roles and responsibilities for E&S matters to team member(s). The responsibility for applying the E&S risk management mechanism is generally shared among three positions:

1. A representative from Senior Management, who should be responsible for the PLI's overall commitment to policies and objectives and for the approval of suggested E&S conditions as well as for the internal and external communication.
2. An E&S Coordinator, who should be responsible for the development and updating of procedures and documents. This person should also evaluate the E&S risks at the portfolio level and provide assistance to Loan Officers and Credit Analysts in the evaluation and monitoring of the clients.
3. Loan Officer(s) or Credit Analyst(s), who should be responsible for the application of E&S risk management at the PLI level. They should evaluate the E&S risks at portfolio level, discuss and negotiate possible E&S mitigation measures with the client, and monitor the client's performance.

TRAINING

Training is considered to be adequate when: (1) the E&S Coordinator of the PLI has successfully followed an E&S risk management training; (2) within the PLI, a learning program is set up for all employees at the operational level who will be involved in the practical application of the E&S risk management mechanism. The program should serve to make employees familiar in a practical and informal setting with the changes in the credit approval process resulting from the ESMS.

E&S REPORTING

An E&S periodic reporting framework is considered appropriate when it enables the PLI to adequately comply with reporting requirements from REGMIFA regarding its E&S risks and impacts in the loan portfolio as well as to report on the implementation update of an Action Plan (if applicable).

ANNEX D: E&S RISK REQUIREMENTS PER RISK PROFILE

POLICY	DESCRIPTION	RISK PROFILE REQUIREMENTS			
		C	C+	B	A
E&S risk management policy	General sustainability policy that includes a basic statement on E&S risk management in lending.	♦	♦	♦	♦
	A stand-alone E&S risk management policy or equivalent, describing basic standards, procedures, and responsibilities for lending operations.			♦	♦
	A comprehensive E&S risk management policy, referring to international standards (IFC performance standards, ILO Core Labor Standards, UNEP-FI), describing effective internal procedures and responsibilities, and demonstrating strong institutional commitment to the topic.				♦
HR policy	A detailed HR policy describing the company's standards and its employees' rights in the areas of Employment Terms, Health & Safety, Equal & Working Conditions, Equal Opportunities and Non-discrimination, and Internal Grievance Mechanism	♦	♦	♦	♦

PROCEDURES	DESCRIPTION	PROFILE REQUIREMENTS			
		C	C+	B	A
Eligibility screening	An Exclusion List aligned with REGMIFA standards is applied as a negative risk filter, screening clients for potential environmental or social violations or adverse impacts	♦	♦	♦	♦
	An Exclusion List is applied and sector-specific exclusion practices are included, if relevant		♦	♦	♦
Categorization	An aggregate risk categorization model classifying the E&S risk at the portfolio level, based on the client's sector/business activities following standards set internationally (IFC sector risk categorization, or similar)	♦	♦	♦	♦
	A risk categorization model classifying the E&S risk level of individual transactions based on sector risk			♦	♦
E&S due diligence	Basic check of E&S risks associated with individual transactions (e.g. use of resources, labor conditions, etc.) is integrated informally in in-person visits	♦	♦	♦	♦
	Assessment of E&S risk in transactions with an adjusted intensity level per E&S risk category, incorporated in loan documentation for medium and high-risk transactions			♦	♦
	Robust mechanism to assess E&S risk with an adjusted intensity level per E&S risk category, including external specialist involvement for high-risk transactions, according to IFC Performance Standards				♦
Contracting	Basic contract or agreement	♦	♦	♦	♦
	Reference to E&S best practices upon loan disbursement		♦	♦	
	Inclusion of a standard clause referring to E&S standards for medium to high-risk transactions		♦	♦	
	Inclusion of a specific clause referring to E&S standards for high-risk transactions and an Action Plan with mitigation measures (if applicable)				♦

