

Environmental and Social Data Sheet

Overview

Project Name:	<i>Africa Energy Guarantee Facility (AEGF)</i>
Project Number:	<i>2012-01668</i>
Country:	<i>Regional - Africa (sub-Saharan African countries)</i>
Project Description:	The AEGF consists of a first-in-kind Bank guarantee to support a reinsurance company in the provision of political, sovereign and sub-sovereign risk insurance services for the sub-Saharan African energy sector through local partners (primary insurers). The operation is initiated by the EIB and forms part of the Bank's response under the UN initiative Sustainable Energy for All (SE4All).
EIA required:	Perhaps (Multi-investment schemes)
Project included in Carbon Footprint Exercise ¹ :	No

Environmental and Social Assessment

The purpose of the operation is to share political, sovereign and sub-sovereign risk with the Munich Reinsurance Company (Munich Re), for Sustainable Energy for All (SE4All) projects in sub-Saharan Africa. Eligible investment sectors include energy access, renewable energy (RE), energy efficiency (EE), small scale hybrid energy systems and related electricity transmission and distribution.

The operation, which will be premised on the sustainability frameworks of EIB, will enable and encourage regional primary insurers to scale up their offer of investment insurance services and develop their portfolio of such eligible sustainable energy projects. Initially, African Trade Insurance Agency (ATI) will benefit.

The operation intends to produce environmental benefits by supporting sound energy projects with manageable negative social or environmental impact.

The project signals the first occasion that MFI (Multilateral Finance Institution), generally, and EIB, specifically, standards are imposed on investment insurance and reinsurance institutions operating in Africa. To date, EIB has helped structure the project's E&S performance framework along its sustainability requirements, as tailored for this specific transaction and sector. Doing so is expected to help build over time capacity in this domain for all intermediaries involved in this project, in particular ATI as the primary insurer.

The Facility and the primary insurer shall develop and adopt an Environmental, Social and Governance (ESG) policy and establish and operate social and environmental management systems (SEMS), acceptable to the Bank. The team members shall be well aware of typical

¹ 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 CO₂e/year absolute (gross) or 20,000 tons CO₂e/year relative (net) – both increases and savings.

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environmental and social issues related to energy projects in sub-Saharan Africa and shall include E&S considerations throughout their insurance due diligence. As part of the SEMS, the primary insurer shall undertake environmental and social due diligence of all projects to ensure that potential impacts and risks and appropriate prevention, mitigation and compensation measures are identified through an environmental and social impact screening/assessment, including satisfactory and meaningful public consultation and participation. The Facility will subsequently step in as well, so as to provide further assurances in terms of verifying the comprehensive nature and quality of due diligence performed by ATI.

In addition to the Bank's standard exclusion list, projects with significant negative impact on areas with high biodiversity value, nature conservation, bird or fish migration routes will not be eligible. If a project is likely to affect a nature conservation zone or other sensitive area as defined in national or international environmental legislation, the Facility shall obtain confirmation from the competent nature conservation authority - following a biodiversity assessment - that the project does not have significant negative impacts on any site of nature conservation importance. Similar exclusions will apply in the case of projects the activities of which are expected to impinge on lands owned, formally or under customary law, or claimed under adjudication by indigenous people, as the latter are defined under EIB sustainability frameworks in conjunction with both relevant national and international legal instruments, such as ILO, the United Nations Permanent Forum on Indigenous Issues and the African Commission on Human and People's Rights.

All investments require, as a minimum, a study by a qualified expert identifying and screening the environmental and social impacts of the project. The study should identify potential impacts on local biodiversity, on nature conservation sites, and on local inhabitants, including impacts on indigenous people. The study should review potential cumulative impacts of the project with other investments in the area. The study should recommend mitigation measures, determine whether a further environmental and social impact assessment is needed, and whether public consultation is advisable.

For each investment to be re-insured, the Facility will ensure that compliance with EIB environmental and social performance standards and legal obligations is enforced and appropriate monitoring is in place. The Facility will need to check whether a project proposal would have been considered to fall under the scope of Annex II of the EU EIA Directive, had it been located in the EU, and would therefore be subject to an EIA on a case by case basis and decision from the competent authority. In such cases, and even where not required by national legislation, the Facility would need to ensure that an environmental & social assessment had been undertaken, in line with EIB requirements. If an underlying investment is subject to an ESIA or a biodiversity assessment, the Facility Manager is required to publish the Environmental and Social Impact Study on its website for access to stakeholders.

The Facility will be housed at Munich Re and managed by a newly established fully owned subsidiary of Munich Re, Sustainable Finance Risk Consulting (SFRC) GmbH, who will act as the management agent for the facility. SFRC will act independently and be responsible for environmental, social and integrity standards.

