



Development Bank Ghana

Summary of Environmental and Social Management System (ESMS)

SUMMARY OF DBG's ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

1.0 Background

The core mandate of the Development Bank Ghana (DBG) is to alleviate financing constraints faced by micro, small and medium enterprises (MSMEs) and small corporates in agribusiness, manufacturing and high-value services through the provision of wholesale financing and partial credit guarantees to eligible financial intermediaries (to be known as Participating Financial Institutions - PFIs) for on-lending to an underserved MSME sector in Ghana. DBG aspires to be Ghana's primary development finance institution, promoting growth and sustainability in the financial sector.

2.0 Introduction

DBG recognizes that in the delivery of its lending and investment, it may be exposed through the PFIs to the Environmental and Social (E&S) risks associated with the business activities of the sub-borrowers and sub-projects they finance. It is anticipated that potential E&S risks associated with some of DBG's activities will be substantial (E&S risk category B+ or FI/B+). To this end, DBG has established an environmental and social management system (ESMS) to identify, manage and monitor E&S risks arising from its activities and those of its PFIs as well as their beneficiary end-borrowers. DBG's ESMS is a framework that integrates environmental and social risk management into the Bank's wholesale financing decision-making processes. The ESMS includes sound objectives, well-defined procedures and responsibilities that will ensure that the Bank avoids and manages loan facilities that have potential environmental and social risks. The system involves categorizing risk, screening, conducting environmental and social due diligence prior to loan agreements and disbursements; and provides adequate monitoring of PFIs during the term of the loan agreement. DBG will ensure that adequate financial and human resources, as well as technical assistance activities needed to effectively implement the ESMS, are made available within the institution.

3.0 Environmental and Social Management Policy Commitments

The Board of Directors of DBG approved the Environmental and Social Management Policy and associated Procedures on December 1, 2021. This Policy enables DBG to align itself to best international practice and local legislation governing environmental and social issues and forms the basis of DBG's Environmental and Social Management System (ESMS). The ESMS commits the Bank to implement effective environmental and social management measures in all its activities, products, and services.

DBG is committed to ensuring good environmental and social performance through the integration of sustainable development in its financial and non-financial activities and by seeking to address the E&S risks of its financing and lending activities. Specifically, DBG is committed to the following:

- a) Strengthening DBG's environmental and social assessment process by enhancing coherence and synergies and alignment with other Ghanaian legislation, policies, and applicable international conventions, thereby ensuring that broader key environmental and

social issues such as climate change mitigation and adaptation, biodiversity conservation, resource efficiency, disaster risk reduction, involuntary resettlement, human rights protection, and conflict prevention, management and resolution measures are considered accordingly as part of comprehensive assessment and decision-making processes;

- b) Mobilizing climate finance from a wide variety of sources, instruments and channels for increasing investment credentials and ambition across mitigation and adaptation programmes of actions under the updated national determined contributions under the Paris Agreement for 2020 to 2030;
- c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development;
- d) Supporting the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anticorruption. The Bank is committed to making the UN Global Compact and its principles as part of its strategy, culture and day-to-day operations of our bank, and to engaging in collaborative projects and partnerships, which advance the broader development goals of the United Nations, particularly the Sustainable Development Goals;
- e) Implementing the Ghana Sustainable Banking Principles and the Sector Guidance Notes, which reflect a process-led initiative to take account of environmental and social considerations and good governance in DBG operations and the wholesale lending decision-making to PFIs.
- f) Promoting sustainable development (by committing to the Sustainable Development Goals and the WB ESSs) in all its transactions and client relationships, and striving to mitigate negative E&S impacts where needed;
- g) Preparing and implementing all loans by relevant E&S national and local laws/ regulations; international conventions related to the protection of the environment and human well-being ratified by Ghana and good international practices;
- h) Complying and adhering to the requirements of the International Bill of Human Rights (comprised of the universal declaration of human rights, the international covenant on economic, social and cultural rights and optional protocol, and the international covenant on civil and political rights and optional protocols);
- i) Implementing the Core Labour Conventions outlined by the International Labour Organisation (ILO)
- j) Complying with E&S covenants under the loan agreements with International Finance Institutions (IFIs) and potential development partners
- k) Establishing an environmental and social management system (ESMS) and ensuring structural and adequate assessment, management, monitoring and reporting of E&S risks and impacts of its portfolio and sustainable financing opportunities;
- l) Applying this E&S Management Policy and E&S risk management procedures to all its transactions consistently and objectively;
- m) Providing the resources and training needed to build capacity among DBG's staff and PFIs to effectively implement this Policy;
- n) Disclosure of DBG's ESMS and actions are taken to implement it, to its stakeholders;
- o) Periodically monitoring the E&S risks of its portfolio, and reporting on the same annually; and

