



EXIM BANK (TANZANIA) LIMITED

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

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Any employee (both present and past) contravening the above will be responsible for disciplinary action as per banks procedures and/ or prosecution.

Approval of the Document

This document shall be reviewed at least annually to ensure that the overall approach for the management of environmental & social risks remains relevant and responsive to changes in the business environment and strategy.

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1 Introduction

Environmental and Social (E&S) Policy highlights the Bank's commitment to supporting initiatives that address environmental and social challenges facing Tanzania and Subsidiaries which Exim Bank operates in. More specifically Annex 1 sets out the Bank's commitment to financing Client activities and projects in a manner that aims to minimise the adverse impacts that they may have on the employees, surrounding communities, environment, and consequent risk to the business.

This particular document outlines the environmental and social management procedures by which EXIM Bank is able to achieve its policy ambition of more responsible financing. The E&S management procedures enable the Bank's credit appraisal process to also:

1. Identify and assess E&S impacts, risks and opportunities associated with a client's activities and its sphere of influence;
2. Promote improved social and environmental performance of client companies; and
3. Avoid, or where avoidance is not possible, minimize, mitigate, or compensate for adverse impacts on workers, affected communities, and the environment.

2 Scope of the Environmental and Social Management System and Requirements

Currently the environmental social management system (ESMS) will be adopted by:

1. The Bank's wholly owned or majority-owned companies; 2. The Bank's local and international business activities.

And be applicable to all non-retail banking. That is

1. All new financial services provided by the Bank to its Clients except for loans for retail consumption, and mortgages for residential purposes.
2. This ESMS will not be applied retrospectively to any financing agreements already entered into. However, existing facilities will be monitored and advised accordingly. Furthermore, when facilities granted in the past are due for renewal and/or being renegotiated, the Bank shall apply the E&S management procedures.

The ESMS specifically requires that all corporate, commercial banking and SME Clients and their business activities/projects be:

1. Screened against the Bank's Exclusion List (refer to Annex 2). The Bank will not finance any activities on the Exclusion List;
2. Categorised according to their level of E&S risk.
3. Subject to a more detailed E&S due diligence against applicable standards appropriate to the facility type, its amount and tenor and E&S risk category.

Further, all non-retail Clients will be contractually bound to comply:

1. With all relevant E&S regulations as stipulated by national law.
2. With ILO's fundamental principles and rights at work; and
3. Any other standards identified by EXIM Bank, in particular the IFC Performance Standards.

The Bank will proactively manage compliance with this policy and procedure by:

1. Including any mitigation measures in an E&S Action Plan developed in consultation with the Client;

2. Ensuring that facility agreements include appropriate terms and conditions regarding the requirements of the Bank;
3. Proactively monitoring a Client's E&S performance post-disbursement.

3 ESMS Governance Framework

3.1 Roles and Responsibilities – Board and Management

Board

The Board is primarily and ultimately responsible for all social, environmental, and ethical matters in the Bank and shall perform the following responsibilities:

- i. Approve the E&S Management Policy and Procedures and any amendments arising from subsequent reviews.
- ii. Approve all policies, guidelines, and actions on E&S risk management. iii. Ensure that E&S issues are embedded into the Bank's risk management processes.
- iv. Ensure the establishment of appropriate structures for risk management, and the implementation of this Policy.

Management

The responsibilities of management shall be as follows:

- i. Develop and drive the implementation E&S risk management policies and procedures to facilitate the integration of environmental and social risk concerns into the credit appraisal decision making processes.
- ii. Develop the organisational structure, monitoring and reporting framework for the effective management of E&S risks.
- iii. Ensure that the necessary resources are available and trained for the successful implementation of the ESMS and where appropriate engage the services of appropriately qualified and experienced independent advisors.
- iv. Report quarterly to the management credit committee and other interested parties as required on the implementation of the E&S risk management policies and procedures and advise accordingly.
- v. Review and improve the system as and when required.

3.2 Roles and Responsibilities

The internal stakeholders in the E&S management system shall carry out their responsibilities in a manner that is consistent with the following:

3.2.1 Ownership of Implementation

- i. **Relationship Managers, Branches and Credit Origination:** They key players in the referral and origination of credit facilities will be responsible for the following:
 - a. implementing the E&S risk management policies and procedures on a daily basis, including carrying out initial Client E&S data collection and screening against the Exclusion List;

- b. Categorising the E&S risk level of a client's business activities and/or projects and undertaking the necessary E&S risk due diligence in addition to the normal credit appraisal activities.
- c. For making recommendations to manage any emerging E&S risks and ensuring that they are included in Credit Facility Proposals, E&S Action Plans and Offer Letter terms and conditions.
- d. Alerting credit review committee to material E&S risks associated with a facility. ii. **Credit Review & Approval Authorities:** They shall be responsible for reviewing the findings of the credit appraisal and making recommendations for approval. The review will check that the necessary enquiries into potential E&S concerns have been duly conducted by the credit origination teams and the decision to approve or not will include consideration of and E&S matters raised in the credit facility proposal.

