



## Schedule 3

### AFDB ESG Requirements

#### **PART A: Requirements for all Businesses**

Every business in which the Fund's capital is invested shall:

- operate in compliance with applicable local and national laws including laws covering environmental impacts, labour rights, social issues, corporate governance and those intended to prevent extortion, bribery, corruption and financial crime ("**Applicable Laws**");
- implement the Environmental and Social Management System (ESMS), appropriate to the size and nature of the business, that ensure a systematic approach to ESG risk assessment, addressing relevant risks, monitoring and reporting on progress and, to the extent possible, involving stakeholders<sup>1</sup>;
- ensure achievement of and continuous compliance with this the requirements of the environmental and social compliance requirements set out in **the Persistent Exclusion List**; and maintain the necessary levels of qualified environmental and social technical staff and financial resources to ensure effective implementation of the Environmental and Social Management System, and manage the E & S performance of each Portfolio Company in a manner consistent with the AfDB Integrated Safeguards System requirements;

#### **Working Conditions and Labour Rights**

- not employ or make use of forced labour<sup>2</sup>;
- not employ or make use of child labour<sup>3</sup>;
- pay wages which meet or exceed industry or legal national minimum requirements;
- not discriminate in terms of recruitment, progression, terms and conditions of work and representation, on the basis of personal

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<sup>1</sup> See IFC PS 1 for guidance

<sup>2</sup> As covered by the ILO Forced Labour Convention (No. 29) and the Abolition of Forced Labour Convention (No. 105). See [www.ilo.org/ilolex/english/docs/declworld.htm](http://www.ilo.org/ilolex/english/docs/declworld.htm)

<sup>3</sup> As defined by the ILO Minimum Age Convention (No. 138) and the Worst Forms of Child Labour Convention (No. 182). See [www.ilo.org/ilolex/english/docs/declworld.htm](http://www.ilo.org/ilolex/english/docs/declworld.htm)



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characteristics unrelated to inherent job requirements, including gender, race, colour, caste, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, marital status, membership of workers' organisations, legal migrants, or HIV status<sup>4</sup>;

- adopt an open attitude towards workers' organisations and respect the right of all workers to join or form workers' organisations of their own choosing, to bargain collectively and to carry out their representative functions in the workplace<sup>5</sup>;
- provide reasonable working conditions including a safe and healthy work environment, working hours that are not excessive and clearly documented terms of employment and in situations where workers are employed in remote locations for extended periods of time to ensure that such workers have access to adequate housing and basic services<sup>6</sup>;

### Access to Remedy

- provide an appropriate grievance mechanism that is available to all workers and where appropriate to other stakeholders<sup>7</sup>;
- implement a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the reporter;

### Business Integrity

- uphold high standards of business integrity and honesty;
- adopt and implement policies to prevent extortion, bribery,

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<sup>4</sup> As covered by the ILO Equal Remuneration Convention (No. 100) and the ILO Discrimination (Employment and Occupation) Convention (No. 111), allowance could be made where positive discrimination is mandated in law and is intended to address a historical imbalance. See [www.ilo.org/ilolex/english/docs/declworld.htm/working-time/lang--en/index.htm](http://www.ilo.org/ilolex/english/docs/declworld.htm/working-time/lang--en/index.htm).

<sup>5</sup> As defined by the ILO Freedom of Association and Protection of the Right to Organise Convention (No. 87) and the Right to Organise and Collective Bargaining Convention (No. 98). See [www.ilo.org/ilolex/english/docs/declworld.htm](http://www.ilo.org/ilolex/english/docs/declworld.htm)

<sup>6</sup> Respecting any collective bargaining agreements that are in place or where these do not exist or do not address working conditions, make reference to local or national law, IFC Performance Standard 2 and relevant ILO Conventions, as may develop over time, including Weekly Rest (Industry) Convention (No. 14) and Weekly Rest (Commerce and Offices) Convention (No. 106), See [www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang--en/index.htm](http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang--en/index.htm).

<sup>7</sup> See IFC Performance Standard 2 and the "Effectiveness Criteria for Non-Judicial Grievance Mechanisms" ([http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)) within the UN Guiding Principles on Human Rights.



corruption, fraud and financial crime in accordance with local law requirements and international best practice,<sup>8</sup>;

- properly record, report and review financial and tax information<sup>9</sup>;
- establish corporate governance practices appropriate to the size and nature of the business;
- deal with regulators in an open and co-operative manner; and
- use information received from its business partners only in the best interests of the business relationship and not for personal financial gain by any worker.

## **PART B: Additional Requirements for Specific Activities**

If the activities of an Investment involve or could be reasonably expected to involve:

- significant air emissions (including greenhouse gases), use of water or generation of liquid effluents; generation of hazardous or other solid wastes or resource use inefficiencies;
- transactions that generate adverse community health and safety impacts;
- the acquisition and/or use of land that results in economic or physical displacement;
- significant negative impacts on biodiversity, habitat or ecosystem services<sup>10</sup>;
- impacts on indigenous peoples or other marginalised and vulnerable groups;

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<sup>8</sup> The Fund promotes compliance with the UK Bribery Act 2010.

<sup>9</sup> Direct investments, including investment intermediaries, are required to report to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), see [www.iasb.org](http://www.iasb.org) or other internationally recognised accounting standards; and the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC"), see [www.privateequityvaluation.com](http://www.privateequityvaluation.com). Investees of Investment Intermediaries should as a minimum report to local reporting standards and should make progress towards internationally recognised accounting standards.