- p) Periodically reporting and disclosing information on the way DBG operates and manages environmental, climate and social risks and opportunities.

In order to achieve the above, the following principles will guide DBG on the implementation of the ESMS and achieve the objectives of this policy:

- a) Integration of environmental and social sustainability measures;
- b) Systematic assessment of impacts and risks;
- c) Monitoring, reporting and evaluation;
- d) Gender mainstreaming and lensing approach;
- e) Labour and working conditions;
- f) DBG's grievance and redress mechanism; and
- g) Public disclosure.

4.0 Description of DBG's Operations – nature and scale

DBG strives for sustainable development outcomes in the activities it finances and supports. These activities include:

- a) Lines of credit to eligible PFIs for on-lending to viable MSMEs and small corporates, including both term and working capital loans;
- b) Providing credit guarantees, through a credit guarantee facility on PFIs' loans made to MSMEs / small corporates.

DBG will provide long-term financing to those sectors that would be of significance for Ghana's economic transformation and job creation. DBG is focusing its mandate on providing funding for SMEs and Local corporates in the Manufacturing, agribusiness and ICT sectors of the Ghanaian economy. DBG is providing long-term funds to eligible banks and specialized deposit-taking institutions (PFIs) for on-lending to the end borrowers in key economic sectors mentioned above. Under the financing arrangement, DBG will be a wholesale lender to these PFIs to provide medium to long term loans, with tenures greater than 3 years to be on-lend to targeted Ghanaian Businesses, including refinancing facility of long-term loans. The DBG will also offer lines of credit and credit guarantees to the PFIs, as well as other financial and non-financial services.

5.0 Potential Environmental and Social Risks associated with DBG's Operations

E&S risks associated with DBG's lending to PFIs with end borrowers (MSMEs and small corporates) in sub-projects such as large agribusiness (production, trade and processing), heavy manufacturing and high-value services (education, ICT) and the capacity of the end-borrowers to manage E&S risks in the above sectors have been classified as **Substantial** using the WB categorisation guide. The next 3 tables provide an indicative list of the potential E&S risks that would be associated with DBG's operations/activities with respect to DBG's priority sectors and the identified risk categories.

Substantial E&S Risk (Category FI/B+ or B+)

Examples of substantial environmental and social risks associated with end borrowers that DBG (through PFIs) is likely to lend to include:

Sector	Environmental Risks	Social Risks
<p>Large Agribusiness (production, trade & processing)</p> <p>Risk sources include:</p> <ul style="list-style-type: none"> crop production use of farm machinery processing of agricultural products seed supply 	<ul style="list-style-type: none"> Ambient air pollution from dust and other aerosols, including particulates Noise pollution Soil erosion Land degradation Forest degradation Habitat disturbance / fragmentation Destruction/ threat to native biodiversity Surface/groundwater pollution Impacts of agrochemicals/ pesticides use and management Traffic and haulage impacts 	<ul style="list-style-type: none"> Potential gender and class inequalities in agricultural systems resulting from the use of improved seed varieties Potential risks on cultural heritage Potential risks on historically underserved communities Labour risks, including child labour and forced labor and occupational health and safety risks Gender inequality issues Land acquisition and involuntary resettlement Impacts on vulnerable groups, such as disabled persons The influx of migrant workers Risk of sexual exploitation and abuse/ harassment (SEA/H) Risk of spread of sexually transmitted diseases (STDs)
Heavy Manufacturing	<ul style="list-style-type: none"> Air/ noise/ soil/ water pollution and associated climate change impacts Generation of hazardous/ non-hazardous wastes Unsustainable use or resources/ degradation of natural resources Traffic and haulage impacts Fire and explosion risks 	<ul style="list-style-type: none"> Labour risks Occupational health and safety risks An influx of migrant workers Community health and safety risks Risk of spread of sexually transmitted diseases (STDs) Risk of sexual exploitation and abuse/ harassment (SEA/H)

