

INDUSTRIAL DEVELOPMENT CORPORATION ENVIRONMENTAL AND SOCIAL POLICY AND DUE DILIGENCE FRAMEWORK

1. PURPOSE OF THE POLICY

The Industrial Development Corporation of South Africa Limited (IDC) is committed to creating balanced, sustainable economic growth in South Africa and on the rest of the African continent. The purpose of this policy is to outline how the IDC will implement its commitment to promote environmental and social sustainability by:

- 1.1. Incorporating environmental and social considerations in all its investment activities;
- 1.2. Defining the requirements for environmental and social risk assessment and monitoring;
- 1.3. Developing and communicating environmental and social performance standards that clients are expected to meet within acceptable timeframes;
- 1.4. Implementing customised performance requirements for different types and sizes of investments;
- 1.5. Including appropriate environmental and social development elements in the IDC's Development Scorecard;
- 1.6. Include environmental and social performance in the Corporation's feedback to its board;
- 1.7. Enforcing "deal breakers" for credit submissions and taking legal action based on the ESRR4 rule (serious legal non-compliance); and
- 1.8. Defining roles and responsibilities for both the IDC and its clients.

2. POLICY STATEMENT

The IDC recognises that sustainable economic growth is integrally connected to the sustainability of the environment and society. For this reason, the IDC is committed to investing in industrial activities that implement environmental protection measures, implement occupational health and safety protection measures, avoid negative impacts on communities, and promote the sustainable use of natural resources.

The IDC adopts the following principles to promote environmental and social protection in all its investments and activities:

- 2.1. All activities must be environmentally and socially responsible;
- 2.2. All investments shall comply with national legislation and international environmental protection conventions;
- 2.3. All investments must have respect for local communities and indigenous people;

- 2.4. Investee companies must create favourable working conditions that are not harmful to employee health and well-being;
- 2.5. Investee companies shall develop and implement environmental management systems and in line with international best practices.

3. KEY ENVIRONMENTAL AND SOCIAL CHALLENGES

These principles guide the IDC to address key environmental and social challenges when undertaking its activities and investments:

- 3.1. Land degradation and loss of biodiversity
- 3.2. Depletion of natural resources (water, arable land, biological resources, ecosystem services, etc.)
- 3.3. Climate change
- 3.4. Air pollution
- 3.5. Water availability and pollution
- 3.6. Human vulnerability
- 3.7. Production and disposal of waste

4. THE IDC'S COMMITMENT

The IDC undertakes to conduct its business in an environmentally and socially responsible manner by ensuring that projects and developments financed by the Corporation undergo an environmental and social risk assessment process. The level of environmental and social risk assessment undertaken for each investment is determined by the investment's categorisation based on the nature, complexity and perceived impact of the investment.

The Corporation further undertakes to embed environmental and social considerations in strategic decision-making through measures such as the Development Scorecard, compulsory disclosure on carbon emissions and water consumption and –pollution for subsidiaries. The IDC will require compliance with environmental and social legal requirements from its investments and reserve the right to refuse investment and/or take legal action where it deems appropriate due to severe legal non-compliance.

5. IMPLEMENTING THE ENVIRONMENTAL AND SOCIAL POLICY

5.1. Project Categorisation and Risk Rating

The IDC integrates environmental and social considerations in the investment cycle by conducting a risk assessment process to (i) assist the Corporation in identifying potential risks and determining issues that should be addressed during the planning, financing and implementation phase of the development through to closure and decommissioning; and (ii) determine the extent to which clients understand and manage their risks.

Investments are classified in three categories, namely Category A (high impact); Category B (medium impact) and Category C (low or negligible impact). The scope and level of environmental and social risk assessment undertaken is determined by the nature and/or type of development, level of complexity of environmental and social issues, applicable legislative requirements and the categorisation, not the quantum of the investment.

Once the initial assessment had been completed, the project is rated using the IDC Environmental and Social Risk Rating model to determine the level of risk associated with the development, and the extent to which risks are mitigated. Environmental and Social Risk Rating (ESRR) 1 is very good; ESRR 2 is acceptable; ESRR 3 is poor and ESRR 4 is unacceptable. The Environmental and Social Due Diligence Framework outlines the definitions and methodology to determine the category and the risk rating.

The categorisation and risk rating together assist the IDC in determining the monitoring requirements of developments and investments.

5.2. Public Consultation

Clients are required to identify interested and affected parties to disclose relevant information about environmental and social impacts and risks and benefits arising from their activities. Where necessary, the IDC may conduct its own public consultation as part of the environmental and social risk assessment process to gather more information and assess stakeholder views on the development. Where the development is undergoing an Environmental Impact Assessment (EIA) process, the client must inform the IDC so that the Corporation can be included as an Interested and Affected Party (I&AP) in the EIA database.

5.3. Third Party Performance

It is the clients' responsibility to ensure that the development meets the IDC's environmental and social requirements, even if such compliance depends on the activities of a third party. A third party may be, but is not limited to, a government agency, contractor, supplier, land owner, tenant or an operator.

