



# **Environmental and Social Management System**

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## **Environmental and Social Policy**

This Environmental and Social Management System (ESMS) details the organizational structure, policy, procedures and workflow that are followed for investments made by Portland Caribbean Fund II, L.P. and Portland Caribbean Fund II (Barbados) L.P. (together “the Fund” or “Portland”) under the management of Douglas Hewson (Managing Partner) and Hülya Sögüt, our Environmental, Social and Diversity (ESD) officer. Additional to this ESMS, Portland implements its Gender and Diversity Investment (GDI) Program, which focuses specifically on diversity - especially gender diversity but also other diversity aspects, equity and inclusion (DEI). The ESD officer has oversight and implements the ESMS and GDI Program.

1. Our Fund, through Portland Fund II, GP, L.P. (“PPE”), is committed to promoting environmentally sound and sustainable development in the full range of its operational and investment activities. We believe that sustainable development is a fundamental part of sound business management. Our Policy and ESMS cover the environmental and social dimensions of sustainable development. The social dimension encompasses amongst others: labor standards and working conditions including occupational health and safety aspects; child and forced labour as well as human trafficking; gender equality, diversity, equity, and inclusion; community risks and impacts such as public health, safety and security; stakeholder engagement; impacts resulting from land acquisition and resettlement; impacts on Indigenous Peoples and other vulnerable groups; impacts on cultural heritage. The environmental dimension encompasses: reducing adverse impacts and risks and enhancing positive effects on the environment; resource efficiency and pollution prevention; biodiversity conservation; climate change risks and impacts; and sustainable management of living natural resources, among other environmental aspects. There are cross-sectional topics such as supply chain and contractor management triggering social and environmental dimensions.
2. As a firm committed to sustainability, Portland also understands that Human Rights in the context of businesses require special attention and that the private sector plays a key role in ensuring the respect of Human Rights. The Fund commits to the protection of all Human Rights and will avoid any complicity in Human Rights abuses by others through its own policies and procedures. Portland considers all internationally recognized Human Rights, understood, at a minimum, as those expressed in the International Bill of Human Rights and the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work. Additionally, The Fund takes into account the protection of Human Rights of individuals belonging to specific groups or populations that require particular attention because of their heightened risk to Human Rights abuses and marginalization. These vulnerable groups or populations include: women; children and youth; Indigenous Peoples; LGBTQ+; persons with disabilities; national, ethnic, religious and linguistic minorities; as well as migrant workers and their families. PPE specifically addresses women’s economic empowerment towards improved gender equality, as well as specific actions to eliminate discrimination and raise awareness of unconscious biases against women in the business world. Its scope also includes developing or strengthening business policies and practices in this regard, including harassment and grievance procedures.
3. Although all Human Rights will be considered, the following Human Rights are considered the most relevant and material for our firm as well as portfolio companies:
  - Right to Equal Opportunities and Non-discrimination;
  - Right to Security of Persons;

- Rights of Workers: Children’s Rights; Forced Labour (including Human Trafficking); Safe and Healthy Workplace; Adequate Remuneration (and other Working Conditions); and the Right to Rest;
- Freedom of Association/Collective Bargaining;
- Respect of National Sovereignty and Human Rights: Respect of National Governance Practices; Bribery/Corruption; Contribution to realization of Human Rights;
- Obligations related to Consumer Protection.

Portland’s main work consists in the screening, diligencing, managing and monitoring of companies, for which Human Rights impacts will be assessed and addressed appropriately. The work is based on our ESMS and GDI Program. The following steps illustrate the process:

