



## **ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEMS**

**INSPIRING DEVELOPMENT**

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## LIST OF ACRONYMS AND ABBREVIATIONS

ARAP	Abridged Resettlement Action Plan
IFC	International Finance Corporation
IM	Investment Manager
BCC	Board Credit Committee
DFI	Development Financial Institution
DRC	Deal Review Committee
E&S	Environmental and social
EIS	Environmental impact study
ESAP	Environmental and social action plan
ESIAs	Environmental and social impact assessments
ESMP	Environmental and social management plan
ESRS	Environmental and Social Review Summary
GHGs	Greenhouse Gases
FRAP	Full Resettlement Action Plan
MCC	Management Credit Committee
NDP	National Development Plan
NEMA	National Environmental Management Authority
RAP	Resettlement action plan
SMEs	Small and medium enterprises
UDB	Uganda Development Bank Limited

# 1. BACKGROUND

## 1.1 Introduction

Uganda Development Bank Limited (hereinafter “UDBL”, or the “Bank”), established in 1972, is a development finance institution (DFI) that is wholly owned by the Government of Uganda. The Bank’s vision is to become the “Preferred and Trusted Development Finance Services provider for socio-economic development.”

UDBL’s mandate is to operate as Uganda’s development finance institution, particularly through interventions in priority sectors and in line with the Government of Uganda’s development priorities. However, UDBL recognizes impacts associated with environmental degradation and climate change such as extreme weather conditions, resource scarcity, and socio-political conflicts increase the vulnerability of key economic sectors and threaten Uganda’s sustainable development efforts to end poverty. The country has experienced incidences of extreme weather events such as prolonged dry spells, flash floods, hailstorms, and landslides, among others.

Human-induced (anthropogenic) activities are postulated to have reduced carbon sinks and increased the amount of Greenhouse Gases (GHGs) in the atmosphere leading to Global Warming that causes changes in climatic conditions. The resulting effect has been the launch of several global initiatives to promote avoidance, reduction, or mitigation of environmental and social impacts of business activities to reduce their contribution to GHG emissions. Many of these initiatives target the financial services sector, given the sector’s role in funding business activities that may directly or indirectly induce Climate Change conditions and negatively impact the environment and development of local economies. In light of this, UDBL seeks to avoid the potential negative environmental and social impacts/risks associated with its financing activities through the development and implementation of an Environment and Social Management System (ESMS).

The Environmental and Social Risk Management Systems (ESMS) contain a set of policies, procedures, tools, and internal capacity to enable UDBL to assess, identify, and manage its exposure to the environmental and social risks that result from its financial interventions. The ESMS articulates UDBL’s approach to implementing an effective, systematic, and structured means of identifying and managing E&S risks and opportunities throughout all our financing activities. It is designed to ensure that UDBL’s lending activities are in

compliance with established environmental and social standards that enhance the bank's credit risk management process to improve the quality of the bank's portfolio and promote financing of business activities that promote a circular economy and social and environmental sustainability. These systems shall be fully integrated into the bank's organizational structure, planning activities, policies, and credit risk procedures.

UDBL's ESMS was developed by leveraging international best practices pertaining to the management of E&S risks, such as the IFC environmental and social safeguards standards, the Commonwealth Development Corporation, the UNEP Financial Initiative, the UN principles of Responsible Investment, the Equator Principles, and AfDB's Integrated Safeguards System which is aligned with other international E&S standards and the National Environmental Act, 2019 of Uganda. The bank will continue to monitor changes to international guidelines on environmental and social risk management practices and reflect all relevant changes in its ESMS periodically where the need arises.

## **2. THE ENVIRONMENTAL & SOCIAL RISK POLICY**

### **2.1 Purpose statement**

The policy describes UDBL's principles and approach to managing E&S risks and impacts inherent to its lending operations.

The purpose of the Policy is to establish systems to proactively identify and evaluate the environmental and social risks of all bank lending activities before a financing decision is made and to monitor the performance of the financed transactions pertaining to their environmental and social performance.

### **2.2 Policy Scope**

This E&S Policy will apply to all financial transactions, including transactions entered prior to the development of the Policy. All loan agreements of direct lending and lending through PFIs (apex lending operations) will contain covenants requiring that projects and sub-projects are in compliance with these environmental and social requirements.

### **2.3 Policy Statement**

UDBL's ESMS will be guided by an overarching Environmental & Social Risk (E&S) Policy which sets out specific commitments on how UDBL will promote environmental and social sustainability in its operations and how these will be applied in its credit process. UDBL is committed to implementing effective environmental and social management practices

that promote responsible financing through its demonstrated commitment to the following:

- i. The bank shall establish an E&S Department within the Risk Directorate that shall be staffed with experienced and adequate personnel in line with the business dynamics. The E&S Department annual budget approval, training, and other financing needs shall be aggregated under the Risk Directorate training and operational budget.
- ii. UDBL will not invest in any activities listed in the Bank's 'Exclusion List (**Annex A**).
- iii. UDBL will maintain and communicate effective performance standards and guidelines that integrate environmental and social considerations into our operations and business decisions.
- iv. UDBL will responsibly manage all aspects of its business to ensure that it is in Compliance with the Environmental laws of Uganda as entrenched in the *National Environment Act 2019*<sup>1</sup>. UDBL will require that all financed activities comply with the laws and regulations of Uganda pertaining to environmental management, conservation and protection, and workers' health and safety.
- v. In managing its Environmental and Social risks, UDBL will implement innovative interventions to address the impacts of Climate Change.
- vi. UDBL will pro-actively apply sound environmental practices to its internal operations, including minimizing its consumption of resources such as water, energy, use of fossil fuels and promoting resource efficiency.
- vii. UDBL shall consider and promote enterprises that demonstrate responsible behavior, and good practices towards the respect for human rights, and lives and promote sound working conditions, occupational health and Safety, community health and safety, and security, and denounce child labor practices as prescribed by the Employment Act, 2006 of Uganda, International conventions such as the International Labor Organization, UN Global Compact and UN Guiding Principles on Business and Human Rights.
- viii. Through the Corporate and Social Responsibility Policy, the bank shall, in a transparent and inclusive manner, identify impactful and sustainable CSR interventions that integrate social and environmental concerns in their implementation approaches.

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<sup>1</sup> [https://nema.go.ug/sites/all/themes/nema/docs/National%20Environment%20Act,%202019%20\(1\).pdf](https://nema.go.ug/sites/all/themes/nema/docs/National%20Environment%20Act,%202019%20(1).pdf)

- ix. UDBL will provide clients and employees with innovative, practical, and cost-effective financial products and services to promote environmentally sustainable choices.
- x. UDBL will prioritize clients that demonstrate their ability to implement best practice in E&S Risk Management, and these will be business partners of choice with whom we will seek to continue and expand our relationships. Where clients do not meet our E&S standards and expectations, we will first engage with them to address E&S issues and improve their performance.
- xi. UDBL shall drive sector-focused awareness of environmental and social risks to enable participating financial institutions (in the Apex lending transactions) to integrate sound E&S considerations in their business activities.
- xii. In line with the policy, the E&S Department shall undertake monitoring activities of all bank-financed activities to ensure their compliance with loan covenant conditions and National/international standards, laws, and regulations.
- xiii. The Board mandates Exco to implement the E&S Policy, and develop E&S procedures, guidelines, and other enabling tools.

## **2.4 Review**

This E&S policy shall be reviewed periodically (after every three years) as informed by lessons learned across the portfolio as well as evolutions in the regulatory and operating environment.

## **2.6 Communication**

The ESMS and E&S Policy shall be communicated internally to the staff through training sharing on different bank platforms and externally through publication on the bank website.

## **2.6 Reporting**

The E&S Department shall report on the bank's E&S matters on a monthly (to EXCo), Quarterly (to the board), and Annual basis (to stakeholders).

## **2.5 Audit**

The E&S policy shall be subjected to a review by Internal Audit in line with the annual audit work plan.

### 3. UDB ENVIRONMENTAL AND SOCIAL STANDARDS

UDB's Environmental and Social Management Systems articulates a holistic commitment within the National Development Plans (NDP), UDBL Strategic Plans, and UDBL Green Finance and Investment Strategy to sustainable development and is an integral part of the bank's approach to risk management. This ESMS adopts the environmental and social standards (ESSs) from the performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC)<sup>2</sup> and benchmarked upon the Food and Agriculture Organization of the United Nations<sup>3</sup> as highlighted in the table below.

