



**Family Homes Funds Limited**  
**Environmental and Social Management System (ESMS)**  
**September 2020**

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## ACRONYMS

ES	Environmental and Social
ES Manager	Environmental and Social Manager
ESA	Environmental and Social Assessment
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plans
ESMS	Environmental and Social Management System
ESS	Environmental and Social Screening
FI	Financial Intermediary
IFC	International Finance Corporation
IFC-PS	IFC Performance Standards
IO	Investment Officer
MCC	Management Credit Committee
PM	Project Manager
TOR	Terms of Reference

## **1. BACKGROUND**

### **1.1. Introduction**

Family Homes Funds Limited (FHFL) is a social housing financing fund aimed at improving the quality of life of Nigerians on low income through housing. FHFL evolved as a response to the need to provide decent homes and accessible finance for low-income Nigerians while harnessing the job creating potential of the housing sector.

The Fund was set up as a private limited liability company in September 2016 with the Federal Ministry of Finance and Nigeria Sovereign Investment Authority as founding shareholders. FHFL is committed to seeing the development of 500,000 homes and in the process, creating 1.5m jobs. In addition to FHFL aims to match a seed funding from the Federal Government of Nigeria with additional capital raised through partnerships with private investors and Development Finance Institutions (DFIs).

FHFL reaches its goal of providing homes for low income Nigerians by providing a construction finance facility to developers who are building for our target beneficiaries. FHFL also stimulates housing demand by developing innovative financing solutions that encourage off-take of homes. Integral to FHFL's functions is also the creation of decent jobs.

### **1.2. Purpose**

As a financial institution, we play a key role in improving the quality of lives of Nigerians through the provision of needed financing to put families in decent homes, while creating jobs. In carrying out our operations, we are committed to:

- Optimising our social and environmental impact
- Exceptional social and corporate governance
- Transparent and open communication
- Efficient risk management
- High ethical standards
- Providing decent and sustainable jobs
- Providing quality homes

In line with these commitments, we have evolved a social and environmental management



policy to:

- I. Articulate our views and commitments to environmental and social management
- II. Ensure we integrate environmental and social management within our project financing
- III. Ensure we adhere to national and internationally accepted environmental and social management standards
- IV. Provide guidance to FHFL's Directors, senior management, and employees on the company's stance on environmental and social impact, and established procedures to ensuring we maximise ESM impact, while minimizing its risks
- V. Provide clarity on and transparency to regulators, potential investors, clients, customers and other key stakeholders about FHFL's ESM policy and management procedures
- VI. Communicate with potential investors our commitment to social and environmental impact

### **1.3. Rationale**

Having a ESM policy has become crucial to ensuring we optimise our environmental and social (ES) impact, while effectively reducing the risks associated with projects that have detrimental ES effects. Various sector specific guidelines and standards have been set forth to guide project financing at the international and national levels, and it is beneficial for FHFL to adhere to them. By effectively managing the ES risks associated with project financing, FHFL will be able to avoid funding activities with adverse ES impacts. Furthermore, it will enable FHFL to appropriately communicate our ESM procedures and pass potential scrutiny by regulators and investors on ES issues.

Negative ES impacts can have deep financial, legal, and reputational costs. Therefore, incorporating ES aspects into our lending operations will benefit FHFL by reducing the risk of environmental disaster, legal disputes, lawsuits, fines, project stoppages or delays, weakening brand and collateral, decreased business opportunity, smeared corporate reputation, or lowered liquidity of assets.

By committing to projects that are social and environmentally sound, FHFL adds value to the institution, posits itself as a viable company for investors to partner with, increases financial stability, enhances the corporate image, allows it to meet international requirements, while delivering a better product to its clients and target beneficiaries.

#### **1.4. Objectives**

The key objective of the ES Policy is to assist FHFL in achieving its vision of providing and expanding sources of affordable and sustainable financing for low-income housing programs while maximizing the development benefits of such investments. Together with the implementation of the ES policy, this can be attained by encouraging socially and environmentally responsible and sustainable lending for housing development by mainstreaming ES considerations into FHFL's lending activities, and by managing ES risk in a manner compliant with today's benchmark ES standards. This could be further enhanced through encouraging and favouring the creation of decent jobs, use of local content, environmentally sustainable green housing, cleaner production processes and energy saving options in future housing development financing.