- The ESD team is responsible for the oversight and implementation of Human Rights and related policies and procedures. An ESD team member is part of the Investment Committee to ensure Human Rights are considered appropriately at all levels of the Fund.
  - PPE will ensure the implementation of Human Rights related policies on an on-going base. The due diligence is the baseline and defines actions and target indicators. During the active management and monitoring phase, negative impacts are either eliminated, reduced, or mitigated, and positive impacts created, wherever possible.
  - All fund managers and portfolio company employees will be trained on Human Rights to ensure broad awareness and knowledge. ESD officers of portfolio companies will receive training to ensure ESD staff is sensitized and able to implement the Human Rights Policy. Portfolio companies will also be required to develop their own ESMS and related policies adapted to the context of the business and project area. Ultimately, PPE will address key capacity gaps with respect to Human Rights in the context of the portfolio companies.
  - Specific focus will be put on gender equality and gender based violence and harassment (GBVH). Policies will include robust sections on gender equality and GBVH, additional to the standard harassment policies currently existing in most employee policies and manuals.
  - Portland’s experience was that robust internal and external grievance mechanisms are crucial for the effective functioning of social policies and procedures. Thus, a focus is put also on supporting the development of detailed grievance mechanisms.
4. This ESMS outlines how we put into practice our commitment to promote environmental and social sustainability by:
- 4.1. Mainstreaming ESD considerations into all our activities;
  - 4.2. Establishing portfolio companies ESD performance requirements that they are expected to meet in a timeframe acceptable agreed with us as part of our investment;
  - 4.3. Defining the respective roles and responsibilities at portfolio companies in achieving sustainable impacts related to our ESD performance requirements;
  - 4.4. Ensuring that activities identified on the Exclusion List (Appendix A) are not financed by us and our portfolio companies;

- 4.5. Ensuring that our portfolio companies comply with the IFC Performance Standards (2012) as well as host country environmental and social laws and regulations, and whenever applicable, relevant Environmental, Health and Safety Guidelines (general or sector/industry specific);
- 4.6. Ensuring transparency in our activities;
- 4.7. Seeking continuous improvement in the management of ESD matters; and
- 4.8. Providing our investors with transparent and relevant information on ESD matters related to the investment activities, while observing normal commercial confidentiality requirements.

Our E&S policy and ESMS was communicated to all our staff as part of the induction training, with the ESD team responsible for assuring conformance hereto. The E&S Policy along with the procedure, responsibilities, reporting requirements, and related items identified below constitute the framework of our ESMS. We provided this framework document to all members of our Investment Committee, and all our employees and our affiliates. It is publicly available for all stakeholders on our website. Portland will report on its ESD and Impact, incl. Human Rights, which will be available to stakeholders to ensure transparency and accountability while observing normal commercial confidentiality requirements.

### **Our Commitment**

5. We ensure that through the implementation of our ESMS our investments:
  - 5.1. Are socially and environmentally sustainable
  - 5.2. Respect the rights of affected workers and communities and overall Human Rights
  - 5.3. Are designed and operated in compliance with applicable regulatory requirements, good international practice and the IFC Performance Standards
  - 5.4. Are made with legal documentation containing appropriate ESD covenants and that supplemental legal documentation further reflects, as appropriate, agreements made relative to environmental and social aspects
  - 5.5. Are supported by appropriate general documentation.

In order to ensure that this objective is articulated as practical outcomes, we have adopted a comprehensive set of ESD performance requirements - mainly requirements based on our ESMS and our GDI Program - that portfolio companies are expected to meet, covering key areas of ESD impacts and risks.

## Organization and Responsibilities

6. Our Fund is managed by its general partner, Portland Private Equity (PPE). PPE is permitted to retain investment and advisory services and it has contracted with PPEC, Inc. (“Canadian Management Company”) and Portland Private Equity II, Ltd. (“Barbados Management Company”) to provide such services. Canadian Management Company and Barbados Management Company have a number of employees. The investment team works on a deal team basis where, typically, the deal team is comprised of two individuals. The deal team reports to the investment team generally, and ultimately provides the Investment Committee (IC) with its recommendation. The IC, in turn, is responsible for making investment recommendations to the general partner of PPE, Portland Fund II GP, Inc. The IC is chaired by Michael Lee-Chin and operates on a unanimous basis. The IC also has an independent observer who reports to our Fund’s limited partners advisory council (JAC).
7. Hülya Sögüt, one of our Partners, is our ESD Officer and works closely with our Managing Partner Doug Hewson. Our ESD officer has oversight for ESD issues, and leads our ESD work. Although both share the responsibility for the implementation of the ESMS, they collaborate closely with the investment leads on each portfolio company’s ESD performance. The entire team including all investment officers and the operational team are trained on the ESMS, the IFC Performance Standards and DEI to ensure adequate understanding. For high E&S risk investments (category A), external consultants are hired for specific topics such as Indigenous People or Biodiversity specialists.

