

# African Energy Guarantee Facility



Renewing risk mitigation.

## *AEGF Environmental and Social Policy*



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The technical assistance operation is financed under the Cotonou agreement. The Promoter utilises non-repayable aid granted by the European Commission in support of EIB investment activities in the African Caribbean and Pacific countries, assisting the Promoter during different stages of the project cycle.

The authors take full responsibility for the contents of this report. The opinions expressed do not necessarily reflect the view of the European Union or the European Investment Bank.

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## ***List of abbreviations and acronyms***

AEGF	African Energy Guarantee Facility
E&S	Environmental and Social
IFC	International Finance Corporation
ILO	International Labour Organization
KfW	Kreditanstalt für Wiederaufbau
OECD	Organisation for Economic Co-operation and Development
SE4All	Sustainable Energy for All
SFRC	Sustainable Finance Risk Consulting

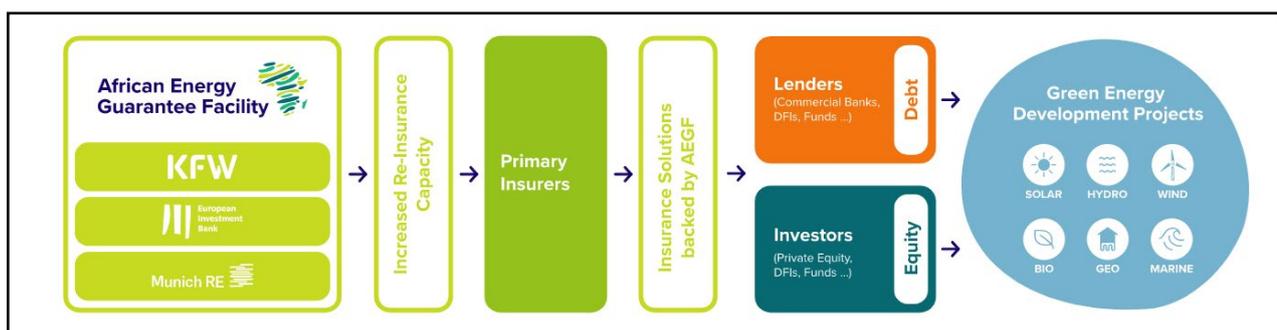
# 1. AEGF's Scope and its Commitment to Sustainability

AEGF's mission is to support the achievement of the United Nations' Sustainable Energy for All (SE4All) by providing risk insurance to renewable energy generation, energy efficiency and energy access projects in Sub-Saharan Africa. To achieve this aim, AEGF provides its expertise in **risk transfer solutions** that help closing the investment finance gap. Besides contributing a positive impact regarding SE4All, AEGF and the underlying undertakings specifically contribute to the following SDGs:



This positive impact is generated by supporting lenders or investors providing debt or equity to green energy development projects. AEGF is supporting operations that are consistent with its environmental and social commitments and expects the projects to meet the requirements set out in this policy: Projects that do not comply with applicable national laws and that do not comply with international standards regarding environmental and social impacts (as outlined in chapter 2) are not reinsured. Thereby, AEGF fosters the systematic integration of sound Environmental and Social standards in its activities.

The AEGF risk-sharing platform rests on three pillars: The primary insurers as the contractual party that delivers the coverage solutions for political and contractual uncertainties, Munich-Re that backs primary insurers and manages the AEGF risk-sharing platform through its subsidiary SFRC acting as an agent and lastly EIB and KfW as guarantors, providing a second loss guarantee to increase the reinsurance capacity.



The primary insurers are the first point of contact and communication for developers, lenders and investors. They process the insurance applications and become the contracting partner for the respective insured parties (lenders or investors). By backing the primary insurers, SFRC enables the primary insurers to increase their insurance capacity.