3.2.2 Risk and Compliance Oversight

- i. **E&S Compliance Officer:** The E&S Compliance Officer is primarily responsible for supporting the Bank in the following regard:
 - a. developing and reviewing the E&S policy, procedures, and tools
 - b. championing the implementation of the E&S risk management policies and procedures.
 - c. ensuring that systems, controls, and the appropriate skills are in place to ensure compliance with this Policy.
 - d. acting as technical resource and advisor to senior management and staff on E&S risk issues.
 - e. supporting, monitoring and reporting on the implementation of the E&S risk management policy.
 - f. receiving and considering suggestions for improvement to the Policy and making necessary recommendations for any changes.
 - g. delivering appropriate training to staff to enable them effectively monitor compliance by clients to the Bank's E&S Risk Management Policy.
- ii. **Credit Administration:** Credit Administration in conjunction with the Legal team is responsible for ensuring that all contractual documentation is aligned with the Bank's requirements for their clients to manage their E&S impacts and risks; that Clients are legally compliant with national legislation governing environmental and social matters and that E&S conditions precedent are met.
- iii. **Credit Monitoring Unit:** The Credit Monitoring Team is responsible for undertaking the regular review of credits, checking for any changes that impact the categorisation of the transaction, and for compliance with E&S terms and conditions.
- iv. **Legal:** The Legal Department will be responsible for ensuring relevant E&S terms and conditions are included in contracts and that they keep the Bank abreast of the national policy and legislative framework regarding E&S issues in the Bank's countries of operation.

3.2.3 Assurance

Internal audit: The Internal Audit function will review compliance with the Bank's E&S management policy and supporting procedures at regular intervals and provide assurance to the Board.

4 Environmental & Social Management Procedures

In this Section each process step in the E&S management procedures will be described in detail. Each step in the procedures is described including the responsible party, documentation to be completed, and data to be entered into the core banking system and tools to be applied. Table 1 summarises the key steps and the section where they are discussed.

Table 1: Summary of E&S management procedures

Credit Appraisal Process	E&S Risk Management Process	Tool to be applied	Report Section
Initial Referral by Branches, Relationship Manager to Credit Origination	Initial information gathering and Screening against the Exclusion List and Tanzanian EIA Regulations. Record result of the initial screening against the Exclusion List and in the event of non-compliance turn down the facility application. Submit Client E&S data along with the Bio Data Form and Credit Facility Application Form	Initial Screening Tool	Section 4.1
	Initial E&S evaluation including: 1. E&S Risk Categorisation 2. Establish requirements under national EIA regulations 3. Establish E&S Due Diligence Requirements taking into account the facility type, amount & tenor and the E&S risk categorisation. Record the findings of the initial screening and E&S risk categorisation in the Summary Screening and E&S Risk Categorisation Report. Inform the Client of next steps.	E&S risk categorisation tool & E&S due diligence requirements matrix Summary report template	Section 4.1
Credit Origination – including analysis and preparation for credit facility proposal for submission to Credit Committee	E&S Due Diligence against standards identified by the initial screening and E&S risk categorisation. Summary of key findings of the E&S due diligence included in the credit facility proposal including recommendations captured in the E&S Action Plan. Full E&S due diligence report available as an Annex to the credit facility proposal and filed accordingly	E&S DD Diligence Tool Box for the Bank Also to be referred to are: Relevant Client E&S reports, permits etc. E&S due diligence questionnaire E&S Due Diligence Report Templates E&S Action Plan template	Section 4.2

Credit Appraisal Process	E&S Risk Management Process	Tool to be applied	Report Section
Credit Committee Review	Credit review includes considerations of the E&S due diligence and recommendations. Key findings of the E&S DD and the E&S action plan to be incorporated into the credit proposal. The full E&S DD report is available as a supporting document.		Section 4.3
Offer letter preparation and legal compliance checklist by Credit Origination, checked by Legal Department and presented to the Client	E&S clauses included to capture requirements in the offer letter along with the E&S Action Plan. E&S legal compliance requirements to be included in the legal compliance checklist E&S requirements to be highlighted to Client on presentation of the Offer Letter.	E&S general terms and conditions for inclusion in Offer Letters	Section 4.4
Credit Administration check and issues Availment Letter	Credit Administration to check that any E&S conditions precedent have been complied with.		Section 4.5
Transaction Monitoring and Reporting	Monitoring of Client E&S Performance by: 1. Review of Client E&S reporting in line with reporting requirement set out in the Offer Letter; and 2. Site monitoring visits	Client E&S Reporting Template (Tool 9) E&S Monitoring report template (Tool 10)	Section 4.6
Portfolio Monitoring and Reporting	Capture and reporting of key E&S data on the loan portfolio.		Section 4.7
System Compliance and Audit Checks	Implementation of the E&S management policy and procedures subject to compliance reviews and audit. Compliance reviews and Audit reports to include check of E&S management system.		Section 4.7

4.1 Initial Referral

4.1.1 E&S Step 1a: Initial Screening

At the point of initial referral for all non-retail financing applications the Relationship Manager responsible will undertake an initial screening of the Client using Tool 1 in the Screening and E&S Risk Categorisation Excel File. Furthermore, managers responsible for renewing a facility shall do likewise. Using the tool the Client's activities will be screened against the Bank's Exclusion List (Annex 2), also check for BOT regulations and EIA requirements under Tanzanian EIA Regulations. If the:

1. Client's activities are listed on the Bank's E&S Exclusion List consult with the E&S Compliance Officer as a second check. If it is confirmed to be an excluded activity then the facility **application is to be declined** and reasons stated for the decline in the core banking system.