The responsibilities of our ESD team include:

- 7.1. Ensuring that our investment team and operational staff are trained on E&S, DEI, and updates of our ESMS (new hires receive an ESD induction training);
- 7.2. Performing E&S and DEI screenings, impact target-setting, and due diligence resulting in actions plans;
- 7.3. Support and supervise portfolio companies’ ESD performance; and
- 7.4. Ensure that the ESMS and GDI Program are implemented at all times.

We also ensure that the E&S committee, a sub-committee to the JAC, is notified if and when the current ESD officer leaves the position, and will provide the E&S committee the name of any successor.

## Investment Appraisal and Supervision Procedures

8. All our potential investments undergo a comprehensive ESD appraisal both to decide if a potential investment can be made and, if so, the ways in which E&S and DEI impacts and risks need to be addressed in the pre-investment screening, diligence and structuring, as well as post-investment implementation. In order to fulfill this objective:
  - 8.1. Our ESD appraisal is an integrated part of our overall investment screening and diligence process, including the assessment of financial and reputational risks, and is appropriate to the nature and scale of a potential investment, and commensurate with the level of ESD risks and impacts.
  - 8.2. We make it the responsibility of a prospective investee to ensure that the required due diligence studies, information disclosure and stakeholder engagement are carried out in accordance with our requirements and IFC Performance Standards (IFC PS), and submitted to us for review as part of our ESD due diligence.
  - 8.3. Prospective investees must provide all requested information and our ESD team must conclude that the investment is expected to meet our requirements (with corrective actions if required) prior to our decision to make an investment.
9. The table below details the main steps of our E&S and DEI procedures within our investment continuum:



<b>Initial screening</b>	<ul style="list-style-type: none"> <li>○ Screen investment: Exclusion List, high-level IFC PS applicability, E&amp;S category, protected areas, etc.</li> <li>○ Assess opportunities for ESD improvements and potential positive ESD impacts</li> <li>○ Rate main ESD risks and impacts, and determine preliminary E&amp;S and DEI categories</li> </ul>
<b>Due diligence</b>	<ul style="list-style-type: none"> <li>○ Present our ESD requirements to the management of portfolio company</li> <li>○ Perform an in-depth ESD due diligence</li> <li>○ Assess portfolio company's policies and procedures related to E&amp;S and DEI</li> <li>○ Check compliance/alignment with national law, IFC PS, 2X, WEPs, etc.</li> <li>○ If high-risk: E&amp;S impact assessment or E&amp;S audit required</li> </ul>
<b>Investment decision</b>	<ul style="list-style-type: none"> <li>○ Compile a detailed ESD Due Diligence Report with E&amp;S and DEI actions and targets</li> <li>○ Agree on E&amp;S Action Plan and Diversity Action Plan with management of portfolio company</li> <li>○ Include ESD covenants, incl. both Action Plans and Exclusion List, in investment agreements</li> </ul>
<b>Investment supervision</b>	<ul style="list-style-type: none"> <li>○ Support actively investee in E&amp;S and DEI performance, incl. through site visits as needed</li> <li>○ Check ongoing compliance and monitor progress of E&amp;S and Diversity Action Plans</li> <li>○ Report to the E&amp;S sub-committee and JAC on ESD updates</li> <li>○ Communicate annually on ESD performance at fund and portfolio level</li> </ul>
<b>Exit</b>	<ul style="list-style-type: none"> <li>○ Consider E&amp;S and DEI developments under new ownership as feasible</li> </ul>



**10. Initial Screening** - Our ESD appraisal is integrated into our overall investment appraisal process, and by stage includes:

10.1. Our deal and ESD team perform an initial screening of a potential investment to exclude any exposure to the Exclusion List (Appendix A) and get a sense of any high risks and impacts (reputational risks, proximity to protected areas or Indigenous People, etc.) that can't be mitigated. We also determine which IFC PS will most probably apply, and the E&S category.

10.2. Our ESD and deal team perform a first screening against our focus UN Sustainable Development Goals 5, 8, 9, 10 as well as 12-15, and the gender and diversity criteria following our Gender and Diversity Investment Program to determine beyond risks also our potential for positive impact.