AEGF exerts no direct control on the operations that may benefit from the insurance policies. The insured parties may also have different levels of control and leverage over the underlying undertakings which means, AEGF's leverage on the undertakings may be limited. However, SFRC is ensuring that the environmental and social requirements set out in this policy are met by ensuring that the primary insurer commits to and passes on the obligation to adhere to applicable national laws and international standards. Thereby, AEGF advocates for the commitment and abidance of international standards by the insured parties and its application within the underlying project.

## 2. Applicable Laws, Regulations, and Standards

Each primary insurer, the reinsurer and the agent shall promote the respect of human rights and respect applicable environmental legislation. All parties involved in setting-up the AEGF risk-sharing platform are committed to Environmental and Social (E&S) laws and regulations in the respective country of the insured undertakings and the respective international standards:

- Internationally agreed labour standards, i.e. ILO Core Labour standards

 Freedom of Association and Protection of the Right to Organize Convention	 Minimum Age Convention
 Right to Organize and Collective Bargaining Convention	 Worst Forms of Child Labour Convention
 Forced Labour Convention	 Equal Remuneration Convention
 Abolition of Forced Labour Convention	 Discrimination (Employment and Occupation) Convention

- EIB Environmental and Social Standards<sup>1</sup>

 Assessment and Management of Environmental and Social Impacts and Risks	 Involuntary Resettlement
 Pollution Prevention and Abatement	 Rights and Interests of Vulnerable Groups
 Biodiversity and Ecosystems	 Labour Standards
 Climate-Related Standards	 Occupational and Public Health, Safety and Security
 Cultural Heritage	 Stakeholder Engagement

- IFC Performance Standards and references such as sector specific Environmental, Health and Safety Guidelines

 Assessment and Management of Environmental and Social Risks and Impacts	 Land Acquisition and Involuntary Resettlement
 Labour and Working Conditions	 Biodiversity Conservation and Sustainable Management of Living Natural Resources
 Resource Efficiency and Pollution Prevention	 Indigenous Peoples
 Community Health, Safety, and Security	 Cultural Heritage

SFRC as the agent expects all business partners (primary insurer, insured parties and projects) to commit to adhere to applicable national laws and international standards. SFRC will ensure that this commitment is passed on by the primary insurer to the insured parties under AEGF and that applicable national laws and international standards are applied for the identification and management of E&S risks and impacts related to undertakings reinsured.

<sup>1</sup> Further information on EIB Environmental and Social Standards can be found here: <https://www.eib.org/en/publications/environmental-and-social-standards>

AEGF will not support projects that involve child labour<sup>2</sup> and forced labour<sup>3</sup>. Furthermore, AEGF does not support undertakings that involve (the forthcoming list shall constitute the Exclusion List):

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements
- Production or trade in weapons or critical components thereof and ammunition.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco<sup>4</sup>.
- Pornography and/or prostitution, gambling, casinos and equivalent enterprises and related equipment.
- Trade in wildlife or wildlife products regulated under CITES<sup>5</sup>.
- Unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length).
- Destruction<sup>6</sup> of critical habitat<sup>7</sup> or destruction / significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with international standards).
- Cross-border trade in waste and waste products, unless compliant to the Basel Convention and the underlying regulations.
- Production or use of or trade in hazardous materials such as radioactive materials<sup>8</sup> and unbounded asbestos fibres and products containing PCBs<sup>9</sup>.
- Nuclear power plants and mines with uranium as an essential source of extraction.
- Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances<sup>10</sup> and other hazardous substances subject to international phase-outs or bans.
- Racist and/or anti-democratic media.
- Live animals for scientific and experimental purposes, including the breeding of these animals.
- Military/police equipment or infrastructure.
- Commercial concessions over and logging on tropical natural forest; conversion of natural forest to a plantation.
- Purchase of logging equipment for use in tropical natural forests or High Nature Value Forest in all regions; and activities that lead to clear cutting and/or degradation of tropical natural forests or High Nature Value Forest.
- New palm oil plantations.
- 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 lines.<sup>11</sup>

<sup>2</sup> Employees may only be taken if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Convention (Minimum Age Convention C138, Art 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply

<sup>3</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

<sup>4</sup> This applies when these activities are a substantial part of a project sponsor's primary operations.