**ESS1 Assessment and Management of Environmental and Social Risks and Impacts:** This standard underscore the importance of managing environmental and social performance throughout the life of a project. An effective Environmental and Social Management Plan (ESMP) is a dynamic and continuous process initiated and supported by management. It involves engagement between the clients, its workers, local communities directly affected by the project (the Affected Communities), and, where appropriate, other stakeholders. Drawing on the elements of the established business management process of "plan, do, check, and act," the ESMP entails a methodological approach to managing environmental and social risks and impacts in a structured way on an ongoing basis. A good ESMP appropriate to the nature and scale of the project promotes sound and sustainable environmental and social performance and can lead to improved financial, social, and environmental outcomes. At times, the assessment and management of certain environmental and social risks and impacts may be the responsibility of the government or other third parties over which the client does not have control or influence. Therefore, the bank shall coordinate on such matters.

#### **Standard objectives**

- To identify and evaluate environmental and social risks and impacts of the project.
- To adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks, and impacts to workers, Affected Communities, and the environment.
- To promote improved environmental and social performance of clients through the effective use of management systems.
- To ensure that grievances from Affected Communities and external communications from other stakeholders are responded to and managed appropriately.
- To promote and provide means for adequate engagement with Affected Communities throughout the project cycle on issues that could potentially affect them and to ensure that relevant environmental and social information is disclosed and disseminated.

#### **Scope of Application**

This Standard applies to business activities with environmental or social risks or impacts. For the purposes of this Standard, the term "project" refers to a defined set of business activities, including those where specific physical elements, aspects, and facilities likely to generate risks and impacts, have yet to be identified.

#### **Requirements.**

- The borrower shall conduct an Environmental and Social Assessment and institute an E&S Management System.
- The borrower shall identify E&S Risks and Impacts
- The borrower shall review all the relevant E&S policies

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<sup>2</sup>[https://www.ifc.org/wps/wcm/connect/c02c2e86-e6cd-4b55-95a2-b3395d204279/IFC\\_Performance\\_Standards.pdf?MOD=AJPERES&CVID=kTjHBzk](https://www.ifc.org/wps/wcm/connect/c02c2e86-e6cd-4b55-95a2-b3395d204279/IFC_Performance_Standards.pdf?MOD=AJPERES&CVID=kTjHBzk)

<sup>3</sup> <http://www.fao.org/3/a-i4413e.pdf>



- The borrower shall institute and implement an Emergency Preparedness and Response plan to ensure they are prepared to respond to accidental and emergency situations associated with the project implementation activities in an appropriate manner to prevent and mitigate any harm to people or the environment.
- The borrower shall undertake stakeholder engagements at community, local Council and relevant agencies levels to familiarize the different stakeholders with the project and seek their views and opinions on the proposed project.
- The borrower will implement procedures to receive and facilitate resolution of Affected Communities' concerns and grievances about the borrower's environmental and social performance.

**ESS2 Labor and Working Conditions:** The standard recognizes that generation of decent work<sup>4</sup> and full and productive employment opportunities is essential to reducing poverty, building sustainable food systems, and industrializing Uganda. Therefore, UDBL will not discriminate and foster equal opportunity in its internal and external recruitment processes. All employment undertaken will be conducted on the principles of equal opportunity and fair treatment and will not discriminate in any aspects of its recruitment processes. In addition, the bank should not finance project sponsors that discriminate, promote forced labour- and employ under aged persons, do not promote equal opportunity, and offer a non-occupation environment to its workforce.

### Standard Objectives

- To promote fair treatment, non-discrimination, and equal opportunity for workers.
- To establish, maintain, and improve the worker-management relationship.
- To promote compliance with national employment and labour laws.
- To protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain.
- To promote safe and healthy working conditions and the health of workers.
- To avoid the use of forced labor.

### Scope

This standard applies to workers directly engaged by the client (direct workers), workers engaged through third parties to perform work related to core business processes of the project for a substantial duration (contracted workers), as well as workers employed by the borrower's primary suppliers (supply chain workers)

### Requirements

The project/business activities under this safeguard standard will be required, among others, to

- Ensure good working conditions and workers' management.
- Protect the workforce by not employing the underage and engaging in forced labour.
- Adopt occupational health and safety policy and implement measures to ensure workers' safety and health.
- Ensure third parties (contractors and main suppliers) implement measures to protect the workforce.

**ESS3 Resource Efficiency and Pollution Prevention and Management:** This standard recognizes that increased economic activity and urbanization often generate increased levels of pollution to air, water, and land and consume finite resources in a manner that may threaten people and the environment at the local, regional, and global levels. There is also a growing global consensus that the current and projected atmospheric concentration of greenhouse gases (GHG) threatens the public health and welfare of current and future generations. At the same time, more efficient and effective resource use and pollution prevention, and GHG emission avoidance and mitigation technologies and practices have become more accessible and achievable in virtually all parts of the world. These are often implemented through continuous improvement methodologies similar to those used to enhance quality or productivity, which are generally well known to most industrial,

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<sup>4</sup> Decent work is defined by the ILO as "productive work for women and men in conditions of freedom, equity, security and human dignity."

agricultural, and service sector companies. This standard outlines a project-level approach to resource efficiency and pollution prevention and control in line with internationally disseminated technologies and practices. In addition, this Performance Standard promotes the ability of private sector companies to adopt such technologies and practices as far as their use is feasible in the context of a project that relies on commercially available skills and resources.

#### **Standard Objectives**

- To avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities.
- To promote more sustainable use of resources, including energy and water.
- To reduce project related GHG emissions.

#### **Scope of Application**

The applicability of this Standard is established during the environmental and social risks and impacts identification process.

#### **Standard Requirements**

The project/business activities under this safeguard standard will be required, among others, to:

- Implement technically and financially feasible and cost-effective measures for improving efficiency in its consumption of energy, water, as well as other resources and material inputs, with a focus on areas that are considered core business activities.
- Avoid the release of pollutants or, when avoidance is not feasible, minimize and/or control the intensity and mass flow of their release.

**ESS4 Community health and safety:** This standard recognizes that project activities, equipment, and infrastructure can increase community exposure to risks and impacts. In addition, communities that are already subjected to impacts from climate change may also experience an acceleration or intensification of impacts due to project activities.

UDBL shall put in place measures to address the health, safety, and security risks and impacts on project-affected communities and the corresponding responsibility of Borrowers to avoid or minimize such risks and impacts, with particular attention to people who, because of their particular circumstances, may be vulnerable.

#### **Standard objectives**

- To anticipate and avoid adverse impacts on the health and safety of the Affected Communities during the project life from both routine and non-routine circumstances.
- To ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to the Affected Communities.

#### **Scope**

This standard applies to projects that are likely to have adverse impacts on the project-affected communities due to the inherent vulnerabilities or those caused by the operations of the project.

#### **Requirements**

The project proponent will be required to:

- Ensure community health and safety by ensuring infrastructure and equipment design safety, management of hazardous material; minimizing impacts on ecosystem services, community exposure to diseases, and emergence preparedness.
- Put in place measures to ensure the use of armed security personnel does not adversely affect community security.

**ESS5 Land acquisition, restrictions on land use and involuntary settlements:** This standard recognizes that project-related land acquisition and restrictions on land use can have adverse impacts on communities and persons. Project-related land acquisition or restrictions on land use may cause physical displacement (relocation, loss of residential land, or loss of shelter), economic displacement (loss of land, assets, or access to assets, leading to loss of income sources or other means of livelihood), or both. The term "involuntary resettlement" refers to these impacts. Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in displacement. Involuntary resettlement refers to both physical relocation and economic displacement. Hence, the bank will at all times seek project sponsors to avoid forced eviction; avoid, and when

avoidance is not possible, minimize adverse social and economic impacts from restrictions on land or resource use or from land and resource acquisition; and improve or at least restore living conditions of persons who are physically or economically displaced, through improving and restoring their productive assets and security of tenure.

### **Objectivities**

- To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs.
- To avoid forced eviction.
- To anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use.
- To improve or restore the livelihoods and standards of living of displaced persons.
- To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure<sup>5</sup> at resettlement sites.

### **Scope of Application**

The applicability of this Standard is established during the environmental and social risks and impacts identification process.