10.3. Where a potential investment passes the negative screening and shows some potential for positive impacts, the ESD and deal team:

10.3.1. Develop an opinion with respect to E&S and Diversity matters in the initial project review document (IPR), which is prepared as an early part of the investment cycle and delivered to the IC, of which the ESD officer is a member, for review and comment. Such opinion provides an indicator of the expected investment E&S categorization (see categories under Appendix B) based on E&S criteria and our Gender and Diversity Investment Program to:

10.3.1.1. Reflect the level of current and potential ESD impacts and risks

10.3.1.2. Determine the nature and level of the ESD due diligence and stakeholder engagements required for the investment

10.3.2. Provide early identification of the major ESD impacts and risks with a view to determining whether any identified gaps are manageable within a reasonable timeframe and how impacts can be created

10.3.3. Ensure that any pre-transaction contractual documentation, if any, have relevant E&S clauses

10.3.4. Confirm a first screening of the potential investment against applicable IFC PS

10.3.5. Present our ESD requirements to the management of a potential investee company to clarify expectations.

**11. Due Diligence** - Where our IC approves an IPR and a prospective investment is deemed to have ESD risks and impacts (including reputational risks), the ESD team focuses on:

- Defining the scope of the required ESD due diligence
- Ensuring that management of the prospective investee company is apprised of the ESD assessment and the obligation to adhere to our ESD requirements
- Ensuring that all pre-investment documentation, if any, contains the relevant ESD wording and clauses (samples attached in Appendix D, E, and G).

11.1. As a prospective investment moves into deeper due diligence, a detailed ESD due diligence is undertaken by the ESD officer covering variables such as:

11.1.1. ESD risks and impacts are analyzed against local, national, sector regulations and laws as well as the applicable IFC Performance Standards (see Appendix C) and

- relevant EHS Guidelines to determine level of compliance and potential for positive impact (if high-risk, E&S impact assessment or E&S audits are required)
- 11.1.2. Assessment of portfolio company's policies and procedures related to E&S and DEI
  - 11.1.3. Assessment of alignment against our focus SDGs, 2XChallenge criteria, Women's Empowerment Principles and other diversity criteria (see Appendix C) following our detailed GDI Program
  - 11.1.4. Whether there are reputational risks with respect to the transaction involving the sponsor, company, or sector
  - 11.1.5. Necessity for a site visit with meetings and interviews with relevant stakeholders
  - 11.1.6. Retention of an external consultant to assist the ESD due diligence of the ESD officer on specific topics, if needed (a sample ToR is attached as Appendix M).
- 11.2. Upon completion of the ESD due diligence, the findings, conclusions and recommendations are detailed in the ESD due diligence report, and main results are presented in the E&S and DEI section of the investment memorandum. The deal team finalizes the investment memorandum with E&S and impact input from the ESD team for submission to the IC. The ESD due diligence report includes the necessary measures to be implemented for the proposed investment:
- 11.2.1. *Action Plans*: A set of mitigation, management, and monitoring measures to address gaps with our ESMS and best practices. Findings indicate the current level of ESD compliance, the existing gaps towards applicable standards, and the required remedial actions to close the gaps. Potential reputational risks will also be assessed. A timeframe and assigned responsibilities will be defined, and associated costs estimated, whenever necessary.
  - 11.2.2. *Investment Agreement*: Negotiated and agreed ESD covenants and conditions, which are both policy specific and investment-specific are included in 100% of our investment agreements. As part of the conditions of investment, the critical actions to address gaps are included in the form E&S Action Plan and Diversity Action Plan. In addition, standard E&S covenants also related to annual E&S reporting and notification requirements are captured in the investment agreement.
- 11.3. **Investment Decision** – When a proposed investment is approved by the IC, the deal team is authorized to complete the transaction. A review process mechanism is enforced, such that prior to disbursement of any capital, the ESD officer provides during the IC meeting a status of the implementation of action plans. In case of conditions of disbursement a Disbursement Memorandum providing the compliance status against the conditions of disbursement, and additional corrective actions that may have been identified in the interim period is provided.
12. **Investment Supervision** – Active support and monitoring of our portfolio company's performance is performed during the entire post-investment period. The ESD and deal team actively supervise and monitor the ESD performance of each of our investees.
- 12.1. Kick-off meeting with assigned ESD officer:
    - Discuss existing frameworks, especially SDGs, IFC Performance Standards, 2XChallenge, WEPs and other best practices

