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# Social Enterprise Fund for Agriculture in Africa



## ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

Code – SEFAA ESMS

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## **List of Abbreviations**

<b>E&amp;S</b>	Environmental & Social
<b>ESAP</b>	Environmental & Social Action Plan
<b>ESDD</b>	Environmental and Social Due Diligence
<b>ESG</b>	Environmental, Social and Governance
<b>ESMS</b>	Environmental & Social Management System
<b>IFC</b>	International Finance Corporation
<b>SAEs</b>	Social Agricultural Enterprises (SAEs)
<b>SEFAA</b>	Social Enterprise Fund for Agriculture in Africa
<b>SHFs</b>	Smallholder Farmers

## **ESMS Sections**

- A. Description of the SEFAA's operations
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## A. Description of the SEFAA's Operations

The Social Enterprise Fund for Agriculture in Africa (SEFAA) is an impact-first fund focused on enhancing the business ecosystem, and/or income opportunities, for smallholder farmers in Sub-Saharan Africa. SEFAA's theory of change is that significant poverty alleviation can be achieved by improving the productivity of smallholder farmers (SHFs) by providing growth funding to viable Social Agricultural Enterprises (SAEs) providing products and services to SHFs or rural MSMEs.

### The Fund's Objectives

- Recognising the importance of higher agricultural productivity to improving the livelihoods and socio-economic conditions of smallholder farmers (SHFs), SEFAA aims to provide appropriate growth funding to enterprises whose activities enhance the business ecosystem and/or income opportunities for SHFs.
- SEFAA financing is intended to generate the greatest, sustainable positive impact for SHFs through higher incomes and job creation.

## B. Purpose and Content of this Document

All SEFAA's investments are scrutinized to meet national and internationally-accepted environmental and social performance requirements including specifically:

- National Environmental Law,
- National labour laws
- National Sustainable Banking Principles
- IFC Performance Standards
- KFW Sustainability Guidelines
- The United Nations Guiding Principles on business and human rights (UNGPs) Guidelines.
- The Organisation for Economic Co-operation and Development (OECD) Guidelines
- European Development Finance Institutions (EDFI) Exclusion List, and the
- Voluntary Guidelines on Responsible Governance and Tenure.

These documents form the Environmental and Social Management System (ESMS) of SEFAA and describes how E&S aspects will be assessed, managed and integrated into the Fund Operations. To achieve this, FAFIN has adopted an over-arching E&S policy and supporting tools and processes to facilitate the integration of its ESG principles into every stage of its investment process. We believe that good ESG practices are essential to lowering risks and liabilities and creating great businesses. The ESMS outlines the E&S policy of FAFIN, detailing the classification matrix, relevant E&S risks and potential impact. The document also describes the E&S procedures across the investment stages and corresponding roles and responsibilities. It also presents SEFAA's position on how performance management and external stakeholder management will be coordinated.

### C. SEFAA Environmental and Social Management System (ESMS) Framework

SEFAA (the “Fund”) Environmental and Social Management System (ESMS) framework has been developed in line with the KfW Sustainability Guidelines, IFC performance standards and World Bank operational framework, the document entails the Fund’s ESG investment guiding principles.