### **Requirements**

In case this standard is triggered, the borrower/client will be required to undertake the following:

- Consider feasible alternative project designs to avoid or minimize physical and/or economic displacement while balancing environmental, social, and financial costs and benefits, paying particular attention to impacts on the poor and vulnerable.
- When displacement cannot be avoided, the borrower/client will offer displaced communities and persons compensation for loss of assets at full replacement cost and other assistance to help them improve or restore their standards of living or livelihoods, as provided in this Performance Standard. This shall be implemented through establishment of procedures to hold community engagements, develop, and implement a grievance redress mechanism, and institute/implement a Resettlement and Livelihood Restoration Plan.

**ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources:** This standard recognizes that protecting and conserving biodiversity and sustainably managing living natural resources are fundamental to sustainable development. Biodiversity is defined as the variability among living organisms from all sources including, inter alia, terrestrial, marine, and other aquatic ecosystems and the ecological complexes of which they are a part; this includes diversity within species, between species, and of ecosystems. Biodiversity often underpins ecosystem services valued by humans. Impacts on biodiversity can therefore often adversely affect the delivery of ecosystem services.

The bank will avoid financing any establishment of industries, agricultural, livestock, fisheries, aquaculture and forestry practices that could have adverse impacts on biodiversity, ecosystems, ecosystem services, or critical habitats and sustainably manage the ecosystems in order to maintain the services and benefits they provide, without the approval of the National Environment Management. All projects envisaged to impact biodiversity conservation and affect living natural resources should be subject to full environmental and social impact studies before any financing decision is undertaken. In furtherance, the bank will safeguard against financing project sponsors whose activities may involve the use or release of genetically modified organisms, and alien and or invasive species into the environment.

### **objectives**

- To protect and conserve biodiversity.
- To maintain the benefits from ecosystem services.
- To promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities.

### **Scope**

This standard applies to projects that are (i) located in modified, natural, and critical habitats; (ii) that potentially impact on or are dependent on ecosystem services over which the client has direct management control or significant influence; or (iii) that include the production of living natural resources (e.g., agriculture, animal husbandry, fisheries, forestry).

## **Requirements**

The project developer will be required to

- Put in place mechanisms to identify risks and impacts to biodiversity and ecosystem services.
- Implement measures to protect and conserve biodiversity.
- Manage ecosystem services the project is likely to impact and those that it directly depends.
- Take measures to manage living natural resources sustainably.

## **ESS7 Indigenous Peoples/Uganda Historically Underserved Traditional Local Communities:**

This Standard recognizes that Indigenous Peoples/Uganda's Historically Underserved Traditional Local Communities have identities and aspirations that are distinct from mainstream groups in national societies and often are disadvantaged by traditional models of development. In many instances, they are among the most economically marginalized and vulnerable segments of the population. Their economic, social, and legal status frequently limits their capacity to defend their rights to, and interests in, land, territories, and natural and cultural resources. It may also restrict their ability to participate in and benefit from development projects. In many cases, they do not receive equitable access to project benefits, or benefits are not devised or delivered in a form that is culturally appropriate, and they may not always be adequately consulted about the design or implementation of projects that would profoundly affect their lives or communities. This standard recognizes that the roles of men and women in indigenous cultures are often different from those in the mainstream groups and that women and children have frequently been marginalized both within their own communities and as a result of external developments and may have specific needs.

Indigenous peoples' traditions and knowledge present opportunities for many of the challenges that humankind will face in the coming decades. This is of particular significance in relation to avoidance of relocation, protection of culture, indigenous food systems in the face of increasing food demand, and traditional knowledge with respect to adapting to climate change vulnerabilities and impacts. The bank will not finance any project in areas near the Benet, Batwa, Ik and Karamojong communities/groups that are deemed to affect these groups either directly or indirectly without their involvement and consent.

## **Objectives**

- To ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples.
- To anticipate and avoid adverse impacts of projects on communities of Indigenous Peoples, or when avoidance is not possible, to minimize and/or compensate for such impacts.
- To promote sustainable development benefits and opportunities for Indigenous Peoples in a culturally appropriate manner.
- To establish and maintain an ongoing relationship based on Informed Consultation and Participation with the Indigenous Peoples affected by a project throughout the project's life cycle.
- To ensure the Free, Prior, and Informed Consent of the Affected Communities of Indigenous Peoples when the circumstances described in this Performance Standard are present.
- To respect and preserve the culture, knowledge, and practices of Indigenous Peoples.

## **Scope of Application**

The applicability of this Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Standard is managed through the client's Environmental and Social Management System, the elements of which are outlined in Standard 1.

In this Performance Standard, 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:

- Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others.
- Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories.
- Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture; or

- A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.

#### **Requirements**

- The client will identify, through an environmental and social risks and impacts assessment process, all communities of Indigenous Peoples within the project area of influence who may be affected by the project, as well as the nature and degree of the expected direct and indirect economic, social, cultural (including cultural heritage), and environmental impacts on them.
- The client will undertake an engagement process with the Affected Communities of Indigenous Peoples as required in Standard 1.

**ESS8 Cultural Heritage and Archaeological sites:** this standard recognizes that cultural heritage provides continuity in tangible and intangible forms between the past, present, and future. People identify with cultural heritage as a reflection and expression of their constantly evolving values, beliefs, knowledge, and traditions. Cultural heritage, in its many manifestations, is important as a source of valuable scientific and historical information, as an economic and social asset for development, and as an integral part of people's cultural identity and practice. ESS8 sets out measures designed to protect cultural heritage throughout the project life cycle. The importance of cultural heritage and seeks to ensure cultural heritage is protected whether it has been legally protected or previously disturbed. UDBL will not finance projects that may have adverse impacts on or limit access to culture or heritage, both physical and non-physical or intangible. Therefore, to preserve cultural resources (when existing in the project area) and to avoid their destruction or damage, due diligence must be undertaken, which includes but is not limited to the following:

- Verifying the provisions of the normative framework, which is usually under the oversight of a family, clan, or local institution responsible for the protection of historical and archaeological sites/intangible cultural heritage.
- Through collaboration and communication with indigenous peoples' own governance institutions/leadership, verifying the probability of the existence of sites/ intangible cultural heritage that are significant to indigenous peoples.

#### **Objectives**

- To protect cultural heritage from the adverse impacts of project activities and support its preservation.
- To promote the equitable sharing of benefits from the use of cultural heritage.

#### **Scope of Application**

The applicability of this Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System (ESMS), the elements of which are outlined in Standard 1.

#### **Requirements**

- Protect cultural heritage in project design and execution.
- Put measures to manage the use of cultural heritage.

**ESS9 Financial Intermediaries:** This standard recognizes that strong domestic capital and financial markets and access to finance are important for economic development, growth, and poverty reduction. The Bank is committed to supporting sustainable financial sector development and enhancing the role of domestic capital and financial markets:

- FIs are required to identify, monitor, and manage the environmental and social risks and impacts of their portfolio and FI subprojects and monitor portfolio risk as appropriate to the nature of intermediated financing. The way in which the FI will manage its portfolio will take various forms, depending on a number of considerations, including the capacity of the FI and the nature and scope of the funding to be provided by the FI.
- FIs are required to develop and maintain, in the form of an Environmental and Social Management System (ESMS), effective environmental and social systems, procedures, and capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner.

- The Bank will develop together with the FI an integration plan with specific provisions for incorporating E&S due diligence, monitoring, and reporting under each project financing activity.

**ESS10 Stakeholder Engagement and Information Disclosure:** This standard recognizes the importance of open and transparent engagement between the Borrower and project stakeholders as an essential element of good international practice. Effective stakeholder engagement can improve the environmental and social sustainability of projects, enhance project acceptance, and make a significant contribution to successful project design and implementation.

Stakeholder engagement is an inclusive process conducted throughout the project life cycle. Where properly designed and implemented, it supports the development of strong, constructive, and responsive relationships that are important for the successful management of a project's environmental and social risks. Stakeholder engagement is most effective when initiated at an early stage of the project development process and is an integral part of early project decisions and the assessment, management, and monitoring of the project's environmental and social risks and impacts

The Bank will require the project sponsor, including the FI to prepare and disclose a Stakeholder Engagement Plan (SEP) to cover relevant provisions associated with the project components and develop tools as part of the relevant safeguard instruments to be prepared prior to implementation of the project.