Comprehensive technical assistance funded by donors and benefiting the primary insurer will accompany this project, aiming to help mitigate E&S risks, amongst others, according to EIB

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standards. Technical assistance may also be extended to SFRC to help define their policies and management systems related to EIB social and environmental standards.

In light of the learning curve on E&S due diligence and performance anticipated both at the level of the primary insurer and the reinsurer, EIB will review the due diligence reports that Munich Re will produce for its first 5 project proposals. In addition and subsequent to financial close, EIB's environmental and social specialist will follow up at most 2 selected pipeline projects, so as to evaluate the roll-out and application in practice of due diligence processes by the intermediaries involved. On their part, Munich Re/SFRC and the primary insurer will duly enhance their respective teams with appropriate and adequate environmental and social expertise.

Social Assessment

The Facility's social performance requirements include the undertaking of social impact assessments at the level of each project and the development of corresponding management plans aiming at the mitigation and remedy of those social impacts identified (as applicable). Compliance is premised upon the MFI compliance frameworks on the one hand (2014 EIB E&S standards), as well as with national law on the other; in each case, the more stringent provisions between the two are to apply. The principles and standards of ILO conventions, in particular prohibition of child and bonded/forced labour, freedom of association and the right to collective bargaining, non-discrimination and equal opportunity of employment, occupational health and safety are already reflected in the Bank's sustainability framework and are expected to automatically be observed. To date, EIB has been supporting Munich Re and ATI in the establishment of an E&S due diligence framework specifically tailored for this transaction and the typology of the Facility's pipeline, moreover framed by EIB's adapted exclusions list (EIB list of excluded activities); i.e. a list of sectors and activities which none of the guarantees should support.

Primary responsibility for the undertaking of social due diligence at the level of the projects pipeline lies fully with the primary insurer. The additional level of compliance verification is to be provided by Munich Re/SFRC along the lines of the Facility's ESG Policy and Social and Environmental Management Systems which the latter is required to develop and adopt. To this end, Munich Re is expected to provide a grievance mechanism, as well as abide by EIB's public disclosure requirements, thereby disclosing in timely manner details of the Facility's project pipeline, alongside all key ESG documents.

The steep learning curve the entities will face in terms of delivering satisfactory E&S due diligence has been acknowledged by the EIB, noting that along the significant value-added this will eventually signal for the transaction and the wider (re)insurance industry in Africa, it will also pose challenges that may be carrying reputational and material risk. In this regard, EIB will support the intermediaries' efforts and learning trajectory both by helping frame the Facility's E&S framework, as well as by proofing initial rounds of due diligence until relevant comfort is established at both primary due diligence undertakings and respective verifications. Additionally, comprehensive technical assistance is foreseen, principally for the primary insurer and, potentially, also for SFRC.

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Conclusions and Recommendations

On this background, and in order to ensuring that the re-insured projects are in line with the Bank's requirements, the following conditions and undertakings linked to environmental and social issues are foreseen:

Conditions for first insurance policy issuance:

Sector-specific social and environmental criteria and reporting requirements will be incorporated into the legal documentation, in a form acceptable to the Bank, incl. observance of EIB's exclusion list.

Munich Re will be required to:

- Adopt an Environmental, Social and Governance (ESG) policy
- Establish and operate a Social and Environmental Management System (SEMS)
- Provide a Grievance Mechanism for the Facility
- Include in its contractual agreements with the primary insurers ESG and transparency requirements similar to the ones specified by the Bank in the contract with Munich Re.

All of the above to be acceptable to the Bank.

Conditions for first and subsequent policy issuances:

For the first 5 project proposals Munich Re shall submit its due diligence report to the Bank for review and consultation before a re-insurance decision is taken in order to ensure compliance with the Bank's requirements.

Subsequent to financial close, EIB's environmental and social specialist will follow up at most 2 selected pipeline projects, so as to evaluate the roll-out and application in practice of due diligence processes by ATI, as well as of the SEMS by Munich Re/SFRC.

Projects with high environmental and/or social risk, e.g. but not exclusively large hydropower projects or projects with a high number of resettled people, shall require clearance by the Bank at an early stage.

Undertakings:

Munich Re/SFRC and the primary insurer will duly enhance their respective teams with appropriate and adequate environmental and social expertise.

Munich Re will disclose in timely manner details of the Facility's project pipeline, alongside its ESG policy and its Grievance Mechanism

If an underlying investment is subject to an EIA (as required by national law or the EU EIA Directive), Munich Re is required to obtain and publish the Environmental Impact Assessment Study, and submit a copy to the EIB.

Special attention should be given to the selection of projects in biodiversity-rich areas of special conservation value. Where relevant, Munich Re is required to provide written confirmation from the competent authority that the investment will not have any significant negative impact on sites of nature conservation.



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In addition, an obligation to provide to the Bank all information necessary to verify compliance with the Bank's eligibility criteria, such as social, environmental and procurement issues and economic justification.