2. Client's activities do not fall under the Bank's E&S Exclusion List the application should **proceed to the next step, E&S Risk Categorisation.**

The responsibility for the initial screening against the Exclusion List lies with the Relationship Manager making the initial referral. However, the Credit Origination Manager receiving the referral should check that outcome of the screening is correct.

Both can seek advice from the E&S Compliance Officer and need to acquaint themselves with the E&S Initial Screening Tool, E&S Policy and Exclusion List.

<i>Responsible position:</i>	<i>Relationship Managers</i>
<i>Supporting Role:</i>	<i>E&S Compliance Officer</i>
<i>Documents to consult:</i>	<i>E&S Policy and Exclusion List</i>
<i>Form to complete:</i>	<i>Tool 1 in the Screening and E&S Risk Evaluation Tool</i>
<i>Core Banking System:</i>	<i>Result of the Exclusion List screening to be captured in the core banking system and the Screening and Risk Evaluation Summary Report.</i>

4.1.2 E&S Step 1b: E&S Risk Categorisation

All non-retail facility requests being forwarded to credit origination and those facilities being renewed and/or renegotiated will be categorised according to the potential environmental and social risks and impacts level inherent in the Client's activities. There are three risk categories applied by the Bank:

1. **High Risk (Category A):** Business/project activities with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented.
2. **Medium Risk (Category B):** Business/project activities with potential for limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.
3. **Low Risk (Category C):** Business activities with minimal or no adverse environmental or social risks and/or impacts

The purpose of the categorisation is not only to signal the potential environmental and social risk level of a transaction but also to provide direction for the level of E&S due diligence to be undertaken.

The Relationship Manager supported by the E&S Compliance Officer will undertake the E&S Risk Categorisation (Screening and Risk Evaluation Tool). It is possible that the Relationship Manager will have to make some follow up enquiries with the Client to complete the E&S risk categorisation tool.

The tool is essentially a series of profiling questions that point to whether the business activities are associated with high (A), medium (B) or low (C) E&S impact and/or risks. Depending on how the questions are answered the tool will determine the environmental and social risk category of the Client.

The tool is constructed to allow the user to obtain a risk categorisation and also identify where the potential impacts/risks may lie. The tool also acts as a high level screen against the IFC Performance Standards (IFC PS) by identifying where the Bank may want to assess a Clients performance against a specific IFC PS.

After the Relationship Manager has categorised the project, the E&S compliance officer should crosscheck the result (“4 eye principle”). The E&S Compliance Officer has the right to override the categorisation proposed by the Relationship Manager.

The final categorisation level should be captured in the core banking system and the Summary Screening and Evaluation Report to be file

<i>Responsible position:</i>	<i>Relationship Managers</i>
<i>Check:</i>	<i>E&S Compliance Officer</i>
<i>Documents to consult:</i>	<i>Client E&S Data Form</i>
<i>Form to complete:</i>	<i>E&S Categorisation Tool</i>
<i>Core Banking System:</i>	<i>Result of the E&S Categorisation to be captured and the completed E&S Categorisation tool filed.</i>

4.1.3 E&S Step 1c: Establish the E&S Standards to be applied to a Facility and whether further investigation required

During this step the Relationship Manager in consultation with the E&S Compliance Officer will determine which IFC Performance Standards the Client will be requested to adhere to and the level of E&S DD, if any, to be undertaken. In addition to the risk category identified above, the type of facility, its amount and tenor will also inform the decision.

The following Table can be used to establish the standards to be applied:

Table 2 Screen to establish E&S Performance Standards to be applied to a Facility

Category for either/or both E&S risk level	Facility Type	Amount	Tenor	Standards to be applied	Next step in E&S management procedure
A	Project finance or corporate loan associated with a project where total capital cost is > US\$10 million	Any	Any	National Laws All IFC Performance Standards and ILO’s fundamental principles and rights at work ratified by the country	E&SDD required proceed to Step 1d. Independent advisor should be appointed to undertake the E&S DD.
	Any project finance or corporate loan associated with a project where total	>US\$1 million	>1 year	National Laws IFC PS 1 & 2 and any other triggered during the Categorisation	E&SDD required proceed to Step 1d. Appointment of independent advisor highly recommended.