Moderate E&S Risk (Category FIB or B)

Examples of moderate environmental and social risks associated with end borrowers that DBG (through PFIs) is likely to lend to include:

Sector	Environmental Risks	Social Risks
Medium-scale to low-scale agribusiness	<ul style="list-style-type: none"> Soil erosion Destruction/ threat to native biodiversity Soil/ water / air pollution Agrochemicals/ pesticides use and management 	<ul style="list-style-type: none"> Labour risks, including child labour and forced labor Gender inequality Occupational health and safety risks SEA/SH risks Land Acquisition and Resettlement
Light manufacturing	<ul style="list-style-type: none"> Air/ noise/ soil/ water pollution Generation of hazardous/ non-hazardous wastes 	<ul style="list-style-type: none"> Labour risks Community health and safety risks Occupational health and safety risks SEA/SH risks Land Acquisition and Resettlement
Large ICT	<ul style="list-style-type: none"> Energy use efficiency issues 	<ul style="list-style-type: none"> Labor risks Cultural erosion

Sector	Environmental Risks	Social Risks
	<ul style="list-style-type: none"> Disposal risks associated with Electrical and Electronic waste generation 	<ul style="list-style-type: none"> Risk of sexual exploitation and abuse/ harassment (SEA/H) Data protection issues
Health management	<ul style="list-style-type: none"> Management of biomedical and hazardous materials Infection control issues Potential health impact from the use of radiation powered equipment Disposal risks associated with Electrical and Electronic waste generation 	<ul style="list-style-type: none"> Labor risks Community health and safety risks Occupational health and safety risks Risk of sexual exploitation and abuse/ harassment (SEA/H)
Hotels and food stalls	<ul style="list-style-type: none"> Food contamination or unwholesomeness risks Solid and liquid waste/effluent management Potential noise impacts Resource (water, power) use efficiency issues Fire and explosion risks Disposal risks associated with Electrical and Electronic waste generation 	<ul style="list-style-type: none"> Community health and safety risks Occupational health and safety risks Labour risks Risk of sexual exploitation and abuse/ harassment (SEA/H) Land Acquisition and Resettlement
Auto repairs & car wash	<ul style="list-style-type: none"> Effluent management Waste management risks mainly concern spent oils and lubricants, and scrap metals Ambient air pollution Soil pollution/contamination risks 	<ul style="list-style-type: none"> Community health and safety risks Labour risks Occupational health and safety risks
Education	<ul style="list-style-type: none"> Solid/ sanitary waste management Fire safety risks Traffic impacts and public safety Disposal risks associated with Electrical and Electronic waste generation 	<ul style="list-style-type: none"> Community health and safety risks Risk of sexual exploitation and abuse/ harassment (SEA/H) Risks of peer bullying and intimidation Risks of excluding disabled people Risks of disease outbreaks
Laundry	<ul style="list-style-type: none"> Effluent management Hazardous chemicals disposal risks Water consumption and efficiency issues 	<ul style="list-style-type: none"> Labour risks Community health and safety risks Occupational health and safety risks Risk of sexual exploitation and abuse/ harassment (SEA/H)
Security services	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Labour risks Occupational safety and health risks Potential Harassment / violence / intimidation of the public Risk of sexual exploitation and abuse/ harassment (SEA/H)

Low E&S Risk (Category FI/C or C)

Examples of low environmental and social risks associated with end borrowers that DBG (through PFIs) is likely to lend to include:

Sector	Environmental Risks	Social Risks
Mini supermarket	<ul style="list-style-type: none"> • Solid waste management especially contributes to the use of single-use plastics • Potential traffic impacts caused by lorries delivering from centralised distribution points and people travelling long distances to do their shopping • Fire risks and hazards • Risk of sale of contaminated food and beverage products • Increased energy use for refrigerating and cooling 	<ul style="list-style-type: none"> • Community health risks arising from a potential decline in the sale of fresh foods and beverages • Occupational safety and health risks • A potential decline in rural communities and urban high streets • Potential loss of small retail outlets • Potential increase in cases of thievery
Sale of phones, phone accessories and services	<ul style="list-style-type: none"> • Electronic waste disposal risks 	<ul style="list-style-type: none"> • Potential public health risks
Sale of clothes, including second-hand items	<ul style="list-style-type: none"> • Solid waste management 	<ul style="list-style-type: none"> • Potential public health and safety risks • Reduction in local production
Sale of auto spare parts, tires and vehicle accessories	<ul style="list-style-type: none"> • Solid waste management 	<ul style="list-style-type: none"> • Potential public health risks
Cosmetics and jewellery	<ul style="list-style-type: none"> • Solid waste management 	<ul style="list-style-type: none"> • Potential public health risks
Transport/ taxi	<ul style="list-style-type: none"> • Occupational safety and health • Solid waste generation 	<ul style="list-style-type: none"> • Potential public health and safety risks

6.0 Proposed Environmental and Social Risk Management Process

DBG through the ESMS has established a process to systematically identify and evaluate E&S risks during the credit review, disbursement, and monitoring phases of DBGs lending activities to its PFIs. The purpose of E&S risk and impact management is to determine and evaluate E&S risks and impacts during DBG's lending activities. By assessing E&S risks associated with loan products and clients, DBG can identify appropriate controls to manage those E&S risks. This primarily involves assessing the PFI's capacity to manage E&S risks in line with DBG's E&S requirements. DBG's E&S Due Diligence procedure will help determine the FIs eligibility as PFIs. A separate E&S Due Diligence Procedure for PFIs has been developed to identify E&S risks associated with end-borrowers (MSMEs and small corporates). This Procedure outlines the phases of E&S risks evaluation throughout the loan application and disbursement process by DBG to its PFIs. The Procedure provides further guidance on E&S screening against the Exclusion List and details the process of E&S categorization which is based on the type of loan product sought (categorized according to loan tenor) and an end-borrower's line of business. The latter is guided by a List indicating clients' sectors with anticipated substantial E&S risks. An E&S categorization matrix that combines product and client risk confirms the E&S categorization.

6.1 E&S Screening against DBG's Exclusion List

This phase consists of comprehending activities of the applicant PFI's end-borrowers and then identifying whether these activities are included in DBG's Exclusion List. If this is the case, the loan application cannot be taken into consideration and the client must be informed accordingly. Once confirmed that the client's activities do not fall within the Bank's criteria of exclusion, the credit/loan application must undergo further classification.

Below is DBG's Exclusion List:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, for example
 - i) certain pharmaceuticals, pesticides, herbicides and other toxic substances (under the Rotterdam Convention, Stockholm Convention and WHO "Pharmaceuticals: Restrictions in Use and Availability"),
 - ii) ozone depleting substances (under the Montreal Protocol),
 - iii) protected wildlife or wildlife products (under CITES / Washington Convention)
 - iv) prohibited transboundary trade in waste (under the Basel Convention).
2. Investments which could be associated with the destruction ** or significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with international standards).
3. Projects which result in limiting people's individual rights and freedom, or violation of human rights, including production or use of, or trade in, or activities involving harmful or

exploitative forms of forced labour¹ or harmful child labour², as defined by ILO Fundamental Labour Conventions.

4. Production or trade in weapons or munitions.
5. Military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centres/correctional facilities of any form) or in violation of human rights.
6. Gambling, casinos and equivalent enterprises.
7. Production or trade in alcoholic beverages (excluding beer and wine)³.
8. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco (e.g. "smoking halls").⁴
9. Mining/quarrying activities.
10. Production or trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES);
11. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the development bank considers the radioactive source to be trivial and/or adequately shielded.
12. Production or trade in or use of unbounded asbestos fibres and of articles and mixtures containing these fibres added intentionally. This does not apply to the purchase or use of cement linings with bound asbestos and an asbestos content of less than 20%.
13. Any activities involving significant degradation or conversion of critical habitats⁵ and/or any activities in legally protected areas.
14. Activities damaging to national monuments and other critical cultural heritage⁶.
15. Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources, or cultural heritage.
16. The export of mercury and mercury compounds, and the manufacture, export and import of a large range of mercury-added products.
17. Biomaterial and biofuel production that make use of feed-stocks that can serve as food or compromise food-security.