#### **Objectives**

- To establish a systematic approach to stakeholder engagement that will help Borrowers identify stakeholders and build and maintain a constructive relationship with them.
- To assess the level of stakeholder interest and support for the project and to enable stakeholders' views to be considered in project design and environmental and social performance.
- To promote and provide means for effective and inclusive engagement with project-affected parties throughout the project life cycle on issues that could potentially affect them.
- To ensure that appropriate project information on environmental and social risks and impacts is disclosed to stakeholders in a timely, understandable, accessible, and appropriate manner and format.
- To provide project-affected parties with accessible and inclusive means to raise issues and grievances and allow Borrowers to respond to and manage such grievances.

#### **Scope of Application**

This applies to all projects supported by the Bank through Investment Project Financing

#### **Requirements**

This standard requires the developer to.

- The developer will ensure stakeholder engagement during project preparation by identifying and analyzing stakeholders, putting in place a stakeholder engagement plan, information disclosure, and meaningful consultation.
- Engage stakeholders during project implementation and external reporting.
- Put in place a grievance mechanism.
- Ensure organizational capacity and development.

## **4. ENVIRONMENTAL & SOCIAL RISK MANAGEMENT PROCEDURES**

To achieve success and consistency in the implementation of this policy, UDB has developed a set of procedures that outlines a clear, systematic approach for screening, assessing, categorising, managing, monitoring, and reporting E&S risks issues associated with the bank's financing activities. UDB will integrate E&S risk considerations in its enterprise risk management processes, which will be applicable to all transactions to ensure they are reviewed against, compliant with applicable requirements and that the relevant information regarding E&S risks is appropriately documented. UDB's E&S Risk

Assessment procedures will comprise the following components and will be integrated into the bank's credit cycle:

### 3.1 E&S Assessment Procedures

1. Initial E&S Screening
2. Early-stage E&S Assessment comprising of:
  - *an Initial E&S project categorization using the Sector Risk Categorization Framework; and*
  - *a Sector/ business activity Specific E&S Risk evaluation to understand the specific E&S Risks inherent in the proposed project.*
3. In-depth E&S Assessment comprising of:
  - *Site-specific E&S Risk Assessments are conducted for High Risk (Category A) & Selected Medium Risk (Category B) projects, while for low-risk environmental and social due diligence shall be conducted and*
  - *Climate change risk screening assessment is conducted parallel with E & S risk assessment*
4. E&S documentation and conventions
5. Project supervision, monitoring, and reporting
6. Competence and Tracking of E & S issues by the FIs

A step-by-step guidance for implementing each of the activities is described below.

#### 1. Initial E&S Screening

All loan applications will be screened against the UDB **Exclusion List (see Annex A)**, which prohibits financing of a list of business activities based on risks and ethical values.

During engagement with a prospective client, the Investment Manager (IM) will check if the proposed project to be financed is listed in UDB's Exclusion List as well as the funders Exclusion List. Where the proposed transaction is listed, the prospect for financing must be terminated. The IM will inform the applicant of the decline, and the rejection will be recorded in the **Environmental and Social (E&S) Risk Assessment form (ESRA)**. Where the proposed transaction is not on the **Exclusion List**, the officer will register the project information in the **ESRA form** and continue the appraisal.

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<b>Applicable Toolkit(s)</b>	<ul style="list-style-type: none"> <li>▪ UDB Exclusion List</li> </ul>
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<b>Output:</b>	<ul style="list-style-type: none"> <li>▪ Decision to decline or progress with an E&amp;S assessment and a credit application</li> </ul>
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<b>Responsible Parties</b>	<ul style="list-style-type: none"> <li>▪ Investment Managers</li> </ul>

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#### 2. Early-stage E&S Assessment

a. Initial E&S project categorization

Following the Initial E&S screening with the Exclusion List, the E & S Risk Officer will determine the initial E&S risk category of the project under UDB using the Ms Excel-based **E&S Risk Assessment Toolkit (ESRA) Appendix 1 and consult with the funder's exclusion list-Annex A**. The initial E&S risk categorization process facilitates a first level evaluation of the E&S risk profile of a project. The **ESRA Toolkit** was developed using the AfDB's Operational Safeguards Project Categorisation, AfDB/EBRD standard categorization list, and provisions of the National Environment Act 2019. The toolkit delineates business activities according to Category A, Category B, Category C, and Category FI projects. When the client's business activity is categorised, the information will be documented using the **ESRA Form**.

E & S Risk Categorization

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- i. **Category A:** Project that is likely to induce significant adverse, long-term, cumulative, and/or irreversible adverse environmental and or social impacts. These projects will require loan requestors to conduct a full Environmental and Social Impact Assessment (ESIA) using a registered and certified environmental by NEMA and an Environmental and Social Management Plan (ESMP) and, where significant levels of displacement and resettlement are likely to occur, a Full Resettlement Action Plan (FRAP) shall be required. **A full Environmental and Social Impact Assessment (ESIA) is required.**
- ii. **Category B:** Project that is likely to induce site-specific environmental and/or social impacts but less adverse than Category A projects with specified plausible mitigation/enhancement measures. These projects may require loan requestors to prepare environmental project briefs and submit them to NEMA, and where displacement and resettlement are likely to occur on a lower scale, a Resettlement Action Plan (RAP). **Although a full EIA is not required, an environmental assessment focusing on the anticipated impacts is required.**
- iii. **Category C:** Projects that do not directly or indirectly affect the environment adversely and that are unlikely to induce adverse social short to long term impacts. These projects will require no further social or environmental assessment action. However, additional due diligence may be required on a case-by-case basis. **The project is likely to have minimal or no adverse environmental impacts. No further environmental assessment is required.**
- **Category FI:** UDB may provide financing to financial intermediaries to invest directly in their own projects. Category FI activities are those that expose UDB to indirect E&S risks through the activities of their portfolio companies. UDB is exposed to Category FI E&S risks through the new investments of the clients. While financial institutions may pose low direct E&S risk through their operations, the portfolio companies of FI clients may be exposed to Category A, B, or C risks. As such, assessing the ESMS policy, programmes, and track record of the financial institution is important to determine their ability to manage and mitigate E&S risks in their operations.

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Source: IFC Environmental and Social Categorization<sup>5</sup>

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<sup>5</sup> [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/es-categorization](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization)



<b>Applicable Toolkit(s)</b>	<ul style="list-style-type: none"> <li>Environmental and Social Risk Assessment Toolkit (ESRA)</li> <li>Environmental and Social Risk Assessment form (ESRA)</li> </ul>
<b>Output:</b>	<ul style="list-style-type: none"> <li>Classification of client's business activity under an E&amp;S risk category</li> </ul>
<b>Responsible Parties</b>	<ul style="list-style-type: none"> <li>Investment Managers or E&amp;S Officers, or others designated by Management.</li> </ul>

#### b. Sector/ business activity Specific E&S Risk evaluation

After a potential project has been categorised using the **Initial E&S Risk Categorization** process, all projects will be further assessed using the *E&S Project Specific Risk Evaluation guideline* contained in the Ms. Excel-based **ESRA Toolkit** to identify the specific E&S impacts of the business activity and possible mitigations for managing the risks. Information about key social and environmental risks is included in **ESRA Forms** that are designated for each sector activity. The E&S Risks team is required to highlight relevant E&S risks issues observed during an initial visit to the project site to inform a more in-depth E&S assessment of the project.

Where a business activity has been categorised as Category B (**Medium Risk**) and **Category C (Low Risk)**, no additional environmental and social appraisal is required. An E&S summary is provided, and the E&S Risks Officer may indicate any E&S business opportunities relating to financing products that promote positive environmental, social or health opportunities for project beneficiaries.

Where financing is targeted at a financial institution, it shall be a **Category FI project** and an additional assessment shall be conducted to determine the bank's Commitment, Capacity, and Track Record in managing environmental and social risks in its portfolio. Section 5 of the **ESRA Form** will be completed. The completed **ESRA Forms** will be forwarded to the Environmental and Social Risk officer for review and validation of both Initial project categorization and activity-specific E&S risk evaluation. The E&S Officer may request further clarification from the Investment Manager or prospective client.