#### **1.5. Guiding Laws, Regulations and Standards**

FHFL's Environmental and Social Management Policy and procedures are guided by our corporate mandate and values, commitment to social and environmental impact, relevant local and international social and environmental laws, regulations and safeguard requirements. These guidelines include:

##### **The Laws of the Federal Republic of Nigeria**

FHFL is committed to adhering to the statutory laws of its host country – the Federal Republic of Nigeria. Relevant laws guiding our operations include:

- The Nigerian Labour Act (1990)
- Constitution of the Federal Republic of Nigeria (1999)
- Environmental Impact Assessment Act (No. 86) 1992, and other National Environmental Regulations
- National Environmental Standards and Regulations Enforcement Agency (NESREA) Act (2007) and Regulations

##### **International Environmental and Social Guidelines**

FHFL is committed to integrating the global goals, international ES standards and best practices within our operations. As an institution, we align closely with the New Urban Agenda and the and the Global Goals promoting sustainable cities and communities, no poverty, good health and well-being, clean water and sanitation, decent work and economic growth, reduced inequalities.

We also draw on and seek to adhere to the requirements of other proven ES standards:

- The African Development Bank's Integrated Safeguards
- The International Finance Corporation (IFC) Performance Standards (2012)
- World Bank Environmental, Health and Safety Guidelines (2007)

## **2. FHFL ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM**

Policies and guidelines are necessary to maximise ES impact while managing the ES risk associated with FHFL's activities, products, and services. Positive SE impacts will enable FHFL achieve its mandate of improving the quality of life of Nigerians and contribute to its long-term relevance as a key player in social housing finance. On the other hand, adverse SE impacts can expose FHFL and its Clients to diverse types of risks depending on their nature, scale, and scope. Optimising the benefits, while addressing key risks is the fundamental objective of the FHFL Environmental and Social Management System (ESMS).

The FHFL ESMS is an internal system that incorporates FHFL's: (i) ES policy; (ii) Applicable requirements; (iii) ES management procedures; (iv) Organisational capacity i.e. roles and responsibilities; (v) Available resources; (vi) Awareness raising and training; (vii) Documentation; (viii) Communication and reporting; (ix) Monitoring and reviewing; and (x) Arrangements for non-compliance.

An ESMS is part of an institution's overall management framework that produces guidelines, develops procedures, defines the organisational structure, allocates responsibilities, and creates resources to ensure the integration and maintenance of ES management and risk evaluation in its business activities. The ESMS outlines an ES policy aimed at mainstreaming good ES practices into a company's operations in order to constantly improve SE performance while minimizing an institution's harmful effects on the environment and society. It also considers regional, national, and international requirements.

The ESMS acts as an umbrella process under which each aspect of FHFL's ES Policy is managed and incorporated into lending. The applicability of each statement of the ES Policy is established during the Environmental and Social Assessment (ESA) process, while implementation of the actions necessary to meet the requirements of each policy is managed through the ESMS.





## **2.1. Environmental and Social Policy**

In line with the current operations of FHFL and in view of its commitment to having a formal ESMS, the present section provides a framework for a Policy adopted by FHFL. These policy statements reflect FHFL's mandate as well as the local and international guidelines such as the African Development Bank's Integrated Safeguards System, IFC-PS that are considered as today's accepted benchmark standards for financial institutions internationally. Policies are laid out in a series of statements that reflect the overall and specific issues related to SE impact and risk management. The following are a series of statements that suit the needs of FHFL.

- 2.1.1. FHFL shall consider a project's Potential Development Benefits as criteria in selecting potential investments. Potential Development Benefits shall include projects that support FHFL's core values and principles and that promote decent jobs, quality homes, green housing, cleaner production processes and energy saving options.
- 2.1.2. All FHFL Clients must comply with Applicable Requirements, including local/national ES laws, regulations, standards, and ESA Procedures. Where national ES regulations, standards or ESA procedures are not deemed equivalent to FHFL's benchmark requirements, the most stringent requirements apply.
- 2.1.3. All projects FHFL finances shall be assessed and classified according to their potential ES impact level and risks early in the project preparation process so that ES safeguards and due diligence requirements may be appropriately addressed and followed up throughout the project life. Screening of projects leads also to the selection of the type of Environmental and Social Assessment (ESA) that is required.
- 2.1.4. FHFL will make all possible efforts to avoid, minimize and/or mitigate adverse ES impacts associated with its lending. When adverse ES impacts cannot be avoided, FHFL will require its Clients to develop mitigation measures to address these impacts and include them in an ESMP. If adverse SE impacts cannot be fully mitigated, compensation should be provided to those groups affected.
- 2.1.5. FHFL will ensure that labour and working considerations are included in ESA processes. FHFL will ensure that all projects it finances: (i) establish, maintain and improve the worker-management relationship; (ii) promote fair treatment, non-discrimination and equal opportunities of workers; (iii) protects the workforce from child



