

## Environmental and Social Data Sheet

### Overview

Project Name:	DENHAM INTERNATIONAL POWER FUND
Project Number:	2017-0404
Country:	Multi-region: Africa (45%), Central and Latin America (33%) and Asia (22%)
Project Description:	Equity participation in a Fund investing in power generation assets using renewable energy and natural gas
EIA required:	yes
Project included in Carbon Footprint Exercise <sup>1</sup> :	no

### Environmental and Social Assessment

This operation intends to bring about environmental benefits by supporting renewable energy ("RE") (wind, solar, hydro), as well as natural gas power generation projects (notably CCGT), in Africa, Central and Latin America and Asia.

The Advisor (Denham) is an energy and resources private equity firm with significant experience investing in the oil & gas, power and mining industries, mostly in the USA, but also in some developing countries. With the International Power Fund, in this operation, the Advisor replicates the approach adopted for its previous emerging markets' fund, working with several Investment Platforms, which effectively are regionally and technically specialised management teams / project development companies. Five such platforms have so far been preselected for the Fund. The Investment Platforms are in charge of implementing the Fund's investment strategy in their respective geographies, by screening, developing, implementing and managing power generation assets under the supervision of the Advisor.

Some of the projects in the Fund's portfolio may have significant adverse environmental and social (E&S) risks and impacts, and most of the Fund's investments would require an ESIA. Risks may include but are not limited to: (i) environmental impacts such as air emissions, waste management, hazardous materials, (ii) OHS (occupational health and safety) risks such as process safety, gas releases, chemical hazards and fire and explosions, (iii) community and social issues such as land acquisition, involuntary resettlement, health, safety and security; potential impacts on indigenous and other vulnerable communities, (iv) biodiversity conservation and (v) stakeholder engagement. Nevertheless, if appropriately designed and operated, investments should only lead to limited negative residual E&S impacts. Further, to ensure adequate Environmental and Social Management System (ESMS) implementation, the EIB will review the first three environmental and social due diligences undertaken by the Fund, prior to its investing in any project screened as high E&S risk.

The Advisor will be required to ensure compliance of the investments with the EIB Excluded and Restricted Lists of activities, the EIB E&S Standards and core E&S requirements as well

<sup>1</sup> Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100,000 tons CO<sub>2</sub>e/year absolute (gross) or 20,000 tons CO<sub>2</sub>e/year relative (net) – both increases and savings.

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as the E&S national laws and regulations. The Advisor's environmental and social due diligence process is divided into three steps: 1) initial screening including screening against the List of Excluded Activities (and restricted list if applicable); preliminary categorisation; high-level desk review highlighting key E&S red flags associated with the proposed investment; 2) preliminary investment committee with in-depth review against the policy requirements, including the EIB E&S Standards; 3) final investment committee to follow up on any outstanding items. For each project regular E&S operational reports are prepared. On an annual basis the Advisor prepares and submits to the Bank an aggregated E&S performance report.

The Advisor already established an Environmental Social and Governance (ESG) policy at a fund level for the power sector in 2012, and requires all of its Investment Platforms to adopt this policy at a minimum. The policy covers aspects relating to environment, human rights, labour rights, safe and healthy work environment, anti-corruption action and governance, economic opportunities and social development. The Policy also provides the Investment Platforms with a summary of requirements for actions that they should undertake during the pre-investment and post-investment stages. The Advisor will need to regularly inform the Bank of progress or issues with regards to the Investment Platforms' performance against its ESG policy, and more generally the Bank's E&S standards.

The Fund is in the process of developing an overall ESMS, with the support of a reputable specialised advisor. The Fund's ESMS will include/cover an ESG policy, adequate environmental and social due diligence procedures, integrating E&S risk assessment into the Fund's overall risk management process and a grievance redress mechanism applicable to its entire portfolio. Staff with overall responsibility for the implementation of the ESMS supporting the portfolio team on a day-to-day basis, including at Investment Platform level, and ensuring continued alignment with investors regarding E&S requirements as well as ensuring, at project level, compliance with the approved ESMS, will have to be clearly designated. The ESMS will need to be enhanced to reflect the requirements of the EIB.

## Conclusions and Recommendations

The Fund will enhance its ESMS, which will incorporate EIB's environmental and social requirements to the satisfaction of the Bank, prior to making any investment, including the development of a communication mechanism for external stakeholders as part of its Grievance Redress Mechanism.

The Fund will have appointed designated staff responsible for the implementation of the ESMS as well as for undertaking the environmental and social due diligence and monitoring of the Fund's investments, also prior to making any investment.

Furthermore, prior to making the first three investments classified as High (E&S) Risk, the Bank will review the performed E&S due diligence by the Fund. Summaries of E&S due diligence for all other investments will be shared at the time of making the said investments.

The Fund will, on an annual basis, prepare and submit to the Bank an aggregated E&S performance report.

With these conditions in place, the Fund is considered acceptable for the Bank in environmental and social terms.