

Africa Agriculture and Trade Investment Fund (AATIF, the Fund)



Investment Guidelines

Section 2: Social and Environmental Policy

Date: December 2018

CONTENT

- A. Purpose
- B. Definitions
- C. Commitment to Sustainable Development
- D. Social and Environmental Standards
- E. Scope
- F. Social and Environmental Governance Structure and Procedure
- G. Requirements
- H. Grievances

Appendix I: Exclusion list applicable to AATIF investments

A. Purpose

1. This document is consistent with the Investment Guidelines of the Fund outlined in the Issue Document and underpins the Fund-level Social and Environmental Management System ("Fund-SEMS").
2. Responsibilities of each of the Fund's bodies and of each Partner Institution are defined herein to ensure an aligned and all-embracing social and environmental review of the Fund's Investments (i) before the Fund invests in any Partner Institution and (ii) during the term of the Investments. A designated independent Compliance Advisor will form its own opinion and report its findings on each potential investment to the Investment Manager (IM) and the Investment Committee (IC) and guide the Board of Directors (BOD) on broader social and environmental matters arising throughout the Fund management process.
3. In furtherance to the above, this document sets out the Social and Environmental Standards that the Fund is aligned to, the procedures for assessing and managing the social and environmental risks and impacts of the Fund's Investments, and the requirements for the Fund's Partner Institutions, in accordance to the social and environmental risks and impacts associated with their activities.
4. The Fund strives to continuously improve the Fund-SEMS in order to guarantee an effective management of social and environmental risks and impacts. Therefore, this Policy will be revised on a yearly basis and will be updated accordingly.

B. Definitions

5. As used herein, the following term shall have the meaning:

Partner Institution (PI): An institution or a company to which the Fund is providing financing, including:

Financial Institutions (FIs), embracing local commercial banks, and other financial institutions that operate in any of the Target Countries and either finance or are committed to financing investments of the Final Beneficiaries;

Intermediary Investee Companies (IICs), which operate in any of the Target Countries and as the case may be, act as intermediary in their value chain, including but not limited to producing and processing agribusiness companies and agricultural off-takers that are on-lending to Final Beneficiaries; and

Direct Investee Companies (DICs) in the Target Countries, being natural or legal persons and notably comprising entrepreneurs, agribusiness companies, producer cooperatives, small, medium and large sized farmers and export-oriented producers in the agricultural, manufacturing and services sectors.

6. Capitalized terms not otherwise defined herein shall have the same meaning ascribed in the Issue Document of the Fund.

C. Commitment to Sustainable Development

7. **Mission.** The Fund's mission is to realise the potential of Africa's agricultural production, manufacturing, service provision and trade for the benefit of the poor. The Fund aims to support additional decent employment and income generation for farmers, entrepreneurs and laborers alike. Increasing productivity, production, and local value addition by investing in efficient value chains and providing knowledge transfer are paramount. In this context, a dedicated effort will be made to support outgrower schemes.
8. AATIF is committed to prioritising investments that contribute to improving food security, create decent employment and boost local incomes. The Fund will track, measure and report on the social, environmental, and developmental performance of its investments to assess its progress and impact towards achieving its mission. For this purpose, AATIF monitors progress on the following indicators:
- (i) Increases in agricultural production and productivity levels;
 - (ii) Generation of additional decent employment opportunities;
 - (iii) Investee company outreach to smallholder farmers;
 - (iv) Increases in farm and overall household income;
 - (v) Improvement in living and working conditions.
9. Supporting its mission, the Fund also works towards improving local capacity for appropriate social and environmental risk and impact management in its PIs by collaborating with international, regional and local stakeholders.
10. **Cross-cutting themes.** In pursuing its mission, the Fund considers a number of cross-cutting topics such as human rights, climate change, and gender.
11. **Human Rights.** The Fund recognizes the responsibility of businesses to respect human rights, independently of the state duties. This responsibility means to avoid causing or contributing to adverse human rights impacts through their business activities. This responsibility also means to address such

adverse impacts when they occur. Consistent with this responsibility, the Fund will carry out due diligence to identify, prevent, mitigate and account for how it addresses its actual and potential adverse impacts that relate to internationally recognized human rights, understood, at a minimum, as those expressed in the International Bill of Human Rights, African Charter on Human and Peoples' Rights, and the principles set out in the ILO Declaration on Fundamental Principles and Rights at Work.