- labour or forced labour; and (iv) promote safe and healthy working conditions for all workers.
- 2.1.6. FHFL will avoid or minimize risks to and impacts on the health and safety of the local community during disbursement of funds to a project it finances, as well as ensure that the safeguarding of personnel and property is carried out in a legitimate manner that avoids or minimizes risks to the community's safety and security.
- 2.1.7. FHFL will avoid or minimize involuntary resettlement wherever feasible by exploring alternative project designs and when alternative measures cannot be put in place, will improve or at least restore the livelihoods and standards of living of displaced persons through provision of adequate housing with security of tenure at resettlement sites.
- 2.1.8. FHFL shall ensure that the projects it finances preserves cultural heritage, protects cultural heritage from the adverse impacts of projects activities and promotes the equitable sharing of benefits from the use of cultural heritage in business activities.
- 2.1.9. FHFL will ensure that all financed projects foster full respect for the dignity, human rights, aspirations, cultures and natural resource-based livelihoods of Indigenous Peoples. When adverse impacts on these Peoples cannot be avoided, FHFL shall minimize, mitigate or compensate for such impacts, and to provide opportunities for development benefits, in a culturally appropriate manner and to respect and preserve the culture, knowledge and practices of Indigenous Peoples.
- 2.1.10. FHFL will ensure that the projects it finances fosters good faith negotiation with and informed participation of Indigenous People when projects are to be located on traditional or customary lands under use by the Indigenous Peoples.
- 2.1.11. FHFL shall mitigate adverse social and economic impacts from land acquisition or restrictions on affected persons' use of land by: (i) providing compensation for loss of assets at replacement cost; and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected.



- 2.1.12. FHFL shall provide financing to projects that protect and conserve biodiversity by promoting the sustainable management and use of natural resources and that adopt practices that integrate conservation needs and development priorities.
- 2.1.13. FHFL will require its Clients to avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities and to promote the reduction of emissions that contribute to climate change.
- 2.1.14. All projects financed by FHFL will undergo the relevant ESA process as determined through project screening. The relevant ESA documents must meet the Applicable Requirements to ensure that the projects are SE sound and sustainable. An Environmental and Social Management Plan (ESMP) shall be produced for each project financed by FHFL, stating the adverse impacts, the safeguards/mitigation proposed, responsibilities and budget allocated to project social and environmental management.
- 2.1.15. FHFL will annually verify the ES compliance and performance of its portfolio Clients until the end of disbursement. This supervision and monitoring will include reviews of the initial screening and due diligence reports, ESA terms of reference (TORs), ESA documents and an assessment of its portfolio Clients in meeting the Applicable Requirements and ESMP.
- 2.1.16. This Policy will be communicated to all staff and operational employees of FHFL. FHFL shall also educate its staff to adopt an SE responsible approach and integrate ES issues into its internal communication and reporting systems.
- 2.1.17. FHFL will share information with customers as appropriate to enable them to strengthen their own capacity to reduce ES risk and promote sustainable development. FHFL encourages its clients to make efficient use of natural resources and promotes the protection of the environment.
- 2.1.18. FHFL will commit adequate financial and technical resources to allow for the effective implementation, review and upgrading of the ESMS.

This Policy will be communicated to all staff and operational employees of the Company.

## **2.2. Applicable Requirements**

The Investment Officer (IO), Head, Project Management (PM) and Environmental and Social Manager (ES Manager) will ensure that all projects are reviewed and evaluated against the following ES requirements.

- i. The FHFL Exclusion List for all projects (Appendix A).
- ii. The applicable national laws and regulations on social, environmental, health and safety issues, and any standards established therein relevant to the Nigerian construction sector.
- iii. Compliance with FHFL's ES Policy.

## **2.3. Environmental and Social Review Procedures**

This section highlights the SE review procedures. These procedures are developed to align with current procedures that pertain to project origination and execution, in the most effective and efficient manner.

### **2.3.1. Exclusion List**

FHFL's ES review process will commence when a proposal is submitted for consideration or interest is expressed in FHFL's funding. At this stage, FHFL's Investment Officer, with input from the ES Manager as needed, will check the viability of the project by screening the proposal against FHFL's Exclusion List (Appendix A). FHFL will not providing financing or engage in any activities that are included on our Exclusion List. All transactions that are not included in FHFL's Exclusion List will be further screened according to FHFL's additional review processes indicated in the sections below.

### **2.3.2. Initial Environmental and Social Screening**

FHFL's Risk Manager or Environmental and Social lead will carry out an Initial Environmental and Social Screening on projects which are not on the exclusion list, are deemed to be feasible by the Management Credit Committee and for which an acceptance agreement with FHFL has been executed. The Screening will include categorising the project into one of four categories: A, B, C, or F1, depending on the nature and scale of the predicted adverse ES impacts (detailed information in Appendix A). The following characterise the project categorisation:

#### **Category A**

A proposed project is classified as Category A if it is likely to have significant adverse ES impacts on human populations or environmentally important areas. The project may affect an area broader than the sites or facilities used in the course of normal company operations and



have significant diverse, irreversible, and unprecedented negative environmental and social impacts.