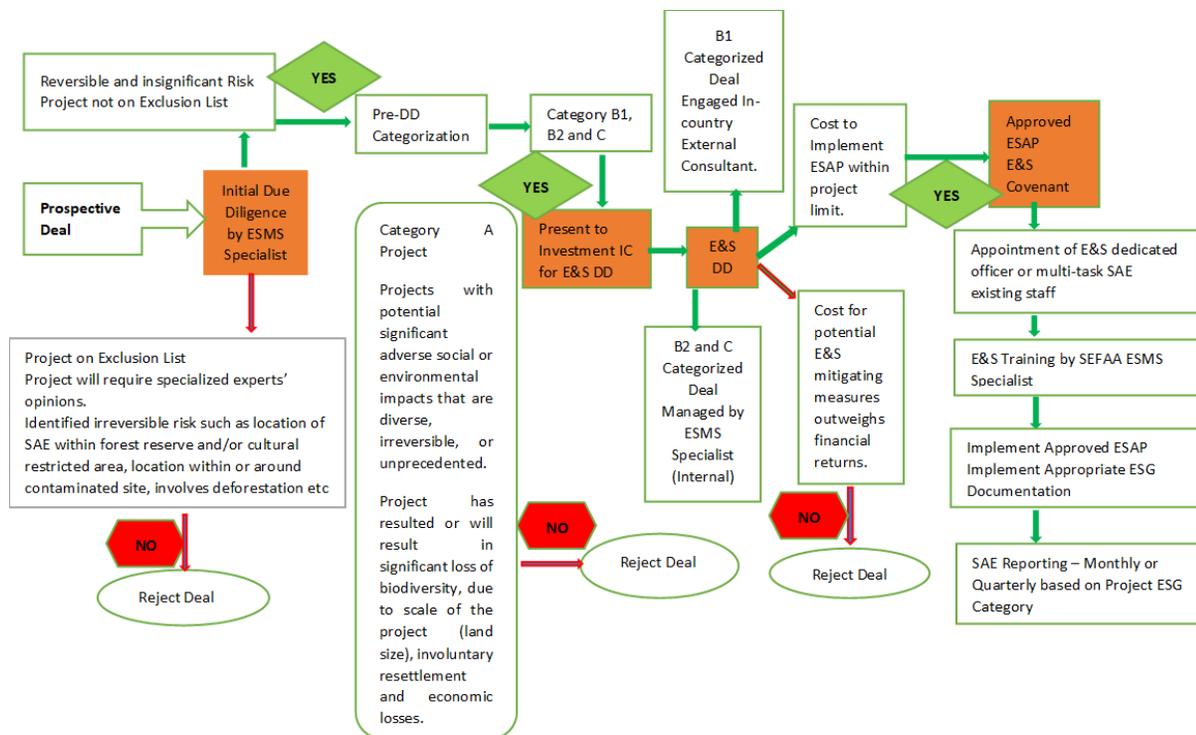
The ESMS framework will provide the Social Agricultural Enterprises (SAEs) with the Fund’s appropriate core values, business model and enterprise risk management principles. It will enhance the SAEs’ E&S opportunities business operations and activities and adopt an avoidance, minimize and mitigation approach for the E&S risks.

The business activities and operations of the SAEs can influence and/or result to potential negative impacts on the environment or their local operating communities. These negative impacts can include air or water pollution, destruction of biodiversity, threats to human health and safety, violations of labour rights, or displacement of livelihoods.

The negative impact of this issues can expose the Fund and the SAEs to risk in the form of credit risk, reputational risk, and legal risk. The SEFAA ESMS framework is posed to enhance the E&S performance and operations of the SAEs and thereby reduce the risk impact, costs and liabilities.

Considering the evolutionary stage of the SAEs in most of the focus countries, the Fund has developed a systematic ESG transformation strategy to bring the SAEs up to speed on the implementation and benefit of adopting ESMS principles and guidelines.

The Fund will develop an annual training program for the SAEs principal management leads and ESG officers, the training will focus on the integration of the ESG fundamentals into their business operations thereby imbibing a systematic ESG adoption into their business development and growth.



## D. SEFAA Environmental and Social (E&S) Policy

SEFAA is committed to investing in businesses that are focused on creating value with sustainability at the forefront. The SEFAA investment team is committed to working with its portfolio companies to identify ESG issues, manage E&S risks, identify and deliver E&S opportunities, develop action plans to address the issues during the investment period and develop in-house capacity to ensure a self-sustaining ESG practice following SEFAA's exit.

