



Environmental and Social Management System

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KUALI FUND

The road to a green economy

In the event of any discrepancy between the meanings of any translated versions of this Document and the English language version, the meaning of this English language version shall prevail.

1. INTRODUCTION	2
1.1 Definitions.....	3
2. E&S POLICY	4
3. E&S RISK OF POTENTIAL INVESTEES	7
3.1 Financial Service Providers (FSPs)	7
3.2 Innovative Companies.....	9
3.3. E&S Risk Minimization Strategies.....	9
4. E&S MANAGEMENT SYSTEM AND PROCEDURES OF KUALI FUND-GCF	10
4.1 Screening and Categorization.....	11
4.2 Environmental and Social Due Diligence (ESDD)	12
4.3 E&S Conditions of Investment	16
4.4. Technical assistance	17
4.5 Monitoring and Reporting	17
5. REVIEW AND CONTINUOUS IMPROVEMENT	18
6. GRIEVANCE MECHANISM	18
7. ROLES AND RESPONSIBILITIES	19
Annex A – IFC Exclusion List	21
Annex B - Environmental and Social Screening Checklist	22
Annex C – Environmental & Social Due Diligence (ESDD) Report Outline	25
Annex D – Sample Investment Agreement E&S Conditions	26
Annex E – Sample Environmental and Social Performance Monitoring Report for FSP	27
Annex F –FSP ESMS Outline	34
Annex G – Gender and SEAH Management System	35
Annex H – Fund Manager roles and responsibilities at each investment stage	39

1. INTRODUCTION

Kuali Fund aims to promote the transformation of the Latin America and the Caribbean (LAC) and financing sector (and eventually India) into a more inclusive and greener industry by fostering systemic adoption of climate best practices by Financial Service Providers (FSP), including Microfinance Institutions, Cooperatives, or other Non-Bank Financial Institutions, Tier 2 banks and Fintech companies so that they start serving green lending products to Micro, Small and Medium Enterprises (MSMEs) and to smallholder farmers. Kuali will also support companies with innovative climate solutions (innovative companies) that provide or implement products and services that have a direct positive effect on mitigation and adaptation & resilience to climate change.

The International Finance Corporation (IFC) seized the climate finance gap in developing countries for this decade (up to 2030) in 23 trillion USD. Specifically, it will imply increasing the financial institutions' climate finance from 22 trillion USD to 44.5 trillion USD. If this goal is met, financial institutions' lending for climate will represent 30% of total financial institutions' lending by 2030.

So far, financial institutions' lending has been channeled by large banks towards the financing of large renewable energy projects, large industrial power plants and large efficient building construction companies. However, **smaller financial institutions, target of Kuali Fund, are key to mobilize climate finance** to markets underserved by large banks. These institutions are essential to channel climate finance towards two key segments that larger banks do not usually serve because of their perceived risk:

- The **MSME segment**, which represents 60%-70% of environmental impact and an important share of global carbon emissions. This segment represents a large opportunity for mitigation as MSMEs typically employ energy inefficient equipment and vehicles and unreliable source of electricity which could be improved through renewable or energy efficiency solutions. If properly capitalized and trained, financial institutions could finance equipment to achieve increased energy efficiency and reduce carbon emissions.

- The **smallholder farmers segment**, which is one of the most vulnerable population to climate change, will need to rapidly adapt to new climate conditions by adopting climate smart agriculture principle and equipment. It is estimated that 95% of the 15 million smallholder farmers in Latin America and the Caribbean are already experiencing negative impacts from rising temperatures, unpredictable rainfall and extreme weather events on crop yields, pest, and disease incidence, decreasing income generation and food security. Small farmers can also reduce their carbon footprint by using new equipment such as biodigesters and reforesting degraded areas. Financial institutions can play a key role in financing climate smart agriculture equipment to increase adaptation and promote mitigation.

To achieve this, **the Kuali Fund will work with FSPs and Innovative companies** that are seeking to implement more sustainable environmental practices while supporting the transformation of MSME and smallholder sector, also fostering the creation of partnerships between the two types of FIs via an open-banking collaboration. The impact of the Fund's investments will be maximized with the support of a Technical Assistance Facility, promoting the capacity-building of FSPs and Innovative companies and underlying investments.

To deliver on this commitment in a manner consistent with its strategic focus on sustainable development, **Kuali Fund has adopted this Environmental and Social Management System (ESMS) that elaborates how Kuali Fund-GCF (the Funded Activity) integrates environmental and social (E&S) issues** throughout the investment cycle. It will be implemented by the Fund Manager, GAWA Capital.

This ESMS articulates the principles and standards to which Kuali Fund-GCF will hold itself accountable. Through this ESMS, Kuali Fund-GCF will require that all potential investees will commit to:

- a) Avoid, and where avoidance is impossible, mitigate adverse risks and impacts to people and the environment, giving due consideration to vulnerable and marginalized populations, groups, and individuals, local communities, Indigenous Peoples, and other marginalized groups of people and individuals. This will be addressed through the analysis and management of the environmental and social implications of the FSP and Innovative companies from an internal and external perspective.
- b) Enhance equitable access to environmental and social development benefits.

- c) Avoid, and where avoidance is impossible, mitigate the risks of SEAH to people impacted by FSP and Innovative Companies activities.

1.1 Definitions

The following definitions shall apply in this ESMS:

- **Fintech companies:** refer to any company using the internet, mobile devices, software technology or cloud services to perform or connect with FSP.
- **E&S Due diligence (ESDD):** the process of investigating potential investments to confirm all facts, such as reviewing E&S risks, audits, assessments, and compliance before consideration of funding or entering into an agreement with a potential investee.
- **E&S impacts:** refer to any change, potential or actual, to (i) the physical, natural, or cultural environment, and (ii) impacts on surrounding community and workers, resulting from the activities to be supported.
- **E&S risk:** is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.
- **E&S management system (ESMS):** refers to a set of management processes and procedures that allow an organization to identify, analyze, control, and reduce the E&S impacts of its activities in a consistent way and to improve performance in this regard over time.
- **Financial Service Provider (FSP):** An institution focused on the provision of a diverse set of financial services to micro and small entrepreneurs or to micro, small and medium enterprises including savings, loans, insurance, leasing and factoring products. These institutions are oriented towards providing mainly enterprise financing (versus consumer financing which is dominant in institutions operating in developed countries) through basic and transparent banking and a close lender-borrower relationship. The institution can take the form of a variety of legal entities, including banks, NGOs, microfinance institutions, cooperatives, finance companies and other private types of institutions.
- **Indigenous Peoples:** the term Indigenous Peoples is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees: (a) Self-identification as members of a distinct Indigenous social and cultural group and recognition of this identity by others; (b) Collective attachment to geographically distinct habitats, ancestral territories, or areas of seasonal use or occupation as well as to the natural resources in these areas; (c) Customary cultural, economic, social, or political systems that are distinct or separate from those of the mainstream society or culture; and (d) A distinct language or dialect, often different from the official language or languages of the country or region in which they reside. This includes a language or dialect that has existed but does not exist now due to impacts that have made it difficult for a community or group to maintain a distinct language or dialect. According to the GCF Indigenous Peoples Policy, Kualii Fund-GCF will take into account commonly accepted and applied criteria for identifying Indigenous Peoples, respecting self-identification as Indigenous or tribal as a fundamental criterion for determining the application of the measures designed to address matters related to Indigenous Peoples.
- **Innovative companies:** Companies that already offer products/services related with mitigation and adaptation, including “Agri-tech” and “Climate-tech”.
- **MSME:** enterprise qualifies as a micro, small or medium enterprise if it meets two out of three criteria of the IFC MSME definition (employees, assets and sales), or if the loan to it falls within the relevant MSME loan size proxy.

INDICATOR	IFC MSME Definition			MSME Loan Size Proxy
	EMPLOYEES	TOTAL ASSETS US\$	ANNUAL SALES US\$	LOAN SIZE AT ORIGINATION
Micro enterprise	< 10	<\$100,000	<\$100,000	<\$10,000
Small enterprise	10-49	\$100,000 - < \$3 million	\$100,000 - < \$3 million	<\$100,000
Medium enterprise	50-300	\$3 million -\$15 million	\$3 million -\$15 million	<\$1 or \$2 million

- **Potential investees/Entities** refer to the FSPs and Innovative companies that qualifies to be an investment in Kuali Fund's portfolio.
- **SEAH** means Sexual Exploitation, Sexual Abuse and Sexual Harassment. **Sexual Abuse** means the actual or threatened physical intrusion of a sexual nature, whether by force or under unequal or coercive conditions; **Sexual Exploitation** means any actual or attempted abuse of a position of vulnerability, differential power, or trust, for sexual purposes, including, but not limited to profiting monetarily, socially, or politically from the sexual exploitation of another; **Sexual Harassment** includes unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature, that interferes with work, is made a condition of employment, or creates an intimidating, hostile, or offensive environment.
- **Smallholder farmers** (IRIS+ definition): marginal and sub-marginal farm households constrained in size and resources. Some sources define smallholder farmers as those who cultivate between 1 hectare to 10 hectares (for more semi-arid areas) of land. While they will vary in farm size and crop/livestock distribution according to their activity and region, common characteristics of smallholder farmers are that they have low access to technology, limited resources in terms of capital, skills, and risk management, depend on family labor for most activities, and have limited capacity in terms of storage, marketing, and processing. The definition of smallholder might differ from investment to investment, depending on the investees' location, country and regional area. This definition will be established at the beginning of each investment in the ESDD Memorandum.

2. E&S POLICY

In carrying out its mandate of increasing MSME and smallholder farmers' access to tailor-made financial services to foster sustainable development, Kuali Fund-GCF will effectively and equitably manage E&S risks and impacts. For that purpose, Kuali Fund-GCF will ensure that all investments are consistent with its ESMS.

Kualি Fund-GCF will not finance any sector nor activity found in the IFC's exclusion list¹ (Annex A) and will manage all other prospective investments following local E&S law, ILO Core Labour Conventions and relevant IFC Performance Standards².

The Fund Manager (Gawa Capital) will assure conformance with the E&S Policy as well as designate responsible parties for its execution. The Fund Manager will ensure that all investments comply with the applicable E&S requirements on an ongoing basis while being financed by the Kuali Fund-GCF.

This policy is communicated to all staff and operational employees of Gawa Capital and the Kuali Fund.

This policy will also be published on the Fund Manager's website in order for it to be publicly available and can also be shared through other communication tools to stakeholders.

The following principles shall articulate Kuali Fund-GCF's investments from an E&S perspective:

- a) Kuali Fund-GCF will **manage E&S risks**, including SEAH risks in ways that not only include safeguard measures of "do no harm," but also improve E&S outcomes and generate co-benefits to the environment and the communities, including Indigenous Peoples, that depend on it. In cases where Indigenous Peoples or communities may be present in or have a collective attachment to the project area, an Indigenous Peoples Plan (IPP) will need to be applied (see Annex 6.bis – Indigenous Peoples Policy Framework).
- b) **Encourage and support investees** in financing projects that promote and improve the protection of natural resources and climate and increase Kuali's positive environmental impact.
- c) **Continuous improvement and best practices:** The E&S Policy (and ESMS) will be continuously reviewed and updated in a transparent and participatory manner to sustain its relevance and responsiveness to the prevailing organizational, social, economic and political conditions. The ESMS will also be consistently aligned with international best practices and applicable standards, reflecting the experiences and lessons learned by investments made and other relevant institutions.