#### Category B

These are projects that have potential limited adverse social or environmental impacts that are few, site-specific, largely reversible, and readily addressed through mitigation measures. Category B impacts on human population or environmentally important areas are less adverse than those of a Category B project.

#### Category C

A project is classified as Category C if it is likely to have minimal or no adverse social or environmental impacts.

#### Category F1

A proposed investment is classified as Category F1 if FHFL deals with a Financial Intermediary (FI) that could provide financing to companies or projects that could have adverse environmental and social impacts.

The Category into which a project is screened will determine the Applicable Requirements and ESA requirements associated with the project. This initial categorisation, ESA requirements and extent of ESDD to be conducted will be included in the initial recommendation report to the Management Credit Committee (MCC).

### 2.3.3. Environmental and Social Due Diligence

Formal ESDD will be carried out as part of FHFL's due diligence process on all Category A and B transactions. This takes place after approval by the MCC, the potential client pays an appraisal fee and FHFL has confirmed payment. A limited review will also be carried out on Category C transactions by FHFL's ES Manager. Prospective clients will be required to provide all requested information for review needed to facilitate our screening and due diligence processes.

FHFL will take the lead role for environmental and social governance and will undertake or commission a preliminary appraisal of the environmental and social risks of the project. For all projects categorised as Category A, FHFL will use mandatory Standard Supplementary TOR to ensure 1) that FHFL's ES policy is met, and 2) a full ESMP or ESMS is prepared for the

project. For all projects categorised as F1, FHFL will also utilise mandatory Standard Supplementary TOR to ensure 1) that FHFL's ES Policy is met and 2) a full ESMP or ESMS is prepared for the project. These mandatory Standard Supplementary TORs will also be made available to the clients.

If another qualified guarantor / investor / lender (Financing Party), in a proposed transaction takes the lead role in establishing, guiding, and monitoring environmental and social governance, FHFL will actively seek information from such Financing Party and will collaborate as appropriate to ensure the adequacy of the risk identification and mitigation strategy.

The ESDD will be undertaken by FHFL's appointed or recommended persons. This would either be (i) External consultants, (ii) FHFL, where the company has sufficient internal capacity and experience to conduct the necessary due diligence; or (iii) a qualified guarantor / investor / lender ("Financing Party" e.g., the African Development Bank, World Bank, IFC, Asian Development Bank, European Investment Bank, Agence Française de Développement (AFD), FMO: Entrepreneurial Development Bank, DEG, and Proparco) recognised by FHFL to have appropriate internal experience.

The scope and content of each ESDD will be determined by, and commensurate to the Environmental and Social Risks associated with the specific transaction. FHFL will prepare or procure the Terms of Reference for the ESDD, based upon a review of all applicable documentation and an evaluation of the project against FHFL's E&S Policy.

#### **2.3.4. Risk and Management Credit Committee Review**

After the ESDD is completed, FHFL's E&S manager will update the categorisation of the proposal, if it has changed from its initial categorisation. An E&S Evaluation Form will be completed by the E&S Manager, and it will highlight the key E&S risks identified by the ESDD and the recommended conditions for FHFL's Loan. In the case of Category "C" transactions, the E&S manager will highlight applicable key E&S issues. The E&S Evaluation form will be supported by the ESDD report and would be part of the Project Appraisal Report. The E&S Evaluation form will be reviewed by the Head of Risk and the Management Credit Committee. E&S conditions will be properly articulated for all transactions that will be approved by the MCC.

#### **2.3.5. Loan Agreements**

Once the ESDD is successful and transaction is approved by the MCC, the investment and legal teams will draw up a term sheet which is a provisional offer of the terms and conditions

of the loan but still subject to board approval. ES conditions will be reviewed by the ES Manager and the Legal Team.

Approval will be conditional upon the Client agreeing to carry out the Environmental and Social Management Plans (ESMPs) for Category A and B projects, and to maintain or obtain an acceptable Environmental and Social Management System.

The term sheet will contain appropriate ES representations, safeguard indicators, warranties, and covenants that client would need to comply with. The loan agreements will typically include ES covenants that clients will:

- i. Maintain acceptable Environmental and Social Management System (ESMS) and / or take appropriate steps towards obtaining an ESMS that is commensurate with their operations.
- ii. Carry out the Environmental and Social Management Plans for Category A and B projects.
- iii. Conduct their business in accordance with applicable laws and standards relating to Environmental and Social Management and Labour Practices and achieve prior to disbursement of any funds, written approval from relevant authorities.
- iv. Conduct their business in accordance with FHFL's ES Policy and requirements.
- v. Promote the protection of the environment in which the company operates.
- vi. Maximize job creation potential and use of locally manufactured inputs.
- vii. Promote equal opportunities for all, irrespective of gender, race or, other considerations with regard to employment of workers and sale / lease of completed homes.
- viii. Ensure that potentially harmful occupational health and safety environmental and social effects are properly assessed, addressed, and monitored.
- ix. Ensure the safety of workers involved in construction works including but not limited to provision of protective clothing, safety equipment and gadgets, sanitation facilities, appropriate insurance etc.
- x. Comply with local labour laws and ensure that no worker employed receives below the minimum wage as prescribed from time to time by the Government of Nigeria and child labour is not employed under any circumstances.
- xi. Monitor and report on ES performance including job creation to FHFL at least semi-annually in a Monitoring Report prepared by the client, using a template provided



by FHFL or approved by FHFL's ES Manager. Details of reporting frequency shall be contained in the loan agreements.

