

SUMMARY OF THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

1.0 Summary

CalBank Limited, as a commercial financial institution in Ghana has since its establishment in 1990 been achieving its objectives of maximising its shareholders' value and providing adequate financing to its clients. The Bank's overall lending and investments objectives are that these activities lead to the positive transformation of the society it serves. However, some of the projects it finances could have adverse effects on the environment and the society at large. This can arise through financing of activities that can lead to adverse impacts on the environment and the undesirable effects of relocation of people. As a financial institution with sustainability values and objectives and therefore, in pursuit of its dual goals of sustainable development and profitability, CalBank has put in place an ESMS that ensures that its management commits to environmental and social sustainability. The ESMS was first developed in 2009 and has been revised in 2017. The ESMS puts in place the required E & S risk management procedures in CalBank's business activities to mitigate E & S risk associated with the activities that it finances. CalBank has put in place an institutional structure and made available human and financial resources through training of its staff on E and S risk management.

2.0 Introduction

CalBank believes environmental protection and social development are among the most pressing issues facing the world today. The Bank therefore regards sustainable and social development as fundamental aspects of sound business management. Consequently, the Bank is committed to continuing the integration of environmental and social aspects into its business activities. As a Bank, they seek to ensure the efficient implementation of their environmental and social policy through an environmental and social management system. CalBank's ESMS is a framework that integrates the environmental and social risk management into the Bank's financing decision making processes. The ESMS includes sound objectives, well defined procedures and responsibilities that ensures that the Bank avoids and manages loan facilities that have potential environmental and social risks. The system involves screening and conducting environmental and social due diligence prior to loan agreements and disbursements; and provided adequate supervision of projects during the term of the loan agreement.

3.0 FI's Environmental and Social Policies Management

Commitment

The Board of CalBank approved an ESMS Policy in 2009 and this has been reviewed and updated in July 2017 and is expected to be approved by the board before the end of this year. The implementation of the new policy is expected to be implemented as soon as it is approved by the Board.

The Bank has assigned the management of the ESMS to 4 senior managers i.e. Executive Director; Assistant General Manager, Risk & Compliance; and Head Credits and Environmental and Social Officer/Credit Administrator. The ESMS commits CalBank to ensuring effective environmental and social management activities in all its activities, products and services. The Bank purchases only non-chlorofluorocarbon based products and other bio-degradable assets. Solar energy will be used to supply power to the Bank's new Head Office building being constructed and other Branches to be opened. Also, boreholes have been drilled at the Bank's Head Office for water supply. The same source shall be used to supply water to the new Head Office project.

The management team have ensured that there is training in environmental sustainability since 2008 by DEG, UNEP, IFC and EPA. The ESMS trainings have been incorporated in the Bank's induction programme for new staff and is mandatory for Account Relationship Managers, Credit Analysts, and Branch Managers and it communicates its ES Policy to its staff and clients. It is committed to striving to ensure that the activities of its Clients comply with local and international standards relating to environmental, occupational health and safety and labour. Our management is committed to ensuring transparency in its activities and ensuring that its client companies understand the policy commitments it has made in relation to E & S management practices. The new policy will be communicated to all staff and operational employees of the Bank.

The ESMS evaluation forms part of the credit approval process and has been uploaded in the Bank's credit analysis platform. The Bank has developed various tools to ensure effective implementation of the policy that includes among others, exclusion list and EaSI categorization tool that are available to all staff on the Bank's platform.

4.0 Description of Proposed FI operations – nature and scale.

CalBank's portfolio as of December 2016 is made up of the following sectors by size: Construction; Commerce and Finance; Electricity, Gas and Water; Services; Government; Manufacturing; Mining and Quarrying; Transport, Storage and Communication; Agriculture, Forestry and Fishing. For this Line of Credit (LoC) the indicative pipelines are in the following sectors: Transport; Energy; Telecommunications; Agribusiness; Manufacturing; NBFIs; Commerce; Construction and Health. The ESMS evaluation uses checklists for assessment of E&S risk and determining project category risk. Loans above GHS500,000 and based on identified risk are categorised including all loans to Petrol and Gas dealers, Construction etc. whose financing may be below GHS500,000.