	capital cost is < US\$10 million			process, and ILO's fundamental principles and rights at work ratified by the country	
	Corporate loan not associated with project finance e.g. regular long term facility; working capital structured as a revolving facility	>US\$1 million	>1 year		E&SDD required proceed to Step 1d. Appointment of independent advisor highly recommended.
	Corporate loan facility (project or not project related) or working capital facility	<US\$1 million	<1 year	National Laws	E&SDD required proceed to Step 1d.
B	Project finance or corporate loan associated with a project where total capital cost is > US\$10 million	Any	Any	National Laws IFC PS 1 & 2 and ILO's fundamental principles and rights at work ratified by the country	E&SDD required proceed to Step 1d
					E&SDD required proceed to Step 1d
	Project finance or corporate loan associated with a project where total capital cost is < US\$10 million	>US\$1 million	>1 year		E&SDD required proceed to Step 1d
					E&SDD required proceed to Step 1d
	Corporate loan not associated with project finance e.g. regular long term facility; working capital structured as a revolving facility	>US\$1 million	>1 year		E&SDD required proceed to Step 1d
	Corporate loan facility	<US\$1	<1	National Laws	No further E&SDD
Category for either/or both E&S risk level	Facility Type	Amount	Tenor	Standards to be applied	Next step in E&S management procedure

	(project or not project related) or working capital facility	million	year		required. Request a statement of compliance (including evidence), from the Client, with: <ul style="list-style-type: none"> i. national laws identified in step 2b; and ii. ILO's fundamental principles and rights at work ratified by the country Include recommendation in the Credit Facility Proposal and Proceed to Step 3a.
C	All facilities	Any	Any	National Laws	No further E&SDD required. Request a statement of compliance (including evidence), from the Client, with: <ul style="list-style-type: none"> i. national laws identified in step 2b; and ii. ILO's fundamental principles and rights at work ratified by the country Include recommendation in the Credit Facility Proposal and Proceed to Step 3a.

Responsible position: Relationship Manager
Supporting Role: E&S Compliance Officer
Documents to consult: E&S Categorisation Form, Facility Data
Core Banking System: Capture outcome in core banking system and Summary Screening and Risk Evaluation Report.

4.1.4 E&S Step 1d: Establish E&S Due Diligence Requirements and Communicate to the Client

This is the point at which the Bank takes the decision to commit resources to additional investigation and due diligence on the transaction.

It is intended to coincide with the other activities that take place in the credit origination process when the credit origination manager engages and deepens their relationship with the Client to investigate the details of the proposed transaction.

The Credit Origination Manager will flag any material E&S risks that could be a deal breaker (if any) and determine whether any further E&S enquiry is required and the standards of performance the Bank expects from their Client. The level of E&S DD is in part determined by the E&S risk category but

should also take into consideration the type of facility, its amount and tenor as this in turn determines the level of leverage that the Bank may hold over a Client to improve their E&S performance.

The **E&S Due Diligence Requirements Matrix** (refer to Screening and Risk Evaluation Tool) is to be used as a guide to establish the types of due diligence activities to be undertaken, the E&S due diligence documentation to be drafted and the post-disbursement monitoring and reporting requirements.

The Credit Origination Manager, in consultation with the Relationship Manager and E&S Compliance Officer, will be responsible for this step. The Summary Screening and Risk Evaluation report will be completed and filed and shared with the Client. It will indicate the following:

- i. Whether or not any further E&S enquiry will be undertaken and the justification for the decision.
- ii. If further E&S enquiry is required the activities that will be undertaken (e.g. desk top review of documents submitted by the Client, site visits).
- iii. Reference standards that will be used for the E&S due diligence.
- iv. Minimum E&S requirements that the Client/Project will be expected to meet.

The Credit Origination Manager and Relationship Manager shall be responsible for this task and they will need to familiarise themselves with the E&S risk categorisation, the E&S due diligence requirements and EXIM Bank's E&S minimum terms and conditions to be communicated in offer letters.

<i>Responsible position:</i>	<i>Credit Origination Manager and Relationship Manager</i>
<i>Supporting Role:</i>	<i>E&S Compliance Officer</i>
<i>Documents to consult:</i>	<i>Screening and Risk Evaluation Tool</i>
<i>Form to complete:</i>	<i>Summary Screening and Risk Evaluation Report</i>
<i>Core Banking System:</i>	<i>Indicate whether E&SDD to be undertaken or not in core banking system and attach report.</i>

4.2 Credit Origination

Credit origination is the process whereby an analysis of the facility request is made and the findings presented in a credit proposal. The E&S management procedures associated with the credit origination phase are concerned with conducting the necessary levels of E&S Due Diligence as identified in Step 1c & d above.

4.2.1 E&S Step 2a: Establish National E&S Regulatory Requirements

This step is to establish what clearance certificates need to be issued for the business activities of the Client submitting the facility request. It is recommended that this screen is conducted for all known activities of a Client that could have an impact on the ability of the Client to honour the facility being requested.

The Credit Origination manager is responsible for establishing what clearance certificates, permits and licences the Client should be in possession of and what Environmental Impact Assessments and/or Audits the Client has to undertake under national law.