- xii. Facilitate site visits by FHFL at least annually to ensure compliance with ES agreements.

#### **2.4. Non-Compliance with ES Requirements**

In cases of non-compliance with agreed covenants on ES issues, FHFL will promptly agree with the relevant client, or require the relevant client/sponsor to undertake, as appropriate or necessary in FHFL's reasonable judgment, corrective measures to remedy such inconsistency or breach and diligently pursue the remedies available to FHFL under legal agreements with the loan recipient.

#### **2.5. Roles and Responsibilities**

This section highlights the roles and responsibilities of the different parties in the ES review. This includes the Chief Executive Officer, the Environmental and Social Manager, Investment Officer, Risk Manager / ES Technical lead, Project Management Unit, Legal Unit, and the Client

##### **2.5.1. The Chief Executive Officer**

FHFL's Chief Executive Officer (CEO) has executive oversight and the overall strategic responsibility for implementing the ES Policy. He or she will be required to:

- Maintain a good understanding of ES issues as it relates to FHFL
- Ensure FHFL complies with all statutory ES requirements
- Oversee the performance of FHFL's E&S Manager and any E&S committee
- As may be required, appoint personnel, set up committees and allocate required resources to implement FHFL's E&S Policy and requirements
- Ensure periodic reports on E&S performance are done and review such reports
- Ensure E&S issues are given relevant consideration at the MCC, the Board and in new business developments
- Provide regular updates to FHFL's Board on E&S performance

##### **2.5.2. The Environmental and Social Manager**

The ES Manager will coordinate all the external and internal ES matters at FHFL and have oversight for all ES issues. The ES Manager's responsibilities include the following:

- Maintain a deep knowledge and understanding of E&S issues as it relates to FHFL's activities





- Review Investment Officer's Screening, Risk Manager or ES technical lead's Categorization, Due Diligence reports and the Applicable Requirements of the project
- Supervise all ES matters specific to FHFL's internal ES policy and procedures
- Note FHFL's ESMS non-compliance in exception logs
- Undertake an annual review of FHFL's ESMS and analyse how ES risk has been managed and benefits maximised through various projects in that year
- Ensure FHFL meets external ES reporting obligations
- Review and upgrade the ESMS annually, or as the need arises, to as the need arises, to ensure compliance with statutory and investor requirements
- Report and communicate ES issues and updates to FHFL's ESMS to staff
- Ensure that environmental and social requirements are duly defined and communicated to clients and relevant FHFL committees in accordance with FHFL's ES policy
- Determine the need for, and work closely with external resources engaged by FHFL on ES issues
- Review loan recipients' annual reports on the implementation of their Action Plans and ensure that any additional conditions required by FHFL are duly put into practice in a timely and effective manner
- Develop annual plans and budgets for ES Policy implementation
- Ensure periodic and regular reporting on ES performance to FHFL's Board
- Prepare reports for FHFL's Board on any ES deficiencies in respect to any loans given and provide suitable recommendations to mitigate risks
- Engage with a variety of stakeholders and specialists as may be required to better understand and improve E&S management and impact
- Work towards ensuring that ES issues are discussed at the Board and highest level of decision making of FHFL beneficiary companies
- Ensure that FHFL's Board, Executive team, management and staff are kept up to date in respect of publications and information, including relevant stakeholders' ES policies and procedures
- Make recommendations to FHFL's CEO on initiatives and opportunities in support of the firm's ES goals and targets



### 2.5.3. Investment Officer

Investment officers are required to be conversant with FHFL's ESMS. Their responsibilities include:

- Ensure that all Clients are fully aware of FHFL's ESMS and must obtain the Client's agreement to carry out ESA, ESMP and implement the ESMS, where necessary
- Ensure all new projects are screened against FHFL's exclusion list
- Obtain ES Manager's approval for project Categorization
- Supply Category A and FI Clients with FHFL's Supplementary TORs
- Work with Client to get the appropriate ESA underway
- Work closely with FHFL's clients on ES issues and mitigation solutions

### 2.5.4. Risk Manager or ES Lead

The Risk Manager of Project ES Lead bears responsibility for supervising and managing ES issues associated with project proposal and implementation:

- Ensure all projects are categorized based on their potential ES risks
- Prepare the scope of work for ESDD (in line with FHFL's Supplementary TORs) and ensure it is conducted by FHFL's recommended or appointed person(s), or consultant(s)
- Review the result of the Client's ESIA and/or ESMP
- Review the Client's compliance with Acceptable Requirements
- Proposes the E&S covenants for the loan agreement
- Addresses all issues raised by the Loan Committee on ES issues
- Ensure ESA documents are made publicly available to stakeholders
- After approval and disbursement, ensures that ESMPs are being followed by the client during the periodic inspections
- Be responsible for monitoring deviations from standard procedures, documenting and recommending corrective measures
- Will have access to in-house or external consulting expertise in carrying out this function

### 2.5.5. Project Management Department

The Project Management Department has the responsibility of managing on-site ES issues associated with project pre-development and implementation. The Project Management Department's responsibilities include:

- Facilitate and ensure the carrying out of the ESDD
- Ensure the Independent Project Managers (IPMs) are conversant with FHFL's ESMS
- Provide the IPMs with the ESMPs for each project
- After approval and disbursement, ensure that ESMPs are being followed by the client through the IPMs
- Receive periodic ES updates based on agreed upon templates from IPMs and make this available to ES Manager and the Risk Manager or Project ES Lead

#### 2.5.6. Legal Unit

The Legal Unit shall play a key role in ensuring that ES requirements are integrated in loan agreements. Their responsibilities include to:

- Monitor changes in Environmental, Health and Safety Legislation and Regulations and alert the ES Manager, Risk Manager / ES Lead and Investment Officers of implications of such changes
- Assist the ES Manager and PPM in drawing up environmental covenants and warranties
- Prepare all legal documentation execution by FHFL and its Clients
- Ensure with the ES Manager that ES CPs are fulfilled prior to loan disbursement

#### 2.5.7. The Client

The Client is responsible for integrating ESA considerations into its operations according to FHFL's Applicable Requirements. It is essential that the Client assume such responsibility to ensure FHFL's investments are ES responsible and sustainable. The Client's responsibilities include the following:

- Providing baseline ES information to facilitate the screening process
- Where necessary, retaining independent ES expertise to prepare an ESIA for Category A investments, and developing ESMPs for Category A and B projects
- Conducting meaningful consultations and ensuring compliance to ESIA and its ESMP
- Conducting public consultations, especially with local people affected/benefiting, or living in the area where the project will be developed (Category A)
- Ensuring disclosure of the findings of the ESIA to the public, and collect/integrate their comments and suggestions (Category A)
- Consulting with relevant stakeholders throughout the investment period and providing an annual follow-up report

## 2.6. Resources

FHFL will ensure that it provides adequate financial resources to allow for the effective implementation, review and upgrading of the ESMS.

- The ES Manager, ES lead or Risk Manager will be qualified to be able to manage ES risk, including screening, due diligence, review, and monitoring work. These point persons will through regular training, gain and maintain a deep knowledge and understanding of ES issues, and improve the capabilities necessary to carry out their functions
- As may be required to satisfy our ES goals, FHFL might engage specialist environmental and social support from appropriately qualified consultants from time to time. The specialists will:
  - Provide environmental and social risk assessment services
  - Provide capacity building and training in relation to ES issues, for example on relevant national and international standards
  - Work with in-house ES personnel on ESDD and other tasks
  - Help prepare and/or review FHFL Annual ES Report and provide ongoing support in relation to ES issues
  - Conduct supervisory visits and prepare or contribute to the preparation of Site Supervision Reports
- Where the specialist or consultant is involved in the ESA and ES audits, the client will be required to pay for it

## 2.7. Awareness Raising and Training

- FHFL shall continuously raise staff awareness on ES issues. FHFL's environmental policies/standards shall be taught to new staff during their induction/training.
- There shall be FHFL wide briefings on the ESMS and its Environmental and Social Policy. The objective of the briefings is to ensure that staff comprehend and adopt an ES friendly approach to business. To update staff, seminars and workshops on ES issues shall be organized periodically.
- FHFL staff responsible for ES issues shall receive the necessary specialist training and attend refresher courses to keep them aware of new developments in the field of ESA.



- Investment Officers will be trained on the application of the ESMS procedures and tools. Also, a simple Internal Handbook that explains policies, procedures, and basic concepts of the ESMS will be developed.
- FHFL Management will receive necessary specialist training and attend refresher courses to keep them aware of ESMS developments.
- FHFL's Standard Operating Procedures will be updated to incorporate ES procedures outlined in the ESMS.

## **2.8. Key Documents and Records to be maintained**

Several documents and reports will be produced by FHFL while carrying out ES activities. These are:

**2.8.1. Initial Environmental and Social Screening Form:** This is the record of FHFL's ES review of a project at the time of considering the project for investment. It will include the initial ES risk categorization, and the scope of ESDD for Category A and B projects.