5.0 Potential Environmental and Social Risks Associated with F1 Operations

Based on its indicated pipelines in the following sectors: Transport, Construction, Energy, Manufacturing, Agribusiness and Health, several environmental and social impacts are expected.

The anticipated benefits that will accrue as a result of the investee subprojects include: (i) increase in direct and indirect employment opportunities and consequently household benefits; (ii) fostering greater entrepreneurship; (iii) contribution to positive infrastructure development outcomes through the port and energy projects pipeline; (iv) increase in additional tax and other revenues payable to the government of Ghana; (v) diversification of exports and foreign exchange earnings; (vi) reduction of greenhouse gas emissions as a result of the gas powered plant; (vii) supporting local corporations and SMEs in improving their efficiency and productivity rates from the increased trade activities as a result of deepened value chains and a diversified productive base; (viii) facilitating greater trade in essential commodities and consequently augmenting the economic livelihoods of people employed in the agribusiness and other industries; and (ix) promoting trade activities which will further increase access to goods, services, technologies, and knowledge. Women entrepreneurs are amongst the SME project's beneficiaries and women will be targeted because they play a significant role in SMEs in Ghana but have limited access to finance. As such, access to trade finance will provide critical resources, contributing to their economic empowerment and growth of their respective businesses.

Given the E & S risk profile of some of the LoC pipeline transactions in the infrastructure and energy sector, some of the main negative environmental, social and climate change risks associated with the project at this stage include: loss of vegetation; loss, fragmentation, and degradation of habitats; pollution of soils and water resources; impacts on air quality as a result of emissions from power plant and construction related activities; noise and vibrations from construction and operation activities; waste generation during construction, operation and maintenance; impacts as a result of influx of migrant labour; child and forced labour issues during construction and operation; poor management of labor and worker conditions by investees; and land acquisition issues that may arise due to access roads and transmission pipelines for the gas power plant.

6.0 Proposed Environmental and Social Risk Management

Process

CalBank ensures that:

- (i) Environmental and Social Impacts of its client's projects are assessed and E & S Risk is categorized
- (ii) Measures are identified based on E & S Risk to avoid, mitigate and compensate for all environmental and social impacts
- (iii) The implementation of the agreed measures that are included in the loan agreements are monitored and reported throughout the term of the credit facility.

The management of identified risk is done by ensuring that the projects have been licensed; have all permits and land title ownership documentation. They check and verify this with the following authorities: Environmental Protection Agency (EPA); Fire Certificates from the Ghana Fire Service and various kinds of authorisations from National Petroleum Authority (NPA), Ghana Revenue Authority (GRA) and the Lands Commission. Where the permits or licenses require renewal, the clients are required to submit renewed permits/licenses. After disbursements, Clients are monitored through site visits and reporting. The frequency of reports depends on the E&S risk category of the project.

7.0 Screening and Categorisation

CalBank uses an Exclusion list to determine eligibility of its borrowers' projects for financing. This is followed by DEG's EaSI Categorisation tool for determining the overall level of environmental and social risk of each project they want to finance. Projects will be mandatorily assigned to one of the 3 environmental and social (E&S) categories as follows:

- ***Category A–High Risk***

High risk projects are those with potential significant adverse environmental or social impacts that are diverse, irreversible or considered sensitive by the Bank. These impacts may affect an area broader than the project site, and could lead to significant changes in land use and in the social, physical and biological environment. Such projects generally include: large-scale irrigation and water management projects; river basin development, drainage projects, new land development for agricultural and urban development, health or agricultural projects involving large-scale application of pesticides, displacement and resettlement of indigenous and vector control communities; new roads, especially penetration roads cutting through forests or other environmentally sensitive areas; new airports, large-scale ports and harbours; large-scale water supply, sanitation and sanitary landfill projects; medium and large-scale power generating and industrial plants; on-shore and off-shore oil and gas production. The following Environmental and Social requirements shall apply:

- Exclusion List
- Compliance with national regulations and international performance standards (environmental, social, occupational health and safety, and labour)
- Full E & S appraisal commensurate with the level of potential impacts and risks that will include ESIA/CAP
- Stakeholder engagement

- ***Category B – Medium Risk***

These are projects with potential limited adverse E&S impacts that are few, site specific, and for which mitigation measures may be readily available. These may include agro-industries, crops

intensification schemes, livestock keeping, fish farming, fisheries facilities, small irrigations schemes, water supply and sanitation, housing development, rehabilitation or upgrading of existing roads, communications, small-scale industrial plants and estates, underground mining, sand winning and quarrying operation, transmission lines and mini-hydropower schemes. The following Environmental and Social Requirements shall apply:

- Exclusion List
- Compliance with national regulations and international performance standards (environmental, social, occupational health and safety, and labour)
- Limited E&S appraisal commensurate with the level of potential impacts and risks that will result in an ESMP and CAP
- Stakeholder engagement

- ***Category C – Low Risk***

These are projects with minimal or no adverse environmental or social impact thus requiring no EIA, although E&S implications will still be reviewed and the assessment reported in the detailed appraisal.

Projects generally include education and health service projects, credit institutions, institutional development and capacity-building projects, technical assistance, securitisation and capital markets development. E&S analysis will be minimal and shall involve the Exclusion List and compliance with national regulations and international performance standards.

CalBank currently applies the following specific measures to avoid or mitigate risks, including but not limited to

- Obtaining guarantees from Clients
- Ensuring that clients comply with all Ghanaian law (environmental, occupational health and safety, social and labour) and international best practice including AfDB and IFC requirements, and Equator Principles), and CalBank's ESMS requirements. it secures all

environmental and other requisite permits before finalization of transactions and CalBank verifies the permits with responsible regulatory authorities.

- Requiring clients to obtain appropriate insurance
- Ensuring that CalBank's Offices and its client's premises operate at the highest standard of safety complying with E&S Risk Management procedures; and establishes conditions for clients to meet and also report E&S mitigating plans
- Designating an ESO position in the Credit Department who ensures that all Credit Analysts evaluate E&S risks in every project amounting to GHS500,000 and above or with high to medium risk categories financed by the Bank. Any ESM risk identified is communicated to business units and branches. This is commented in the Bank's credit memo for approval
- Financing/investment decisions are guided by the environmental and social policy where applicable
- Contractually binding clients by including E & S legal covenants in facility agreements with clients with facilities of GHS500,000 (approx. USD120, 000) and above or based on E & S Risk of the project categorization (e.g. all loans to petrol and gas dealers, construction etc. whose financing is below GHS500,000) to comply with national and IFC Performance Standards and AfDB Operational Safeguards.
- Monitoring of Clients' projects through visits, third party information and checking and reporting on environmental and social performance internally to senior management and externally to DFIs. They check with Environmental Protection Agency (EPA), National Petroleum Authority (NPA), Ghana Revenue Authority (GRA) and other regulatory authorities whether clients are meeting their compliance requirements.
- Adhering to national and municipal occupational health and safety and labour conditions and improving employees' occupational health and safety awareness by having training sessions once every year for each employee.
- Establishing a Disaster Management Plan to ensure appropriate responses to accidents and emergency situation including prevention/mitigation.
- Requiring clients to send notifications of accidents and incidents that have or are likely to have a material adverse impact on the environment, social, health, and safety performance

- Improving employees' environment, energy management awareness, and incorporating energy and water saving technologies in the new offices that is currently being constructed
- Imparting external and internal training to its employees on E & S risk management.