<b>Applicable Toolkit(s)</b>	<ul style="list-style-type: none"> <li>Environmental and Social Risk Assessment Toolkit (ESRA toolkit)</li> <li>Environmental and Social Risk Assessment form (ESRA form)</li> </ul>
<b>Output:</b>	<ul style="list-style-type: none"> <li>Completion of the <i>Key Environmental and Social Issues</i> checklist in the ESRA form</li> </ul>
<b>Responsible Parties</b>	<ul style="list-style-type: none"> <li>Investment Managers</li> <li>E&amp;S Officer or others designated by Management</li> </ul>

### 3. In-depth E&S Assessment

#### a. Site-specific E&S Risk Assessments

Where a business activity has been categorised as **Category A (High Risk)**, a detailed Environmental and Social Impact Assessment (ESIA) will be conducted by a registered and certified environmental practitioner by the NEMA.

UDB will assess the depth and thoroughness of any EIS submitted by the prospective client, during the E&S review process, prior to engaging with the bank to ensure consistency with the UDB's E&S policy. The EIS thoroughness will be conducted using the Guidance notes for Environmental and Social Impact Assessments (ESIAs) and Report Format for Environmental and Social Impact Assessments (ESIAs). Where output does not accurately cover the scope and areas highlighted in UDB's ESIA report, the prospective client will be requested to conduct a more sufficient ESIA using UDB's Guidance Notes for ESIA. The ESIA will be followed by developing an Environmental and Social Management Plan (ESMP) and may include a Full Resettlement Action Plan (FRAP) depending on the outcomes.

For business activities that are categorised as **Category B (Medium Risk)**, an external Environmental Practitioner certified by NEMA shall be required to conduct a limited environmental and social appraisal to determine mitigation measures for the E&S risks. The appraisal will focus on confirming the degree of E&S risks, client's capability to manage, mitigate, or avoid potential E&S impacts, and receipt of Environmental Clearance Certificate and other regulatory approvals. Outcomes of the appraisal will be *detailed in a shortened Social Management Plan (SMP), a full Environmental and Social Management plan (ESMP), and, if applicable, an Abridged Resettlement Action Plan (ARAP)*. This appraisal will be conducted by the E&S Officer and the Investment Manager. Where relevant, after all assessments have been conducted using the applicable forms and templates, all outputs will be documented in the **ESRA Form**.

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1. **Environmental and Social Impact Assessment (ESIA):** *The objective of conducting an ESIA is to assess the direct, indirect, short, long, reversible, irreversible, cumulative, and non-cumulative impacts of a project in its area of implementation. This includes significant impacts against the natural environment, human health and safety, vulnerable groups, cultural affiliations, and vulnerability to climate change. In conducting an ESIA, the project owner can identify ways of improving project selection, design, siting and implementation to avoid or mitigate and manage adverse environmental and social impacts. Where these cannot be managed significantly, the ESIA facilitates the process of exploring project alternatives. An ESIA should be drafted by an external expert.*
  2. **Environmental and Social Management Plan (ESMP):** *For all category A and some category B projects, an ESMP will be developed. An ESMP describes the actions that will be taken by the loan requester to enhance positive impacts and to avoid, minimize, mitigate, compensate/offset negative impacts produced in the lifespan of the project. An ESMP describes the mitigation and management measures, clarifies responsibilities for implementation, provides an implementation plan with the necessary time schedule and costs and indicates how environmental and social monitoring measures are to be implemented. An ESMP should be developed with the support of an external expert.*
  3. **Full Resettlement Action plan (FRAP):** *A FRAP will be required for any project that affects assets, or access to assets or reduction in livelihood of a*
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significant number of people (more than 100 people). The plan should address potential adverse impacts of the project on people (such as displacement and loss of economic opportunities) and, at the same time, make provisions for improving socio-economic conditions of the affected population. The FRAP should be finalized as a supplement document to the Environmental and Social Impact Assessment (ESIA) report and be drafted by an external expert and submitted to the Ministry of Lands, Housing and Urban Development for review and approval for compliance with the approved central government compensatory rates.

4. **Abbreviated Resettlement Action Plan (ARAP):** For projects in which the number of people to be displaced with a loss of assets or restriction of access to assets is less than 100 people, an ARAP should be prepared and agreed with the borrower. The plan should address potential impacts of the project and at the same time make provisions for improving socio-economic conditions of the affected population. The FRAP should be finalized as a supplement document of the ESMP and be drafted by an external expert and submitted to the Ministry of Lands, Housing and Urban Development for review and approval for compliance with the approved central government compensatory rates.

<b>Applicable Toolkit(s)</b>	<ul style="list-style-type: none"> <li>▪ Guidance notes for Environmental and Social Impact Assessments (ESIAs)</li> <li>▪ Report Format for Environmental and Social Impact Assessments (ESIAs)</li> <li>▪ Report Format for Full Resettlement Action Plan (FRAP)</li> <li>▪ Report Format for Abbreviated Resettlement Action Plan (ARAP)</li> </ul>
<b>Output:</b>	<ul style="list-style-type: none"> <li>▪ Completed E&amp;S Assessment Form that includes the Sector Specific E&amp;S Assessment</li> <li>▪ Where applicable:               <ul style="list-style-type: none"> <li>○ Environmental and Social Impact Assessment (ESIA) report</li> <li>○ Environmental and Social Management Plan (ESMP)</li> <li>○ Full Resettlement Action Plan (FRAP)</li> <li>○ Abbreviated Resettlement Action Plan (ARAP)</li> </ul> </li> </ul>
<b>Responsible Parties</b>	<ul style="list-style-type: none"> <li>▪ E&amp;S Officer unless otherwise specified by Management</li> <li>▪ Registered and Certified Environmental Practitioner</li> </ul>

5. **Stakeholder Engagement:** Stakeholder engagement measures will work proactively towards developing and fostering positive relationships between the Client and stakeholders, particularly those directly affected by the project activities. Stakeholder engagement will aim to:
  - Provide stakeholders with project information at appropriate times and in accessible forms.
  - Communicate planned project phases, developments and changes to all stakeholders in good time (e.g., opening of new operations).
  - Involve stakeholders in project decision-making that will affect/influence their lives.

- Enhance stakeholders' capacity to identify unanticipated project impacts and to be able to communicate these to the Client such that they can be resolved.
  - Assist affected people in adapting to the social and economic changes brought about by the Project through information and participation.
6. **Grievance Procedure:** Stakeholder engagement measures will work pro-actively towards identifying and addressing E&S issues before they become grievances. However, when grievances are reported they need to be addressed in a consistent and verifiable manner as part of the implementation of the ESMS. For this reason, a Grievance Procedure needs to be followed to:
- Enable stakeholders to easily identify and report any grievance regarding the project's performance; and
  - Ensure that, through a defined process and within a predictable timeframe, stakeholders receive a response and/or resolution to the grievance.

A grievance is when stakeholders report a complaint or what they perceive to be poor performance linked to an operation within a Client company, with the expectation of an explanation, or a change to the activity that has caused the grievance, or redress/compensation.

7. **Emergency preparedness and Response Plan:** The main purpose of an Emergency Preparedness and Response Plan (EPRP) is to provide a systematic approach to the protection of employees, assets, and the environment from impact of serious incidents. The plan encompasses organizing, coordinating, and implementing a range of procedures to prevent, mitigate, respond to and recover from the consequences of an emergency event. The plan is designed to address all incidents, regardless of nature, severity, or location, thus, will avert a minor incident from becoming a disaster, save lives, prevent injuries, and minimize damage to property and the environment. Furthermore, the plan facilitates a rapid and effective emergency response and recovery; helps emergency and security services; implements an effective evacuation plan if required and communicates vital information to all relevant persons involved in the project emergency (both internal personnel and external agencies) with minimum delay. It outlines the necessary resources, personnel and their roles, and logistics, which allow for a prompt, coordinated, and rational approach to a project accident.

8. **Climate Risk Screening/Assessment:** All project follows the climate change risk assessment leading to either high or low climate risk projects, to define clear and adequate measures toward low carbon resilience (LCR) approach. Outcomes of the assessment may have a high impact on the feasibility and eligibility of a project for financing<sup>6</sup>. The project is categorized in high or low climate risk. The *Initial Climate Screening Assessment* will be conducted using the **Climate Risk Assessment** and **GHG computation tools** and the result of the assessment will be included in the **ESRA Form**. The outcome of the assessment will inform the

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<sup>6</sup> For example, a Category A project describing the building of a hydro-electric dam in an area of limited water supply with a clear projected trend of reduced rainfall over its lifetime may not be financed. A project may be highly exposed to climate risk if risks identified are considered unacceptably high, and the project cannot address them properly.

development of a mitigation strategy by reducing either emission intensities or absolute emission, and adaptation strategy, increasing the resilience of the project.