¹ <http://www.ifc.org/exclusionlist>

² www.ifc.org/performancestandards

- d) **Compliance with applicable laws:** KualI Fund-GCF will not support activities that do not comply with applicable laws, including national laws and/or obligations of the country directly applicable to the activities under relevant international treaties and agreements, whichever is the higher standard.
- e) **Labour and working conditions:** All investments made by KualI Fund-GCF will promote decent work, fair treatment, non-discrimination and equal opportunity for workers, guided by the Core Labour Conventions of the International Labour Organization.
- f) **Zero-tolerance of SEAH.** The KualI Fund-GCF has zero tolerance for all forms of SEAH in KualI financed investees and activities. Sexual Exploitation, Sexual Abuse and Sexual Harassment violate human dignity and have always been unacceptable behavior. SEAH is based on unequal relations and power dynamics resulting in a culture of discrimination and privilege. To give effect to the principle of zero-tolerance, KualI Fund-GCF recognizes the imperative for its investees and financed activities to prevent and respond effectively to SEAH in a survivor-centred and gender-responsive way. This includes protecting persons, especially persons in vulnerable positions and situations, and survivors of SEAH. These protections are essential to strengthen integrity and accountability.
- g) **Resource Efficiency and Pollution Prevention:** All investment supported by KualI Fund-GCF will avoid or minimize pollution and will promote the sustainable use of resources, including energy and water and reduce GHG emissions.
- h) **Land Acquisition:** KualI Fund-GCF investees will anticipate and avoid land acquisition, as defined in paragraph 9 of GCF's Indigenous Peoples Policy (hereinafter GCF IP Policy). When avoidance is not possible, they will minimize adverse social and economic impacts from land acquisition or restrictions on land use by providing compensation for loss of assets at replacement cost and ensuring that resettlement activities are implemented appropriately in line with paragraph 59 of the GCF IP Policy. Involuntary resettlement (physical or economic) will also be avoided and in exceptional circumstances where resettlement or displacement is unavoidable to achieve the project or programme objective, they will only be permitted if they meet criteria under paragraph 61 of the GCF Indigenous Peoples Policy.
- i) **Indigenous Peoples:** An Indigenous Peoples Policy Framework (IPPF) has been developed for potential investees (FSP and ICs) that may have any impact on Indigenous communities identified during the Preparation Phase. This policy considers the possible negative and positive effects the Funded Activity may produce into Indigenous Peoples, directly or indirectly. These groups are usually vulnerable and marginalized as their social structure and cultural beliefs tend to be different from the dominant groups in their national societies. Therefore, their capacity to maintain their traditions and defend their rights, natural resources, traditional lands and livelihoods is limited, and even changes oriented to improve their lifestyle can represent an actual hazard to their way of living.

Despite the low or non-existent impact, direct and indirect, positive or negative, that KualI Fund-GCF's investees³ will surely generate on Indigenous Peoples -which mainly include pollution of air, land and water, improper or excessive land use- there is a clear procedure developed for these situations that shall be consulted and eventually managed together with Indigenous People. The level of detail required to the different institutions will correspond to the level of the estimated impact. The minimum requirements for institutions working with Indigenous Peoples need to be aligned with IPP requirements described in paragraph 39 of the GCF IP Policy and described in Annex 6. bis IPPF and are based on the following proceeds: i) the identification of such groups; ii) establishing an ongoing process of meaningful consultation guided by the principle of free, prior, and informed consent; iii) a mechanism for complaints and conflict resolution aligned with Section 7.3 of the GCF IP Policy and described in paragraph 12 of the Annex 6. Bis IPPF; iv) taking into account their traditional authorities, needs, languages and limitations (technology, transport etc.); v) an evaluation process aligned to paragraph 37 of the GCF IP Policy that will be undertaken in collaboration with potentially affected Indigenous peoples and will assess the nature and degree of the expected direct and indirect impacts on Indigenous Peoples who are affected by the funded activities; and vi) the evaluation of compensation measures if impacts can not be avoided, minimized or mitigated and free, prior and informed consent is obtained to implement such compensation. These proceeds will be executed under the following conditions with a meaningful consultation and free prior and informed consent, through all the stages of the project:

³ Both with reimbursable resources (equity or debt) and non-reimbursable resources (TA projects).

- a. First of all, the investees should ensure the existence or nonexistence of Indigenous communities impacted by the project, either directly or indirectly. In case Indigenous Peoples are directly or indirectly impacted by the project, positively or negatively, a process of meaningful consultation guided by the FPIC needs to be started from the very inception until the last step of the project. Through consultation and free prior and informed consent, the executing entity will undertake a participatory evaluation of the magnitude of the impacts generated regarding Kuali Fund-GCF's activity, according to paragraph 37 of the GCF IP Policy. As the Funded Activity works with relatively small institutions, the impacts will most of the times be low or non-existent. The evaluation of the impact will be done from the very inception during the Preparation and Due Diligence phases, most FSP and Innovative Companies have plenty socioeconomic details of their clients and suppliers, and their related potential impacts that can easily support the process. Once this step has been completed, the rest of the measures listed in paragraph 39 of the GCF IP Policy would be implemented in those cases where Indigenous Peoples or communities have been identified as being potentially affected.
- b. Application of the safeguards and requirements put into place in the IPPF Annex.
- c. Financial education workshops: If Indigenous Peoples consider it is appropriate through the framework of consultations, financial inclusion workshops will be put in place in order to achieve a truly reliable understanding of the implications of borrowing money. These workshops will be offered to Indigenous communities by the Financial Service Providers during the initial stages of the Funded Activity. This aims to avoid over-indebtedness and promote strategic planning and the concept of savings for the medium and long term. Despite the possibility for the beneficiaries to be living hand to mouth, these ideas, even if implemented little by little, can generate a great positive impact. The appropriateness of these workshops will be previously discussed with IP communities.
- d. Cultural hazards workshops: If Indigenous Peoples considers it is appropriate through the framework of consultations, cultural hazards workshops will be put in place. Loans are a very powerful tool that enable people to access new stages regarding living standards. However, it can also produce a loss of culture and social cohesion. External intervention may be disruptive in unpredictable ways, both positive and negatively. In this context, cultural hazard workshops will be implemented by the institutions mainly during the initial stage of engagement and periodically during the Fund's activity duration. These workshops will encourage a leading participation of IP authorities.
- e. Sustainable agriculture techniques workshops: If Indigenous Peoples considers it is appropriate through the framework of consultations, sustainable agriculture techniques workshops will be put in place. It will be given by the FSPs which have smallholder farmers as beneficiaries. They will be specifically adapted to Indigenous Peoples' social and cultural necessities and will be closely linked to the cultural hazards workshops in order to avoid social disturbances. Shifting cultivation patterns is particularly controversial for many Indigenous communities. Therefore, a leading participation of these communities in these workshops is key.
- f. Capacity building workshops: derived from the cultural hazard workshops will be executed in order to encourage local decision-making processes to generate a more organized and resilient local Indigenous communities. The appropriateness of these workshops will be previously discussed with IP communities and will encourage a leading participation of IP authorities. These workshops will be put in place if Indigenous Peoples considers it is appropriate through the framework of consultations.
- g. In the framework of a meaningful consultation process guided by the principle of develop and implement free, prior and informed consent, information will be provided to and distributed among stakeholders after analyzing their possible limitations (lack of internet connection, illiteracy, etc.). Stakeholders must have a period of time to provide their input regarding the Funded Activity. Their concerns and needs will be analyzed and discussed respecting a process of free, prior and informed consent.

- h. KualI Fund-GCF's clear exit strategy: dependency on external support must be avoided by this policy in order to generate a sustainable development in each of the communities affected by the Funded Activity. KualI Fund-GCF already has an exit strategy, included in the FP, focused in overcoming the difficulties its beneficiaries may have while engaging with the society, environment and market economy through the new activities or methods learned from the institutions the Fund works with.
- j) **Human rights:** All investments supported by KualI Fund-GCF will be designed and implemented in a manner that will promote, protect and fulfil universal respect for, and observance of, human rights for all, recognized by the United Nations. KualI Fund-GCF will require the application of robust ESDD so that the supported investments do not cause, promote, contribute to, perpetuate, or exacerbate adverse human rights impacts.
- k) **Biodiversity:** All KualI Fund-financed investees will protect and conserve biodiversity and critical habitats, ensure environmental flows of water, maintain the benefits of ecosystem services, and promote the sustainable use and management of living natural resources.
- l) **Knowledge-sharing:** KualI Fund-GCF will lead and promote the sharing of lessons and experiences in applying E&S standards among investees, and other entities.

3. E&S RISK OF POTENTIAL INVESTEES

The potential investees of the KualI Fund are Tier 2 FSPs and Innovative companies that are seeking to implement more sustainable environmental and social practices while supporting the MSME and smallholders to increase their E&S performance. For that purpose, KualI Fund-GCF through this ESMS ensures that the investees manage not only the E&S risks of its own activity (internal dimension), but also those arising from its investment activity (external dimension) in the case of FSPs.

Gender, IP issues and SEAH risk form an integral part of the evaluation of potential social risk of the KualI Fund-GCF and its investees. Its importance and transversal nature require a more detailed evaluation methodology to assess the systems to ensure adequate gender and SEAH policies and practice. All this is covered in a specific section regarding Gender and SEAH Management System in Annex G as well as in annex 8 of the Funding Proposal (Gender assessment and gender action plan).

3.1 Financial Service Providers (FSPs)

3.1.1 Internal dimension

Direct E&S risks of FSP companies are typically low. Environmental risks are associated to the consumption of water, energy, generation of waste of premises where the FSP companies is located, and social risks are associated to the labour and working conditions of their employees.

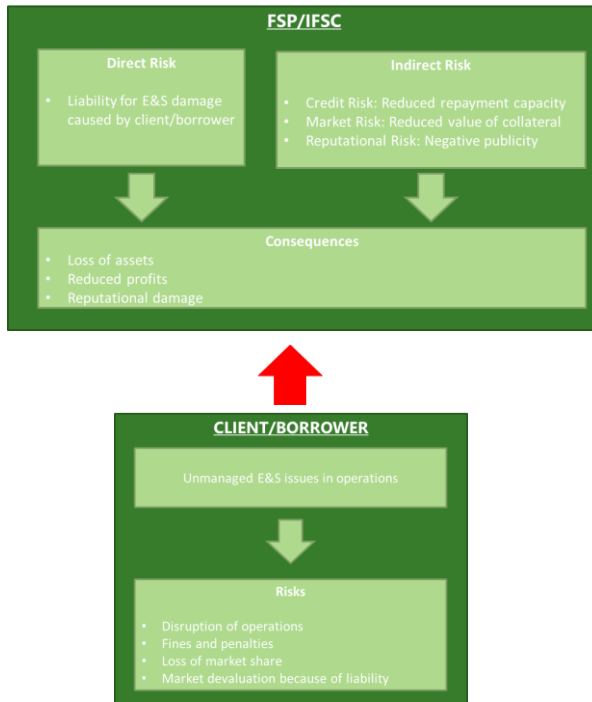
KualI Fund-GCF establishes in this ESMS the necessary steps and procedures to make sure that its investees manage the E&S risks associated to their own activity.

3.1.2 External dimension

FSP companies are entities whose primary business activity is to provide loans, equity, guarantee products or other financing to third parties that may engage in activities that have potential E&S risks and impacts.

Therefore, FSPs companies are exposed to some level of E&S risk through the activities of their borrowers/clients, which can represent a financial, legal, and/or reputational risk to the FSP companies which in turn could pose a financial and/or reputational risk for KualI Fund-GCF. Examples of such risks are the use of child labor, groundwater pollution by use of agrochemicals, health and environmental risks by use of pesticides by farmer clients, etc.

The E&S risks for FSP companies are represented in the following figure:



FSPs need to have a clear understanding of potential E&S risks and implications of client/borrower’s operations prior to investing. This requires proactive identification, assessment, and management of E&S risks. FSPs can best achieve this by developing and implementing their own ESMS, to systematically assess the E&S risks and opportunities arising from their client/borrower’s operations and manage its exposure to risk.

Among the potential investees we can differentiate between entities with a stronger focus in financing microentrepreneurs and smallholders’ farmers (typically know as Microfinance institutions) and entities more focused on serving the MSME sector which have substantially different risk exposure.