PROCEDURES	DESCRIPTION	PROFILE REQUIREMENTS			
		C	C+	B	A
Monitoring	Monitoring of E&S risks is done reactively in response to incidents and violations	♦	♦	♦	♦
	Monitoring of E&S compliance is done systematically for medium and high-risk transactions, as part of periodic client visits			♦	♦
	Monitoring of E&S compliance is done systematically based on the implementation schedule of the E&S Action Plan for medium and high-risk transactions, as applicable			♦	
GOVERNANCE	DESCRIPTION	PROFILE REQUIREMENTS			
		C	C+	B	A
Roles & Responsibilities	At least one person is formally appointed as the contact person for E&S risk management (part-time)	♦	♦	♦	♦
	E&S risk management is assigned to a central position (i.e. E&S Risk Coordinator) and integrated in Credit Committee decision-making			♦	♦
	E&S risk management is assigned to an E&S Risk Coordinator, integrated in Credit Committee decision-making and with direct report to top management at C-level			♦	
Knowledge & skills	The contact person for E&S risk has the basic knowledge and skills to assess and manage E&S risks in portfolio	♦	♦	♦	♦
	A training program is in place to instruct loan officers on the application of the E&S risk management procedures			♦	♦
	A review of the E&S risk management practices is done on a periodic basis resulting in learnings and improvement			♦	
ACCOUNTABILITY	DESCRIPTION	PROFILE REQUIREMENTS			
		C	C+	B	A
Grievance Mechanism	A procedure for employees and clients to register complaints and for the institution to address these grievances in a fair and transparent way	♦	♦	♦	♦
	A robust Grievance Mechanism to register, screen, assess, track, respond, and act upon grievances from stakeholders regarding the institution's own operations and those of its borrowers			♦	
Reporting	The institution communicates to investors in the event of significant E&S incidents and breaches of contract	♦	♦	♦	♦
	The institution reports periodically about the E&S compliance of the institution and its borrowers by means of an E&S Compliance Report or similar			♦	♦

ANNEX E: INITIAL INFORMATION REQUEST FOR PLIS

The IM requires some initial information related to environmental, social, health and safety, and labor aspects as part of your institution's initial request to REGMIFA for possible financing.

PORTFOLIO BREAKDOWN						
TRANSACTION	NAME	TYPE OF TRANSACTION	SECTOR	TYPE OF CLIENT	PROJECT SIZE	LOCATION
#1	[Insert text]	[Insert text]	[Insert text]	[Insert text]	[insert size in USD]	[Insert text]
#2						
#3						
...						
HOW DO YOU DEFINE/CHARACTERIZE (A) MICRO FINANCE AND (B) SME FINANCE?						
(A)	[Insert text]					
(B)	[Insert text]					

E&S RISK MANAGEMENT

Does your institution have the following documents to be applied to loans in portfolio?

An environmental and social exclusion list	[YES/NO]
An environmental and/or social policy	
An Environmental and Social Management System (ESMS)	

If there is an ESMS in place please describe the process below

[Insert text]

Does your institution have any existing environmental and/or social contractual commitments / requirements with other lenders (e.g. DFIs)?

[YES/NO]

Does your institution conduct environmental and social due diligence on certain transactions?
Which ones?

[Insert text]

What type of information or legal documents does your institution require from the client to establish an environmental and social due diligence?

[Insert text]

Do contractual agreements between your institution and its clients include legal covenants on environmental and social issues?	[YES/NO]
--	----------

Does your institution define an Action Plan for some/all its borrowers to mitigate the environmental and social risks and impact involved?	[YES/NO]
--	----------

Does your institution require its clients/project promoters to report on environmental and social impact and management? If so, how?

[Insert text]

How does your institution monitor on the environmental and social issues associated with its loans?

[Insert text]

Does your institution report on the environmental and social issues associated with its loans, internally or externally? YES/NO

Can you please confirm that your institution's credit procedure (including credit scoring) is fair, unbiased and non-discriminative in social terms (age, gender, culture, religion, etc)? YES/NO

COORDINATION

Is there a specific person within your institution assigned to coordinate environmental and social management of the loans (part-time/full-time)? YES/NO

If indicated yes, what are his/her responsibilities, to who does he/she report directly? Please also provide details on his/her responsibilities, position in within your institution, background and experience with environmental and social risk management.

[Insert text]

Is the above-mentioned coordinator trained on environmental, social, and health and safety concerns associate with investments? YES/NO

Is your staff (i.e. investment or risk officers) trained on environmental, social and health and safety concerns associated with investments? YES/NO

Please provide a list of environmental and social training provided to your institution's staff.

[Insert text]

Does your institution involve external specialists in the identification, evaluation, mitigation and management of environmental and social issues involved in its loans? If so, under which circumstances and what are the specialists' roles in this process?