## Climate change Risk Categorization

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- i. **High climate risk category:** Project that is likely to induce significant GHG emission or might be strongly affected by climate change impacts.

*In addition, projects that exhibit potential failures due to weather extremes are considered high climate risk projects. Therefore, these projects will need to be subjected to a deeper climate analysis.*

- ii. **Low climate risk category:** Project that is sequestering or emitting limited GHG and is likely resilient or not affected by climate change.

*For any project financing request received by UDB, should be subjected to a preliminary analysis using a standard set of developed guiding questions for initial climate risk screening<sup>7</sup> supported with earth map tools.*

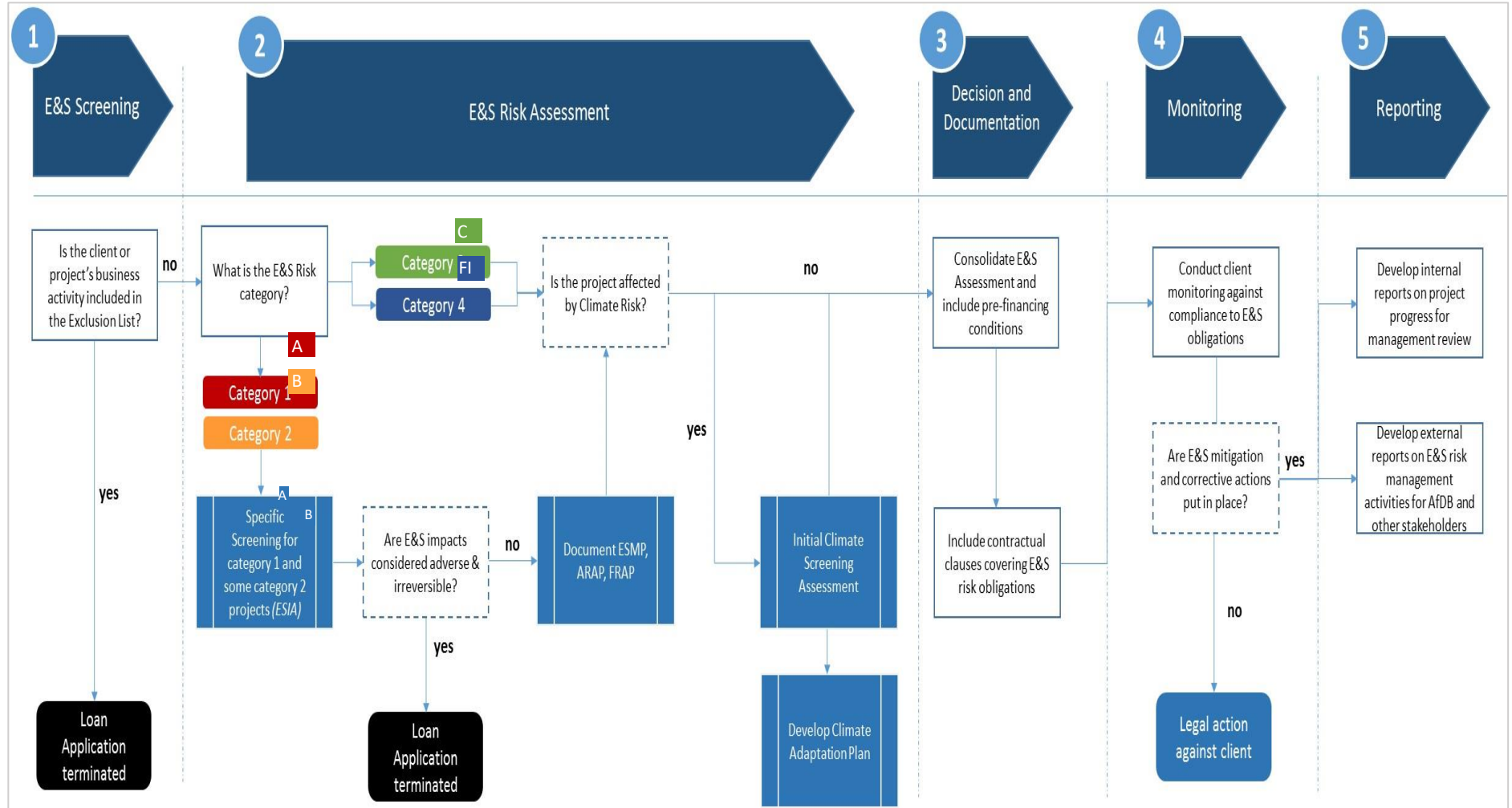
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<b>Applicable Toolkit(s)</b>	<ul style="list-style-type: none"> <li>▪ <b>E&amp;S Risk Assessment Form</b></li> <li>▪ <b>Initial Climate Screening Form</b></li> <li>▪ <b>GHG tools</b></li> </ul>
<b>Output:</b>	<ul style="list-style-type: none"> <li>▪ GHG emission scenarios</li> <li>▪ Completed Climate Screening Scorecards</li> <li>▪ Mitigation and adaptation measures for low carbon resilience approach (LCR)</li> </ul>
<b>Responsible Parties</b>	<ul style="list-style-type: none"> <li>▪ E&amp;S Officer for conducting the initial Climate Screening Assessment with the support of the Investment Manager and the Green Finance Officer unless otherwise specified by Management.</li> </ul>

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<sup>7</sup> These guiding questions for climate risk screening has been developed based on the International Fund for Agricultural Development (IFAD) tool.

**FIGURE 1: A SYSTEMATIC DIAGRAMMATIC FLOW OF E&S RISK MANAGEMENT PROCEDURE**



#### 4. E&S DOCUMENTATION AND CONVENTIONS

All outcomes will be documented in the *ESRA form* and will be collated alongside any detailed E&S assessments (i.e., *ESIA, FRAP, ARAP, ESMP*) conducted. Where mitigation measures or performance improvement commitments are required to meet the Bank's E&S standards, these will be communicated to the client and may be formalized in the corresponding loan documentation.

In order to bind the client's commitments to implementing the E&S risk management measures, the Bank will include compliance with such measures as a condition of financing. To facilitate implementation, the E&S risk measures should consist of discrete, time-bound actions that can be clearly measured or otherwise shown to have been completed. UDB's legal team will ensure that applicable environmental and social risk mitigation clauses are included into legal agreements to reduce the bank's exposure to potential E&S risks. Once captured in the legal loan covenants all applicable E&S risks will be referenced in the *E&S Risk Assessment form*.

<b>Applicable Toolkit(s)</b>	<ul style="list-style-type: none"><li>▪ <b>List of applicable social and environmental legislations –by UDB legal Team</b></li><li>▪ <b>Guidelines for specific E&amp;S Contract Clauses – by UDB legal team</b></li><li>▪ <b>E&amp;S Risk Assessment Form</b></li></ul>
<b>Output:</b>	<ul style="list-style-type: none"><li>▪ Clearance on whether specific projects are in violation of any applicable E&amp;S legislation</li><li>▪ Contract clauses focused on mitigating specific E&amp;S and climate risks identified on a project basis</li><li>▪ E&amp;S Covenant may include:<ul style="list-style-type: none"><li>○ Compliance Certification or Disclosure (that will include an incident notification acceptance where the client will be obligated to report to the bank within 24 hours any incidents resulting in loss of life due to the client's business operations, any significant non-compliance events (e.g., spills explosions, etc.), and any events resulting in negative comprehensive media coverage.</li><li>○ An agreed-upon action plan and timetable to mitigate the risk after loan disbursement</li><li>○ Actions by the bank to limit its exposure to environmentally and socially derived liabilities in the transaction (e.g., monitoring and/or reporting requirements, insurance, warranties by the client, etc.); and</li><li>○ Reporting requirements regarding non-compliance of major environmental or social incidents, etc).</li></ul></li></ul>
<b>Responsible Parties</b>	<ul style="list-style-type: none"><li>▪ E&amp;S Officer</li><li>▪ Project Supervision Officer</li><li>▪ Investment Manager</li></ul>

#### i. Competence, Capacity and Track Record Assessment for Financial Intermediaries

An E&S Officer will assess the competence, capacity, and track record of the financial intermediary (for apex lending operations) to determine its awareness of E&S risks

material to the business and its management of these risks. Evidence of an effective Environmental and Social Management System (ESMS) is a leading indicator of a company's ability to assess and manage risk, as well as identify opportunities where better E&S performance can drive value creation.

