

ENVIRONMENTAL AND SOCIAL FRAMEWORK FOR DUE DILIGENCE (Version 2)

1. INTRODUCTION

The Environmental and Social Due Diligence Framework supports the Environmental and Social Policy for IDC Investments. The Framework is developed based on international best practice in environmental and social management.

2. PURPOSE OF THE FRAMEWORK

The purpose of the Framework is to ensure consistent consideration of environmental and social (E&S) components in all project investments in accordance with the Environmental and Social Policy for IDC Investments. The Framework outlines IDC's Environmental and Social requirements. The objective of the Framework is to give guidance to all relevant stakeholders during project development, due diligence and post investment phases on the IDC's Environmental and Social requirements. The Framework will i) enhance predictability and accountability in IDC investment decision; ii) assist clients to manage their E&S risks and impacts, in so doing improving their performance, and iii) guard against unforeseen risk.

3. SCOPE OF THE DOCUMENT

This Framework is applicable to all projects irrespective of size, nature of business or location. The EHS department will be the lead in the implementation of the Framework and will work co-operatively with SBUs and PIMD to ensure that stated objectives of the Framework reach the whole organisation.

4. DEFINITIONS

Environment: Surroundings within which humans exist made up of (i) land, water, atmosphere and (ii) micro-organisms, plant and animal life. Combination of i and ii and interrelationships among and between them.

Environmental and social sustainability: The assessment that a projects outputs can be produced without permanent and unacceptable change in the natural environment on which it and other economic activities depend, over the life of the project and the project takes into consideration social and human capital and interacts with these in a responsible manner.

Category A: Projects with potential significant adverse environmental or social impacts that are diverse, irreversible or unprecedented.

Category B: Projects with potential limited adverse environmental or social impacts that are few in number, site-specific, largely reversible, and readily addressed through mitigation measures.

Category C: Projects with minimal or no adverse environmental or social impacts.

Category FI: Investments in a financial institution of other legal entity whose primary business activity is to provide loans, equity, guarantee products or other financing to third parties that may engage in activities which have potential environmental and social impacts.

Competent Authority: The department / authority responsible for the implementation and enforcement of environmental management. This can be a national, provincial or local authority depending on the legislative requirements of the host country.

E&S Category: The Environmental and Social Category serves as an indication of the nature and extent of potential E&S impacts that the project is expected to have.

E&S Classification: The combination of the E&S Category and E&S Risk Rating to determine the frequency of post-investment monitoring of projects.

E&S Risk Rating (ESSR): A tool used to estimate the potential environmental and social risk of projects. ESSR includes in its computation an element of performance and risk. The computation methodology varies between the Direct Investment and Financial Intermediary projects.

5. IDC APPROACH TO ENVIRONMENTAL AND SOCIAL MANAGEMENT

Environmental and social sustainability entails the effective inclusion of environmental and social considerations into projects in an organized and hierarchical approach to mitigate

permanent and unacceptable impacts in the natural environment on which the project and other economic activities depend. The IDC's general approach to environmental and social management is outlined in its environmental and social policy statement.

The E&S assessment process is broadly aimed at examining the environmental and social aspects as well as legislative requirements of the project. The objectives of the assessment are:

- To ensure that environmental and social considerations are incorporated into the site selection process and product design;
- To understand the likelihood and magnitude of environmental and social risks, based on:
 - The nature of the project activities, and
 - The potential consequences to employees, communities, or the environment if hazards are not adequately managed.
- Prioritizing risk management strategies with the objective of achieving an overall reduction of risk to human health and the environment, focusing on the prevention of irreversible and / or significant impacts.
- Promoting strategies that eliminate the cause of the hazard at its source, for example, by selecting less hazardous materials or processes that avoid the need for environmental and social controls.
- When impact avoidance is not feasible, incorporating engineering and management controls to reduce or minimize the possibility and magnitude of undesired consequences.
- Determining the extent to which a client is developing, communicating and maintaining emergency preparedness and response plans to its employees to enable them to respond to emergency incidents effectively.
- Improving environmental and social performance through a combination of ongoing monitoring of facility performance and effective accountability.

6. PRE-INVESTMENT

6.1. E&S RISK CLASSIFICATION

Projects being considered for investment are categorised considering inherent risks to the sector and local context, in addition to project impacts. Final categorisation at conclusion of the IDC due diligence process defines the severity of the potential E&S, informs the E&S conditionalities (CPs and Undertakings) and client reporting requirements.