Prior to making an investment, SEFAA will undertake appropriate Environmental and Social Due Diligence (ESDD) on all prospects. Key E&S issues will be explored during ESDD to ensure effective assessment of E&S risks and opportunities, proper categorization of the potential investee company and ultimately the development of an appropriate Environmental and Social Action Plan (ESAP). The ESAP will guide how the investee company will approach dealing with the E&S gaps observed during ESDD, as well as roles and responsibilities and performance monitoring mechanism.

SEFAA is committed to supporting its investee companies to:

- Identify and assess E&S impacts, both adverse and beneficial, in the Investment's area of influence
- as part of its ESDD processes.
- Agree how best to manage E&S risks and delivery opportunities with investee companies and agree the scope, content and timelines for the ESAP.
- Work with investees to ensure adequate technical competence and senior management oversight is developed in investee companies to deliver E&S objectives, and that there is an appropriate governance and oversight framework at Board level.
- Ensure that there is adequate and timely reporting of E&S performance to investors (including of serious incidents) and also that there is an appropriate stakeholder engagement and grievance mechanism in place.
- Institute appropriate corporate governance controls and ensure adherence to applicable laws, and ensure that investees have adequate human resources, capital and guidance on managing E&S aspects of the investment.
- Support and leverage best E&S practices and lessons learnt across the SEFAA portfolio.

Each Investee<sup>1</sup> will be required to establish an ESMS appropriate to the nature and scale of the Investment and commensurate with the level of social and environmental risks and impacts pursuing the following objectives:

- Develop an E&S policy: that articulates the objectives and principles that will guide the investee in terms of E&S practices and performance. The specific E&S requirements to be defined on a case by case basis, but at a minimum to comply with FAFINs E&S requirements (Section B) and relevant voluntary good practice initiatives. Where there exists a credible standard of certification – local or international – which verifies that the operation or procedure is being carried out in accordance with a specified principle or set of criteria, such as RSPO, investees will seek to adhere to such standards.
- Assess and manage E&S risks and opportunities: To undertake appropriate E&S assessment and/or audits to fully understand the range of E&S opportunities within the company's area of influence (including supply chains as appropriate). To commission Environmental and Social Impact Assessment and Audits as necessary so to inform understanding. The intention being to avoid, or where avoidance is not possible, minimize, mitigate, or compensate for adverse impacts on workers, affected communities, and the environment.
- Roles, responsibilities and oversight: To identify and appoint technically competent people to manage E&S aspects, and to ensure that there is senior management oversight and support commensurate with the degree of E&S risks and opportunity.
- Procedures: To develop procedures and practices (including human resources and employment,

occupational health and safety, supply chain management, and resource efficiency as appropriate) to ensure E&S requirements are met.

- Performance management: To periodically review and improve procedures and practices based on lessons learned.
- External communication: To communicate with investors and other stakeholders in relation to E&S performance, and to develop an appropriate Stakeholder Engagement Plan and grievance recourse mechanism to allow local communities a way of understanding company operations and engaging with the company on E&S matters as needed.

All SEFAA’s investments will be scrutinized to meet national and internationally-accepted environmental and social management requirements. SEFAA ESMS is guided by the requirements of the general framework of the KfW Sustainability Guidelines and the International Finance Corporation’s Environmental and Social Performance Standards, and tools consistent with these standards, to identify and manage ESG risks and improve the social performance of portfolio companies. Detailed ESG tools, guidelines, checklists and scorecards, consistent with the Standards and Guidelines are used during field visits and due diligence to identify and assess specific ESG risks.

**IFC Performance Standards**

1	Performance Standard 1	Assessment and Management of Environmental and Social Risks and Impacts
2	Performance Standard 2	Labour and Working Conditions
3	Performance Standard 3	Resource Efficiency and Pollution Prevention
4	Performance Standard 4	Community Health, Safety and Security
5	Performance Standard 5	Acquisition and involuntary Resettlement
6	Performance Standard 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources
7	Performance Standard 7	Indigenous People
8	Performance Standard 8	Cultural Heritage

Deviations from this ESMS Policy will need to be approved by the Fund’s Investment Committee and will need to follow an additional Environmental and Social process to be further approved by the Investment Committee.