Microfinance institutions have considerable low E&S risk because their scope of financing activities encompasses transactions that are of small amount and short tenure, focusing also on clients whose operations are also generally small. In case of presence of Indigenous communities, these risks will be assessed according to paragraph 37 of the GCF IP Policy. Nevertheless, when considering the broad spectrum of micro-entrepreneurs, specific E&S risks should not be overlooked. The adverse E&S impacts of a single micro-entrepreneur may be considered minimal, but as the number of clients served is usually large there is a significant cumulative effect.

Microfinance institutions often consider the E&S impacts associated with their transactions in the context of the developmental role they play in their communities and are therefore concerned with reputational risks. In addition, many see the promotion of good E&S practices as part of their role in the community.

Regarding MSME centered financial institutions, E&S issues can be significant and will vary depending on company size, location, industry sector, and its capacity to manage E&S risks associated to its activity. FSPs that lend or invest in MSME generally try to develop long-term relationships, which may further expose lenders/investors to E&S issues associated with the enterprise, posing financial and liability risks.

3.12 Innovative Companies

Innovative Companies offer products/services related with mitigation and adaptation, including “Agri-tech” and “Climate-tech”. They bring together the innovative approaches and solutions needed to decarbonize all sectors across the global economy. Therefore, the investment universe of Innovative Companies is wide, reaching and including mobility and Transport, Energy, Food agriculture and land use, Industry and manufacturing, built environment sectors.

The potential E&S impacts of these companies will vary substantially, depending on the size of the company, the core business activity, and the type of financing involved (short-term versus long-term loans). The following are some of the general environmental and social risks and impacts relevant across industries:

Environmental risk

- Pollution of air, land and water
- Excessive energy use
- Excessive water use
- Improper or excessive land use

Occupational Health and Safety

- Physical hazards
- Chemical hazards
- Biological hazards
- Ergonomic hazards

Labor

- Low or insufficient wages
- Forced and child labor
- Discriminatory practices

Community Health, Safety and Security

- Negative impacts on the community’s health
- Conflicts

The Kualu Fund-GCF will always encourage Innovative Companies to follow its E&S Policy by adopting strategies to improved procedures to avoid, minimize or compensate for the risks and impacts that were identified. Emphasizing preventive and proactive actions: (1) try to avoid causing social or environmental damage; (2) if not possible, then minimize the impact; (3) if not possible, then compensate or offset the damage together with IPs if involved.

3.3. E&S Risk Minimization Strategies

3.3.1 Financial Service Providers (FSPs)

The Kualu Fund-GCF risk mitigation strategies regarding the FSP segment are based on the requirement of an internal ESMS for financial institutions in line with its level of risk. These will be applied as part of the microfinance institution’s overall risk management framework for each transaction. A microfinance institution’s Environmental and Social Management System will be normally required to include the components indicated in Annex E.

For a FSP, decision-making may be centralized or delegated at the branch level depending on the transaction size. The ESMS will need to define the roles and responsibilities of staff involved at each stage of the decision-making process and will typically include an ESMS Officer with oversight of the ESMS and its day-to-day implementation. Loan Officers will typically screen all transactions and conduct additional environmental and social due diligence if necessary. The environmental and social findings and recommendations can be considered by the Credit Committee during the decision-making process for proceeding with a transaction.

A FSP will need to ensure that a system is in place for record-keeping on environmental and social issues associated with each transaction. This can be integrated into a microfinance institution’s existing system and will need to be accessible by all branch offices.

Social and environmental aspects shall be integrated in the existing loan appraisal systems and standard operating procedures. The table below describes how this will be done followed by a detailed description of each process:

Loan Cycle	Existing formats/documents	S&E aspects
Application	Loan Application	Exclusion list
Appraisal	Loan Appraisal format	Activity Assessment Tool/ Fact Sheets
Contracting and Disbursement	Loan Contract	Contract Clauses
Recovery and monitoring	MIS format	Monitoring specifics
Reporting	Reports	Reporting formats

3.3.2 Innovative Companies

The KualI Fund-GCF risk mitigation strategies regarding the Innovative Companies segment are based on the development and requirement of thoroughly identification and management of potential risks and Impacts. Innovative Companies are early-stage companies that might or might not have developed a systematic, documented identification and prioritization of E&S risks and impacts.

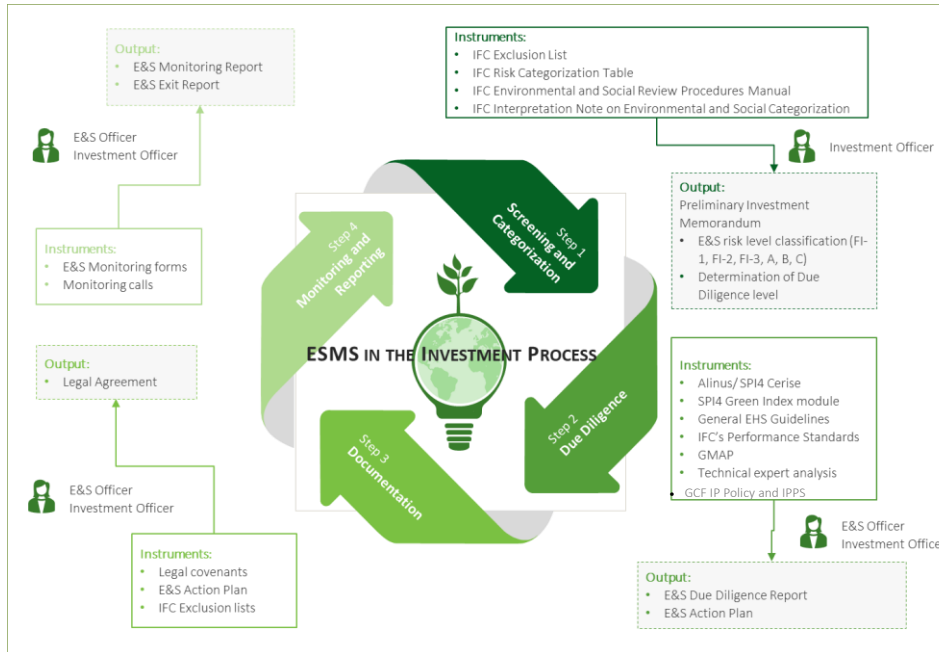
The primary objective of a risk assessment is to identify the potential negative environmental and social risks so that you can develop the appropriate strategies to address the risks and their potential impacts. The risk identification shall cover environmental, OHS, labor and community risks.

MITIGATION HIERARCHY	ACTION	PERFORMANCE INDICATORS	DEADLINE	RESPONSIBLE STAFF	RESOURCES REQUIRED	OPERATIONAL PROCEDURES
Avoid the risk						
Minimize the <u>risk</u>						
Compensate /Offset negative impacts of the risk						

Regarding risk management, this will be centered on elaboration of Action Plans and improved procedures to avoid, minimize or compensate for the risks and impacts that were identified. Example of Action Plans.

4. E&S MANAGEMENT SYSTEM AND PROCEDURES OF KUALI FUND-GCF

This section describes the internal processes followed by KualI Fund-GCF to ensure systematic and consistent application of the ESMS framework to an investment and its adherence to E&S requirements. As shown in the figure below, procedures will cover the entire investment cycle and will include data gathering and analysis, expected outputs, and the key issues to be addressed during the screening, due diligence, documentation, and monitoring stages.



4.1 Screening and Categorization

The Investment Officer will check that potential investees activities are not included on IFC's Exclusion List (see Annex A). Companies with activities included in the list will not be considered for financing. Besides, investees with a record of severe E&S issues should also not be considered for financing.

The E&S Officer is responsible for obtaining and reviewing information to analyze the E&S risks of its prospective investments. This includes the (i) physical E&S footprint; (ii) particular business sector, or range of sectors. In the case of FSP it will include the expected portfolio to be supported by the FSP, financing product type offered to the final clients and, where available, the FSP's E&S Management System and E&S risk management approach.

Once the initial screening is completed, the E&S Officer will categorize the investment as I-1 (high), I-2 (medium) or I-3 (low) for FSP's and as A (high), B (medium) or C (low) for Innovative Companies according with the categorization of International Finance Corporation (IFC)⁴. The categorization will be commensurate with the inherent E&S risk/impact profile of the business activity and for FSPs existing and/or proposed portfolio taking into account the location, size and sector exposure of the portfolio. The Categorization will be guided by the EBRD Environmental and Social Risk Categorization List⁵, the IFC's E&S Review Procedures Manual⁶ and the Interpretation Note on E&S Categorization⁷ as follows:

- Category A: Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.

⁴ GCF environmental and social categorization https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization

⁵ EBRD Environmental and Social Risk Categorization List: ebrd-risk-english.pdf

⁶ IFC's Environmental and Social Review Procedures Manual. Available online at: https://www.ifc.org/wps/wcm/connect/6f3c3893-c196-43b4-aa16-f0b4c82c326e/ESRP_Oct2016.pdf?MOD=AJPERES&CVID=IRwoQF

⁷ Interpretation Note on Environmental and Social Categorization. Available online at: <https://www.ifc.org/wps/wcm/connect/f873da60-4adf-4fa0-83ec-729227aa5511/Interpretation+Note+on+E+and+S+Categorization.pdf?MOD=AJPERES&CVID=mUtZ0yc>

- Category B: Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
- Category C: Business activities with minimal or no adverse environmental or social risks and/or impacts.
- Category I: Business activities involving investments in financial institutions (FIs) or through delivery mechanisms involving financial intermediation. This category is further divided into:
 - **Category I-1:** when an FSP's existing or proposed portfolio includes or is expected to include substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. Generally, FI with more than a 20% portfolio volume in Category A-projects. Also, FI with more than 10% exposure to long term loans or project finance in Category A-projects or more than USD 300 million.
 - **Category I-2:** when an FSP's existing or proposed portfolio comprises, or is expected to comprise, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. Generally, FI with less than a 20% portfolio volume in Category A-projects. Also, FI with less than 10% exposure to long term loans or project finance in Category A-projects and not more than USD 300 million.
 - **Category I-3:** when an FSP's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts. Generally, FIs with predominant focus (>80% of total portfolio) on retail clients or MSME business.

Kuali Fund-GCF's investments will normally fall into the C (I-3) category (low risk) and occasionally in the B (I-2) category (medium risk). Potential investments that fall on the A and I-1 category (high risk categories) will be screened out and will not be considered for further analysis and investment under the Funded Activity.

The Investment Officer will include in the **Preliminary Investment Memorandum** the conformance with the exclusion list and the E&S Officer will include the key E&S issues, the proposed investee E&S risk category, the proposed scope of the ESDD and any anticipated E&S requirements.

As noted earlier, Kuali Fund-GCF will require all FSPs and Innovative companies to develop and operate an ESMS commensurate with the level of E&S risk in their prospective business activities and portfolio. Kuali Fund-GCF will assess and confirm in which E&S category the potential investee falls during its ESDD described below.

Kuali Fund Manager will ensure that investments do not involve land acquisition and involuntary resettlement (physical or economic).

The Investment Officer should notify the potential investee about the Fund's E&S policy/management system requirements and information needs and seek the sponsor's cooperation in the subsequent ESDD activities.

4.2 Environmental and Social Due Diligence (ESDD)

During the due diligence, Kuali Fund's team will gain an insight into the nature and scope of the FSP companies' operations.

An E&S performance (including the assessment of Indigenous communities' presence) due diligence and an on-site visit is conducted in parallel with the business due diligence process when evaluating a potential investee. This ESDD shall be carried out by the investment team in collaboration the E&S Officer. The E&S Officer will participate in on-site visit in B (I-2) rated investments. Additionally, for B (I-2) Investees, where particular idiosyncratic risks have been identified, an external qualified expert(s) will be engaged in the due diligence and an on-site visit will be conducted.

The level of ESDD actions and requirements depend on the E&S risk of a potential FSP and innovative companies. In all cases, it will be evaluated how the FSPs and innovative companies manages its own E&S risks and the E&S risks associated to its investments.