The development of an ESMS is required to identify and manage the E&S risks associated with the portfolio, supported by UDB financing, on an ongoing basis. The complexity of the ESMS will vary according to the risk exposure that the FI is expected to manage. This requirement applies to new financing by the FI, not assets in the portfolio prior to UDB's investment.

Outcomes of this assessment will be documented in the ESRA. Where there are gaps in an FI's ESMS. The E&S manager will provide guidance on how to close existing gaps. Details will be included in the **ESRA form**. Guidelines for completing the E&S Competence, Capacity and Track Record section are included in the Environmental and Social Risk Assessment Toolkit (ESRA toolkit).

The complexity of the FI's ESMS will vary according to the risk exposure, however, FI must have certain elements as a minimum. These should include:

1. E&S policy Statement approved by the company's Senior Management
2. E&S management procedures for handling each of the E&S aspects of the FI.
3. Institutional capacity (existence of clear E&S unit/function) in the company's organogram, including skilled and appropriate staffing commensurate to the E&S challenges.
4. E&S Risks function that exercises independence in decision making and reports on performance in management of E&S risks.

## **ii. Project Supervision, Monitoring and Reporting**

The environmental and social performance of projects in the Bank's portfolio will be monitored and evaluated on a periodic basis to check and verify on-going compliance with the Applicable Requirements. A summary of the E&S risk control and mitigation actions included in the *E&S Assessment Report* will include measures to be taken by the project owner to mitigate the risks identified during the various E&S assessments that are included in all forms. A record of supporting documentation of environmental and social reviews will be maintained which includes the initial evaluation of environmental and social risks and records of on-going compliance.

For Category A and B projects, UDB will require the following monitoring reports.

- Construction Phase: Periodic E&S Monitoring Reports (or alternative timing as required by NEMA in the Certificate of Environmental Clearance).
- Operations Phase: E&S compliance status monitoring or Annual Audit Report.

For Category C Projects, UDB will require an abbreviated annual E&S Report.

Monitoring visits will be conducted to support project due diligence and will ensure client compliance to E&S risk management recommendations stipulated within the loan agreement. The bank will document the client's progress and will identify any necessary corrective and preventive actions for financed projects. Regular follow-ups and engaging with clients would be carried out to ensure that these corrective and



preventive actions are implemented, and their effectiveness is measured and reported. In addition to monitoring information to track performance, the bank may use spot inspections and audits for certain projects to verify client compliance and progress towards desired outcomes.

The IM will be responsible for requesting and initial reviewing of the periodic reports from projects. The IM will file all monitoring reports, along with comments and notes resulting from the Bank's review, with the project file. Where initial review by the IM indicates that a project is non-compliant with the Applicable Requirements, the client will be informed of the non-compliance and the actions being taken to address the situation. A corrective action plan will be requested that includes actions and a time frame to address non-compliance. Where there is persistent non-compliance with the Applicable Requirements, the Bank will consider early termination of the financing.

<b>Applicable Toolkit(s)</b>	<ul style="list-style-type: none"> <li>▪ <b>E&amp;S Risk Assessment Form</b></li> </ul>
<b>Output:</b>	<ul style="list-style-type: none"> <li>▪ Supervision and Monitoring Reports</li> </ul>
<b>Responsible Parties</b>	<ul style="list-style-type: none"> <li>▪ E&amp;S Officer</li> <li>▪ Project Supervision Officer<sup>8</sup></li> <li>▪ Investment Manager or any officer designated by Management.</li> </ul>

**a. Reporting to Project Funders/Stakeholders**

When using other DFI funds to finance a project, the Bank will provide reporting to the DFI, as required in the legal agreement, such as:

- i. Immediate notification when a client experiences a major accident or incident, including fatalities and including any incidents that have received media attention.
- ii. Notification of any High-Risk projects prior to making a loan decision.

When required by a funder, the E&S Officer will be responsible for preparation of a Funder's Annual Environmental Performance Report according to the format required by the funder. This will be prepared based on the environmental and social performance information provided by each client, such as:

- i. Portfolio information
- ii. Progress on ESMS implementation
- iii. ESMS assessment procedures
- iv. ESMS monitoring process
- v. Environmental and social issues associated with projects
- vi. Non-compliance of projects

The Bank will submit the Funder's Annual Environmental Performance Report to the funder.

**b. Reporting on Major Incidents**

<sup>8</sup> Adopted from the UDB Project Supervision Manual

Within 24 hours of their occurrence, the Client EHS representative will be required to provide reports to UDB on significant incidents which have, or could potentially have material impacts on the client's operations, the welfare of employees, contractors or members of the public, or the environment, including, but not limited to :

- Fires or explosions.
- Significant fuel/chemical spills.
- Significant pollution discharges above limits of normal operation
- Major work-related injuries (including injured employees, contractors, and members of public).
- Work-related fatalities (including deaths of employees, contractors, and members of public).
- Incidents significantly affecting the health of employees, contractors, or members of public).
- Regulator enforcement actions/notices.
- Major security breaches.
- Strikes or employee unrest.
- Incidents requiring operations to be substantially curtailed or shutdown ; and
- Significant community unrest or public relations incidents.

## **5. ESMS REVIEW AND CONTINUOUS IMPROVEMENT**

The ESMS will be reviewed periodically (after every three years) to ensure that it remains relevant and effective over time and addresses the Bank's ongoing/changing needs. The review will include: identifying potential difficulties with operational aspects of ESMS implementation and making changes as necessary; reviewing the scope of ESMS procedures to ensure that emerging environmental and social risks of projects are detected and identified during the due-diligence process; and updating ESMS to reflect revisions in applicable national laws on environment, labour laws, health, and safety requirements among others (e.g., the National Environment Act, 2019, the National Environment (Riverbanks, wetlands, and Lakeshores) Management Regulations, the Employment Act 2006, the Occupational Health and Safety Act, 2006).

The ESMS reviews will be completed by the Senior E&S Risk Officer with support from the Director Risk. Brief reviews focusing on operational issues will be completed quarterly. A comprehensive review addressing all aspects, including review of the policy, roles and responsibilities, applicable requirements, procedures, training, and record keeping will be completed annually. As part of the annual review, audits will be completed of a random selection of projects, including all Risk Categories, to verify compliance with the procedures and record keeping.

The Senior E&S Risk Officer will be responsible for tracking changes in National Laws on environment, health, and safety, and to propose changes to the ESMS to ensure it remains current with applicable requirements. The Executive Committee will be responsible for approving proposed changes.

## 6. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM, ROLES, AND RESPONSIBILITIES

The management of E&S risks is a collective responsibility of UDB staff; therefore, to effectively implement UDB's ESMS, a governance structure is designed with the aim of establishing ownership, accountability, good stewardship, and transparency of the E&S risk management process. Specific E&S roles and responsibilities related to functions and committees are described as follows:

Responsible functions/ committees	Responsibilities
Board of Directors	<ol style="list-style-type: none"> <li>1. Approves the ESMS and related policy level documents.</li> <li>2. Considers the magnitude and scope of E&amp;S Risks in final decision making on new projects, and existing portfolio.</li> </ol>
Executive Committee	<ol style="list-style-type: none"> <li>1. Review and provides recommendations to the Board on the ESMS and related policy level documents.</li> <li>2. Integrates the ESMS with the Bank's standard operating procedures.</li> <li>3. Submits an annual report on social and environmental performance of UDB's activities and portfolio.</li> </ol>
Board Credit Committee (BCC)	<ol style="list-style-type: none"> <li>1. Approves financing of all Category B Projects.</li> <li>2. Facilitates decision making at BCC level on loan applications using E&amp;S considerations.</li> <li>3. Approves proposed environmental and social covenants.</li> </ol>
Management Credit Committee (MCC)	<ol style="list-style-type: none"> <li>1. Facilitates decision making at MCC review level on loan applications using E&amp;S considerations. Review and recommend proposed environmental covenants to the Board.</li> </ol>
Deal Review Committee	<ol style="list-style-type: none"> <li>1. Facilitates decision making at the deal review level on loan applications using E&amp;S considerations.</li> <li>2. Reviews proposed environmental and social covenants to be embedded into the term sheets.</li> </ol>
Legal Team	<ol style="list-style-type: none"> <li>1. Verifies that all loan agreements contain covenants that require projects to maintain compliance with applicable national laws on environment, health and safety, and, when appropriate, a funder's environmental and social requirements; and,</li> <li>2. Facilitates incorporation of approved ESAPs in loan covenants.</li> <li>3. Reviews changes in local and international legislation guiding E&amp;S implementation to ensure update of the SEMS policy and practices.</li> </ol>
Senior E & S Risk Officer	<ol style="list-style-type: none"> <li>1. Oversees implementation of the bank's social and environmental objectives and ensure alignment with the bank's broader business strategy.</li> <li>2. Oversees and manages the integration of E&amp;S Risk Management procedures within the bank's lending process.</li> </ol>