¹ Forced labour means traditional practices of forced labour, such as vestiges of slavery or slave-like practices, and various forms of debt bondage, as well as new forms of forced labour that have emerged in recent decades, such as human trafficking."1 also called "modern-slavery" to shed light on working and living conditions contrary to human dignity;

² 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, moral or social development. In addition any labour that is performed by a person which has not yet reached the age of 15 is considered to be harmful, unless the local legislation specifies compulsory school attendance or the minimum age for working to be higher; in such cases, the higher age will be applied for defining harmful child labour.

³ This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.

⁴ This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.

⁵ Critical habitat is a subset of both natural and modified habitats that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for required for critically endangered, endangered or vulnerable species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.

⁶ Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by national governments for such designation.

18. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.
19. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
20. 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.
21. Production or trade in wood or other forestry products other than from sustainably managed forests.⁷
22. Commercial concessions over, and logging in tropical and primary natural forests; Conversion of natural forest to a plantation.
23. Purchase of logging equipment for use in tropical and primary 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 forests.
24. Irrigated forests.⁸
25. AFOLU/LULUF⁹ investments associated with expansion of agricultural activity on land that had the status of high carbon stock and high biodiversity areas (i.e. primary and secondary forest, peatlands, wetlands, and natural grasslands) at January 1st 2008 or after.
26. Support to breeding and physical cultivation of Genetically Modified Organism (GMO) seeds or transgenic horticultural crops.
27. New palm oil plantations.
28. Production or trade in pharmaceuticals, pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls (PCBs), persistent organic pollutants¹⁰ subject to international phase outs or bans.
29. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes, etc.).
30. Transboundary movements of waste prohibited under public international law¹¹.
31. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by historically underserved traditional local communities.
32. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement¹².
33. Activities involving live animals for experimental and scientific purposes.

⁷ Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system. Plant

⁸ Except for temporary watering in the first 3 years after planting is allowed for the seedlings to develop deep rooting systems for ensuring high survival rates.

⁹ AFOLU: Agriculture, Forestry and Other Land Use – LULUCF: Land Use, Land-Use Change and Forestry.

¹⁰ Reference document: Stockholm Convention on Persistent Organic Pollutants (POPs) as amended in 2009.

¹¹ Reference documents: Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; Regulation (EC) No 1013/2006 of 14 June 2006 on shipments of waste; and Decision C(2001)107/Final of the OECD Council concerning the revision of Decision C(92)39/Final on the control of transboundary movements of wastes destined for recovery operations.

¹² Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced).

34. Animal cloning, in particular livestock activities.
35. Any business relating to pornography or prostitution.
36. Production and distribution of racist, anti-democratic and/or neo-Nazi media.
37. Any business with a political or religious content.
38. Public administration
39. Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.
40. The following Projects can only be financed if specific conditions are met:
 - a) Large dams¹³ and hydropower projects provided that the recommendations of the World Commission on Dams (WCD) are used as a benchmark;
 - b) Conventional and non-conventional prospection, exploration, and extraction of gas will disclose in accordance with international standards, that no material groundwater drawdown or contamination is to be expected, - that measures for resource protection (in particular water) and recycling are taken, - that suitable technology is used for safe drilling, which includes integrated bore piping and pressure testing.

Each loan application submitted by a PFI for financing or refinancing by the DBG will be evaluated on a merit basis, using a screening checklist. Where the activities of the PFI's end borrowers are anticipated to have a significant development impact potential, then such factors will be assessed and a decision can be made on whether or not to proceed to the next stage of the loan approval process. 'Developmental impact' implies for example job creation that would not occur if the loan does not proceed, etc. 'Significant' means that the magnitude of the positive outcomes thanks to the loan is much higher than the negative aspects.