In the case of an investment category B(I-2) is being analyzed by the investment team, an ESDD and ESAP will might need to be shared with sufficient time for comments and feedback in advance of the investment approval decision by KualI Fund-GCF. Because of NDA and confidentiality agreements a placeholder might be designed case by case with the consent of the potential investee. The placeholder must contain and publicly disclosed the Country/Region/Municipality; the description of the activity; safeguards activated; and the Fund’s contact person. In the event that any interested party contacts in relation to the placeholder, the contacting person/institution will be required to sign an NDA in turn, always with the consent of the investee.

KualI Fund-GCF will use several tools/guidelines to support this process: IFC Performance Standards⁸, IFC EHS Guidelines⁹, UN Protocol on Allegations of Sexual Exploitation and abuse involving IP¹⁰, Alinus/SPI4 with Green Index module¹¹ and Global Map of Supply Chain Risks in Agro-Commodity Production¹², among others.

The result of this due diligence will be documented in an **ESDD Report** which will include all the strengths and weaknesses detected in the FSP and Innovative companies, in addition to the areas identified that could be improved with TA interventions. This document will be a first input for the TA Committee to explore potential TA interventions that could be implemented in agreement with the investee’s management. See section 4.4.

This ESDD Report shall focus on two areas:

- Green readiness:** The Investment Officer reports on the readiness of the FSP companies to serve MSMEs and smallholder farmers in terms of products (how tailored to the real needs of MSMEs and smallholder farmers are the FSP products, in line with the IPPF), people (trained with regards to environmental product characteristics) and processes.
- E&S risk management:** The Investment Officer together with the E&S Officer will report on the key E&S risks and mitigation measures (ESMS) and will establish an E&S Action Plan (ESAP) and an IPP based on the due diligence findings (the E&S Officer will work together with the FSP and Innovative Companies to design the plan to address any areas of E&S concern within a reasonable period of time). The ESDD will be commensurate to the E&S risk faced by the FSPs and Innovative Companies.

Regarding **FSPs** the following aspects will be analyzed:

E&S RESPONSIBILITY IN KUALI FUND-GCF				I-3	I-2	I-1 (not expected)
ESDD	SOCIAL ASPECTS ¹³	INTERNAL DIMENSION	Labour and working conditions	Investment Officer	E&S Officer	E&S Consultant E&S Officer
		EXTERNAL DIMENSION	Treatment of clients	Alinus/SPI4 Questionnaire: Dimension 5. Treat employees responsibly Compliance with all relevant local health & safety and labour laws by the country and the requirements of the IFC Performance Standards 2 Compliance with ILO Core Conventions ratified by the country		
			Risks associated with underlying investments	Alinus/SPI4 Questionnaire: Dimension 4. Treat clients responsibly Exclusion list aligned with IFC’s.		
				To assess the compliance with IFC Performance Standards 1, 4, 5, 7	Establishment of an ESMS aligned with IFC Performance Standards. KualI Fund will hire an	

⁸ <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

⁹ <https://www.ifc.org/en/insights-reports/2000/general-environmental-health-and-safety-guidelines>

¹⁰ <https://supportcso.unpartnerportal.org/hc/en-us/categories/12381673911319-IP-Protocol-for-PSEA>

¹¹ <https://cerise-spm.org/en/spi4/resources-spi4/audit-resources/>

¹² <https://gmaptool.org/>

¹³ For the Gender management system including SEAH risks. See annex B.

ENVIRONMENTAL ASPECTS	INTERNAL DIMENSION	Environmental Policy/procedures	Alinus/SPI4 Questionnaire: SPI4 Green Index module (7A-The provider defines, manages, and monitors its environmental strategy// 7B- Managing internal environmental risks) To assess the compliance with IFC Performance Standard 3, the borrower will refer to the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) when evaluating and selecting resource efficiency and pollution prevention and control techniques for the project. If less stringent levels or measures than those provided in the EHS Guidelines are appropriate in view of the circumstances, the borrower will provide full and detailed justification for any proposed alternatives through the E&S risks and impacts identification and assessment process.	and 8, the E&S risks and impacts will be monitored by establishing an ESMS. If Kuali Fund-GCF aspires to benchmark category A projects the ESMS will be aligned with IFC PS. Kuali will hire an external consultant in case of 1-2 were particular idiosyncratic risks were identified	external E&S consultant to validate it, identify gaps and establish Corrective Action Plan. Visit of FSP companies by consultant if deemed necessary.	
		Green readiness	Alinus/SPI4 Questionnaire: SPI4 Green Index module (7D-The provider fosters green opportunities)			
	EXTERNAL DIMENSION	Risks associated with underlying investments	Exclusion list aligned with IFC's.	Alinus/SPI4 Questionnaire: SPI4 Green Index module (7C- Managing external environmental risks)		
				To assess the compliance with IFC Performance Standard 1 and 6, the E&S risks and impacts will be monitored by establishing an ESMS. If the aspires to benchmark category A projects it will be aligned with IFC PS. Kuali will hire an external consultant in case of 1-2 were particular idiosyncratic risks were identified	Establishment of an ESMS aligned with IFC Performance Standards. Kuali will hire an external E&S consultant to validate it, identify gaps and establish E&S Action Plan. Site visits will be conducted	
Requirements for FSP/ Fintech clients/borrowers			Compliance with all relevant local health & safety and labour laws and regulations Compliance with ILO Core Conventions ratified by the country. Designate an employee to ensure the compliance of the E&S requirements.	Compliance with all relevant local health & safety and labour laws and regulations Compliance with ILO Core Conventions ratified by the country. Compliance with Action Plan, if established. Designate an employee of sufficient E&S expertise to ensure the compliance of	Compliance with all relevant local health & safety and labour laws and regulations Compliance with ILO Core Conventions ratified by the country. IFC EHS Guidelines (for category A projects). Compliance with Action Plan, if established. Designate an employee of sufficient E&S expertise and seniority to ensure the	

	See section 4.3.	the E&S requirements. See section 4.3.	compliance of the E&S requirements. See section 4.3.
REPORTING	Portfolio composition and significant changes in the business activities and in case of an usual event. See section 4.5	Annual E&S Monitoring Report once a year. See section 4.5	Annual E&S Monitoring Report once a year. See section 4.5

Regarding **Innovative Companies** the following aspects will be analyzed:

		C	B	A (not expected)
E&S RESPONSIBILITY IN KUALI FUND		Investment Officer	E&S Officer	E&S Consultant E&S Officer
ESDD	SOCIAL ASPECTS 14	Labour and working conditions	Cerise Social Business Scorecard – Dimension 4 Social Practices and HR Policies Compliance with all relevant local health & safety and labour laws by the country and the requirements of the IFC Performance Standards 2 Compliance with ILO Core Conventions ratified by the country	
		Other Risks	To assess the compliance with IFC Performance Standard 1, the E&S risks and impacts will be monitored by establishing an ESMS. If Kuali Fund-GCF aspires to benchmark category A projects the ESMS will be aligned with IFC PS. Kuali will hire an external consultant in case of 1-2 were particular idiosyncratic risks were identified.	Establishment of an ESMS aligned with IFC Performance Standards. .
		Clients	Cerise Social Business Scorecard – Dimension 2 (Public) and 3 Products	
	Community Health, Safety and Security	Negative impacts on the community's health Conflicts. The implementation of the actions necessary to meet the requirements of Performance Standards 4, 5, 7 and 8 is managed through the client's Environmental and Social Management System.		
	ENVIRONMENTAL ASPECTS	Environmental Policy/procedures	Cerise Social Business Scorecard – Dimension 5 Ethical Principles Environmental Policy To assess the compliance with IFC Performance Standard 3, the borrower will refer to the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) when evaluating and selecting resource efficiency and pollution prevention and control techniques for the project. If less stringent levels or measures than those provided in the EHS Guidelines are appropriate in view of the circumstances, the borrower will provide full and detailed justification for any proposed alternatives through the E&S risks and impacts identification and assessment process.	
		Risks	Exclusion list aligned with IFC's.	

¹⁴ For the Gender management system including SEAH risks. See annex G.

			To assess the compliance with IFC Performance Standard 1 and 6, the E&S risks and impacts will be monitored by establishing an ESMS. If the aspires to benchmark category A projects it will be aligned with IFC PS. Kuali will hire an external consultant in case of 1-2 were particular idiosyncratic risks were identified.	Establishment of an ESMS aligned with IFC Performance Standards.
Requirements for Climate Tech clients/borrowers	Compliance with all relevant local health & safety and labour laws and regulations Compliance with ILO Core Conventions ratified by the country. Designate an employee to ensure the compliance of the E&S requirements See section 4.3.	Compliance with all relevant local health & safety and labour laws and regulations Compliance with ILO Core Conventions ratified by the country. Compliance with Action Plan, if established. Designate an employee of sufficient E&S expertise to ensure the compliance of the E&S requirements See section 4.3.	Compliance with all relevant local health & safety and labour laws and regulations Compliance with ILO Core Conventions ratified by the country. IFC EHS Guidelines (for category A projects). Compliance with Action Plan, if established. Designate an employee of sufficient E&S expertise and seniority to ensure the compliance of the E&S requirements See section 4.3.	
REPORTING	Significant changes in the business activities and in case of an usual event. See section 4.5	Annual E&S Monitoring Report once a year. See section 4.5	Annual E&S Monitoring Report once a year. See section 4.5	

4.3 E&S Conditions of Investment

The Investment officer and director of the Fund Manager will negotiate and agree with the FSP and Innovative companies the E&S provisions and investment conditions in the term sheet and investment agreement. These consist of standard E&S terms applicable to all Fund investments, and specific conditions identified during the ESDD of a proposed investment (ESAP will be included in the legal documentation). See Annex C for sample wording for this purpose.

Despite being a very novel risk issue during due diligence at the time of editing this document, the SEAH risk forecasted for the project rated low-medium risk (according to UN criteria -*UN Protocol on Allegations of Sexual Exploitation and abuse involving IP* - for considering SEAH high-risk activities the Fund will not take place in high risk environments such as camps and shelters and involve nor the Fund management company neither the FSP and ICs having direct contact with children. The aspect to be considered as relevant is the fact that the subprojects will take place in countries where sexual and gender-based violence is prevalent, therefore medium rate is present). Nevertheless, it will be required that every single subproject (FSP and IC) has a SEAH risk diagnosis and a SEAH plan to the satisfaction of GAWA and based on the SEAH Risk Assessment Guideline developed by the GCF Secretariat.

Kuali's Fund Manager should ensure that any conditions of investment tied to disbursement of funds, as specified in the investment agreement, are met before disbursing funds. Moreover, Kuali Fund Manager should ensure that the borrower complies with national social & environmental policies and regulations.

4.4. Technical assistance

The theory of change of Kuali Fund includes the transformation of FSPs/ Innovative Companies business models to scale up green lending and solutions for MSMEs and smallholder farmers. The Kuali Fund Technical Assistance (TA) Operations Manual describes the set of principles for the management and use of the TA Facility during the life of the Fund. The Manager of the TA is GAWA Capital Partners, the Manager of the Fund.

As a summary, TA projects are expected to be transformational in the following areas: Green Readiness, Social Performance and Environmental and Social Risks Management Systems, General Business Improvement, MSME/smallholder farmers Green Enhancement and Ecosystemic Projects.

The ESDD will help identify potential TA projects with regard to the green readiness, E&S risks management and gender approach integration of FSPs and Innovative companies.

Examples of Green Readiness projects:

- Implementation of green products directed to the MSME or smallholder farmers such as loans to finance more efficient new machinery or equipment or climate smart agriculture loans.
- Training people on climate finance, including product specialists, risk officers, loan officers and managers so that the institution can make strategic commitments of green lending figures and environmental mitigation goals.