<sup>5</sup> CITES: Convention on International Trade in Endangered Species or Wild Fauna and Flora.

<sup>6</sup> Destruction means the (1) elimination or severe diminution of the integrity of a habitat caused by a major long-term change in land or water use or (2) modification of a habitat in such a way that the habitat's ability to maintain its role (see footnote 7) is lost.

<sup>7</sup> 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 habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species or as defined in any national legislation; areas having special significance for endemic or restricted-range species; sites that are critical for the survival of migratory species; areas with unique assemblages of species or which are associated with key evolutionary processes or provide key ecosystem services; and areas having biodiversity of significant social, economic or cultural importance to local communities.

<sup>8</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any other equipment where Effective Field Parameters (EFP) considers the radioactive source to be trivial and/or adequately shielded.

<sup>9</sup> PCBs: Polychlorinated biphenyls, a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

<sup>10</sup> Ozone Depleting (OD) Substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in « holes in the ozone layer ». The Montreal Protocol lists ODs and their target reduction and phase-out dates.

<sup>11</sup> 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.

- Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.
- Projects entailing activities that impinge on the lands owned, formally or under customary law, or claimed under adjudication by Indigenous Peoples<sup>12</sup>.

Large dam and hydropower projects use the recommendations of the World Commission on Dams (WCD) and EIB's Environmental, Climate and Social Guidelines on Hydropower Development as orientation.<sup>13</sup>

## **3. E&S Risk Assessment and Management**

The commitment to the respect for human rights and the adherence to applicable E&S legislation and international standards translates into all of AEGF's undertakings and business relationships. Through providing risk transfer solutions, direct links are established between the AEGF risk-sharing platform as well as its agent/establishing parties and the underlying projects. The parties involved in setting up AEGF firmly believe that a sound E&S Management improves the overall project performance and helps establish and maintain trust with stakeholders.

It is expected that AEGF's partners (primary insurers, insured parties and projects) commit to the adherence to the applicable national laws and international standards. However, as a provider of risk transfer solutions, the agent SFRC exerts no direct control on the operations that may benefit from the insurance. The indirect influence is accounted for through an accreditation process of primary insurers when joining the AEGF platform as well as a project-related E&S due diligence and monitoring. SFRC will ensure that applicable national laws and international standards are applied for the identification and management of E&S risks and impacts related to insured undertakings and that this commitment is passed on by the primary insurer to the insured parties under AEGF. Thereby, the implementation of the applicable national laws and international standards within the insured projects is ensured.

Within SFRC, the responsibility for the implementation of this policy and the resulting processes lies with the E&S Officer.

### **3.1. Accreditation Process**

Based on the AEGF structure described above, the primary insurer is the first contact point and contracting partner for all insured parties and projects to be insured. Therefore, a clear definition of the E&S assessment process for the individual project, with a commitment to either conduct this assessment itself based on a mature E&S management system, or to engage an independent external E&S consultant for the process is essential for enabling the adherence to the applicable national laws and international standards within the projects.

Thus, SFRC performs an accreditation process to ensure that primary insurers either have the required E&S management system in place or that procedures are defined regarding the assignment as well as the quality assurance of an independent external E&S consultant that the primary insurer must follow for projects reinsured under AEGF.

### **3.2. Project-related E&S Due Diligence and Monitoring**

It is SFRC's responsibility to ensure the primary insurer acts in accordance with the present policy and to verify the comprehensive nature and quality of screening, categorization, the E&S due diligence performed and the monitoring that is in place and to ensure compliance with applicable national laws and international standards.

SFRC will get a complete understanding of the E&S risks and potential impacts of the project and verify the information and conclusions provided by the primary insurer prior to the decision to reinsure any project. This information is gathered as the primary insurer either conducts a screening, categorization and risk-based E&S

<sup>12</sup> "Indigenous Peoples" as defined under EIB/IFC sustainability frameworks in conjunction with both relevant national and international legal instruments, such as ILO, the United Nations Permanent Forum on Indigenous Issues and the African Commission on Human and People's Rights.