Oladele Shekete  
ESG Director

<sup>1</sup> Note: “Investee” is used more broadly in this document, referring to potential Investee’s that the Fund considers investing in and actual Investee that the Fund has already invested in.

## E. Environmental and Social Management System Procedures

In line with SEFAA’s ESMS framework, consideration of ESG factors including completion of ESG checklists and assessment of ESG risks is undertaken in the due diligence process and by SEFAA’s ESG Specialist or 3rd party Consultant. Based on the due diligence outcome, the Environmental and Social Action Plans (ESAP) will be developed while the appropriate E&S covenants with borrowers regarding managing environmental and social risks throughout the life of the investment would also be put in place. The ESAP and covenants will be monitored and evaluated as part of the ESMS.

### Initial Due diligence

The initial E&S due diligence using desk study approach will be carried out by SEFAA E&S Specialist. Deals will be screened against the magnitude of risk associated with the deal and the Fund exclusion list/ investment restrictions which includes and not limited to the following.

- Our Anti money laundry policy precludes the Fund from investing in politically exposed persons and in any business or persons sanctioned by the United Nations and the World Bank Group.
- The Fund will not invest in businesses of alcoholic beverages, tobacco, casinos & gambling, wood products other than from sustainably managed forests, arms & ammunition and any activity deem illegal by the host Country’s governments.
- The Fund will not invest in businesses that use forced or child labour

### ESG Investment Due Diligence

Appropriate investment due diligence will be conducted on all prospective portfolio companies in line with applicable due diligence framework. The due diligence exercise will be implemented using third party Consultants or in-house expertise depending on the size and scale of the investment. The scope of the due diligence is to ensure the company’s compliance to the environmental regulatory framework in SEFAA operational countries, IFC performance standards and applicable World Bank health and safety, and sector guidelines.

### Key E&S Issues to be addressed

E&S Themes	Requirements
Labor and working conditions	Ensure portfolio companies’ governance, employment and human resource policies for compliance with occupational health and safety, and other applicable labor laws are in place.
Community health, safety, and security	Ensure that portfolio companies’ are not adversely affecting community health, safety and security and ensuring this through conversations with management and sampling of community members as well as during and after on-site field visits.
Effect on indigenous peoples and cultural heritage	Ensure that portfolio companies are empowering indigenous people and not disrespecting them in any way and also protecting cultural heritage.
Air Management	Ensure potential air pollutants are contained and activities do not impact the natural environment.
Noise Management	Ensure noise/ vibration levels meet statutory requirements and acceptable standards
Water Management	Maintain or improve quality of surface water. Maintain or improve quality of ground water.
Wastewater Management	Protect aquatic ecosystems, reuse treated wastewater on site.
Waste Management	Ensure wastes are disposed of in a proper manner and do not pollute the immediate environment.
Hazardous Materials Management	Ensure chemicals are stored and disposed of carefully. Ensure pest control chemicals are used safely.
Contaminated Land	Ensure land is not contaminated through financed activities
Climate change	To consider climate change risks that a company may experience against the needs to build in greater resilience, adaptation and mitigation measures.
Animal Welfare	To adopt internationally recognized standards on animal welfare, including EU animal welfare standards where possible or other Good International Industry Practice as appropriate to the local context,

## Risk Categorization

Based on the due diligence outcome and the risk level of prospective portfolio companies will be categories as A/B/C; category A – High Risk, Category B (1&2) – Medium Risk and Category C as Low Risk. The Fund will invest in category B&C only where the environmental and social risks could be readily mitigated and controlled.