6.2 E&S Categorization

The level of E&S risks for PFI loan applications can vary significantly depending on the type of loan product sought, the PFI's capacity to manage E&S risks associated with its lending (based on the strengths of the PFI's ESMS documents, environmental and social staffing, and track record), and the end-borrower's line of business (guided by DBG's List of Client Sectors with Substantial E&S Risks). In order to promptly and accurately define potential E&S risks of loans to PFIs, DBG has developed an E&S categorization matrix that combines E&S exposure arising from the strength of the DFI's ESMS, end-borrower profiles (nature/type of activity) and different loan tenures.

It is understood that the end-borrowers' E&S risks are further influenced by the potentially affected E&S aspects/ specific location of the development; however, quite often, this is not known at the time of loan application from the bank especially for the case of investments into Private Equity portfolios and Fund Managers. Therefore, at the time of the loan application and approval, the E&S risk of the PFI will be based on the expected end-borrower profiles, for instance, per the BoG's Sustainable Banking Principles and Sector Guidance Notes, five key sectors have already been determined to present higher environmental, social or governance risks (refer to Section 1.3.1 of the BoG document). The E&S risks associated with the final investment (to be made by

¹³ 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.

final borrowers) will be addressed as part of the ongoing E&S monitoring that will be a pre-requisite of the loan.

6.3 Conducting E&S Due Diligence

This Procedure supports DBG in identifying and verifying key E&S risks of a PFI's activities, evaluating the PFI's approach to E&S risk assessment, management, monitoring, and assessing the PFI's capacity to manage E&S risks in line with DBG's E&S requirements. The figure below shows the relationship between the E&S risk of a transaction the required level of E&S due diligence, and the associated key activities of due diligence. DBG is committed to undertaking the following key activities as part of its due diligence:

- a) Transaction E&S screening will be undertaken by DBG's E&S team, for all potential investments (PFIs). The main objective of the transaction E&S screening is to determine the risk category of a potential PFI (ie. Low, Moderate or Substantial). PFIs whose E&S risks are determined to be "low" after the screening will not go through the other stages of the E&S due diligence.
- b) Desktop review: PFIs whose risk category is determined to be "moderate" after the screening will undergo desktop-based E&S due diligence. This will be either completed by DBG's E&S team or a contracted E&S consultant.
- c) Full ESDD: PFIs whose risk category is determined to be "substantial" after the screening will undergo a full E&S due diligence (comprised of both desktop review and a site visit – including DFI and end-borrower relevant personnel interview). This will be either completed by DBG's E&S team or a contracted E&S consultant where necessary.

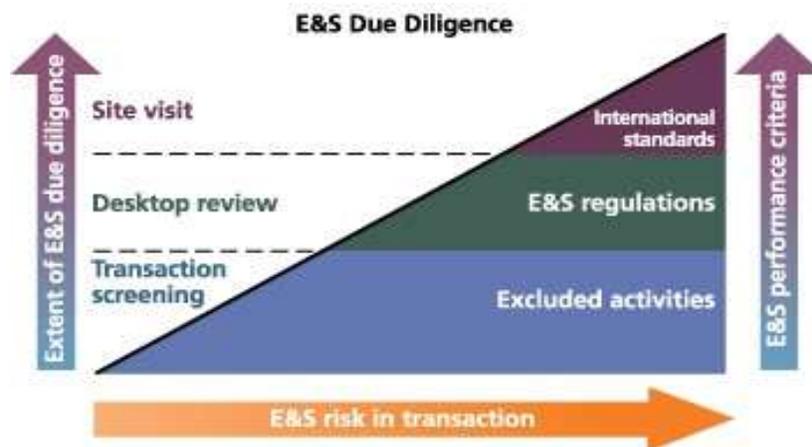


Figure 1 *DBG's Environmental and Social Due Diligence Requirements of Transactions*

The desk-based E&S Due Diligence for PFIs with moderate/ substantial E&S risk will involve the following:

- a) Understanding of the PFI's operations and organization (with respect to E&S management) and the maturity of their ESMS;