The E&S Compliance Officer and Relationship Managers, Branches and Credit Origination shall assist in establishing whether the Client is aware of the requirements, complying with these requirements and/or in the process of undertaking the necessary assessments.

It is recommended that a list of regulatory requirements is captured for all Clients including Low Risk (Category C) as this can be used to check the Clients self assessment and statement of compliance. A more comprehensive legal compliance follow up is only required for the Medium (Category B) and High (Category A) Risk Clients. The findings are to be reported in the Legal Compliance Check sheet in the Bank's E&S Due Diligence Toolkit, captured in the core banking system and/or filed

<i>Responsible position:</i>	<i>Credit Origination Manager</i>
<i>Supporting Role:</i>	<i>E&S Compliance Officer</i>
<i>Documents to consult:</i>	<i>National Regulations</i>
<i>Form to complete:</i>	<i>Legal Compliance Check, Bank E&S Due Diligence Toolkit</i>
<i>Core Banking System:</i>	<i>Capture findings in core banking system and/or file findings.</i>

4.2.2 E&S Step 2b: E&S Due Diligence and Draft E&S DD Report

In parallel with the financial due diligence activities on a Client/Project facility request the E&S due diligence will also be undertaken in accordance with the requirements identified under Step 1d of the ESMS procedures.

The E&S Due Diligence Matrix presents the activities and outputs of the E&SDD according to the risk category, type of transaction, its value and tenor. The purpose of the E&SDD is to establish the gaps between the Client's E&S performance and the standards identified by EXIM Bank under Step 1c of these procedures.

For High Risk (Category A) Clients where the facilities are over US\$1 million and 1 year tenor in value it is recommended that an independent advisor is contracted to undertake the E&S DD report and a mandatory requirement for Project related facilities with a total capital cost over US\$10 million.

The findings of the E&S due diligence will be presented in the E&SDD report and include E&S requirements in an E&S Action Plan (ESAP), which presents the priority actions to close performance gaps in a given time frame (see templates in the Bank E&S Due Diligence Toolkit and TOR for Independent Review of High Risk (Category A) Clients). The Action Plan should be developed in consultation with the Client.

The E&S DD report will be appended to the Credit Facility Proposal and the following should be inserted directly into the Credit Facility Proposal:

1. A summary paragraphs
"The project has the environmental and social category A/B/C. Related risks are considered to be high / moderate / low". The Client's commitment and capacity to manage E&S impacts and risks is rated as high / moderate / low.
2. An indication of the material environmental and social concerns according to whether they present a potential liability, credit and or reputational risk to EXIM Bank.

3. A recommendation for approval or not and if yes, key requirements of the Client as conditions precedent and attached to disbursements; and
4. The Action Plan to be attached to the Offer Letter.

Table 3: Recommended Template for Action Plan

Area of concern as identified through the assessment / Action	Responsibility	Indicator for Achievement of Target	By When	Cost

The Credit Origination Manager will be responsible for the E&SDD report and Action Plan. They can seek advice from the E&S Compliance Officer. The E&S Compliance Officer should be actively involved in any E&S DD for High-Risk Clients. They will need to familiarise themselves with national E&S laws, ILO fundamental principles and rights at work, IFC Performance Standards, IFC EHS sector guidelines, the E&S DD report and Action Plan template.

Responsible position: Credit Origination Manager
Supporting Role: E&S Compliance Officer
Documents to consult: SEIA, audit reports submitted by client; tools and templates in the E&S Due Diligence Took Kit.
Forms to complete: E&S Due Diligence Report and Action Plan template
Core Banking System: Indicate E&S due diligence activities undertaken, reports completed and on file.

4.3 Credit Committee Review and Approvals

4.3.1 E&S Step 3a: Review of E&S Concerns

On completion of the Credit Facility Proposal, including the E&S components, the documentation is forwarded to the credit review committee, for review and recommendation.

The Executives within the credit approval chain shall ensure that the E&S risk due diligence assessments have been duly completed given the E&S risk categorization of the facility, the facility type, value and tenor. The findings and recommendations arising from these assessments will be considered in the decision-making of the credit approval authorities.

The output of the review by the credit committee will include:

1. Confirmation of the application of the E&S management procedure to the facility;
2. Commentary on degree of satisfaction that the recommendations for E&S risks mitigation are adequate; and request for further follow up if necessary, taking into consideration:
 - a. The material environmental and social concerns according to whether they present a potential liability, credit and or reputational risk to EXIM Bank.
 - b. Specific actions required to address E&S risks; those presented in any E&S Action Plan (if applicable) to be attached to the investment/loan documentation.
 - c. Level of confidence in the commitment and capacity of the Client to manage their

- E&S risks and impacts; and to implement the E&S Action Plan; and
- d. Level of influence of the Bank to ensure Client compliance and therefore the necessary terms and conditions that are required to be attached to the Offer Letter.
- 3. Any additional requirements to be included in the Offer Letter to manage the E&S risks raised.

The outcome of decision-making is a formal decision (approval/decline) on the Credit Facility Proposal, including consideration of any material E&S matters, with recommendations for terms and conditions.