12. **Climate change** plays a pivotal role in Africa's agricultural development, thus considering climate change adaptation and mitigation practices are extremely relevant to achieve the Fund's mission. The Fund seeks to finance investments that incorporate climate change adaptation and mitigation measures as part of their activities to ensure the sustainability of the PI and to reduce the vulnerability of the agricultural sector and populations whose livelihoods depend on it.
13. **Gender, disadvantaged and vulnerable groups.** AATIF is committed to minimizing gender-related risks and unintended gender differentiated impacts from its investments, as well as ensuring that adverse impacts do not fall disproportionately on those who are disadvantaged or vulnerable.
14. **Exclusion List.** In pursuing its mission, the Fund does not finance directly or indirectly any of the activities mentioned in Appendix I.

D. Social and Environmental Standards

15. **Standards.** The Fund supports investments which are in line with national social and environmental laws and regulations, give due consideration to local practices, and comply with the International Finance Corporation's Performance Standards on Environmental and Social Sustainability (IFC PS), which cover the following standards:
 - Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
 - Performance Standard 2: Labor and Working Conditions
 - Performance Standard 3: Resource Efficiency and Pollution Prevention
 - Performance Standard 4: Community Health, Safety, and Security
 - Performance Standard 5: Land Acquisition and Involuntary Resettlement
 - Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
 - Performance Standard 7: Indigenous Peoples
 - Performance Standard 8: Cultural Heritage
16. When national social and environmental laws differ from the levels and measures set by the IFC PS, PIs are expected to achieve whichever is more stringent.
17. The Social and Environmental Standards of the Fund present the essential basis for AATIF's Social and Environmental Management System (SEMS). When seeking to combine economic viability with social and environmental success, following these Standards is one of the stipulations and pre-conditions to receiving AATIF funding for all PIs and always forms part of the legal documentation. However, the Fund acknowledges that the establishment of a SEMS and the compliance with all eight subsets of the specific standards may not be reasonably required from PIs immediately upon entering into an AATIF transaction. It should rather be considered an aim that the Fund and its partners undertake to strive towards.

E. Scope

18. **Scope.** The Fund assesses the social and environmental risks and impacts of all potential investments. The Fund-SEMS provides for proper screening, due diligence and monitoring mechanisms to identify potential impacts and adequately address likely adverse consequences. Since environmental and social risks may also impair the economic viability of an investment, the Fund-SEMS is an essential mitigant of operational risks that may affect the overall viability of the Fund.
19. **Application Pre-Closing of Transactions.** Any material breaches (red flags) will always be identified before the Fund enters into a legally binding financing agreement. The Fund further expects that PIs will be required to adhere to a specific Social and Environmental Action Plan, as defined in the IFC PS 1, that includes dates by which these clients undertake to bringing their operations in compliance with criteria determined by the Fund as part of approving the investment.
20. **Application Post-Closing of Transactions.** Following the closing of a transaction, similarly to a variety of other development finance actors, namely the IFC, the AATIF considers a balanced and substance over form approach. Therefore, when considering actions against PIs that are deemed to be in breach of the Fund's Social and Environmental Standards, the Fund considers the economic, environmental, and social risks of staying in the transaction against the rewards of helping the affected PI to transform its operations back into compliance for the benefit of the affected communities.
21. **Social and Environmental Classification of Investments.** The Fund examines the type, location, sensitivity and scale of the proposed investment¹ as well as the nature and magnitude of its potential impacts and classifies the investment according to the categories as set out below:

Table 1: S&E Categories

Category	Description	Eligibility of investments and SEMS requirement
Category A	A Proposed Investment is classified as Category A if it is likely to have significant adverse social and environmental impacts that are sensitive, ² diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to the investment.	An investment classified Category A will not qualify for Fund financing. Appropriate legal covenants will be included in the investment agreements to ensure that the PI is responsible to undertake all remedies in line with the AATIF S&E Policy to address the adverse impacts reflected in a downgrading of an existing investment to Category A.
Category B	A Proposed Investment is classified as Category B if its potential adverse social and environmental impacts on human populations or environmentally important areas including wetlands, forests, grasslands, and other natural habitats are less adverse than those of Category A investments. These	An investment classified Category B will require the PI to deliver an assessment of social and environmental risks and impacts including follow up actions as necessary as per IFC PS 1 examining the investment's potential negative and positive social and environmental impacts and recommending any

¹ "Location" refers to proximity to or encroachment on important areas, such as wetlands, forests, and other natural habitats. "Scale" is judged by the IM in a country context. "Sensitivity" refers to investments that may have irreversible impacts, affect vulnerable ethnic minorities, involve large-scale resettlement, affect legally protected areas, or affect physical cultural resources.

² A potential impact is considered "sensitive" if it may be irreversible (e.g., lead to loss of a major natural habitat) or raise issues related to Natural Habitats; Indigenous Peoples; Physical Cultural Resources; vulnerable populations or large-scale resettlement.

	impacts are site-specific; few if any of them are irreversible; and in most cases mitigation measures can be put in place more readily than for Category A investments.	measures needed to prevent, minimize, mitigate, or compensate for adverse impacts while improving social and environmental performance.
Category C	A Proposed Investment is classified as Category C if it is likely to have minimal or no adverse social and environmental impacts or to have the potential to enhance social and environmental management.	Beyond screening the investment according to the S&E Standards as outlined in the AATIF S&E Policy no further SEMS action is required for a Category C investment. However, the Fund will monitor the investment on an on-going basis for compliance with its S&E Standards.
Category F	A Proposed Investment is classified as Category F if it involves investments through Financial Institutions (FIs), in sub-investments that may result in adverse social and environmental impacts. Sub-investments are made through debt, equity or guarantee instruments to eligible enterprises and individuals.	An investment classified Category F will require the PI to establish its own in-house Social and Environmental Management System at the minimum in relation to the Funds' investment. Such system shall include policies, procedures, dedicated resources, monitoring, reporting and record keeping requirements and adequately reflect the S&E Standards as outlined in the AATIF S&E Policy. The PI shall at least be able to comply with the requirements as set out in Paragraphs 27-29.

F. Social and Environmental Governance Structure and Procedures

22. **Governance structure.** The Fund-SEMS is integrated in the Fund management structure and the investment process. Therefore, social and environmental responsibilities are spread throughout numerous AATIF entities including the Board of Director (BoD), the Investment Committee (IC), the Investment Manager (IM), the Compliance Advisor (CA), the Technical Assistance Facility Manager (TAFM) as well as the Technical Assistance Facility Committee, support service providers to the Fund, and Partner Institutions (PIs). The Fund will engage external competent professionals on sensitive topics where necessary, e.g. when resettlement, cultural heritage, indigenous peoples issues emerge along the investment process, as soon as identified by the CA.
23. The BoD appoints the IM, IC and CA. The CA inputs to the BoD and provides an independent opinion to the IM and the IC whether the IM has followed the Fund's Development Policy Statement and the Social & Environmental Standards for each proposed investment. In addition, the Fund's TAFM supports AATIF investments in realizing their developmental potential. The PI provides all relevant information to the IM as required by the investment documents or as reasonably requested by the IM.
24. **Fund management structure.** The social and environmental responsibilities in the Fund management structure are described in Table 2.