Potential TA Projects related to E&S risks and gender issues:

- Establishment and implementation of Environmental and Social Risk Mitigation Systems (both internal and external).
- Establishment of a software to collect information regarding the environmental and social performance
- Training of employees on E&S risks and mitigation measures, including SEAH.
- Designating and training an E&S Officer for B / A (I-1) investees.
- FSPs development of Gender & SEAH Policy and action plan for internal and external dimensions.

For more details about the Technical Assistance Facility and its use please refer to the Kuali Fund TA Operations Manual.

4.5 Monitoring and Reporting

The Investment officer and E&S Officer should actively supervise and monitor compliance with the E&S covenants included in the investment agreements and the E&S performance of each of its portfolio investments. In case Indigenous Peoples are involved, this shall be done together with them in the framework of an ongoing process of meaningful consultation guided by the principle of free, prior and informed consent.

For this purpose, the companies will fill out an E&S Performance Report (See template in Annex D) on a yearly basis and, if needed, a monitoring call will also be held with management to understand any recent developments. During these monitoring calls, the implementation of the Technical Assistance agreed with the management will also be discussed, and the local implementation partners shall also participate in this part of the monitoring call. The E&S performance reports developed will include at least the following:

- Portfolio or activity breakdown by industry sectors, E&S risk category and product lines, and sample ESDD reports carried out by A (I-1) investees.
- Cases of non-compliance with E&S requirements
- Serious E&S accidents or incidents related to a transaction.
- Information on the implementation of any changes to the E&S Management System.
- Gender will be a crosscutting issue in the annual report. See Annex G
- SEAH indicators

Besides, Kuali Fund-GCF will prepare an E&S monitoring report for all investors on an annual basis with aggregated information of the investee companies:

- E&S risk category of each investee

- Major E&S performance related activities per investee.
- Gender will be a crosscutting issue in the annual report. See Annex G
- Evolution of E&S covenants and E&S Action Plan, if applicable.
- Evolution of the Green Impact Score (Gawa customized metric that measures social impact and green readiness based on SPI4 and other indicators) of each investee and on an aggregated basis.
- Status of implementation of Technical Assistance projects by each investee and underlying investments, if applicable.
- Status of implementation of the GAP.
- Reporting requirements to donors (such as GCF) can also be included in Annual Performance Reports.

Additionally, there will be monitoring site-visits to review a sample of subprojects when deemed necessary.

Moreover, KualI Fund-GCF will foster stakeholder engagement and consultation between FSPs/ICs and stakeholders. The KualI Fund-GCF will encourage FSPs to implement a Stakeholder Engagement Plan¹⁵ during KualI Fund-GCF's investment, in which the entity's risks and impacts to stakeholders are considered. A Stakeholder Engagement Plan can accommodate in FSPs/ICs procedures to better know the communities where they operate. Social action plans as well as market research related to beneficiaries-community will be desirable. The IPPF will be applied in case IPs are involved.

It must be acknowledged that FSPs will mainly be rated I-3 and Innovative Companies will be rated C category.

5. REVIEW AND CONTINUOUS IMPROVEMENT

This ESMS should be updated regularly to (i) reflect any changes in the environmental and social regulations and/or international best practices that affect KualI Fund-GCF's own operations or its investees, (ii) ensure that its procedures remain relevant to the level of environmental and social risk associated with KualI Fund-GCF's portfolio.

This review should consider the following elements:

- Review of E&S Policy (and SEAH framework) against changes in the fund's investment strategy, priority sectors, geographies, or shareholdings and lessons learnt.
- Performance evaluation of people with managing and implementing responsibilities.
- Review whether preliminary investment memos, ESDD reports, investment memos, investment agreements and monitoring reports contain adequate and relevant information.
- Assessment of global trends in managing E&S issues in sectors in which KualI Fund-GCF is active, as this will help to assess whether the ESMS should be revised and/or whether additional training should be provided.
- Review of SEAH due diligence. Lessons learnt will be periodically reported to GCF.

This will ensure that new and emerging environmental and social risks are detected and identified during the ESDD process. Any potential difficulties and opportunities for improvement should be identified by staff and addressed in a timely manner by the ES Officer and concerned staff to ensure a smooth implementation and efficient operation. The effectiveness of the ESMS will be reviewed annually, ensuring that the E&S Policy intent is met, that procedures, practices, and plans are being implemented and checking if improvements can be made to the ESMS.

If any amendments or updates are done to the ESMS during the year, the detail of these updates will be incorporated in the annual report.

6. GRIEVANCE MECHANISM

The grievance mechanism ensures the right to be heard for complainants who feel affected by the investees financed operations in order to enable resolution of disputes and assist KualI Fund-GCF in drawing lessons learned for current and future operations.

¹⁵ <https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-stakeholderengagement1.pdf>

Any person or group may lodge a complaint to the investee and it can be submitted in any language by letter, e-mail and/or web form (e-mail and web to be determined). The external parties who send a complaint will be requested to submit the following items.

- Description of the complaint and the harm suffered or likely to be suffered.
- A clear description of the Kuali Fund-GCF financed operation and location.
- Name and full address, telephone number and if possible, e-mail address.
- Any information relevant for the complaint, including an overview of actions that have already been taken to solve the issue.

In case IPs are involved, this process has to be conceived together with them since its inception and tailored to their characteristics, needs, and customary laws (see section 7.3 of the GCF IP Policy for further guidance to develop this).

Kuali Fund-GCF will require all investees to have a GRM in place in which they compile all complaints and follow up their resolution. The investees will categorize the complaints by severity and type of complaint (e.g. Gender/SEAH related). The investee will send the report of complaints with relevant details annually to Kuali Fund. The E&S Officer will analyze the reports will request more detail of certain complaints as needed.

Kuali Fund-GCF will check every GRM practice against the best market practice that is set out on its E section - Mechanisms for Complaints Resolution of the SPI4 Tool. End beneficiaries and stakeholders will normally be informed regarding the investees GRM through service contract, office banners and investees client facing staff. The AE's (and GCF GRM¹⁶s in investments supported by GCF funding) will also operate simultaneously to ensure than any stakeholder not involved in field operations can submit a complaint. This will be informed in the relevant agreements and communications.

With this analysis, Kuali Fund-GCF promotes within its investees the correct resolution of complaints and the adequate protection of its stakeholders.

In case of Indigenous Peoples are affected by the funded activities', this grievance mechanism will include an effective redress system to address Indigenous Peoples' project-related concerns. The mechanism will be designed in consultation with the affected or potentially affected communities of Indigenous Peoples. This mechanism will operate according to the clauses in Section 7.3 of the GCF IP Policy.

7. ROLES AND RESPONSIBILITIES

The Kuali Fund will provide the required financial resources necessary and annually reviewed and eventually updated to fulfill the following responsibilities and roles.

Senior Management

The CEOs of Gawa Capital as representatives from the upper management are responsible for Kuali's Fund overall commitment to E&S objectives during the whole investment process. In particular, the CEOs establish the Fund's E&S requirements and conditions for investees, as defined herein. In cases of unresolved E&S issues or non-compliance associated with a transaction that cannot be resolved by the Investment Officers, Senior Management determines the appropriate course of action to follow to reduce the financial institution's potential exposure to E&S risk, which may include taking legal action against the client/investee.

E&S Officer

The Technical Assistance Manager of Gawa Capital will act as the E&S Officer of the Kuali Fund. The E&S Officer is responsible for developing and implementing the Fund ESMS as well as for communicating with senior management on E&S issues and concerns.

¹⁶ <https://es.irm.greenclimate.fund/>

The E&S Officer is responsible for developing and updating the procedures and documents that are part of the Fund ESMS (including SEAH). This person also evaluates the E&S risks (including SEAH and Indigenous Peoples' issues) at the portfolio level and provides assistance to Investment Officers in evaluating and monitoring the E&S performance of clients/investees and conducts on site visit for B (12) projects and be responsible of hiring experts for additional ESDD when needed according to procedures.

The E&S Officer will also lead the communication with the Members of the Technical Assistance Committee and, when necessary, with the management of the TA implementation partners.

The E&S Officer will receive annual training of E&S issues in order to keep up to date.

Investment Officer

The Investment Officer is responsible for following the procedures of the ESMS at the transaction level. They discuss and negotiate possible E&S mitigation measures with the client/investee.

The Investment Officer is also responsible for evaluating the E&S risks at the level of individual transactions and make a recommendation to the Credit/Investment Committee on whether to proceed with a transaction.

The Investment Officer ensures that the Kuali's E&S requirements (including SEAH) are incorporated in legal agreements for each transaction. The Investment Officer may advise if a client's/investee's non-compliance with E&S clauses constitutes a breach of contract and is considered an Event of Default under the terms of the legal agreement that requires follow up by Senior Management.

Investment Committee

The Investment Committee is responsible for deciding if E&S risks are acceptable to the Kuali's Fund overall exposure to risk before proceeding with a transaction.

The Fund Manager roles and responsibilities at each investment stage are represented in Annex H.

Annex A – IFC Exclusion List¹⁷

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, PCB's, wildlife or products regulated under CITES.
2. Production or trade in weapons and munitions¹⁸.
3. Production or trade in alcoholic beverages (excluding beer and wine)⁴
4. Production or trade in tobacco⁴
5. Gambling, casinos and equivalent enterprises⁴
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 IFC 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.
9. Land acquisition and involuntary resettlement (physical or economic)

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

All financial intermediaries (FIs), except those engaged in activities specified below*, must apply the following exclusions, in addition to IFC's Exclusion List:

10. Production or activities involving harmful or exploitative forms of forced labor¹⁹/harmful child labor²⁰
11. Commercial logging operations for use in primary tropical moist forest.
12. Production or trade in wood or other forestry products other than from sustainably managed forests.

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

13. Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
14. 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.
15. Production or activities that impinge on the lands owned, or claimed under adjudication, customarily used or occupied, by Indigenous Peoples, including areas that hold special significance for the group, such as sacred sites without full documented consent of such peoples.
16. In case of activities with potentially affect to remote groups with limited external contact, also known as peoples "in voluntary isolation", "isolated peoples" or "in initial contact", it will be taken all appropriate measures to recognize, respect and protect their lands and territories, environment, health, and culture in line with paragraph 47 of the GCF IP Policy.

* **Trade finance projects**, given the nature of the transactions, FIs will apply the following items in addition to the IFC Exclusion List:

17. Production or activities involving harmful or exploitative forms of forced labor⁵/harmful child labor⁶.

¹⁷ <http://www.ifc.org/exclusionlist>

¹⁸ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

¹⁹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

²⁰ 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.

Annex B - Environmental and Social Screening Checklist

This tool is applied on Step 1 of KualI Fund-GCF ESMS and helps confirm compliance with the fund’s policy and basic requirements, identifies early key issues that may have a significant impact on the investment and enable the fund manager to plan the ESG DD.