- Discussion of Action Plans and targeted impact KPIs
- 12.2. Capacity building of ESD and other relevant teams:
- Provide training on IFC Performance Standards and developing of an ESMS
  - Provide a comprehensive training on DEI
- 12.3. On-going support and monitoring:
- Initially monthly calls/meetings with investee E&S officers
  - Discussion of major action plan items and annual updates at Board level
  - Once Action Plans are implemented and ESMS developed, at least quarterly calls on ongoing implementation of ESMS, diversity policies, and improvements towards impact targets
  - If necessary, supervision meetings and visits (required for category A, and once at least for high-risk category B investees)
- 12.4. We quarterly aggregate and summarize results of our performance monitoring to the E&S sub-committee. The E&S sub-committee has representatives of all Limited Partners. Quarterly E&S sub-committee calls are held to share these results.
- 12.5. Our investees prepare an annual ESD Performance Report and provide the impact data for the Impact Indicators Report. We use these reports as an additional supervision process and to monitor ongoing compliance with relevant E&S laws and standards, especially IFC Performance Standards. We use the results of all investee ESD Performance Reports in our own ESD Performance Report and Impact Indicators Report. These reports constitute our Annual Monitoring Report to our Limited Partners.
13. Our investment agreements require:
- 13.1. The portfolio company to report periodically, and at least once a year, on its ESD performance, with focus on the Action Plans and ESMS implementation, impact improvements, and other impact KPIs. The ESD performance report is prepared according to an agreed upon report format (see attached form as Appendix J)
- 13.2. Timely notification from portfolio companies on any major cases or incidents related to E&S matters
- 13.3. The ability of our fund to perform on-site visits and/or independent E&S audits.
14. Reporting, both internally and externally, is an important part of the ESMS. Reporting is primarily for:
- 14.1. Our internal use to facilitate the monitoring performance and progress of an investee.
- 14.2. To demonstrate to our Limited Partners that their capital is being invested responsibly and in line with our development objectives.
- 14.3. Directly affected parties, whenever the case, by an investee's activities, or other possible stakeholders with an interest in the ESD performance of an investee such as regulators, government, non-governmental organizations, etc.
15. **Exit** – When we exit a portfolio company, our objective is that the ESD practices and improvements undertaken continue under the new investors. This is important from a reputational perspective for our investors and us. While it is not possible to predict the future

with absolute certainty and we are not responsible for practices in an exited portfolio company, we assess during our exit screening how the new ownership may affect ESD matters at the portfolio company. We believe that, once an investee ESMS is in successful implementation with assigned E&S responsibilities, it will not vanish once our firm exits.

## **External Communication Mechanisms**

16. The objective of PPE's external communication mechanisms is facilitating communication, and where appropriate collaboration, with and from its stakeholders. PPE's main stakeholders are its investors, relevant government agencies, Non-Governmental Organizations, employees and the public in general. PPE has also indirect stakeholders related to each investment, e.g. affected communities, contractors or suppliers. PPE will ensure that the investee company identifies the investment specific stakeholders and implements culturally appropriate and understandable, easily accessible and transparent external communication mechanisms. In case the investment affects local communities, the investee company will inform the affected communities about the external communication mechanisms during the community engagement process.

17. The communication with stakeholders is intended to be interactive and bi-directional:  
(a) PPE's communication of relevant ESD information to its stakeholders; and  
(b) the communication of any type of input such as comments, complaints, or observations from the stakeholders to PPE.

The underlying principles of PPE's external communication mechanisms are transparency regarding the ESD performance of investments, and accessibility and accountability to foster an open communication with stakeholders.

18. PPE's external communication mechanisms include the following aspects:

18.1. PPE make investment specific ESD information available on the website under PCF II. The ESD information provided varies according to the level of identified ESD risks and impacts of the investment. Main ESD risks and impacts are summarized as well as main Environmental and Social Action Plan items listed. Contact details of the investee company's ESD officer are made available as well.

18.2. Stakeholders have the opportunity to contact PPE directly via email and phone. Under "contact us" the contact details of the ESD officer are provided. The ESD officer is in charge of receiving, registering and responding in a timely - usually within a week - and adequate manner to the stakeholder's input. If the issue is complex and requires more time, the initial response will acknowledge the receipt of the input and indicate that information is being sought and that follow-up will be provided. Meanwhile, the E&S officer may consult the investee company's ESD officer, external E&S and/or legal consultants, or the ESG committee on complex or critical cases. After consulting on the issue, the ESD officer will respond and await the stakeholder's feedback on his response. If the stakeholder has further comments or concerns, the ESD officer will continue to provide information to clarify the issue as much as possible. In case of continued important concerns of the stakeholder, the ESD officer or any adequate representative will consider meeting directly with the stakeholder to create a base of understanding, address the concerns and where necessary, decide on corrective actions.