	<ol style="list-style-type: none"> <li>3. Analyses and offers advice to deal committees on client selection and acceptance criteria into portfolio based on the E&amp;S risks identified.</li> <li>4. Oversees capacity building and technical knowledge of subordinates within his area of influence around E&amp;S Risk Management relevant to execute day to day operations.</li> <li>5. Report internal E&amp;S issues/infringements/incidents to UDB staff and ensure that all emergency incidents are appropriately addressed, and risks remedied where possible.</li> <li>6. Participates in E&amp;S performance review meetings to assess the performance of his / her business area, effectiveness of the bank's E&amp;S strategy and compliance to all national regulations and stakeholder expectations.</li> <li>7. Facilitates quarterly briefings on implementation of ESMS and coordinates reporting to external funders and internal stakeholders, i.e., Executive Committee.</li> </ol>
Environmental and Social E&S) Risk Officer	<ol style="list-style-type: none"> <li>1. Oversees the implementation of the ESMS and ensures that the procedures are integrated with UDB's business processes for evaluating a project's financial risks and monitoring a funded project's ongoing compliance.</li> <li>2. Serves as the specialist and source for information on social and environmental best practices relevant to UDB's investment activities.</li> <li>3. Maintains a repertoire of qualified E&amp;S consultants who can be called upon to assist in conducting E&amp;S reviews and analyses.</li> <li>4. Serves as the focal point for interaction with NEMA and other regulatory authorities regarding status of projects with NEMA's regulatory process, including questions regarding categorization of projects and changes or developments in the regulatory process.</li> <li>5. Prepares internal and external briefings and guidance notes on E&amp;S issues targeted to staff (internal) and clients (external).</li> <li>6. Oversees the development and management of a database containing E&amp;S risks and trends within sectors financed by the bank and its partners to improve internal knowledge on E&amp;S and update project evaluation criteria.</li> <li>7. Oversees development and update of policies and processes relevant to the implementation of ESMS in his/her area of responsibility.</li> <li>8. Supervises projects on an ongoing basis through site visits, monitoring E&amp;S action plans, reviewing client's annual reports and recording overall E&amp;S performance. In addition, recommend irregular documentation spot checks and due diligence visits to client site to monitor compliance with clients' E&amp;S commitments included in pre and post contracting.</li> <li>9. Co-ordinates with external consultants for Due Diligence (if required).</li> <li>10. Oversees the preparation of annual E&amp;S performance report.</li> </ol>
Investment Manager	<ol style="list-style-type: none"> <li>1. Maintains communication with clients on ESMS Issues upon receipt of request for funding.</li> </ol>

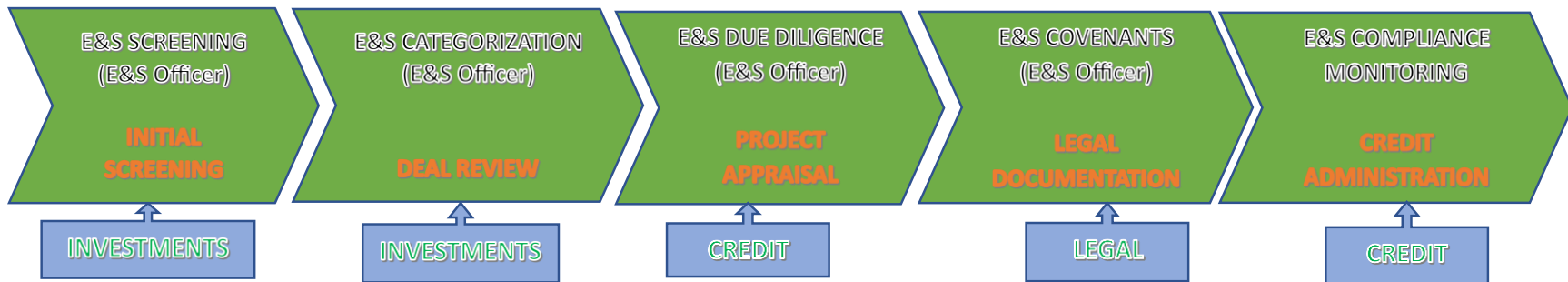
	<ol style="list-style-type: none"> <li>2. Maintains copies and/or records of all relevant E&amp;S information, including correspondence and records of meetings, in the project file.</li> <li>3. Coordinates with E&amp;S Officer to facilitate E&amp;S evaluation of Category B, C, and FI projects or activities being considered for financing, including a site visit for Category B Projects.</li> <li>4. Coordinates with E&amp;S coordinator to facilitate E&amp;S monitoring for Category B and Category C Projects funded by the bank, including annual or more frequent site visits.</li> </ol>
Legal	<ol style="list-style-type: none"> <li>1. Verifies that all loan agreements contain covenants that require projects to maintain compliance with applicable national laws on environment, health and safety, and, when appropriate, a funder's environmental and social requirements; and,</li> <li>2. Facilitates incorporation of approved ESAPs in loan covenants.</li> <li>3. Reviews changes in local and international legislation guiding E&amp;S implementation to ensure update of the SEMS policy and practices.</li> </ol>

## 7. E&S OPERATIONS WITH OTHER FUNCTIONS OF THE BANK

The Senior E&S Officer heads the E&S Department of the Bank within the Risk Directorate.

The E&S Team independently undertakes E&S Risk assessment at a borrower level and is incorporated within the Credit risk assessment at the point of borrower screening, working with the Investments, Credit, and Legal Directorates. The outcome of all the assessments is agreed upon with the customer and reports are reviewed within the Risk Directorate for quality assurance before submission to the various approval committees.

The figure below highlights various E&S roles within the credit process.



## **ANNEX A: UDB EXCLUSION LIST**

The Uganda Development Bank Limited will not finance the following projects:

- i. Production or trade in any product or activity deemed illegal under Ugandan law or regulations, prohibited under international conventions and agreements to which Uganda is a signatory, or subject to international bans such as pharmaceuticals, pesticides/herbicides, prohibited and restricted chemicals enlisted under eighth schedule of the National Environment Act 2019, wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES).
- ii. Production or trade in:
  - a. Weapons and munitions<sup>9</sup>;
  - b. Alcoholic Beverages (excluding beer and wine);
  - c. Tobacco; and
  - d. Gambling casinos and equivalent enterprises.
- iii. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is trivial and/or adequately shielded.
- iv. Production or trade in unbonded asbestos fibers<sup>10</sup>.
- v. Production or activities involving harmful or exploitative forms of forced labor<sup>11</sup>/harmful child labor<sup>12</sup>.
- vi. Commercial logging operations for use in primary moist rain forest<sup>13</sup>.
- vii. Development of or prohibited use of wetlands<sup>14</sup>.
- viii. Production or trade in wood or other forestry products other than from sustainably managed forests<sup>15</sup>.
- ix. Fishing activities restricted by standards under Ministry of Agriculture, Animal Industry and Fisheries and NAFFIRI
- x. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples<sup>16</sup>, without fully documented Free Prior and Informed Consent (FPIC) of such peoples.
- xi. Petroleum/gas exploration and production activities
- xii. New-coal-fired power plants.

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<sup>9</sup> 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.

<sup>10</sup> This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

<sup>11</sup> Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>12</sup> 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.

<sup>13</sup> Primary moist forests are...(prior to approval insert definition consistent with NEMA approach and classification).

<sup>14</sup> Wetlands are ...(prior to approval insert definition consistent with NEMA approach and classification).

<sup>15</sup> Sustainably Managed Forests are...( prior to approval insert definition consistent with National Forest Authority (NFA) approach and classification).

<sup>16</sup> For the purposes of this policy indigenous people are considered to include the Benet, Batwa, Ik and Karamojong communities/groups. Article 32 of the constitution of the Republic of Uganda places a mandatory duty on the state to take affirmative action in favour of groups who have been historically disadvantaged and discriminated against