Table 2: S&E responsibilities throughout the Fund Management Process

AATIF Stakeholders	Phase		
	Develop Fund's Policies and Investment Strategy	Implement Investment policies	Review and update Fund's policies
Board of Directors	<ul style="list-style-type: none"> Develop Fund's SEMS, S&E Policy and Development Policy Select Investment Manager, Investment Committee Members and Compliance Advisor considering experience and capacity to implement the Fund's SEMS 	<ul style="list-style-type: none"> Ensure concordance between the Fund's investment strategy and S&E Policy Participate in capacity building activities 	<ul style="list-style-type: none"> Oversee the process of reviewing and updating the Fund's policies, including S&E Policy Approve and support implementation of updated policies
Compliance Advisor	<ul style="list-style-type: none"> Review Fund's SEMS and S&E Policy against international laws and good practice 	<ul style="list-style-type: none"> Benchmark S&E Policy against international law and S&E good practice among financial institutions Develop and test procedures and tools to assess and manage S&E risks and impacts Report to BoD on the implementation of the S&E Policy Communicate on S&E and development-related topics to AATIF stakeholders, including shareholders and broader public Organize capacity building activities 	<ul style="list-style-type: none"> Revise and update Fund's SEMS and S&E Policy in accordance to relevant international standards and good practice Evaluate capacity building activities and update capacity building content and strategy
Investment Committee	None	<ul style="list-style-type: none"> Oversee the adequate implementation of the Fund's S&E Policy Participate in capacity building activities 	<ul style="list-style-type: none"> Become acquainted with updated S&E Policy and procedures
Investment Manager	<ul style="list-style-type: none"> Support the drafting of the Fund's SEMS, S&E Policy and Development Policy 	<ul style="list-style-type: none"> Support the development of procedures and tools to assess and manage S&E risks and impacts Participate in capacity building activities 	<ul style="list-style-type: none"> Become acquainted with updated S&E Policy and procedures
Technical Assistance Facility Manager	None	<ul style="list-style-type: none"> Report on TA measures to improve PI's S&E management 	None
Fund Management Support Service Provider	None	<ul style="list-style-type: none"> Identify S&E related concerns/grievances and forward this information to CA 	None

		<ul style="list-style-type: none"> • Inform the CA about S&E related AATIF decisions 	
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25. **Investment process.** The investment process typically comprises four stages: (i) screening, (ii) due diligence, (iii) facility agreement, and (iv) development and monitoring. It may also include phase v) renewal or extension. In each of these stages a procedure is set in order to assess the Social and Environmental risks and impacts of the proposed investment all of which is described in table 3.

Table 3: S&E responsibilities throughout Investment Process

AATIF Stakeholders	Phase					
	Screening phase	Due diligence		Facility Agreement	Investment development	Investment extension/renewal
		Pre-due diligence	In-depth due diligence			
Board of Directors	None	None	Review S&E risks and impacts in investment proposal referred by IC	None	Monitor general S&E portfolio performance	None
Investment Committee	None	Approve due diligence	Review S&E risks and impacts in investment proposal Refer investment decision involving sensitive S&E topics like resettlement to the BoD	None	Monitor general S&E portfolio performance • Monitor investment's compliance with S&E covenants	Review S&E risks and impacts in proposal
Investment Manager	Check PI against Exclusion List and Category A Criteria Request support from CA if necessary	Share documents on PI with CA Facilitate further inquiries from CA	Conduct on-site due diligence jointly with CA Request and include S&E input in investment proposal	• Incorporate S&E covenants and reporting requirements in Facility Agreement	Coordinate monitoring of S&E covenants with CA	Request input from CA to draft extension/renewal proposal
Compliance Advisor	Support IM in identifying category A investments	Review PI's documents Request additional information Preliminary S&E categorization Identify topics which require engaging external competent professionals	Assess S&E risks and impacts and mitigation potential Engage external competent professionals Assign final S&E category Provide input and recommendations for	Draft S&E covenants Draft Social and Environmental Assessment Report	Monitor achievement of S&E covenants and milestones Support PIs in management of S&E risks and impacts Report to IM if PI is to be downgraded Input to S&E-related TA proposals	Provide S&E input for extension/renewal proposal

			investment proposal		Backstop S&E-related TA measures	
Technical Assistance Facility Committee	None	None	None	None	Review TA proposals	None
Technical Assistance Facility Manager	None	None	None	None	Draft proposals to support implementation of S&E measures	None
Legal Advisor	None	None	None	Support drafting of S&E covenants	None	None
External Competent Professionals	None	None	If triggered: Assess specific S&E topics against relevant S&E standards and provide input on compliance and S&E category to CA	If triggered: Suggest S&E covenants related to specific S&E topics to CA	If triggered/requested: Support monitoring achievement of S&E covenants and milestones related to specific S&E topics	If triggered: Re-assess continuous existence of specific S&E topics and provide input to CA