8.0 Environmental and Social Assessment

The ES assessment is done as part of the initial stages of carrying out a due diligence on the borrower. This is also done during the site visit and includes analysis of various aspects of the business and its compliance with national and municipal environmental and social regulations, employees work conditions including occupational health and safety. Clients are required to provide the Bank with the necessary documentation as evidence of having met those obligations e.g. Fire certificates, permits from EPA, National Petroleum Authority (NPA), Ghana Revenue Authority (GRA) and other relevant regulatory authorities. The ESA studies documentation is also provided. The assessments also include verifying through sourcing of information from third parties such as the regulatory authorities and the Lands Commission on land ownership issues.

The environmental assessment information is compiled through a check list and is used by credit analysts to evaluate E& S Risks in every project the Bank finances and provides a comment on the Bank's credit memo for approval. Any E & S Risk that is identified in any industry is communicated to the Business Units and Branches.

9.0 Implementation

CalBank requires that all projects are screened on E & S Risk first using the exclusion risk and they are then categorized. Those that fall under categories A and B then undergo all the requirements to mitigate E & S risk based on the category. The projects are then appraised through applicable due diligence procedures through desktop review and site visits before a decision is taken whether to finance or not. The decision making body considers compliance with environmental and social criteria as part of the credit review process. When the decision to finance is yes, the Bank draws up a Corrective Action Plan as required and contractually binds

clients with necessary E & S clauses in the Facility Agreements which depend on project categories and risk. After disbursements CalBank monitors the E & S performance of its clients through site visits; checking compliance requirements and reporting. The process varies based on risk category of the project, such that high risk projects have frequent site visit monitoring especially during construction or implementation phase.

10.0 Monitoring and Supervision

CalBank monitors and evaluates its portfolio based on E&S category risk as indicated in the table below. Monitoring activities include the following:

- Compliance with any relevant national regulations and IFC Performance Standards and AfDB Operational Safeguards.
- Expiry and renewal of operating permits
- Regulatory investigations (inspection reports), fines, penalties applied to client
- Public complaints or adverse media reports

Table 1. Below indicates the monitoring activities based on project risk category of client.

Table 1: Monitoring Procedures for Clients

Process step	Purpose	Action	Responsibility	Tools	Timing
Monitoring	Assuring compliance				
• Category C projects		n/a	n/a	n/a	Only in case of unusual occurrences
• Category B projects		Review annual compliance statement of Borrower; site visit to assess E&S risk management measures in place; monitoring report/ESRA Form	RM		Annually
• Category A projects		Review semi-annual E&S monitoring report, site visits to assess E&S risk management measures in place; monitoring report/ESRA Form	ESO; ext. expert, if necessary	Monitoring report format for Borrowers, Internal monitoring format	Semi-annually