The ESD officer ensures appropriate documentation and monitoring of responses by registering the complete stakeholder interaction in an input log in the system. Details on

the stakeholder input log are specified in Appendix L.

If a stakeholder comment disclosed an important opportunity for the improvement of PPE's ESMS, steps will be undertaken to update it, as appropriate.

PPE will disclose any stakeholder interaction in the Annual Environmental and Social Performance Report.

# Appendix

## Appendix A: Exclusion List

The combined exclusion lists of IFC, DEG and IDB Invest form the basis of our Fund's exclusion list. Updated lists are found under the following links:

- [http://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Sustainability+Framework/IFC+Exclusion+List/](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/IFC+Exclusion+List/)
- [https://www.deginvest.de/DEG-Englische-Dokumente/About-DEG/Our-Mandate/EDFI\\_DEG\\_Exclusion-List\\_en.pdf](https://www.deginvest.de/DEG-Englische-Dokumente/About-DEG/Our-Mandate/EDFI_DEG_Exclusion-List_en.pdf)
- [http://www.iic.org/sites/default/files/pdf/iicdocs-240875-v1-list\\_of\\_excluded\\_activities\\_-\\_project\\_section.pdf](http://www.iic.org/sites/default/files/pdf/iicdocs-240875-v1-list_of_excluded_activities_-_project_section.pdf)

A summary of the combined lists is presented below. Our Fund does not finance any activity, production, use, distribution, business or trade involving the following projects:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES
- Production or trade in weapons and munitions<sup>1</sup>
- Production or trade in alcoholic beverages (excluding beer and wine)<sup>1</sup>
- Production or trade in tobacco<sup>1</sup>
- Gambling, casinos and equivalent enterprises<sup>1</sup>
- Production or trade in wood or other forestry products from forests that lack sustainable management
- Commercial logging operations for use in primary tropical moist forest
- Plantation projects that would require the removal of existing non-degraded natural forest
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
- Forced labor or child labor
- Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
  - Ozone depleting substances, PCBs (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals

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<sup>1</sup> This does not apply to investees who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an investee's primary operations.

- Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES)
- Unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length)
- o Cross-border trade in waste and waste products, unless compliant to the Basel Convention and the underlying regulations
- o Destruction of High Conservation Value areas
- o Pornography and/or prostitution
- o Racist and/or anti-democratic media

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.



## **Appendix B: Environmental and Social Categorization**

PPE will determine the preliminary and final categorization for any potential investment using categorization definitions, which follow structure Category A, B, C, or FI-1, FI-2, FI-3 for financial institutions, where the attributes of each category can be summarized as:

### **Category A or FI-1**

Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.

### **Category B or FI-2**

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

### **Category C or FI-3**

Business activities with minimal or no adverse environmental or social risks and/or impacts.

Examples of projects and their respective categories are provided below:

#### **Typical Category A / FI-1 Projects**

- Projects affecting indigenous peoples
- Construction of dams and reservoirs
- Projects involving resettlement of communities/families
- Pesticides and herbicides: production or commercial use
- All projects which pose serious socioeconomic concerns
- Major irrigation projects or other projects affecting water supply in a given region
- Projects associated with induced development (e.g. inward migration)
- Domestic or hazardous waste disposal operations
- Projects which impact on cultural property (e.g. religious and archeological sites)
- Financial Intermediaries with high risk portfolio
- Hazardous chemicals: manufacture, storage or transportation above a threshold volume
- Projects which pose serious occupational or health risks
- Oil and gas developments, including pipeline construction
- Impacts on protected natural habitats or areas of high biological diversity including wetlands, coral reefs and mangroves
- Large infrastructure projects, including development of ports and harbors, airports, road, rail and mass transit systems
- Forestry operations
- Metal smelting, refining and foundry operations
- Mining (opencast and pit)
- Large thermal and hydropower developments

**Typical Category B / FI-2 Projects**

- Breweries
- Hotel/tourism developments
- Cement manufacture
- Mining (small scale)
- Dairy operations
- Metal plating
- Financial Intermediaries with medium risk portfolio

- Food Processing
- Modernization of existing plants
- General manufacturing plants
- Pulp and paper mills
- Hospitals
- Textile Plants

**Typical Category C / FI-3 Projects**

- Software development
- Factoring Companies
- Consulting firms

- Service industries
- Stockbroking
- Financial intermediaries with no medium or high risk portfolio

## **Appendix C: ESD Screening and Due Diligence Questionnaires**

For the screening phase of a potential investment, the team uses the detailed spreadsheet “ESD Pipeline Screening Template” to estimate the ESD risks and impacts and rate the company.