Name of Organization/Project			
Completed by (name):			
Position in organization:		Date:	
Discussion points/questions		Verification and information sources	
Transaction Details			
<ul style="list-style-type: none"> What type of client is seeking the funding? What is the nature of the transaction? <p>From an E&S perspective, it is important to contextualize the type of client and transaction (equity, debt, term, amount, etc). These key factors inform the E&S risk categorization process and influence the level of E&S Due Diligence (ESDD) undertaken.</p>		<p>Review:</p> <ul style="list-style-type: none"> Term sheet Draft Preliminary IM 	
E&S Exclusion List			
<ul style="list-style-type: none"> Does the transaction involve one or several activities included on the Exclusion List? What is the share of its activities involved in the excluded activities? <p>Every transaction should be screened against the exclusion list to ensure that no prohibited activities are triggered. If an exclusion is triggered, the transaction should be rejected and the rationale for this decision formally documented.</p>		<p>Review:</p> <ul style="list-style-type: none"> Term sheet Draft Preliminary IM E&S policy E&S Exclusion List 	
External Factors Review			
<p>In order to identify any historical records of E&S issues associated with the client, an External Factor Review should be performed. An EFR involves reviewing public sources of information in a methodological and systemic manner by searching key words (e.g., client name, executive management names, physical addresses, countries, human rights, labour strikes, fines, etc.) and recording any key findings.</p> <p>Example public resources may include:</p> <ul style="list-style-type: none"> Company website and annual reports. Google Search and Google Maps Media search Comparison to competitors Co-financers (DFIs, other FIs, etc.) 		<p>Review:</p> <ul style="list-style-type: none"> Publicly available information 	
E&S Risk Categorization			
<ul style="list-style-type: none"> What are the high level material E&S risks, impacts and opportunities associated with the clients/projects? Does the client/project trigger IFC PS 5 to 8 (i.e., land acquisition and resettlement, Indigenous Peoples, cultural heritage, biodiversity loss, etc.)? 		<p>Review:</p> <ul style="list-style-type: none"> Term sheet Draft Preliminary IM E&S policy EBRD Environmental and Social Risk Categorization List²¹ 	

²¹ EBRD Environmental and Social Risk Categorization List: [ebrd-risk-english.pdf](#)

Discussion points/questions	Verification and information sources
<p>Prospective transactions should be assessed on a case-by-case basis, to account for inherent sector and country/geographic specific risks as well as any specific transaction risks.</p> <p>Some transaction specific factors that should be considered which may influence the E&S risk categorization include the clients/projects use of proceeds, clients/projects nature of subsidiaries, client/projects business plan; clients/projects sector focus; type of technology/techniques; scale of clients/projects operations; location of clients/projects operations; clients/projects use of contractors and risks related to the supply chain.</p>	<ul style="list-style-type: none"> • IFC's E&S Review Procedures Manual²² • Interpretation Note on E&S Categorization²³
E&S Due Diligence Plan	
<ul style="list-style-type: none"> • Based on the initial E&S risk categorization, what type of ESDD is required to successfully assess E&S issues associated with the transaction? • Which E&S standards and guidelines (i.e., local legislation, IFC Performance Standards, etc.) are applicable to the transaction and should be assessed against? • What are the required outputs of the ESDD assessment (i.e., E&DD report, Environmental and Social Action Plan (ESAP), etc.)? <p>It is important to scope the level of ESDD commensurate with the E&S risk categorization assigned during screening. This ensures that E&S risks, impacts and opportunities are sufficiently interrogated prior to disbursement, to safeguard the FI against reputational risk, additional capital costs, etc.</p> <p>High risk transactions (i.e., Category A) should undergo a thorough ESDD, supported by an external consultant.</p>	<p>Review:</p> <ul style="list-style-type: none"> • Preliminary IM • Risk categorization • IFC's E&S Review Procedures Manual²⁴ • IFC Performance Standards²⁵ • IFC EHS Guidelines²⁶ • Alinus/SPI4 with Green Index module²⁷
E&S Due Diligence	
<ul style="list-style-type: none"> • PS 1 - Environmental and Social Management System (ESMS) The ESMS will incorporate the following elements: <ul style="list-style-type: none"> (i) Policy (ii) Identification of risks and impacts (iii) Management programs (iv) Organizational capacity and competency (v) Emergency preparedness and response (vi) Stakeholder engagement (vii) Monitoring and review (viii) • PS 2 - Labor and Working Condition <ul style="list-style-type: none"> (i) Human resources (HR) and International Labour Organization (ILO) core labour standards (ii) Freedom of association & collective bargaining (iii) Occupational Health and Safety (OHS): (iv) Worker Productivity Skills and Development: (v) Retrenchment- reducing the number of employees: 	<p>General Review:</p> <ul style="list-style-type: none"> • Preliminary IM • Risk categorization • IFC's E&S Review Procedures Manual • IFC Performance Standards • IFC EHS Guidelines • Alinus/SPI4 with Green Index module <p>Hold meetings with (as appropriate):</p> <ul style="list-style-type: none"> • E&S staff. • HR staff. • Employees. • Contractors (where relevant). <p>PS 1:</p> <ul style="list-style-type: none"> • E&S Policy.

²² IFC's Environmental and Social Review Procedures Manual. Available online at: https://www.ifc.org/wps/wcm/connect/6f3c3893-c196-43b4-aa16-f0b4c82c326e/ESRP_Oct2016.pdf?MOD=AJPERES&CVID=IRwoQFr

²³ Interpretation Note on Environmental and Social Categorization. Available online at: <https://www.ifc.org/wps/wcm/connect/f873da60-4adf-4fa0-83ec-729227aa5511/Interpretation+Note+on+E+S+Categorization.pdf?MOD=AJPERES&CVID=mUtZ0yc>

²⁴ IFC's Environmental and Social Review Procedures Manual. Available online at: https://www.ifc.org/wps/wcm/connect/6f3c3893-c196-43b4-aa16-f0b4c82c326e/ESRP_Oct2016.pdf?MOD=AJPERES&CVID=IRwoQFr

²⁵ <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

²⁶ <https://www.ifc.org/en/insights-reports/2000/general-environmental-health-and-safety-guidelines>

²⁷ <https://cerise-spm.org/en/spi4/resources-spi4/audit-resources/>

Discussion points/questions	Verification and information sources
<p>(vi) Contractors, third parties, supply chains and temporary workers</p> <p>• PS 3 - Pollution prevention and resource use efficiency</p> <ul style="list-style-type: none"> (i) Reducing waste and preventing pollution. (ii) Energy and water use efficiency (iii) Greenhouse gas (GHG) emissions and Climate Change (iv) Pesticides and other Agrochemicals (v) Contaminated land or land with liabilities <p>• PS 4 - Community health, safety and security</p> <ul style="list-style-type: none"> (i) Community health, safety and security (ii) Stakeholder engagement and consultation (iii) Security personnel <p>• PS 5 - Land acquisition and economic displacement</p> <ul style="list-style-type: none"> (i) Acquisition of land which has or will result in the involuntary resettlement or economic displacement of people. <p>• PS 6 - Biodiversity conservation and natural resources management</p> <ul style="list-style-type: none"> (i) The value of biodiversity and the risks to biodiversity (ii) Management of ecosystem services <p>• PS 7 - Indigenous Peoples</p> <ul style="list-style-type: none"> (i) Protection of the rights of Indigenous Peoples <p>• PS - 8 Cultural heritages</p> <ul style="list-style-type: none"> (i) Protection of cultural heritage 	<ul style="list-style-type: none"> • E&S Impacts Assessment • Internal/External audits • Relevant procedures to assess risks and impacts. • Management programmes and plans • Training programmes and records. • Stakeholder engagement programme. • Grievance mechanism • Annual reports • E&S committee meeting notes • Senior management (or Board) minutes that indicate E&S monitoring. <p>PS 2:</p> <ul style="list-style-type: none"> • HR policy/Employee handbook • Information on the workforce composition • Labour contracts/certificates for employees • OHS management system. • HR information (e.g. turnover, absenteeism) • Training programmes. • Information on companies productivity. • Retrenchment plan. <p>PS 3:</p> <ul style="list-style-type: none"> • Process flow diagram / Process description. • ESIA • Air emissions monitoring plan, waste and wastewater management plans, integrated pest management plan (IPM) for agribusiness. • Material safety data sheets (MSDS) • Internal and external audit reports • Relevant certificates <p>PS 4:</p> <ul style="list-style-type: none"> • ESIA • OHS management plans. • Emergency response management system. • Stakeholder engagement plan and associated records. • Grievance mechanisms and associated records <p>Internal and external audit reports</p> <p>PS-7</p> <ul style="list-style-type: none"> • Screening of IPs potentially impacted • Application of IPPF <p>PS 5-8:</p> <ul style="list-style-type: none"> • ESIA's. • Management and Action Plans • Stakeholder engagement plan and Grievance Mechanism • Relevant certificates and related audit reports

Annex C – Environmental & Social Due Diligence (ESDD) Report Outline

Introduction

1. Project background: Project Description, Site and Environment Setting, Land requirement, etc.
2. E&S categorization and rationale
3. Applicable Performance Standards: IFC Exclusion List, National Environmental and Social Laws and regulations, the IFC Performance Standards (as relevant)

Scope of review and methodology (Methodology used, documents reviewed, etc.)

Environmental and social issues

1. Social
 - Labor and working conditions
 - Clients social risk
 - Relevant IFC Performance Standards
2. Environmental
 - Environmental Policy/Procedures
 - Green readiness to serve end- clients
 - Relevant IFC Performance Standards
3. Social and Environmental Risks associated with underlying investments: Internal ESMS system, assessment of the compliance with relevant IFC Performance Standards

Other project specific issues

Environment and Social Action Plan (ESAP), if any

ESAP range from simple mitigation measures to detailed management plans with actions that can be measured quantitatively or qualitatively. The corrective action plan should include a description of the specific mitigation actions to be taken by the investee, a timeframe for implementation and a reporting requirement to inform the on the status of completion. The purpose of a corrective action plan is to mitigate potential environmental and social risks in the context of a transaction to an acceptable level.

Summary and Recommendations

Financing Covenants/Conditions (Annex D)

Annex D – Sample Investment Agreement E&S Conditions

Compliance with law

“Design, construct, operate, maintain and monitor the project in compliance with the Government of [specify country] and local requirements and ESG laws, as well as the Fund’s E&S Policy and International Law”.

“The Borrower has not received nor is aware of any existing or threatened complaint, order, directive, claim, citation or notice from any Authority under applicable [specify country] law and local requirements which has, or could reasonably be expected to have, a Material Adverse Effect or any material impact on the implementation or operation of the Project”.

Working conditions and labor rights

“The Borrower shall at all times comply with relevant laws and the ILO working conditions requirements”.

Restrictions on activities

“The borrower shall not make any loan or other facility to any Client that is engaged in any activity on the IFC Exclusion List”.

“The borrower shall have a covenant in any loan or facility document entered into after the date of this Agreement prohibiting any Client from engaging in any activity on the IFC Exclusion List”

“The borrower shall not make any loan or other facility which involves land acquisition and involuntary resettlement (physical or economic).”

“The borrower shall not allow any SEAH behavior within their daily activities, neither internally (employees) or externally (clients)”.

ES Management System

“The borrower must implement, maintain and continuously improve the E&S Management System according to their assigned E&S risk level, including deploying employees of sufficient expertise and seniority as is necessary for this purpose”.

“The borrower shall use all reasonable efforts to ensure the E&S performance of the Project is in compliance with the Fund’s E&S Policy (including SEAH)”.

“Implement the environmental mitigation and management measures specified in the [Corrective Action Plan]”.

“[Specify any particular conditions of disbursement addressing certain corrective actions recommended for the project]”

Reporting

“Within three days after its occurrence, notify the Fund of any social, labor, health and safety (including SEAH), security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on the implementation or operation of the Project in compliance with the Fund’s E&S Policy or a Material Adverse Effect, specifying in each case the nature of the incident, accident, or circumstance and the impact or effect arising or likely to arise therefrom, and the measures the Borrower is taking or plans to take to address them and to prevent any future similar event; and keep the Fund informed of the on-going implementation of those measures”

Within [90] days after the end of each Financial Year, deliver to the Fund the Annual Monitoring Report (including SEAH monitoring) consistent with the requirements of this Agreement confirming compliance with the Action Plan, the E&S covenants set forth in Section X, or, as the case may be, identifying any non-compliance or failure, and the actions being taken to remedy any such deficiency”.

Comentado [A1]: Include here restrictions related to uncontacted IP, if the AE decides so

Comentado [A2R1]: We think it is enough with the clarification made in poiny 16 of Annex A.

Annex E – Sample Environmental and Social Performance Monitoring Report for FSPs²⁸

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.