11.0 ESMS Implementation Capacity

Organisational Capacity

CalBank has an ESMS organizational Capacity is presented in Figure 1. Below

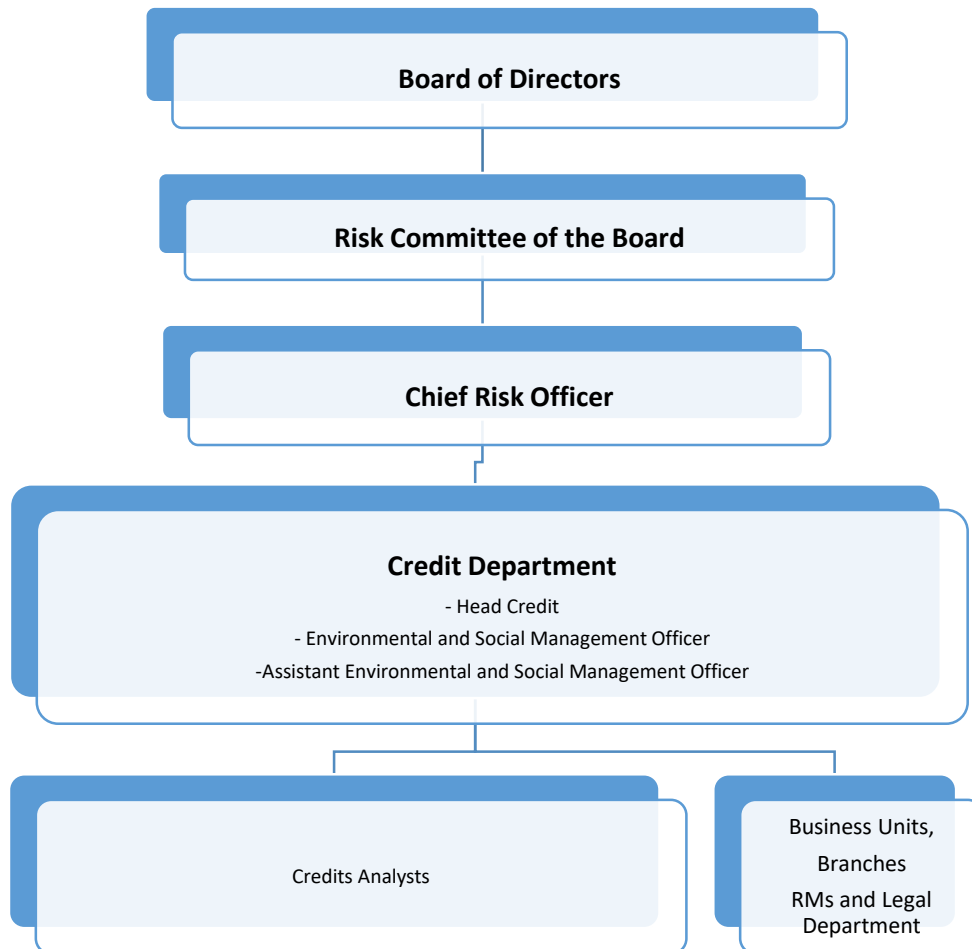


Figure 1: CalBank's E & S Risk Management Institutional Structure

Resources

CalBank provides resources for training of E & S Risk management as part of the total training budget for the Bank. The E & S training is part of the induction programme for new staff. Training materials are usually made available on the Bank's intranet. The EaSI categorization tool is made available at all its Business Units and Branch.

CalBank also provides resources for site visits and verification of E & S Risk compliance monitoring. The policy provides for recruitment of an Environmental and Social Consultant for high risk projects.

E & S Expertise

CalBank has had an Environmental and Social Officer who has been positioned in the Credit Department of the Bank since 2009. She and other senior management responsible for E & S risk management in the Bank have undergone several E & S trainings organized by DEG in 2008; Online Environmental and Social Risk Analysis (ESRA) organized by UNEP in 2014; Environmental and Social Risk Management (ESRM) organized by IFC in collaboration with EPA and BOG in 2016; and Understanding EPA requirements – Focus on the Mining and Manufacturing. In addition, all new employees undergo E & S Management training during orientation programme. There are now plans to ensure that all existing staff undergo annual trainings in E & S risk management. The ESMS is managed by the Credit Department and has the following assigned Managers:

1. Mr. Phillip Owiredu – Executive Director, who is in charge of the overall management of the ESMS
2. Mr. Charles Amoah – Chief Risk Officer, who is in charge of Risk and Compliance.
3. Mr. Joejo Wodow-Hammond – Head of Credits, who is in charge of Credit Risk Management.
4. Mrs. Irene Woode-Amisshah – Credit Administrator/Environmental and Social Management Officer. She is in charge of ensuring operational responsibility of the ESMS and is the ESMS coordinator at the Bank.

12.0 Conclusion

CalBank limited is committed to financing environmentally and socially sustainable projects that do not adversely impact on the environment and the communities in which they operate in. The ESMS has been put in place to ensure that E&S Risks are identified, analyzed and mitigated during the Bank's business activities and those of its clients. The Bank, ensures that all its staff are inducted with the E & S risk management procedures and ensure that projects undergo proper procedures in E & S due diligence so that the Bank is able to make informed decisions on a borrower, to avoid and mitigate any E & S risk on all its loan facilities.