[YES/NO]

Note: Please include relevant documents to this questionnaire.

INTERNAL FACILITIES AND HR PRACTICES**Does your institution have any of the following issues**

Material employee/worker health issues	[YES/NO]
Employee/labor disputes	[YES/NO]
Environmental issues including legal claims/ public constraints	[YES/NO]

Additional questions

Does your institution practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining?	[YES/NO]
Does your institution comply with core labor standards from the International Labor Organization (ILO)?	[YES/NO]
Does your institution have an employee/worker health and safety plan?	[YES/NO]
Does your institution have an emergency/contingency plan for its facilities (buildings)?	[YES/NO]

Note: please include the relevant documents to this questionnaire, e.g. hr policies and procedures.

COMPLIANCE**Is your institution presently in full compliance with the following:**

All applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations, including permits and authorizations	[YES/NO]
All applicable adopted/signed international conventions and treaties?	[YES/NO]

If presently not in full compliance, specifically describe each non-compliance and the specific actions being taken by your institution to correct the non-compliance.

[Insert text]

In the past five (5) years, has there been any non-compliance with any applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations, including permits and authorizations, and all applicable adopted/signed international conventions and treaties?

[YES/NO]

If indicated yes, briefly describe the non-compliance below.

[Insert text]

Have there been any existing environmental, social, or health and safety material public complaints related to your institution?

[YES/NO]

ANNEX F: COVER MEMO, E&S SECTIONS

4 E&S Risk

- 4.1 E&S Risk Profile
- 4.2 ESMS Quality
- 4.3 Proposed E&S action plan
- 4.4 Monitoring of previous E&S Action plan

ANNEX G: E&S CONTRACT CLAUSES

DEFINITIONS

- a. "Environmental and Social regulations": Environmental, Labor, Occupational Health and Safety laws, directives and regulations applicable to the Issuer.
- b. "Environmental and Social Incident": Any forced labor indicator involving the Issuer; any incident of an environmental or social nature (including, but not limited to, any explosions, spills, or workplace accidents resulting in death, serious or multiple injuries, sexual harassment, and violence involving the workforce of the small and medium enterprises or material environmental contamination, accidents affecting clients or members of the public/local communities) occurring on or nearby any site, plant, equipment, or facility of the Issuer, any other member of the Group, or any Client, which has or is reasonably likely to have a Material Adverse Effect or which has a material negative impact on the environment, the health, safety, and security conditions, or the social and cultural context.
- c. Category A E&S Risk Activities: Business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented
- d. Category B E&S Risk Activities: Business activities that have potential limited adverse environmental/ social risks/ impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;
- e. Category C E&S Risk Activities: Business activities that predominantly have minimal or no adverse environmental or social impacts individually.

USE OF FUNDS

- f. The borrower shall apply the proceeds of the Note/Loan to grant loans to Eligible Borrowers only. For the purpose of this sub-section "Eligible borrowers" means clients which the borrower has reasonably classified as micro, small or medium enterprises and/or low and middle-income households and has classified as clients with low (Category C E&S Risk Activities) or at the most medium E&S risk (Category B E&S Risk Activities). The borrower shall not use the proceeds of this loan to fund any clients classified with high E&S risk (Category A E&S Risk Activities). The Issuer shall have adequate policies and procedures to respect the Use of Funds.
- g. Furthermore, the Issuer shall not use the proceeds of this Note/Loan to fund any activities that are part of the Environmental and Social Exclusion List as provided in Annex [x].

REPRESENTATIONS AND WARRANTIES

- a. The Issuer fully complies with all existing laws and regulations of its jurisdiction applicable to its assets, business and activities, relevant permits and prudent industry practice. The Issuer and its businesses, operations, assets, equipment, property, leaseholds, and other facilities are, in all material respects, in compliance with the provisions of Environmental and Social regulations. The borrower has been issued all required authorizations relating to, and has received no complaint, order, directive, claim, citation or notice from any Governmental authority or other person with respect to these requirements.