<i>Responsible party:</i>	<i>Management Credit Committee</i>
<i>Documents to consult:</i>	<i>E&S Due Diligence Report; E&S Action Plan; draft E&S clauses for including in the Offer Letter</i>
<i>Output:</i>	<i>Approved Credit Facility Proposal Memorandum</i>

4.4 Preparation of Offer Letter

E&S Step 4a: E&S Terms and Conditions in Offer Letter

Based on the recommendations set out in the Credit Facility Proposal and feedback from the credit review and approval authorities the Credit Origination Manager in conjunction with the Legal Department will be responsible for ensuring that the E&S requirements are appropriately covered in the Offer Letter and Legal Compliance Checklist. These can take the form of:

- a. Necessary E&S representations, warranties, and covenants to be incorporated into the Offer Letter.
- b. Conditions to be fulfilled prior to disbursements (conditions precedent);
- c. Conditions to be fulfilled on best effort basis.
- d. Status reports to be submitted to EXIM Bank by the Client and reporting times.
- e. Requirement for independent compliance and performance reviews on areas of concern (where applicable); and
- f. Requirement for independent verification of Client performance monitoring reports (where applicable).
- g. Requirement for the Client to inform the Bank of any changes to their activities that may change their E&S risk profile

The wordings in legal agreements shall reflect the E&S risks in the transaction and the extent to which these are expected to be managed throughout the duration of the transaction. At a minimum the contractual clauses must cover:

- a. Compliance with national environmental and social legislation; BOT regulation and ILO's fundamental principles and rights at work.
- b. Compliance with IFC Performance Standards (as identified during the E&S due diligence stage);
- c. Preparation of an annual E&S performance report in a pre-described format (see Client E&S Reporting Templates);
- d. Implementation of recommendations from any SEIA and/or the E&SDD report, if relevant.
- e. Implementation of the E&S Action Plan and submission of progress reports; and
- f. Any other clauses if deemed necessary.

For low risk (Category C) projects, it is sufficient to ask the client to comply with local environmental and social legislation and any other standards identified during Step 2c of this procedure, and to inform EXIM Bank in case of relevant serious events. Risks can be considered limited.

In respect of “High Risk (Category A) and Medium Risk (Category B)” transactions, the Credit Origination Manager needs to ensure that copies of the Offer Letter and associated E&S documentation are received by the E&S Compliance Officer and the credit monitoring team for monitoring purposes.

<i>Responsible position:</i>	<i>Credit Origination Manager</i>
<i>Supporting Role:</i>	<i>E&S Compliance Officer</i>
<i>Documents to consult:</i>	<i>Credit Facility Proposal Memorandum</i>
<i>Output:</i>	<i>Offer Letter including E&S terms and conditions, Action Plan and Client E&S Reporting templates</i>
<i>Core Banking System:</i>	<i>Indicate status or Credit Proposal request and attach/file final drafts of E&S documentation</i>

4.5 Credit Administration Check and issue of Availment Letter

At this point Credit Administration checks that the Client is following a checklist of conditions precedent and drafts an availment letter and recommendation for disbursement.

4.5.1 E&S Step 5a – Check Compliance with E&S Conditions Precedent

Credit Administration to check that the Client has implemented any E&S Conditions Precedent recommended by the check of compliance against national laws and the E&S due diligence.

<i>Responsible position:</i>	<i>Credit Administration</i>
<i>Supporting Role:</i>	<i>E&S Compliance Officer</i>
<i>Documents to consult:</i>	<i>Offer Letter, E&S Action Plan and Checklist of E&S Conditions Precedent</i>
<i>Output:</i>	<i>Recommendation for disbursement</i>
<i>Core Banking System:</i>	<i>Indicate whether E&S Conditions Precedent met and status</i>

4.6 Facility Monitoring and Reporting

4.6.1 Step 6a: E&S Performance Monitoring of Facility

Identifying E&S risks and actions during the due diligence and credit decision phase is not enough to ensure compliance. Active monitoring of the Client’s performance is required during the loan period.

The level of monitoring and reporting is in part determined by the risk category of the Client/project and the findings of the E&SDD. All monitoring and reporting requirements should be clearly articulated in the loan documentation.

For **Low Risk** (Category C and exposure through facility type limited) transactions no monitoring and reporting is necessary. As per the Offer Letter the Client is required to confirm compliance with national laws and any other standards contained within the Offer Letter and to inform EXIM Bank of any changes to their activities that may change their E&S risk profile.

For **Medium Risk** (Category B and a moderate level of exposure from facility type) transactions it is recommended that the Client submits:

- a. An annual report confirming compliance with E&S contractual requirements and a progress report on implementation of the Action Plan (if applicable); and
- b. Incident reports as and when they arise. A suggested template can be found in the **Client E&S Reporting Templates**.
- c. Information pertaining to any changes to their activities that may change their E&S risk profile

For **High Risk** (Category A and a higher level of exposure associated with the facility type) transactions EXIM Bank should proactively monitor the E&S performance through regular (at least annually) site visits. In addition, the Client is required to submit:

- a. An annual E&S performance report in prescribed format (see **Client E&S Reporting Templates**);
- b. Six monthly progress reports on implementation of the Action Plan; and
- c. Incident reports as and when they arise. Refer to **Client E&S Reporting Templates**.