**2.8.2. Environmental and Social Evaluation Form:** This contains the details of in-house review of projects and/or excerpts from the ESDD reports prepared by the ES specialists. It will also contain the specific covenants to be included in the loan agreement either prior to the issuance of the loan or for continued financial support of the project.

**2.8.3. Periodic ES Performance Report:** The ES Manager working with the Project Management Department will assess each client's / project's compliance with ES conditions and report to the Executive Committee and / or Project Review Committee in periodic performance reports. The report will contain sufficient information to give a picture of progress against the ESMP, achievements and problems, and shall be done at least once a year.

**2.8.4. ES Close Out Report:** This will be prepared at the expiration of the project or loan. It can be in form of an ES Audit or Final Supervision Report.

**2.8.5. Periodic and Annual ES Review Report:** This will contain details on ES performance on FHFL's projects or funded activities in a single report. The report can be combined from project reports, any independent review, and any other reports. It can be presented to the Board of Directors, Executive and Management Committees, Investors, and where applicable, external stakeholders.

## **2.9. Communication and Reporting**

2.9.1. Category A ESIA's will be communicated to the public and circulated to relevant stakeholders and the Board of Directors.

2.9.2. Internally, ES communication will be achieved through the following channels:

- Internal emails and newsletters: to update employees on a periodic basis on ES matters
- Standard Operating Procedures Manual: FHFL operations shall be amended to reflect FHFL's ES policy and guide all relevant stakeholders and implementing units on the application of ESMS procedures
- Memos and circulars will be issued from time to time as needed

2.9.3. Externally, ES communication will be achieved in the following ways:

- ESA studies for Category A projects will be made publicly available to stakeholders
- Annual Reports: FHFL's periodic and annual reports will be used as a medium to inform various stakeholders on the ESMS and ES policy
- Newsletters and memos: FHFL's clients will be informed of ES matters in FHFL's newsletters or memos, depending on the circumstance
- Annual ES Monitoring Reports: This will be used to update investors, and relevant stakeholders on ES aspects of FHFL's business

## **2.10. Monitoring and Reviewing of the Environmental and Social Management System**

The ESMS will be reviewed annually by the ES Manager to ensure its ongoing suitability and efficiency. On the basis of this review, the ES Manager will initiate the necessary changes to the ESMS, and its components will review and approval of the ES Manager. The following tools will be used in evaluating in the ESMS:

2.10.1. Continuous revision of ESMS procedures in light of changes/enhancements to industry guidelines and best practices

2.10.2. Exception logs, noting instances of ESMS non-compliance, are used to track corrective action

2.10.3. Build rewards for compliance

2.10.4. Exceptions to the ESMS must be confirmed by the ES Manager for ratification by Executive Management

2.10.5. Reports from clients on ES issues associated with their projects.

### 3. APPENDIX

#### Appendix A – Due Diligence and Environmental and Social Screening Checklist

The following Due Diligence and Environmental and Social Screening checklist is to be used by the Investment Manager to conduct project Screening. This checklist is inspired by the IFC and AfDB requirements, which are considered internationally accepted, benchmark standards.

#### A. FHFL's Exclusion List

FHFL's Exclusion List defines the types of projects that FHFL does not finance. If the project involves an excluded activity, further consideration of investment in the project will be terminated and the Investment Manager will indicate the Applicable Requirements for FHFL's decision on the project financing to the Client.

S/N	Yes	No	EXCLUSION LIST
1			Activities involving harmful or exploitative forms of forced labor. Forced labor means all work or service, not voluntarily performed that is extracted from an individual under threat of force or penalty.
2			Production of any product or activity deemed illegal under host country (i.e., national) laws or regulations, or international conventions and agreements
3			Activities involving harmful or exploitative forms of harmful child labor. Harmful child labor referring to economically exploitive employment of children that is, or is likely to be, hazardous to the child's education, health, or physical, mental, spiritual, moral, or social development.
4			Use of unbonded asbestos fibers or asbestos-containing products.
5			Use of pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans
6			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.
7			Use in ozone depleting substances subject to international phase out or use of PCBs.