<sup>13</sup> Dams with a height of at least 15 meters measured from the foundation or dams with a height between 5 and 15 meters with a reservoir volume of more than 3 million cubic meters.

due diligence or assigns an independent external E&S consultant to do so prior to the decision to insure any project.

During the process of screening, a proper understanding of the project, the related risks and potential negative impacts on people and the environment is obtained. Based on this, the project is categorized according to its risk profile, where the following E&S risk categories apply:

- Category A: The undertaking has the potential to have significant adverse environmental and/or social impacts, which are diverse, irreversible and/or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works. Category A includes undertakings in sensitive sectors, as well as those, irrespective of the sector, with the potential to impact sensitive areas or with potentially significant adverse social impacts.
- Category B: The undertaking's potential environmental and/or social impacts are less adverse than those of Category A projects. Typically, these impacts are few in number, site-specific, few if any are irreversible, and mitigation measures are more readily available.
- Category C: The undertaking has minimal or no potentially adverse environmental and/or social impacts (any project not classified as Category A or B).

A E&S due diligence is conducted to refine the understanding of the project's risks and evaluate whether management systems and mitigation measures proportionate to the nature and scale of project and significance of risks and potential impacts have been developed and implemented. For projects with medium and high environmental and/or social risks, the due diligence should be based on an independent environmental and social impact assessment in accordance with international good practice. In case any gaps to the applicable national laws and/or international standards are identified, corresponding mitigation measures are developed, and respective conditions are imposed on the project which are monitored until the implementation of these measures is completed.

Further, for the tenor of the insurance, SFRC monitors the insured project based on the information provided by the primary insurers (bi)annually or concerning incidents posing material social or environmental risks. Therefore, the primary insurer establishes reporting obligations with the policy holder for the tenor of the insurance. The monitoring shall be conducted through the independent external E&S consultant unless the primary insurer is able to demonstrate sufficient internal capacity to adequately monitor the projects.

In case one of the following institutions has conducted an E&S due diligence and is deemed to have significant influence on the project to ensure the implementation of E&S requirements, the due diligence and monitoring under AEGF may be based on information provided by this institution, subject to a verification process:

- Major Multilateral Finance Institution<sup>14</sup>,
- Equator Principles Financial Institutions financing a significant portion of the undertaking,
- Export Credit Agencies adhering to the OECD Common Approaches, or
- Bilateral Development Finance Institutions that apply the IFC Performance Standards to their operations (e.g., European Development Finance Institutions)

AEGF will not provide reinsurance to projects involved in activities listed in the Exclusion List or if material adverse E&S risks and potential impacts of the undertaking have not been resolved in accordance with the relevant E&S requirements.

## **4. External Communications**

AEGF is further committed to establish transparency and participation for its interested and affected stakeholders. To establish transparency for each project backed by AEGF, information on the E&S performance of the underlying project will be made publicly available after the issuance of the corresponding policy at <https://www.aegf.net/projects-backed-by-aegf.html>. To give affected stakeholders the possibility to raise concerns, AEGF established a complaint mechanism. Information on the complaint mechanism as well as a short process description on the handling of complaints can be found at <https://www.aegf.net/complaint-mechanism.html>.

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<sup>14</sup> At the time of writing this policy, the list of Major Multilateral Finance Institutions include: the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development, the International Finance Corporation, and the Multilateral Investment Guarantee Agency. This list may be amended in the future after consultation with the guarantors.

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## ***5. Effective Date and Review***

This policy becomes effective on 1 June 2022 and is publicly available for interested stakeholders at <https://www.aegf.net/environmental-social-procurement-standards.html>.

The policy is subject to a continuous relevance assessment process. The need for formal reviews, including consultation with the guarantors, may be considered every five years or may otherwise be initiated in the event of relevant changes to procedures within AEGF that require a realignment of this policy or substantial changes to the underlying standards. Substantial changes to the policy shall be subject to approval by the guarantors.