- b) Review of HR policies and other systems of the PFI in line with ESS 2. Policies such as payment of wages, working hours, leave and termination policies and prevention of Sexual Exploitation and Abuse and Sexual harassment (SEA/SH) etc;
- c) Review of the ESS 2 requirements that the PFIs would mandate of the end-borrowers such as no child labour or forced labour, payment of wages, terms of contracts, prevention of SEA/SH, contractor management;
- d) Review of the grievance mechanism of the PFIs for both lending operations and internal staff and contractors;
- e) Search for information in the public domain regarding any E&S controversies related to the PFI and/or end-borrowers;
- f) Understanding of the PFI's activities and associated E&S impacts;
- g) Review and evaluation of the PFI's E&S documentation; and
- h) Review and evaluation of any third-party due diligence and/or audit reports.

The site visit component of an E&S Due Diligence for PFIs with substantial E&S risk may involve the following:

- a) Interviews with PFI staff, specifically those with E&S responsibilities, to verify the information provided during the desk-based E&S Due Diligence;
- b) Visit a sample of PFI's end-borrowers (MSMEs and small corporates), specifically to identify E&S risks and the existence and effectiveness of the PFI's E&S management measures; and
- c) Interviews with stakeholders, e.g. regulators and affected communities regarding E&S concerns, including how they perceive their concerns to have been dealt with by the PFI and/or its end-borrowers, where necessary.

6.4 E&S Evaluation and Reporting

An evaluation of the information gathered during the E&S Due Diligence will be carried out, including the review of E&S aspects management, and confirmation given on whether the activities of the PFI comply with the DBG's E&S requirements. Where gaps in compliance are observed, these will be highlighted, and actions put forward to address those gaps. The actions identified to address any gaps in compliance will be assigned to a party responsible for the action, and an action completion date identified. This document is referred to as the draft Environmental and Social Action Plan (ESAP).

The E&S Due Diligence Report and ESAP (where required) will be prepared by the Environmental Specialist and Social Specialist (for PFIs with a moderate E&S risk categorization) and/or by the external E&S Consultant, were engaged (for PFIs with substantial E&S risk categorization). The report structure will include:

- a) An executive summary;
- b) A description of the assessment tasks performed, including a listing of the reviewed documents and interviewed individuals;
- c) A description of the PFI, its product book and portfolio, including management of E&S risk arising from its end-borrowers;

- d) A detailed gap analysis of the PFI against DBG's ESMS and local and international standards/ regulations;
- e) An Environmental and Social Action Plan (ESAP); and
- f) Annexes: list of documents reviewed, list of interviewees.

Where Capital Expenditure (CapEx) is required for addressing some findings, cost estimates will be included in the ESAP. All E&S Due Diligence Reports and ESAPs (template developed as part of the ESMS) will be submitted to the PFI's Credit Committee for comments, review and approval and E&S action and commitment plans are incorporated into the covenants as disbursement precedents or loan covenants (template developed as part of the ESMS).

7.0 E&S Monitoring

DBG's monitoring procedure will guide the Bank to monitor E&S compliance and performance of PFIs (including their end-borrowers), as clearly indicated in the Master Financing Agreements signed with them, to prevent and minimise/manage any reputational risk, legal or loan default risk. PFIs to be monitored will include those financing end-borrowers operating in sectors identified as 'substantial E&S risk' or 'moderate E&S risk'. Overall monitoring of PFIs E&S Performance will be assessed and monitored by the E&S Team

8.0 E&S Monitoring and Reporting

E&S Monitoring Reports

This may focus on the PFI's clients with substantial E&S risk category and clients with moderate E&S risk category but where PFIs' ESMS status update has identified significant E&S issues, their transaction type, sector, open and closed areas based on applicable Environmental and social standards.

Update on PFI E&S Implementation and Systems

As part of the status update, the PFIs will provide updates on changes in their ESMS and processes, registers, incidents etc. This will however focus largely on the PFI E&S Integrations with operations and internal footprints. E&S monitoring will include an inspection of PFI Portfolio records. Emphasis will be placed on review of evidence that the PFI has implemented an ESMS, such as, completed screening checklists, E&S categorization, E&S due diligence, E&S clauses for PFI loan agreements, stakeholder/ grievance register and annual reporting. Any changes in the PFIs operations/ activities will also be reviewed to determine potential E&S implications if any.