8			Production or activities that impinge on the lands owned, or claimed under adjudication by Indigenous Peoples without full documented consent of such peoples.
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**Appendix B: Environmental and Social Review Procedures**

Process Stage	Activity	Responsible Party	Documentation
Receive Loan Application and Preliminary Information	<ul style="list-style-type: none"> <li>▪ Compile relevant E&amp;S information from E&amp;S review</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment Manager</li> </ul>	
Exclusion List Review	<ul style="list-style-type: none"> <li>▪ Screen application against FHFL's exclusion list</li> <li>▪ Confirm if transaction passes screening</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment Manager</li> </ul>	<ul style="list-style-type: none"> <li>▪ Appendix A: Due Diligence and E&amp;S Screening Checklist</li> </ul>
Preliminary E&S Review	<ul style="list-style-type: none"> <li>▪ Categorise the transaction</li> <li>▪ Identify transaction's key E&amp;S aspects and possible risks</li> <li>▪ Develop ESDD Scope</li> <li>▪ Issue initial E&amp;S Screening Form and submit with Initial Recommendation Report to MCC</li> </ul>	<ul style="list-style-type: none"> <li>▪ Risk Manager</li> <li>▪ E&amp;S Manager</li> </ul>	<ul style="list-style-type: none"> <li>▪ Appendix A: Due Diligence and E&amp;S Screening Checklist</li> </ul>
ESDD or E&S Manager Review	<ul style="list-style-type: none"> <li>▪ Assign ESDD Specialist and Conduct ESDD – Category A requires ESIA and ESMPs; Category B require ESMPs</li> <li>▪ Assess if Category C has E&amp;S risks</li> <li>▪ Issue E&amp;S Evaluation Report</li> <li>▪ E&amp;S Evaluation Report will be included in the Project Appraisal Report</li> </ul>	<ul style="list-style-type: none"> <li>▪ E&amp;S Manager</li> <li>▪ E&amp;S Consultant</li> </ul>	<ul style="list-style-type: none"> <li>▪ Appendix A: Standard Supplementary Terms of Reference for Category A Investments</li> </ul>
Risk and MCC Review	<ul style="list-style-type: none"> <li>▪ Review E&amp;S Evaluation Report</li> <li>▪ Make decision on transaction</li> <li>▪ Prepare E&amp;S Covenants</li> </ul>	<ul style="list-style-type: none"> <li>▪ Head of Risk</li> <li>▪ MCC</li> </ul>	





Loan Agreements	<ul style="list-style-type: none"> <li>▪ Finalise E&amp;S Covenants for loan agreement</li> <li>▪ Prepare post loan disbursement monitoring requirements</li> <li>▪ MCC approve of E&amp;S covenants</li> </ul>		
Loan approved	<ul style="list-style-type: none"> <li>▪ Approve the loan</li> </ul>	<ul style="list-style-type: none"> <li>▪ Board of Directors</li> </ul>	
E&S Final Review	<ul style="list-style-type: none"> <li>▪ Carry out final E&amp;S Review to ensure Client fulfilled obligations</li> </ul>	<ul style="list-style-type: none"> <li>▪</li> </ul>	Appendix E

**APPENDIX C: Potential Text for Communicating E&S Requirements to Potential Clients**

*In FHFL's communication to potential clients including in our acknowledgment letter, response to letters of interest, and acceptance agreement, the following should be included:*

1. **Environmental and Social impact is integral to who Family Homes Funds Limited (FHFL) is.**
  - We seek to ensure that positive environmental and social impacts are maximized while all negative environmental and social issues are minimized.
2. **Projects funded by FHFL must therefore comply with FHFL's Environmental and Social Policy and requirements.**
  - FHFL does not provide loan assistance or credit enhancement to any new business that cannot be expected to meet our Environmental and Social Policy over a reasonable period.
  - In addition, there are several activities which FHFL does not provide loan assistance or credit enhancement to. A list of these activities can be found in FHFL's Exclusion List (see attached).
3. **Part of this requirement is an environmental and social review as part of our due diligence process, and a commitment to execute on the Environmental and Social Management Plan (ESMP) as might result from the Environmental and Social Impact Assessment.**
  - This review and ensuing plan will be appropriate to the nature and scale of the loan, and commensurate with the level of environmental and social impacts and risks associated with the loan transaction.



- Clients will be required to pay for the cost of these Environmental and Social Impact Assessments which meets FHFL's requirements as attached.
  - The purpose of the review and plan is to ensure that all projects that FHFL finances conform to FHFL's Environmental and Social Policy, requirements, and initiatives that FHFL develops to ensure it meets its Social Impact Mandate. To conduct its review, FHFL may request that project-specific information be provided.
4. **In line with our job creation mandate**, FHFL will require the client to demonstrate potential to create jobs and demonstrate preference for locally manufactured inputs.
- The client is also required to **commit to efficient tracking of the number of jobs created through its project**.
  - The client is also required to commit to a **skills training and apprenticeship scheme for the duration of the project**.



**APPROVAL PAGE**

STATUS	DESIGNATION	NAME, SIGN & DATE
DRAFTED BY	STRATEGY & BUSINESS PERFORMANCE	Fatima Mohammed
		<del>Alfahim</del>
APPROVED BY	MD/CEO	FEMM <del>Adnan</del>
		Suleiman Barau
APPROVED BY	BOARD	Suleiman Barau
		SULEIMAN BARAU