7. POST-INVESTMENT

7.1. E&S RISK RATING

The E&S Risk Rating (ESRR) is determined by EHS Department and reviewed when needed by PIMD. The ESRR reflects the clients' ability to understand, manage and minimize E&S impacts of the project and comply with legislation requirements applicable to the country/ies of operation and industry. The E&S Risk Rating reflects areas where a client does not achieve the necessary performance required by IDC. The following ESRR are distinguished:

ESRR 1: EXCELLENT

- Environmental & social management system is implemented throughout the organisation and audited regularly; no outstanding audit findings
- E&S performance exceeds performance standards
- No incidence of pollution or injury recorded in 3 years
- All permits and licences are in place and renewed when needed

ESRR 2: GOOD

- Environmental & social management system is implemented throughout the organisation and audited regularly; minor audit findings still to be addressed
- E&S performance meets performance standard
- Only minor incidence of pollution or injury recorded in 3 years
- All permits and licences are in place and renewed when needed

ESRR 3: POOR

- Environmental & social management system NOT implemented throughout the organisation
- E&S performance DO NOT meets performance standards
- Significant incidence of pollution or injury recorded in 3 years; preventative action taken
- Some permits and licences are in place and renewed when needed
- Outstanding permits and licences application have been submitted to the Competent Authority or are being prepared. There are no material aspects preventing the approval of such permits and licences.

ESRR 4: UNACCEPTABLE

- Environmental & social management system DOES NOT EXIST
- E&S performance standards DO NOT MEET performance standards
- Significant incidence of pollution or injury recorded in 3 years; NO PREVENTATIVE ACTIONS TAKEN
- NO permits and licences are in place, pending or applications being prepared.

EHS Department will advise ESRR 3 clients where appropriate to improve performance, and if a client fails to improve within a specified period IDC may exercise its rights and remedies as necessary.

Clients that are given an ESRR 4 during due diligence will not be approved for IDC funding (ESRR4 Rule in the Environmental and Social Policy for Due Diligence). Existing clients that are given an ESRR 4 during monitoring will be referred to Legal and International Finance Department and PIMD for appropriate measures to be taken as provided for in the Legal Agreement or other appropriate measures.

A consolidated Annual Report is presented to Exco Policy summarising the findings of the year's assessments and actions taken to improve clients' performance.

The frequency of post-investment assessment is determined by the project's E&S Category and ESRR – the E&S Classification. This assessment may include a site visit as per the table below:

Class	E&S Classification	Minimum Frequency
1	Category A projects during construction Category A projects with ESRR of 3 (clients given this rating are required to improve to ESRR2 within one calendar year from assessment) Category B projects with ESRR of 3 (clients given this rating are required to improve to ESRR2 within one calendar year from assessment)	Annual site visit
2	Category A projects with ESRR of 1 & 2 Category B projects with ESRR of 1 & 2	Every 2 years; site visit if required
3	Category B projects with ESRR of 1 & 2	Every 3 years; site visit if required
4	Category C projects	On risk basis, determined case by case

8. APPROACH TO ON-LENDERS (Financial Intermediaries)

IDC policy requires that all its operations are carried out in an environmentally and socially (includes Health and Safety) responsible manner. IDC'S Environment and Social procedures and guidelines include special requirements for projects involving Financial Intermediaries (FIs), including SEFA. Specific requirements will depend on the type of FI operation and circumstances of the client. IDC will require an FI to:

- Operate a simple management system to screen projects for key environmental and social issues;
- Provide financing only to projects that comply with applicable host country regulations and standards. In cases where the regulations and standards are not to the satisfaction of IDC, then IDC guidelines must be followed;
- The FI must ensure that there is adequate knowledge and capacity to carry out environmental and social assessment and if necessary attend training that is acceptable to IDC; and
- The FI is to provide the IDC with an annual report that includes information on its performance on environmental and social issues. The information must be timeous, relevant and cover all material issues.

9. REQUIREMENTS FROM EXTERNAL FUNDERS

Multilateral funding institutions require E&S due diligence so that any potential adverse impacts can be avoided or at least mitigated before project implementation.