G. Requirements

26. **Requirements for each PI.** Each PI is responsible for establishing its own SEMS (PI-SEMS) (as set out by the IFC PS). Before a due diligence takes place the following information shall be provided by a PI:
- Direct Investee Companies (DIC) and Intermediary Investee Companies (IIC) shall send relevant documentation on the Investment which may include but are not limited to a business plan outlining social benefits for workers or farmers as well as existing social and environmental assessments, policies, processes and measures for future compliance with the AATIF Social and Environmental Policy.
 - Financial Institutions (FIs) are to outline their PI-SEMS in order to document compliance with the AATIF Social and Environmental Policy. This will particularly include the policies and processes for the assessments of individual sub-investments and the respective monitoring system.
27. **Requirements for Category F investments.** A Category F PI shall at least be able to demonstrate to the Fund:
- Proactive and communicative management regarding environmental and social issues – Communication of environmental and social guidelines within the organization (e.g. training, workshops).
 - Sub-investments (Portfolio) analysis: Ability of a FI to conduct an analysis of social or environmental risks on lending operations related to the Fund's investment.
 - Requirements for sub-investments: Social and environmental exclusion list, compliance with relevant laws and applicable guidelines, including for example the ability and willingness of the FI to request a social and environmental analysis from its own clients applying for funding of Category B projects.

- Organizational capacity within the FI: Staff responsible for the PI-SEMS management of subprojects related to the Fund's investment
 - Reporting: Ability to comply with the Fund's S&E reporting requirements
 - Stakeholder engagement: System of dealing with external communication on environmental and social matters
 - Labour and working conditions: Respect for workers' rights, good worker-management relationship, fair treatment, non-discrimination and equal opportunity in a safe and healthy work environment.
28. The FI is responsible that no Category A sub-investments are made with AATIF funds.
29. **Requirements for Microfinance Institutions.** In addition to general category F investments, an FI with microfinance operations shall demonstrate to the Fund that it adheres to the Client Protection Principles of the SMART Campaign and that it is applying Universal Standards of Social Performance Management as promoted by the Social Performance Task Force.

H. Grievances

30. The AATIF requires PIs to establish and administer appropriate mechanisms and/or procedures to receive and address the affected communities' concerns and grievances about the PI's environmental and social performance.
31. Recognizing the importance of accountability and that the concerns and complaints of individuals and communities affected by AATIF supported investments should be identified and addressed, including those related to adverse human rights impacts, the Fund has a designated email account for receiving complaints (complaints@aatif.lu).

I. Appendix I: Exclusion List applicable to AATIF investments

Applicable to all AATIF investments: AATIF shall not finance directly or indirectly any of the following investments³:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under CITES.
2. Production or trade in weapons and munitions.*
3. Production or trade in alcoholic beverages (excluding beer and wine).*
4. Production or trade in tobacco.*
5. Gambling, casinos and equivalent enterprises.*
6. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where AATIF considers the radioactive source to be trivial and/or adequately shielded.
7. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
8. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

All PIs must apply the following exclusions, in addition:

9. Production or activities involving forced labor** or child labor (labor which is harmful to the child or interferes with his/her education as defined by the International Labour Organization's conventions).
10. Commercial logging operations for use in primary tropical moist forest.
11. Production or trade in wood or other forestry products other than from sustainably managed forests.
12. Production or activities involving legally protected areas.

When investing in FIs with **microfinance activities**, the PIs will apply the following items in addition to the Exclusion List:

13. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
14. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such Peoples.

³ *This does not apply to PIs and final beneficiaries who are not substantially involved in these activities. "Not substantially involved" means that the activity is ancillary to a PIs or final beneficiary's primary operations.

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