- b. The Issuer has adequate management systems to screen investments against the Environmental and Social exclusion list described in Annex [x] and has not and does not finance or refinance any of the activities listed in Annex [x].
- c. The Issuer acknowledges that to the best of its knowledge and belief, there is no material, social or environmental risk or issue in respect of its activities.
- d. The Issuer is not aware of (i) any existing or threatened complaint, order, directive, claim, citation or notice from any authority or (ii) any material written communication from any person concerning the failure by the Issuer to undertake its operations and activities in accordance with the Environmental and Social Regulations.

AFFIRMATIVE OBLIGATIONS

- a. The Issuer shall comply in all respects with all laws and regulations to which it may be subject, including Environmental and Social Regulations.
- b. The Issuer shall respect its clients' rights under the law of its jurisdiction and the Universal Declaration of Human Rights.
- c. It The Issuer complies, or undertakes to use its best effort to comply within a reasonable timeframe, with environmental and social guidelines and commit to implement an environmental and social risk management system, as detailed in the Annex [x], within a reasonable timeframe.
- d. The Issuer more specifically commits to implement the Environmental and Social Action Plan detailed in Annex [x], according to the agreed timeline.

REPORTING OBLIGATIONS

- a. Environmental and Social Incidents. Promptly after becoming aware of the occurrence of any major Environmental or Social Incident, the Issuer shall notify the Note Holder, specifying the nature of the incident and the impact or effect arising or likely to arise therefrom, the measures being taken, or plans to be taken, to address them and prevent recurrence. The Issuer shall thereafter keep the Note Holder informed of the on-going implementation of those measures.
- b. Environmental and Social Action Plan: Every 12 months, after the issuance of the present Note, the Issuer shall provide a report on its progress towards the achievement of the Environmental and Social Action Plan detailed in Annex [x]. In addition, the Issuer shall inform the Investment Manager of any difficulties which would prevent the achievement of the Environmental and Social Plan within the agreed timeline.

Annex [x]

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM REQUIREMENTS

PORFOLIO OPERATIONS

THE ISSUER:

- ◆ Has an E&S policy describing how to identify, assess, mitigate, and monitor its portfolio companies'/clients' compliance with the Exclusion List, local legislation and international standards. The policy has to also include a description of the ways in which it develops environmental and social action plan to address non compliance;
- ◆ Applies the list of the REGMIFA excluded activities when assessing and monitoring potential clients;
- ◆ Requires that all clients – if relevant and feasible - uphold all applicable local laws and regulations, including environmental, health & safety and labor laws, corporate governance regulations, and laws intended to prevent extortion, bribery and financial crime;
- ◆ Requires that all clients work over defined time frames to comply with regulations and applicable international conventions;
- ◆ Assigns E&S responsibilities to ensure effective oversight of the ESMS by senior management and implementation by suitably qualified staff or consultants;
- ◆ Categorizes potential clients as having high, medium or low E&S risk using adequate instruments, depending on its risk profile, to determine the appropriate level of management and monitoring;
- ◆ Assesses E&S issues of all new clients, as an integral part of the credit appraisal process, against the Exclusion List, regulations and applicable international conventions. For high risk companies, uses a suitably qualified expert to evaluate compliance and carries out a gap analysis by applying the relevant IFC Performance Standards and EHS Guidelines;
- ◆ For medium-, and high-risk clients, monitors clients' performance and continued compliance with the Exclusion List, local legislation and international standards, and progress on agreed E&S Action Plans (ESAP) on E&S matters. For high risk investees, the FI may carry out external monitoring; For low-risk clients the FI has to act in response to incidents and violations.
- ◆ Identifies and records any serious incidents involving portfolio companies and material breaches of the Exclusion List, Local Legislation and International E&S Standards;
- ◆ Reports any serious incidents, including all fatalities, and any other material breach of law to governing bodies and investors, and immediately to REGMIFA. Reporting shall include a description of the incident, its impacts, and measures being taken to address them and prevent any future similar event;
- ◆ Submits regular reporting on E&S Performance (at least annually) in a format acceptable to Symbiotics, this includes submitting in due time the reporting indicators required by Symbiotics on a yearly basis.

INTERNAL OPERATIONS

THE ISSUER:

- ◆ Acknowledges that to the best of his knowledge and belief, there is no material, social or environmental risk or issue in respect of its activities;
- ◆ Commits to provide reasonable labor and working conditions to their employees by ensuring that their own operations meet the requirements of IFC Performance Standards;
- ◆ Complies with government regulations, adheres to regulations and applicable international conventions;
- ◆ Uses an adequate management information system which produces meaningful and reliable reporting and complies with all disclosure requirements under applicable law and commits to disclose transparent information on the company's activities;
- ◆ Implements a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the reporter.