<sup>10</sup> As defined in IFC PS 6, paragraph 2. These include but are not restricted to (a) provisioning services such as food or timber; (b) regulating services such as water flow regulation; (c) cultural services such as sacred sites; and (d) supporting services such as soil formation.



- impacts on cultural heritage; or
- other significant negative environmental or social impacts;

then (a) the relevant AfDB's Integrated Safeguard System Operational Safeguard requirements should be implemented, (b) an appropriate stakeholder engagement plan should be developed<sup>11</sup> and (c) an environmental and social impact assessment and/or issue specific action plan (e.g., a resettlement action plan)<sup>12</sup> should be developed for such activities.

If the activities of an Investment could reasonably be expected to involve:

- *significant risks to the health and safety of workers or to other stakeholders, including affected communities, assess and mitigate those risks, for example through a Health and Safety audit and action plan, in line with the relevant AfDB's Integrated Safeguard System Operational Safeguard requirements and EHS Guidelines<sup>13</sup>; and*
- *significant emissions of greenhouse gases, ensure that adequate measures to reduce emissions to the extent possible and mitigate adverse climate impacts are implemented and that the Portfolio Company reports on its emissions.*

### **PART C: Recommended Practices Endorsed and Promoted by the Fund**

Businesses should consider the potential for positive environmental and social impact from their business activities and how these could also benefit the business, for example through cost savings, reduced staff turnover or improved stakeholder relations. These should include adopting, developing, offering, or marketing:

- products, services, skills or employment opportunities that could benefit community stakeholders; and
- a living wage that is sufficient to meet workers' needs.
- resource efficient, greenhouse gas reducing<sup>14</sup> or low carbon

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<sup>11</sup> See IFC PS 1 for guidance

<sup>12</sup> The ESIA or audit should be carried out in line with the appropriate IFC PS (<http://www.ifc.org/ifcext/policyreview.nsf#SF>), any relevant World Bank Group EHS Guidelines (<http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>) and the requirements in Schedule 3.

<sup>13</sup> <http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>

<sup>14</sup> In line with the UN Framework Convention on Climate Change and the associated 2005 Kyoto Protocol, as may be amended from time to time, and the IFC Performance Standards and World Bank Group EHS Guidelines, as may be amended from time to time. See



technologies or working practices.

The Fund also promotes the following international standards and encourages the businesses for which they are appropriate to make progress over time towards achieving and maintaining them:

- the UN Declaration of Human Rights and the "Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy Framework"<sup>15</sup>
- OECD Guidelines for Multinational Enterprises: recommendations for responsible business conduct in a global context<sup>16</sup>:
- the range of internationally certifiable environmental, social and quality standards issued by the International Organization for Standardization ("ISO"), including the ISO 14000 series, notably including standards for environmental management systems (ISO 14001), and Greenhouse Gas emission accounting and verification (ISO 14064-65), the ISO 26000 series on social responsibility and the ISO 9000 series on quality management (see [www.iso.org](http://www.iso.org));
- internationally recognised standards on health and safety including the ILO guidelines for occupational safety and health, the international occupational health and safety management system specification OHSAS 18001, HSG65, and industry specific international good practice standards related to the safety of product use, for example the international Good Manufacturing Practice standards for food and pharmaceutical products promoted by the World Health Organization, see [www.who.org](http://www.who.org).
- relevant and credible standards as demonstrated by independent verification or certification such as the Forestry Stewardship Council certification (see [www.fsc.org](http://www.fsc.org)), the Roundtable on Responsible Soy (see [www.responsiblesoy.org](http://www.responsiblesoy.org)), the Marine Stewardship Council certification (see [www.msc.org](http://www.msc.org)); the Principles and Criteria of the Roundtable on Sustainable Palm Oil and the Extractive Industries Transparency Initiative (see [www.eiti.org](http://www.eiti.org)); and

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[www.unfccc.int/2860.php](http://www.unfccc.int/2860.php), See [www.ifc.org/ifcext/policyreview.nsf#SF](http://www.ifc.org/ifcext/policyreview.nsf#SF) and [www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines](http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines) .

<sup>15</sup> <http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf>  
Guidance is available at  
[http://www.inglobalcompact.org/issues/human\\_rights/The\\_UN\\_SRSG\\_and\\_the\\_UN\\_Global\\_Impact.html](http://www.inglobalcompact.org/issues/human_rights/The_UN_SRSG_and_the_UN_Global_Impact.html)

<sup>16</sup> <http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/48004323.pdf>



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- international standards of good corporate governance<sup>17</sup>.

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<sup>17</sup> Including the 2004 Organisation for Economic Cooperation and Development ("**OECD**") Principles of Corporate Governance (see [www.oecd.org](http://www.oecd.org)), the UK Corporate Governance Code (see [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm)) and the King III Report on Governance for South Africa (<http://african.ipapercms.dk/IOD/KINGIII/kingiiiireport/>) as may be amended from time to time and as adopted by THE FUND. Guidance is also provided in the DFI Toolkit on Corporate Governance: [http://www1.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/corporate+governance/cg+development+framework/cg+dfi+documents](http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/corporate+governance/cg+development+framework/cg+dfi+documents).