5.4. Legal Documentation

The IDC's investment agreements with clients in respect of a development or project will include specific provisions reflecting the Corporation's environmental and social requirements. These include, but are not limited to compliance with relevant legislation, provision for periodic reporting on environmental and social performance and ongoing monitoring by IDC personnel.

Legal documents will also include, where appropriate, the rights and/or remedies for the Corporation where the client fails to implement environmental and social requirements during the term of their legal agreement.

5.5. Project Monitoring

The IDC monitors environmental and social performance to ensure that all conditions of finance approval are complied with. Over and above monitoring the client's environmental and social performance, monitoring aims to engage clients and advise on the sustainability of developments and on the IDC's requirements.

Environmental and social monitoring of developments is undertaken by the Environmental, Health and Safety Department within the IDC, in consultation with its Post Investment Monitoring Department and the relevant Strategic Business Unit. Monitoring of developments depends on the environmental and social issues identified during the due diligence phase, the categorisation of the development, and the environmental and social risk rating (ESRR) allocated to the development.

Monitoring of high-risk developments is done annually until such time that the Corporation is satisfied that the impact and/or risks are well managed. All high-risk developments are expected to develop an environmental management programme in line with international best practices and relevant legislation. Monitoring of high-risk developments includes a combination of on-site assessments and requesting periodic compliance reports as agreed with the client.

Monitoring of medium-risk developments will include a combination of on-site assessments and periodic compliance reports as agreed with the client.

Low-risk developments do not need to be monitored on an ongoing basis by the Environmental, Health and Safety Department. Monitoring of these clients will be undertaken at the request of the relevant Strategic Business Unit.

5.6. Customised Performance Requirements

The IDC will implement customised performance requirements for different types and sizes of investment. The following is a summary of the requirements per investment type:

Pre-investment

- *Minimum environmental and social risk rating (ESRR) of 3 is required for approval of funding (ESRR 4 is not approved)*

Equity (IDC holds >50% share, financial control)

- *CDP Investor Disclosure; CDP Water Disclosure*
- *Annual environmental and social performance report to DIC] (including resource efficiency goals)*
- *Energy and water efficiency audit and implementation plan*

Debt

- *Maintain ESRR above 3 for the duration of the loan*

Equity (<51%)

- *Main ESRR above 3*
- *Annual environmental and social performance report to IDC*

SEFA

- *Annual review of the client base to identify resource intensive industries (water and energy)*
- *CDP Investor Disclosure and CDP Water Disclosure is mandatory for resource intensive SEFA clients.*

5.7. Board Feedback

Annual board feedback shall include environmental and social performance, aligned with the Corporation's Integrated Report, to promote transparency and communication of organisational performance related to environmental and social matters.

5.8. "Deal breakers" for Credit Submissions

Environmental and Social due diligence will identify 'deal breakers' such as serious legal non-compliance for consideration by the IDC's Credit Committee for approval of funding applications.

5.9. ESRR4-rule

The IDC shall not approve any funding application that achieves an ESRR 4 during pre-investment due diligence and shall take legal action against a client that achieves an ESRR 4 during ongoing risk assessment.

5.10. Advisory Services

The IDC shall provide advisory services and capacity building to clients that need support in developing and implementing environmental and social management programmes to meet the IDC requirements and/or improve performance. When providing this service, the IDC's Environmental and Social Guidelines will be used as a reference. It is the responsibility of the client to ensure that their projects comply with all applicable legislation.

5.11. **Operational Changes**

Project or development categorisation and risk rating are based on the outcome of the environmental and social risk assessment process at the time of assessment. To ensure that the project rating is in line with the project/development activities, the client must notify the IDC of changes in the nature and scope of projects/developments that may significantly impact the environment or society following funding approval. These changes may trigger an additional environmental and social risk assessment to update the risk rating and/or amendment to funding conditions.

5.12. **Promotion of Environmental and Social Sustainability**

The IDC will promote sustainability by taking a proactive and innovative approach to promote projects and initiatives designed to deliver environmental and social benefits. This will include:

- i. Supporting climate change mitigation and adaptation measures by investing in best practice climate change adaptation and mitigation initiatives;
- ii. Identifying and promoting projects in environmental priority areas, such as but not limited to air quality priority areas, with environmental and social benefits; and
- iii. Facilitating capacity building for clients to assist them with developing and implementing their environmental and social management programmes to improve performance.

The IDC will use environmental and social management tools, such as the Sustainable Development Goals, the Global Compact and the CEO Water Mandate, engagements with national government departments such as the Department of Environmental Affairs and the Department of Water and Sanitation available information to identify opportunities for future development.

5.13. **Resources**

The IDC will allocate appropriate resources to ensure the effective implementation of this policy. The Corporation will maintain adequate human and financial resources to oversee the environmental and social risk assessment and to monitor the environmental and social performance of projects and developments.

5.14. **Implementation of the Policy**

This policy shall come into effect immediately after approval and will replace the Environmental Policy dated March 2009. This policy will be communicated to all IDC employees and be available to all stakeholders upon request.

The IDC will develop environmental and social guidelines, which may include performance standards to support the implementation of this policy. The IDC will monitor and evaluate its environmental and social performance against this policy on an ongoing basis.

6. POLICY REVIEW

This policy shall be reviewed every four years or earlier if deemed necessary.