Name of Organization			
Completed by (name):			
Position in organisation:		Date:	
Reporting period	From:	To:	

Portfolio Information

Report Covering Period:	
From:	To:

For the reporting period, please provide the following information about your portfolio **where applicable**:

FI Business Lines

Product line	Description	Total exposure outstanding for most recent FY year end (in US\$)	Average loan or transaction size (in US\$)
Retail banking/Consumer loans	Loans or other financial products for individuals (includes retail housing finance and vehicle leasing)		
Long term:			
Transactions with tenor greater than 12 months			
SME	Any lending, leasing or other financial assistance to any corporate or legal entity other than an individual, with individual transactions less than US\$ 1 million		
Project finance/Large Corporate finance	Any lending, leasing or other financial assistance to any corporate or legal entity other than an individual, with individual transactions larger than US\$ 1 million		
Trade finance			

²⁸ IFC Reporting Format For SME Banking Institutions: <https://firstforsustainability.org/media/IFC%20Reporting%20Format%20for%20SME%20Banking%20Institutions.doc>

Short term (ST):			
Transaction with tenor less than 12 months			
ST Corporate finance			
ST Trade finance			
Other			
Microfinance			
Other (if applicable)	Please describe		

Exposure by Risk Category²⁹

S. No	Risk Category	Outstanding exposure (in US\$)	% of corporate portfolio
	Category A		
	Category B		
	Category C		

Exposure by Industry Sectors

If there is any exposure in the area of SME or large corporate/project finance (your corporate portfolio), please provide an indicative % of portfolio that these sectors represent of the total corporate portfolio.

S. No	Industrial Sector	Outstanding exposure (in US\$)	% of corporate portfolio
	Animal Production		
	Apparel		
	Chemicals		
	Collective Investment Vehicles		
	Common Carriers		
	Construction and Real Estate		
	Consumer Goods		
	Crop Production		

²⁹ IFC environmental and social categorization
https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization
 EBRD Environmental and Social Risk Categorization
<https://www.ebrd.com/downloads/about/sustainability/ebrd-risk-english.pdf>

	Electrical Equipment, Appliances and Components		
	Fabric Mills		
	Fabricated Metal Product Manufacturing		
	Finance & Insurance		
	Finishing (Dyeing, Printing, Finishing, etc.)		
	Fishing		
	Food & Beverages		
	Forestry		
	Furniture and Related Products		
	Integrated Textile Operation (Spinning, Weaving/Knitting, but no Garment)		
	Internet Projects		
	Leather and Allied Products		
	Machinery and Other Industrial		
	Nonmetallic Mineral Product Manufacturing		
	Oil, Gas and Mining		
	Plastics & Rubber		
	Primary Metals		
	Printing & Publishing		
	Pulp & Paper		
	Spinning (Yarn, Including Integrated with Fiber Production)		
	Telecommunications		
	Textiles - Others		
	Transport Service		
	Transportation Equipment		
	Utilities		
	Warehousing & Storage		
	Wholesale and Retail Trade covering any of the following. Gasoline stations, dry cleaners, printing, large auto and truck fleets, photographic film processing and any operations involving the use of any chemical of biological wastes or materials		
	Wood Products		
	Other		

Social & Environmental Management System (ESMS)

Policies & Processes	<i>Yes/No</i>	
Has your organization developed and implemented an ESMS?		If yes, please attach a copy of the ESMS to this report.
If there is an ESMS already in place, have there been any updates to the ESMS or policy and procedures adopted by your organization during the reporting period?		If yes, please provide a copy of the updates including dates and reasons for the same.
Has senior management signed off on the updated policy/procedure?		If yes, please provide the date and internal communication indicating the same.
Please give details of any transactions rejected on environmental, health, safety or social grounds (including SEAH).		
Please state any difficulties and/or constraints related to the implementation of the E&S procedures.		
Please describe how you ensure that your clients and their projects are operated in compliance with the national laws and regulations.		
Please give details of any material E&S issues associated with borrowers during the reporting period in particular (including SEAH).		
Has your organization screened for impacts to Indigneous Peoples? And if so, developed and implemented an IPP?		
Please give detailed information on the consultations undertaken, in case Indigenou Peoples are involved or affected by your activities. Include documents registering the participation to consultations, the role of the participants including who were traditional leaders, issues discussed and if the free prior and infromed consent was obtained		
Capacity	<i>Yes/No</i>	
Please provide the name and contact information of the Environmental and Social Officer or Coordinator who has the overall responsibility for the implementation of ESMS.		Please describe the training or learning activities the Environmental Officer or Coordinator attended during year.
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.		Please describe the training provided to the ESMS persons and other team members during year.
What was the budget allocated to the ESMS and its implementation during the year?		Please provide budget details including staff costs and training as well as any actual costs.

Monitoring	Yes/No	
Do you receive any non-financial reporting from industrial projects that you finance?		If yes, please describe and provide supporting documents including any E&S considerations if applicable.
Do you check for ongoing compliance of your projects with national regulation and any other requirements?		If yes, please describe the process including any E&S considerations if applicable.
Please describe how you monitor the client and project E&S performance (including SEAH).		Please describe and provide supporting documents and please provide information on the number of projects where a field visit was conducted by staff to review aspects including E&S issues.
Please provide details of any accidents/ litigation/ complaints/regulatory notices and fines: - Any incidents of non-compliance with the E&S Requirements (including SEAH) - Covenants/ conditionalities imposed by the Bank as a result of any non-compliance		
Reporting	Yes/No	
Is there an internal process to report on E&S issues to Senior management?		If yes, please explain the process, reporting format and frequency and actions taken if any.
Do you prepare any E&S reports: - For other MLAs - Other stakeholders - E&S reporting in the Annual Report - Sustainability reports		If yes, please provide copies of these reports.

E&S Non Compliance

E&S Non Compliance	
Please describe any cases of non-compliance with E&S requirements (internal & external dimensions)	
PS 1: Assessment and Management of E&S Risks and Impacts	
PS 2: Labor and Working Conditions	
PS 3: Resource Efficiency and Pollution Prevention	
PS 4: Community Health, Safety and Security	
PS 5: Land Acquisition and Involuntary Resettlement	
PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	
PS 7: Indigenous Peoples	
PS 8: Cultural Heritage	
Gender & SEAH	

Sustainable finance

Have you made any investments in projects that have E&S benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, community development etc? Please list these in the format provided below:

Project Name	Value financed by the company (US\$ million)	Type of E&S benefit ³¹

³¹ Examples are cleaner production, energy efficiency, renewable energy, carbon finance, management system improvement, sustainable supply chain, corporate social responsibility etc.

Annex F –FSP ESMS Outline

What is an Environmental and Social Management System (ESMS)	It is the management system (both formal and informal) consisting of procedures, management commitment, delineation of roles and responsibilities and guidance that a FSP follows to review and manage the E&S issues and risks associated with its investments.
E&S Policy	A policy, serving as a brief declaration of an organization’s commitment to sustainable development and management of E&S issues. This is often publicly disclosed but certainly always communicated internally.
E&S Procedure	<p>The Procedure detailing <u>how</u> the organization addresses E&S and sustainability issues as part of its investment operations.</p> <p>Procedures are normally step by step instructions focusing on what needs to be done and by whom at various stages of the investment cycle (including supervision). Reference is often made to guidelines.</p> <p>A procedure may be stand-alone or constitute part of the Credit or other Operational procedures.</p> <p>Procedures should be documented and communicated to ensure that all existing and new staff are aware of the process.</p>
E&S review guidelines	<p>These serve as guidance to responsible officers on how to carry out the various steps outlined in the E&S Procedure. The guidelines can be simple for low risk installations and more sophisticated for high risk installations. These should help provide a guide on what to look for when conducting an E&S review and can include:</p> <ul style="list-style-type: none"> • A checklist of documents (such as regulatory clearances) to be reviewed • Questions to ask the client during a site visit • Aspects to look at during the site visit such as housekeeping, visible contamination etc
Record keeping	This is a vital aspect of an ESMS where the review and analysis conducted and the mitigation or corrective measures required as applicable as per the Procedure are recorded in the credit decision documents.
Categorization	To ensure that the extent of the review is commensurate with the nature of risk, categorization is a useful step in procedures where based on basic information about a project such as sector and scale, the level of E&S risk the project could pose is determined. This also enables FSP to determine the extent and sophistication of the E&S review. Examples of categorization are High, Medium, and Low risk or Category A, B, C and FI.
Guidance on industrial sectors	These are sector specific guidelines that outline the key E&S issues associated with a sector and provide technical guidance to credit officers and engineers involved in the appraisal of industrial and other facilities.

Annex G – Gender and SEAH Management System

To deliver on the commitment in a manner consistent with its strategic focus on sustainable development, Kuali Fund has adopted a Gender and SEAH Management System that elaborates how Kuali Fund-GCF integrates these distinct social issues throughout the investment cycle and in the ESMS Management system.

The Kuali Fund-GCF acknowledges that Gender relations, roles and responsibilities exercise important influences on women's and men's access to and control over decisions, assets and resources, information, and knowledge. The impacts of climate change can exacerbate existing gender inequalities. Climate change initiatives are more sustainable, equitable and more likely to achieve their objectives when gender equality and women's empowerment considerations are integrated into the design and implementation of projects. Further, women and vulnerable communities are also part of the solution to climate change and should, therefore, be effectively engaged in discussions and decisions that affect them.

The Kuali Fund has zero tolerance for all forms of sexual wrongdoing including Sexual Exploitation, Sexual Abuse, and Sexual Harassment (SEAH) in all Fund-related Activities. Sexual Exploitation and Sexual Abuse violate human dignity and universally recognized international legal norms and standards and have always been unacceptable behavior. Sexual Harassment results from a culture of discrimination and privilege, based on unequal relations and power dynamics. It creates hostile work and work-related environments, which limit the ability of affected persons to thrive and GCF to achieve its mission. SEAH has no place at the Kuali Fund. Kuali recognizes the imperative to prevent and respond effectively to SEAH and to protect persons, especially vulnerable individuals, and victims of SEAH, these protections are essential to strengthen integrity and accountability.

The following principles shall articulate Kuali Fund-GCF's investments from a Gender and SEAH perspective:

- a) Women and men have equal rights regarding accessing services in order to adapt to and mitigate against the impact of climate change.
- b) The principles of gender equality and empowerment of women should be respected, promoted and considered when addressing climate change.
- c) Women and men are required to have equal opportunity to take an active part in stakeholder consultations and decision-making during project preparation, implementation and evaluation
- d) The Kuali Fund shall not tolerate any form of Sexual Exploitation, Sexual Abuse, or Sexual Harassment.
- e) The Kuali Fund shall not engage in SEAH, and shall not engage with counterparties that condone, encourage, participate in, or engage in SEAH
- f) The Kuali Fund shall take all available measures to prevent, mitigate, investigate, and remedy SEAH in Fund-related Activities.
- g) The Kuali Fund shall take all available measures to protect actual or suspected Victims from retaliation or any detrimental act, direct or indirect, recommended, threatened, or taken against them, because of a report of actual or suspected SEAH
- h) The Kuali Fund shall take steps to encourage its relevant Counterparties to adopt policies and procedures that are consistent with this Policy, with the purpose of safeguarding against SEAH in Fund-related activities.
- i) The Kuali Fund shall apply sanctions, disciplinary, or other remedial measures if this Policy is violated.

The Kuali Fund-GCF's Gender and SEAH Management system is integrated into the general ESMS and aims at ensuring the consistent application of the relevant policies and requirements. The workflow runs as shown in chapter 4 being an integral part of the social aspects part of the ESDD.

INVESTEES GENDER AND SEAH REQUIREMENTS

- a) Potential investees shall have policies or procedures, or be subject to laws, setting out principles and standards of protection substantively equivalent to the ones set out here.
- b) Potential investees are required to adopt, implement and document their approach to addressing gender issues in its day-to-day governance, operations and procedures, and its performance measurement frameworks while committing the necessary resources, financial and human, to make this approach robust and effective. They shall address and reduce gender inequality, deepen stakeholder engagement and deliver better accountability to both

men and women to generate sustainable livelihood opportunities, health and well-being, and resilience against climate-induced shocks and risks.