Categories	Risk Level
A	High-Irreversible Risk
B1	Medium-Reversible Risk
B2	Minor-Reversible Risk
C	Low-Insignificant Risk

Category	Levels of Response	Transaction Screening	Application Due Diligence Framework	Required Due Diligence Documentation
B1	Detailed approach in managing E&S Issues	External Consultant/ Internal Expertise	Country Environmental Law IFC Performance Standard World Bank Group Environmental, Health and Safety Guidance Exclusion List	Due Diligence Questionnaire Physical Due Diligence Visit-Detailed Report E&S Action Plan ESMS ESIA
B2	Moderate approach in managing E&S Issues	Internal Expertise	Country Environmental Law IFC Performance Standard World Bank Group Environmental, Health and Safety Guidance Exclusion List	Due Diligence Questionnaire Remote Screening -Interview with company's key personnel E&S Action Plan ESMS ESMP
C	Light approach in managing E&S Issues	Internal Expertise	Equator Principle Country Banking Principle Country Banking Principle Exclusion List	Due Diligence Questionnaire E&S Action Plan E&S Policy and Procedure ESMS

## ESG Portfolio Management

Depending on the investment transaction cost and E&S categorization, each portfolio company shall have an ESG officer/Manager whose role can either be on a dedicated assignment or a multi-tasking role and will be required to control, manage and where necessary mitigate Environmental and Social (E&S) risks directly or indirectly emanating from the company's activities through the robust and efficient Environmental and Social Management System. The ESG officer/Manager shall report to the SEFAA ESG Director on a monthly or quarterly basis using the assigned reporting template.

Risk Category	Progress report on E&S Performance	E&S Governance Structure	Levels of Response
B1	Monthly	Dedicated ESG Officer/Multi-task existing staff	Detailed approach in managing E&S Issues
B2	Quarterly	Multi-task existing staff	Moderate approach in managing E&S Issues
C	Quarterly	Multi-task existing staff	Light approach in managing E&S Issues

## Progress Report and E&S Performance

A report template shall be provided to the portfolio companies, this template shall be used to provide update on the company's ESAP, E&S initiatives and regulatory compliance.

In the instance where some or all conditions stated in the E&S covenant are not met, the issue will be escalated to the executing authorities of the E&S covenant for appropriate action. The E&S covenant must be signed by two (2) executive directors of the company.

### F. Exclusion List Applicable for All Investments

Any Investee shall not finance directly or indirectly any of the following:

- I. Production or trade in any product or activity deemed illegal under host country law or regulations or international conventions, agreements or bans that are applicable to the host country, which may include pharmaceuticals, pesticides/herbicides, ozone depleting substances, Polychlorinated Biphenyls (PCBs), wildlife or products regulated under the Convention of International Trade in Endangered Species (CITES). Production of, or trade in, radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- II. Unsustainable fishing methods such as fish blast or drift net fishing in the marine environment using in excess of 2.5 km. in length.
- III. Forced labour<sup>2</sup> or Harmful child labour<sup>3</sup> - Forced labour means all work or service, not voluntarily performed, labor which is harmful to the child or interferes with his/her education as stipulated in the Nigeria Labour Acts under forced labour. Persons may only be employed if they are at least 16 years old, as defined under young person in the Nigeria Labour Acts; Laws of Federation of Nigeria 1990.
- IV. Commercial logging operations for use in primary tropical moist forest; and
- V. Production or trade in wood or other forestry products other than from sustainably managed forests.
- VI. Cross-border trade in waste and waste products, unless compliant with the Basel convention and the underlying regulations
- VII. Pornography or Prostitution
- VIII. Racist and anti-democratic media
- IX. Destruction of high conservation value areas - 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. High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance. For more information, please visit the HCV Resource Network.
- X. Production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes.
- XI. In the event that any of the following products form a substantial part of a company's primary operations or company's financed business activities:
  - Production of, or trade in, alcoholic beverages (excluding beer and wine).
  - Production of, or trade in, tobacco or tobacco related products.
  - Gambling, casinos and equivalent enterprises.

"Substantial" means more than 10 % of a financed institution's/company's consolidated balance sheet or earnings. For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume.

<sup>2</sup> Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>3</sup> Harmful child labor 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.