Annex [y]

ENVIRONMENTAL AND SOCIAL ACTION PLAN

ITEM #1 / [ACTIVITY] / [RESPONSIBILITY] / [DELIVERABLE] / [DEADLINE]

ITEM #2 / [ACTIVITY] / [RESPONSIBILITY] / [DELIVERABLE] / [DEADLINE]

[..]

ITEM #[xx] / [ACTIVITY] / [RESPONSIBILITY] / [DELIVERABLE] / [DEADLINE]

ANNEX H: E&S ACTION PLAN TEMPLATE

PLI DETAILS					
Company	<i>[insert name]</i>				
Contact person	<i>[insert name and e-mail of person responsible for submitting the data]</i>				
Date of E&S action plan (or update)	<i>[insert date YYYY-MM-DD]</i>				
ACTION ITEMS					
ITEM	ACTIVITY	RESPONSIBILITY	DELIVERABLE	DEADLINE	STATUS
MEASURES TO IMPROVE ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT					
#1	<i>[insert text]</i>	<i>[insert text]</i>	<i>[insert text]</i>	YYYY-MM-DD	<i>[insert text]</i>
#2					
#3					
...					

ANNEX I: E&S MONITORING REPORT TEMPLATE

PLI DETAILS										
Company	<i>[insert name]</i>									
Contact person	<i>[insert name and e-mail of person responsible for submitting the data]</i>									
Date of report	<i>[insert date YYYY-MM-DD]</i>									
Reporting period	<i>[insert period]</i>									
E&S INCIDENTS OR GRIEVANCES SINCE LAST REPORT										
<i>[insert text]</i>										
KEY CHANGES TO E&S RISK CATEGORIZATION OR ESMS SINCE LAST REPORT										
<i>[insert text]</i>										
CORRECTIVE ACTION PLAN AND IMPROVEMENT PLANS										
REPORT ON PREVIOUS YEAR'S ACTION PLAN										
ITEM	ACTIVITY	RESPONSIBILITY	DELIVERABLE	DEADLINE	STATUS					
#1	<i>[insert text]</i>	<i>[insert text]</i>	<i>[insert text]</i>	YYYY-MM-DD	<i>[insert text]</i>					
#2										
ACTION PLAN FOR COMING YEAR										
ITEM	ACTIVITY	RESPONSIBILITY	DELIVERABLE	DEADLINE	STATUS					
#1	<i>[insert text]</i>	<i>[insert text]</i>	<i>[insert text]</i>	YYYY-MM-DD	<i>[insert text]</i>					
#2										

ANNEX J: JOB DESCRIPTION

The E&S Coordinator is expected to be someone from senior management, preferably from within the risk management line, and should have sufficient authority and organizational influence to ensure the ESMS is properly implemented organization-wide. He or she should have reasonable background in both environment and finance and be able to perform the following tasks:

- ◆ Oversee the REGMIFA's E&S risk management and implementation of ESMS
- ◆ Manage resources (budget and staff) for E&S risk management and training
- ◆ Ensure the coordination and integration of E&S risk management procedures with REGMIFA's internal credit process
- ◆ Report any major E&S issues to senior management and secure the support for and approval of E&S risk management issues by senior management
- ◆ Review and approve REGMIFA's annual E&S performance report to stakeholders

REGMIFA's E&S coordinator may be supported by one or more ESMS coordinators to review or coordinate the day-to-day E&S tasks performed by other staff (i.e., investment team, environmental and social specialists, and consultants), according to the staff roles specified in the ESMS, including:

- ◆ Evaluate environmental compliance of a target PLI with applicable requirements during due diligence, such as site visits, collection of necessary E&S documentation (e.g., certificates and authorizations), and preparation of E&S due diligence reports (or an E&S section of the credit application)
- ◆ Ensure that all investment decisions are supported by appropriate due diligence documentation, including, but not limited to, an E&S section in each final Investment Memorandum
- ◆ Ensure that appropriate E&S representations, warranties, and covenants are incorporated in each loan or investment agreement
- ◆ Supervise portfolio projects' on-going compliance with the applicable requirements on a regular basis, which may include:
 - ◆ Conducting site visits, monitoring the implementation of E&S action plan (if any) by the clients, reviewing clients' annual reports, and recording clients' E&S ongoing performance
 - ◆ Resolving E&S issues in case of non-compliance, and where needed, preparing a time-bound corrective action plan with specific follow-up procedures
- ◆ Prepare REGMIFA's annual E&S performance report, based on the annual performance reports provided by the PLI's
- ◆ Ensure that these procedures are implemented for each investment, and that records of E&S reviews (i.e., appraisal and monitoring) are maintained

ANNEX K: REFERENCE MATERIAL

If PLIs wish to have more information and background material on the theory and practice of E&S management, they can refer to the tools and materials below.

SOURCE	NAME	TARGET AUDIENCE	DESCRIPTION & URL
CDC	Fintoolkit	Commercial banks, microfinance institutions and fund managers	This Toolkit provides a practical and easy-to-use guide for environmental and social management (E&S) and compliance. It includes sections on how to build E&S and business integrity (BI) management systems and integrate this into an FI's bank's customer and transaction approval process. https://fintoolkit.cdcgroup.com
CDC	ESG toolkit	Funds	A comprehensive and practical guide for the development of a customised ESG management system, and assessing and managing ESG risks, impacts and opportunities. https://toolkit.cdcgroup.com
CDC	Gender toolkit	Investors and companies	The Gender toolkit is a free-to-use, accessible toolkit that brings together resources, guidance, and templates that focus on gender-smart investing, gender diversity and inclusion, and gender considerations. The tools provide practical guidance and steps to take. Central to this is the 2X Challenge, which has provided the framework for this content. https://gendertoolkit.cdcgroup.com
DEG	Sustainability training	Financial institutions and corporates	This platform offers several e-learnings on sustainability and corporate governance. The courses focus on typical loopholes, discussions on how to solve problems and proven ideas. As a result, the participant gets a better understanding of E&S related requirements of DFIs. https://kfwdeg.sustainability.training
FMO	Corporate Governance toolkit	Banks, NBFIs and MFIs	This toolkit provides the instruments for the assessment of Corporate Governance risks in banks, NBFIs and MFIs during the investment phase. This toolkit is meant for such institutions in a basic, emerging and developed stage, considering the regulated environment they are operating in. https://www.fmo.nl/esg-toolkit
FMO	ESG toolkit	Funds	The FMO ESG Toolkit supports generalist Private Equity Funds in the assessment and management of Environmental, Social, Corporate Governance and Business Integrity risks of investees. https://www.fmo.nl/esg-toolkit
IFC	FIRST for sustainability	Financial Institutions	FIRST (Financial Institutions: Resources, Solutions and Tools) for Sustainability provides guidance and tools to understand and manage the risks that E&S issues present for financial institutions. Moreover, FIRST provides guidance on how to implement an ESMS, conduct E&S DD as how to create a pipeline of new business and develop product offerings tailored to the environmental needs of its clients. https://firstforsustainability.org

ANNEX L: TOOLKIT FOR PROFILE C PLIS THAT HAVE GAPS TO ACHIEVE THE MINIMUM REQUIREMENTS

STARTER-PACK: E&S RISK MANAGEMENT FOR MICROFINANCE INSTITUTIONS

- ◆ REGMIFA's E&S requirements
- ◆ Example of sustainability policy that includes a basic statement on E&S risk management in lending
- ◆ Example of a detailed HR policy describing the company's standards and its employees' rights in the areas of Employment Terms, Health & Safety, Equal & Working Conditions, Equal Opportunities and Non-discrimination, and Internal Grievance Mechanism.
- ◆ REGMIFA's exclusion list and IFC's exclusion list
- ◆ Example of an aggregate risk categorization model classifying the E&S risk at the portfolio level, based on the client's sector/business activities following standards set internationally (IFC sector risk categorization, or similar)
- ◆ Example of basic check of E&S risks associated with individual transactions (e.g. use of resources, labor conditions, etc.) is integrated informally in in-person visits
- ◆ Example of a standard E&S monitoring template for category A and B investments
- ◆ Example of the Job description for the contact person for E&S risk
- ◆ Example of a procedure for employees and clients to register complaints and for the institution to address these grievances in a fair and transparent way

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