- c) Potential investees, shall not directly or indirectly condone, encourage, or tolerate participation, or engagement in SEAH or any conduct substantially equivalent to SEAH.
- d) To the extent permitted by any national law applicable to them, investees are required to (a) Inform as appropriate, through established channels, without delay, SEAH or any conduct substantially equivalent to SEAH, suspected or alleged in connection with a Fund-related Activity; and (b) Cooperate in investigations into reports of suspected or alleged SEAH or any conduct substantially equivalent to SEAH and take all appropriate measures, to ensure the cooperation of relevant persons and entities (within their control) subject to such investigation.
- e) Inform through established channels, without delay, of SEAH or any conduct substantially equivalent to SEAH, suspected or alleged in connection with a Fund-related Activity.
- f) Potential Investees are required to have in place effective policies and/or procedures designed to ensure prevention, detection, investigation, remedial action, and where appropriate, sanctions and reports to state agencies with authority over criminal prosecution of SEAH offences in Fund-related Activities. These shall include: (a) Protection against retaliation provided for actual and apparent victims of SEAH, witnesses of, and persons who qualify under the Policy on the Protection of Whistleblowers and Witnesses as whistleblowers with respect to SEAH; and (b) Procedures to identify risks related to SEAH and prevent, report, investigate, and remedy SEAH in a Fund-related Activity.

DUE DILIGENCE

Step 1: Gender and SEAH assessment of investees

The Gender and SEAH due diligence will check that all potential investees meet the above requirements and identify weaknesses in their internal policies or procedures. The gender officer will gather this information using checklists, interviews and analyzing corporate documents of potential clients.

Available data and information of FSPs and Innovative Companies will be collected in the following areas as part of the Environmental and Social Due Diligence (ESDD) process.

Internal dimension:

- Gender diversity in the workforce: staff composition, leadership positions, equal remuneration for work of equal value, recruitment, promotion rates, training and other human resources practices.
- Formal gender equality, non-discrimination or equal opportunity and SEAH policy.
- Approach to maternity and paternity leave
- Training on gender related issues (equality, domestic violence, sexual harassment, women's empowerment in the financial sector, etc.)
- Sexual Exploitation, Sexual Abuse and Sexual Harassment:
 - o Identify any SEAH risks or potential adverse impacts on women, men, girls and boys as early as possible as part the screening and reflect such risks or impacts in relevant safeguards instruments. It will be differentiated by gender and age where relevant.
 - o Check that SEAH Effective policies and procedures are in place to identify risks related to SEAH and protect against, report, prevent, detect, investigate, and remedy SEAH.
 - o Established and operate accessible and inclusive survivor-centred and gender responsive grievance redress mechanisms (GRMs) with specific procedures for SEAH including confidential reporting with safe and ethical documenting of such cases, that indicate when and where to report incidents, and what follow up actions will be undertaken.
- Public information available

External dimension (only applicable for FSPs):

- Formal gender and SEAH policy
- Gender disaggregated client data as a minimum: type (individuals, MSMEs, smallholder farmers), number/size of loans, non-performing loans, profitability, savings, client satisfaction, new clients, age, geography, belonging to an Indigenous People (this last data requirement for Indigenous People will be needed for all type of projects in line with paragraph 39 of the GCF IP Policy).
- Products or services specifically targeting women and girls
- Training to clients about e.g. financial literacy, cash flow management, others
- Public information available

Step 2: Gender and SEAH Action plan

A gender and SEAH action plan will be designed for each institution according to the information collected in step 1. The weaknesses will be addressed through the implementation of the corrective measures in the action plans, and when necessary, Technical Assistance funds³². This way Kuali will be able to transform investees policies to further enhance gender equality both through internal policies and with clients. The gender and SEAH plans will have to be approved by Kuali Fund.

This may include the compromise from the investees to conduct training in gender and/or SEAH to increase their capacities transversally in the organization and to appoint a person responsible to ensure that these commitments materialize. Also, the implementation of an ad-hoc gender and SEAH management system if necessary.

Step 3: Legal agreement

The Kuali Fund-GCF will include in the contracts with the investees, clauses of commitment to gender equality and Zero-Tolerance policy and the implementation of an ad-hoc management system. Other Specific covenants may be introduced in loan agreements by setting specific activities and KPIs as indicated in the activities 2.1 and 2.3 of the Gender Action Plan in Annex 8.

Step 4: Monitoring and reporting

The Fund will implement, monitor, and continuously improve all measures to mitigate and manage the identified gender issues and SEAH risks and impacts.

The investees companies will prepare a gender and SEAH performance report as part of the E&S performance report. The report will include at least the following:

Internal dimension:

- Gender and sexual harassment policy developed
- Number and % of female staff
- Number and % women in senior management
- Number and % of women promoted
- Number and % of women receiving training
- Review of equal remuneration for work of equal value
- Sexual harassment protocol

External dimension:

- Gender and sexual harassment policy developed
- Gender disaggregated data about clients:
 - o Type individual, MSMEs and smallholder farmers
 - o Age

³² See Gender Action Plan in Annex 8 of the Funding Proposal

- o Geography
- o Belonging to an Indigenous People
- o Number
- o Size of loans
- o Non-performing loans,
- o Profitability
- o Savings
- o Client satisfaction
- Products or services specifically targeting women
- Training for staff on women economic empowerment
- Training for women clients on e.g. financial literacy and business skills

The gender officer will monitor the investee's compliance with the gender action plan included in the investment agreement. In case the analysis shows significant gaps or areas for improvement, GAWA will address those items during the tenor of the loan.

An investor report will be produced on an annual basis which will include the following information:

- Management and governance at the Fund level
- Gender and sexual harassment policy for internal and external dimension of investees
- Gender disaggregated data for both dimensions
- Gender Action Plan implementation
- Case studies, lessons learnt and best practices

Roles and responsibilities

Gender Officer

The gender officer is responsible for developing and implementing the gender management system, together with the KualI Fund Manager, as well as for communicating with senior management on gender issues and concerns.

The gender officer is responsible for developing and updating the procedures and documents that are part of the Fund ESMS. This person also evaluates the gender aspects at the portfolio level and provides assistance to Investment Officers in evaluating and monitoring the gender performance of clients/investees.

The gender officer will also lead the communication with the Members of the Technical Assistance Committee and, when necessary, with the management of the TA implementation partners.

The gender officer will receive annual training of gender issues in order to keep up to date³³.

Training

FSPs and IC will receive training and support to implement an ES management system including gender and SEAH and to gain knowledge on these issues.

³³ See Gender Action Plan in Annex 8 of the Funding Proposal.

Annex H – Fund Manager roles and responsibilities at each investment stage

Investment stage	E&S Impact / IFC PS	Investee		E&S Officer		Investment Officer		Kualii Fund Manager		Senior Management	Investment Committee	
		Internal dimension	External dimension	Internal dimension	External dimension	Internal dimension	External dimension	Internal dimension	External dimension			
Investee acceptance	General E&S (including SEAH)	Potential investees have policies/procedures or be subject to laws setting out principles of protection against SEAH. Implement approach to addressing gender issues in its day-to-day governance, operations and procedures. Potential investees, shall not directly or indirectly condone, encourage, or tolerate participation, or engagement in SEAH or any conduct substantially equivalent to SEAH. To the extent permitted by any national law applicable to them, investees are required to (a) inform as appropriate, through established channels, without delay, SEAH or any conduct substantially equivalent to SEAH. Potential Investees are required to have in place effective policies and/or procedures designed to ensure prevention, detection, investigation, remedial action, and where appropriate, sanctions and reports.		Check the entity against IFC exclusion list, Risk Categorization Table, E&S Review Procedures Manual and Interpretation note.		The Gender and SEAH due diligence will check that all potential investees meet the above requirements and identify weaknesses in their internal policies or procedures. The gender officer will gather this information using checklists, interviews and analyzing corporate documents of potential clients.						
	General E&S Due diligence	Complete the indicators requested by Kualii and provide information on Gender & SEAH to facilitate an Action Plan.		S&E indicators analysis (Alimus, EHS Guidelines, IFC Performance Standards, GMAP, Technical Expert Analysis). Available Gender & SEAH data will be collected as part of the ESOD process. OUTPUT: E&S DD Report , E&S Action Plan		Negotiation of E&S mitigation measures with client. Responsible of evaluation E&S Risks and making recommendation to Investment Committee.		A gender and SEAH action plan will be designed for each institution. The weaknesses will be addressed through the implementation of the corrective measures in the action plans, and when necessary, Technical Assistance funds.			The IC is responsible for deciding if E&S risks are acceptable to the Kualii Fund's overall exposure to risk before to proceeding with a transaction. The IC will approve the GAPS.	
	General E&S Documentation	Reach agreement on covenants and Action Plans		Participate in design of Legal covenants, E&S Action Plan, IFC Exclusion List OUTPUT: Legal Agreement		Legal covenants, E&S Action Plan, IFC Exclusion List. The investment officer ensures that Kualii's E&S requirements are incorporated in legal agreements. OUTPUT: Legal Agreement		Include in the contracts with the investees, clauses of commitment to gender equality and Zero-Tolerance policy and the implementation of an ad-hoc management system. Other Specific covenants may be introduced in loan agreements by setting specific activities and KPIs as indicated in the Gender Action Plan.				
Monitoring	General E&S Kualii Monitoring & Reporting	The investees companies will prepare a gender and SEAH performance report as part of the E&S performance report.		E&S Monitoring forms & monitoring calls. Responsible for development and implementation of ESMS as well as communicating senior management any E&S issues or concerns. Responsible for developing and updating the procedures of the Fund ESMS. Evaluates the E&S risks at the portfolio level and provides assistance to Investment Officers in evaluating and monitoring the E&S performance of clients/investees. The E&S Officer will also lead the communication with the Members of the TA Committee and, when necessary, with the management of the TA implementation partners. OUTPUT: E&S Monitoring Report and E&S Exit Report		Participate in E&S Monitoring forms & monitoring calls OUTPUT: E&S Monitoring Report and E&S Exit Report		The gender officer is responsible for developing and updating the procedures and documents that are part of the Fund ESMS. Also evaluates the gender aspects at the portfolio level and provides assistance to Investment Officers in evaluating and monitoring the gender performance of clients/investees. The gender officer will also lead the communication with the Members of the Technical Assistance Committee and, when necessary, with the management of the TA implementation partners.		In case of unresolved E&S issues or non-compliance associated with a transaction that cannot be resolved by the investment officers, senior management determines the appropriate course of action to reduce the FIs exposure.		
	PS 7: Indigenous peoples *	Ensure existence or non-existence of indigenous communities nearby										
	PS 1: Assessment and Management of Environmental * and Social Risks and Impacts	Financial education workshops in initial stages of the Programme to avoid overindebtedness and promote strategic planning and savings.										
	PS 8: Cultural Heritage *	Cultural hazards workshops + capacity building workshops.										
	PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources *	Sustainable agriculture workshops for institution with smallholder farmers as beneficiaries.										
	Grievance Mechanism	Include contact information on their websites or relevant sites to facilitate the mechanism for clients or other parties.		Annually monitor the GRM report of each entity and ensure that the Mechanism is working correctly (with appropriate complaints resolution).								
	Gender & SEAH	Compile requested information and facilitate access to it to Kualii's team. Address any improvement areas during the tenor of the loan.						The gender officer will monitor the investee's compliance with the GAP included in the investment agreement. In case the analysis shows significant gaps or areas for improvement, those items will be addressed during the tenor of the loan. An investor report will be produced on an annual basis in this regard.				
Evaluation	Review and continuous ESMS improvement			ESMS should be updated regularly to reflect any changes in E&S regulations and/or international best practices.								

* Indigenous Peoples Plan for institutions working with Indigenous Peoples

In the event of any discrepancy between the meanings of any translated versions of this Document and the English language version, the meaning of this English language version shall prevail.