The E&SDD should establish whether the Client will be required to have independent compliance and performance reviews on areas of concern, and this should be indicated as a requirement in the Offer Letter.

In some circumstances it is also advisable that performance monitoring data reported by the Client be independently verified. This requirement should be established at the E&SDD phase and indicated as a requirement in the Offer Letter.

Further, for **High-Risk** transactions, the Bank shall appoint and retain the services of external experts to complement its monitoring activities. The extent of monitoring to be carried out shall depend on the project's risks and impacts, and the project's compliance with the specific indicators.

Overall, the Credit Monitoring Team will be responsible for undertaking monitoring activities and reviewing Client reports. They will report any areas of non-compliance they will take appropriate remediate action on a case-by-case basis.

The Credit Monitoring team shall need to familiarise themselves with any transaction's records, the Offer Letter, E&S Categorization Tool, E&SDD report and supporting documentation.

Typical monitoring activities shall be as follows:

1. For approved transactions, the Credit Monitoring Team shall:
 - a. Review the E&S risk categorisation for material changes.
 - b. Review E&S issues for any additional developments and any changes that may affect the level of E&S risks and recommend actions to address material changes.
 - c. Review the effectiveness of the borrower's management of E&S risks as per the conditions of the legal agreement.

- d. Review the project's compliance and performance against specific actions, performance indicators or conditions as agreed between the Client and the Bank and articulated in the Action Plan.
 - e. Agree with the borrower and communicate, through feedback the key deficiencies identified and request for corrective action within a specified time frame.
 - f. Review entries in the E&SDD report and any supporting documentation such as E&S General Due Diligence Questionnaire or Sector Specific Questionnaires.
 - g. Record the monitoring process and recommendations.
2. At the end of the loan and during the writing of a project completion report, the E&S issues that emerged and the lessons learned for the purpose of enhancing future appraisals shall be documented.
 3. Whilst the ESMS Policy is not intended to be implemented retroactively, where monitoring activities identify the emergence of high E&S risks and/or impacts the Bank shall engage with the Client to address these issues appropriately.

<i>Responsible position:</i>	<i>Credit Monitoring Team</i>
<i>Documents to consult:</i>	<i>Offer Letter, E&S Action Plan; E&SDD report and associated documents.</i>
<i>Form to complete:</i>	<i>Post disbursement E&S Monitoring Report</i>

4.7 Portfolio Monitoring & Reporting and System Compliance

4.7.1 E&S Step 7a: Portfolio Monitoring & Reporting

All client information and transactions processed through the E&S management procedures including the number of transactions, status of each transaction, and the outcomes of submissions and approval discussions to be captured by the core banking system on behalf of the E&S Compliance Officer and for Risk management and Compliance monitoring. The Bank shall use this information for management purposes, and to report the ESMS Policy implementation to its lending and supporting partners.

4.7.2 E&S Step 7b: E&S Management System Compliance and Audit

The ESMS will be subject to the same compliance and audit checks that are conducted on all of the Bank's risk management policies and procedures.

<i>Responsible position:</i>	<i>E&S Compliance Officer, Risk Management and Compliance Team; Internal Audit</i>
<i>Data management:</i>	<i>Core banking system to capture key information to inform management and to meet reporting and disclosure requirements of interested stakeholder. All facility related E&S documentation to be filed</i>

Approval Date: 23RD November 2022

CHAIRMAN	
DIRECTOR	
CHIEF EXECUTIVE OFFICER	
HEAD OF RISK AND COMPLIANCE	

ANNEX 1: Commitment to Responsible Financing

Building on from EXIM Bank's Environmental and Social Policy, 2014 and with specific consideration to the objective to manage the environmental and social risks and impacts of its financing activities the Bank commits to:

"Integrating environmental and social management considerations into its credit appraisal and decision making process".

More specifically:

1. EXIM Bank's capital will not be used to finance any activity indicated on our Exclusion List (see Annex 2).
2. All economic activities that EXIM Bank finances will be expected to operate in accordance with the following requirements:
 - i. At a minimum all Client's will comply with
 - a. All local and national laws; and

- b. The International Labour Organisation's (ILO) Declaration on Fundamental Principles and Right at Work, adopted in 1998
- ii. For Client's engaged in activities associated with higher environmental and social impacts and risks EXIM Bank will expect adherence to:
 - a. Any relevant IFC's Performance Standards on Social and Environmental Sustainability (January 2012) identified by EXIM Bank.

Strategy for Sustainable Financing

Through the Bank's ESMS Policy EXIM Bank drives change by:

Systematically identifying E&S impacts associated with a client's business activities and by working within its sphere of influence to ensure performance improvements such that these potential impacts are avoided, minimised, or mitigated.