E&S Monitoring Documentation

E&S monitoring activities of credits with moderate and substantial E&S risks will be guided by DBG's E&S Questionnaire for Credit with Substantial E&S Risks, which will be added to/ filed with the other credit monitoring reports for PFIs. The completed *E&S Questionnaire for Credit with Substantial E&S Risks* will be approved by the Environmental Specialist and Social Specialist.

9.0 Stakeholder Engagement Procedure

DBG's Stakeholder Engagement Procedure is intended to serve as a guiding document to ensure continuous meaningful interactions between the Development Bank, Ghana (DBG) and its stakeholders. A Stakeholder Engagement Plan (SEP) was developed in June 2020 under the Ghana Development Finance Project (P169742) financed by the World Bank. This procedure has been developed to guide DBG towards meaningfully engaging its internal and external stakeholders, including PFIs. A stakeholder identification exercise conducted during the development of the SEP of June 2020 identified 9 groups of stakeholders. This identification forms the basis for stakeholder analysis, mapping and prioritization, which determines the stakeholders' level of interest/ influence on the operations of DBG, and establishes tailored engagement channels for each group of stakeholders. This initial list will be managed as a live document and updated regularly by the relevant personnel, as outlined in DBG's *E&S Roles and Responsibilities and Skills Procedure*. The purpose of stakeholder analysis, mapping and prioritization (which established four categories of stakeholders based on stakeholder influence/interest) is to determine the stakeholders' level of interest/influence on the operations of DBG. This activity also serves to establish which stakeholders are most significant to engage and ensure that the engagement is tailored to each group so that the various views and concerns are addressed appropriately.

10.0 Grievance Management Procedure

The purpose of this Procedure is to manage E&S complaints, questions, queries and grievances from internal and external stakeholders of the Development Bank, Ghana (DBG) in a systematic, fair, timely and transparent manner. A Grievance Redress Mechanism is incorporated within the Stakeholder Engagement Plan (SEP) developed in June 2020 under the Ghana Development Finance Project (P169742) and embedded in this ESMS. A Grievance is defined as: "a concern or complaint raised by a stakeholder about DBG and/or its clients' activities to E&S (including environment, occupational hygiene, occupational safety, labour, communities' safety and security, human rights, etc.). Concerns and complaints can result from both real or perceived matters". A Stakeholder may raise any grievance anonymously. There is no cost or fee associated with submitting a query, concern or complaint through this Procedure. DBG will protect any stakeholder that raises a complaint or grievance, and any form of retaliation, victimization or threats will not be tolerated. This education will be provided regularly to raise and maintain the consciousness of staff.

11.0 ESMS Implementation Capacity

DBG has developed a management structure to support the implementation and ongoing management of the ESMS with key resources to drive continuous and improved E&S performance. Overall responsibility and accountability for the execution of the E&S Management Policy and E&S Management System (ESMS) lie with DBG's Board of Directors.

12.0 Resources

DBG is committed to providing the necessary resources for effectively implementing the ESMS especially with regards to the training of E&S Risk Specialists and other supporting and supervising staff as part of the total corporate budget for the Bank. The E&S training will be part

of the induction programme for onboarding of new staff as well as during regular capacity building exercises for existing staff. Training materials will also be made available on the Bank's internal platforms to enable easy referencing at all times. All ESMS tools will be made available at all its Business, Compliance and other relevant Units. DBG is also committed to providing adequate resources for site visits and verification of E&S Risk compliance monitoring.

E & S Expertise

DBG has retained/will retain E&S expertise at all times.

13.0 Conclusion

DBG is committed to financing environmentally and socially sustainable projects that do not adversely impact the environment and the communities in which they are executed. The ESMS has been put in place to ensure that E&S Risks are identified, analyzed and mitigated during the Bank's business activities and those of its PFI clients. DBG will ensure that all its staff and its PFIs are regularly sensitized on the E&S risk management procedures and ensure that projects undertaken by end-borrowers undergo proper procedures in E & S due diligence so that the Bank can make informed decisions on a borrower, to avoid and mitigate any E&S risk associated with its loan facilities and other products/services.

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