Whilst requirements differ from lender to lender certain requirements are most common. The following table illustrates IDCs position and future actions to enable rigorous E&S due diligence for multilateral funding institutions:

Requirement	IDC Current Position
An Environmental and Social Co-ordinator to ensure that all projects are reviewed and evaluated against each funder's social and environmental requirements.	The EHS Team performs rigorous E&S DD for each Category A and B project.
An exclusions list that sets out projects that the corporation would as a matter of principle not be associated with. The exclusions list would have to be comparable with those of the international multilateral institutions in that it would be written with the express reason of funding responsible development.	The IDC Exclusions List
Performance standards or guidelines with particular consideration for equity transactions.	Performance guidelines are being developed, the first of which will be implemented in 2017/18
Framework regarding Management of Environmental and social risks.	This E&S Framework version 2 will be reviewed every four years or earlier is deemed necessary.
Funders expect that appropriate environmental and social representations, warranties and covenants are incorporated in each investment agreement.	The E&S DD Procedure describes standard conditionalities for all transactions. Additional Conditions Precedent and/ or Undertakings are included per project as necessary.
Environmental and Social records are maintained.	EHS Department keeps electronic records of all Policies, Systems and Procedures and reports in an electronic filing system.

10. E&S PROCEDURES TO SUPPORT THE FRAMEWORK

The E&S Due Diligence Framework is supported by i) The E&S Due Diligence Procedure, and ii) The E&S Risk Assessment Procedure for post-investment monitoring.

11. E&S PERFORMANCE GUIDELINES TO SUPPORT THE FRAMEWORK

The EHS team is preparing performance guidelines to support the E&S Framework. These will be developed and presented to the Systems and Procedures Review Committee for approval. The following performance guidelines are planned:

Performance Guideline:

Involuntary Resettlement and Land Acquisition

Pollution Prevention and Resource Efficiency

Waste Management

Submission to Committee:

March 2017

March 2017

March 2017

12. E&S CATEGORISATION METHODOLOGY

The IDC categorises prospective new investment in terms of the inherent E&S impacts of the industry, as well as project- and site specific potential impacts. A project retains its Category throughout its lifetime, unless the project is materially changed in terms of the type of industry, products or site location. In such a case, or where further investment in existing client operations is required for expansion of facilities or production capacity, the E&S DD will be performed again to re-categorise the project.

Category A Projects

Projects with potential significant adverse environmental or social impacts that are diverse, irreversible or unprecedented. For IDC investments, these include:

General

- Any project where involuntary resettlement is required.

Mining Projects:

- Large scale open cast or underground mining operations of which the owners are global operators, including mine dumps and tailings, other mine-related works and transport of mined material.
- Any mining project where involuntary resettlement is required.

Mineral Beneficiation Projects

- On site or off site sintering of metal ore associated with Category A type mining projects.

Metal Smelting Projects

- Large scale smelting operations associated with Category A type mining projects.

Chemical Manufacturing Projects, including Cement Manufacturing

- Major Hazard Installations (or projects outside SA that meet the criteria of MHI) in any location.

Agriculture Projects with a Regional Footprint

- Agriculture projects for food or bio-fuel production with a large footprint (significant extent across provincial or national borders).

- Any agriculture project where involuntary resettlement is required.
- Any agriculture project in a highly sensitive location.

Alternative Energy Projects

- Concentrated Solar Power projects

Category B Projects

Projects with potential limited adverse environmental or social impacts that are few in number, site-specific, largely reversible, and readily addressed through mitigation measures.

General

- Any project where hazardous chemicals are handled or stored.
- Any project that requires Environmental Authorisation by a competent Authority.

Mining Projects:

- Mining projects within a provincial border of which the owners are local, including mine dumps and tailings, other mine-related works and transport of mined material.

Mineral Beneficiation Projects

- On site or off site sintering of metal ore associated with Category B type mining projects.

Metal Smelting Projects

- Smelting operations associated with Category B type mining projects.
- Smelting of waste metals (recycling).

Transport

- Manufacture of sea-going vessels and other transport vehicles

Chemical Manufacturing Projects, including Cement Manufacturing

- Chemical manufacturing projects that are not Major Hazard Installations.
- Reworking or recycling of materials.

Agriculture Projects with a Local Footprint

- Agriculture projects for food or bio-fuel production with a local footprint.
- Food processing facilities, including production for export.
- Marine harvesting and land-based aquaculture.

- Commercial plantations

Textiles Projects

- Dyeing facilities, including effluent storage and treatment.
- Dyeing of non-textile and organic products

Alternative Energy Projects

- Wind farms
- Manufacture of solar panels

Category C Projects

Projects with minimal or no adverse environmental or social impacts.

Media and motion picture projects

- Motion picture production

Tourism Projects

- Non-greenfields tourism-related projects.

Venture Capital Projects

- Intellectual property projects