Whilst compliance is considered important, the Bank's philosophy is to engage constructively with our clients and other stakeholders to better understand the issues at hand and work together to build more sustainable businesses that contribute positively to our economy, society, and environment.

Scope of the ESMS Policy

The environmental social management system (ESMS) will be adopted will be adopted by:

- 3. The Bank's wholly owned or majority-owned companies.
- 4. The Bank's local and international business activities.

And be applicable to all non-retail banking. That is

- 3. All new financial services provided by the Bank to its Clients except for loans for retail consumption, and mortgages for residential purposes. Further,
- 4. This ESMS will not be applied retrospectively to any financing agreements already entered. However, when facilities granted in the past are due for renewal and/or being renegotiated, the Bank shall apply the E&S management procedures accordingly.

The ESMS specifically requires that all corporate, commercial banking and SME Clients and their business activities/projects be:

- 4. Screened against the Bank's Exclusion List (refer to Annex 2). The Bank will not finance any activities on the Exclusion List.
- 5. Categorised according to their level of E&S risk.
- 6. Subject to a more detailed E&S due diligence against applicable standards appropriate to the facility type, its amount and tenor and E&S risk category.

Further, all non-retail Clients will be contractually bound to comply:

- 4. With all relevant E&S regulations as stipulated by national law.
- 5. With ILO's fundamental principles and rights at work; and
- 6. Any other standards identified by EXIM Bank, the IFC Performance Standards.

The Bank will proactively manage compliance with this policy and procedure by:

- 1. Including any mitigation measures to close compliance gaps in an E&S Action Plan developed in consultation with the Client.

2. Ensuring that facility agreements include appropriate terms and conditions regarding the requirements of the Bank.
3. Proactively monitoring a Client's E&S performance post-disbursement.

ANNEX 2: EXIM Bank E&S Exclusion List

EXIM Bank does not finance clients, activities or projects with the following characteristics:

1. Production or trade in any product or activity deemed illegal under country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances¹, PCB², wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES)³.
 2. Production or activities involving harmful or exploitative forms of child labour⁴. Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.
 3. Production or activities involving harmful or exploitative forms of forced labour⁵. Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
 4. Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations
-
5. The Bank does not finance the following activities or projects related to them where these activities form a substantial⁵ part of a project sponsor's primary operations or those of the project.
 - Weapons and munitions
 - Gambling, casinos and equivalent enterprises.
 - Loans for production or trade in tobacco except for exposure not exceeding 5% of total loan portfolio.
 - Loans for production or trade in alcoholic beverages (excluding beer and wine) not exceeding 5% of total loan portfolio.
 6. Radioactive materials (except medical, quality control (measurement) or other equipment where radioactive sources are small in size, integral to function, and adequately shielded).

¹ Ozone Depleting 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.

² 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.

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

⁴ Employees may only be taken in accordance with the ILO Fundamental Labour Rights Conventions (Minimum Age Convention 138, Art 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

⁵ Means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by the ILO conventions.

⁵ A benchmark for substantial is 5 – 10 % of the company's consolidated balance sheet or earnings. For financial institutions this would be more than 10% of their underlying portfolio volumes.

7. Unbonded asbestos fibres. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
8. Activities involving:
 - Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest.
 - Unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km. in length⁹).
 - Pornography or prostitution.
 - Production and distribution of racist and anti-democratic material.
9. Production or trade in wood or other forestry products other than from sustainably managed forests.
10. Projects that involve the destruction⁶ of high conservation value areas⁷.
11. Any activity involving significant alteration, damage or removal of critical cultural heritage⁸.
12. Exploitation of diamond mines and commercialization of diamonds, then the host country has not adhered to the Kimberly¹⁰, or other international (actual or to be formed), on similar extractive resources.
13. In addition, when investing in **microfinance activities** EXIM Bank will not finance:
 - Production, trade, storage or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemical. Hazardous chemicals include gasoline, kerosene and other petroleum products.
 - Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous people, without fully documented consent of such people.
 - Any activities that term illegal by national law

ANNEX 3: List of Support Tools

Screening & Risk Evaluation Tool	Tool	Initial Client Screening Tool
	Tool	E&S Risk Categorisation Tool
	Tool	Matrix to identify E&S Due Diligence requirements
	Report Template	Summary of Screening and Risk Categorisation
E&S Due Diligence Tool Kit for Bank	Tool	Legal Compliance Assessment
	Tool	Client Commitment, Capacity and Track Record Assessment

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

⁷ High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see <http://www.hcvnetwork.org>)

⁸ Consists of nationally and internationally recognise historical, social and/or cultural heritage

¹⁰The Kimberly Process Certification Scheme.

	Tool	Checklists for Medium Risk Operations/Projects
	Report Templates	E&S Due Diligence Report
		Environmental and Social Action Plan (ESAP)
Consultants	Reference Document	TOR for Independent Review of High Risk (Category A) Clients
Legal guidance	Reference Document	E&S Legal Clauses
Reporting & Monitoring	Report Template	Client E&S Reporting Template
	Report Template	Post Disbursement E&S Monitoring Report