Proposed investments that are determined to have moderate to high levels of environmental and/or social risks and impacts, the detailed “ESD DD Questionnaire” is in use. This questionnaire covers the following standards and frameworks:

- IFC Performance Standards, EHS Guidelines if applicable
- Sustainable Development Goals
- 2XChallenge Criteria
- Women’s Empowerment Principles (Gender Gap Analysis Tool)
- 2X Climate Toolkit
- Climate risk and impact assessment

A full-scale ESD due diligence will be performed, and where needed an appraisal site visit, and a detailed ESD DD Report and Action Plans prepared.

## **Appendix D: Environmental and Social Covenants**

PPE will develop and insert the necessary clauses on environmental and social matters into a transaction's legal agreements. Examples of the specific language are provided further below and will depend on the type of transaction and potential environmental and social risks identified during the due diligence process. Generally, the language and its purpose can be categorized into one of the following areas:

- **Positive Covenants:** Measures or actions to be taken by the portfolio company. These may include the requirement for compliance with national environmental and social regulations and international standards, and periodic reporting on environmental and social performance. In the event of significant accidents and incidents, with potentially adverse environmental and social effects such as spills or workplace accidents resulting in death, serious or multiple injuries or major pollution, the portfolio company is required to notify PPE in a timely manner, such as within 3 days
- **Negative Covenants:** Actions that the portfolio company should refrain from undertaking. These include PPE's environmental and social requirements
- **Conditions Precedent:** Conditions and requirements that the portfolio company has to fulfill prior to disbursement of funds by the Fund. These may include proof of valid permits and licenses, preparation of government-requested reports and delivery of completion of mitigation actions stipulated in the ESAP
- **Event of Default:** An event that entitles the Fund to cancel a transaction and declare any/all amounts owed by a portfolio company to become immediately due and payable. For transactions that involve complex environmental and social issues, this may include specifying a time period such as 30 days during which the portfolio company can resolve the issue after notification by PPE and/or the Fund
- **ESAP:** The ESAP is typically included as an annex to the legal agreement, outlining the specific mitigation actions to be taken by the portfolio company according to an agreed timeframe for implementation.

To assess compliance with the environmental and social clauses stipulated in the legal agreement, PPE will periodically monitor the Fund's portfolio companies and, as necessary, require the preparation of a periodic environmental and social performance report for review. PPE will consider material non-compliances with the environmental and social clauses as a breach of contract, which constitutes an event of default under the terms of its legal agreements.

## Appendix E: Samples of E&S Language

### Pre-Investment Agreements with Prospective Investees

- “When a project is proposed for financing, the Fund’s appraisal team conducts a Environmental and Social review as part of its overall due diligence. This review will be appropriate to the nature and scale of the investment, and commensurate with the level of Environmental and Social risks and impacts. The purpose of the review is to ensure that the project conforms to the Fund’s Environmental and Social Policy. This specifically includes compliance with all applicable E&S laws and regulations of the host country in which the project is located and operated, as well as with IFC’s “Performance Standards on Environmental and Social Sustainability” (<http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards>). The Fund’s Environmental and Social review is integrated into the Fund’s overall appraisal of the project, including the evaluation of financial risks.
- “To conduct its review, the Fund may request project-specific information be provided. This information will be treated in accordance with the terms of this agreement.
- “The Fund does not finance new business activity that cannot be expected to meet the Environmental and Social Policy over a reasonable period of time. In addition, there are several types of activities that the Fund does not finance. A list of these activities can be found in IFC’s “Exclusion List” (<http://www.ifc.org/ifcext/sustainability.nsf/Content/IFCExclusionList>).”

### General Investment Agreement E&S Conditions Language

- “The Borrower has not received nor is aware of any existing or threatened complaint, order, directive, claim, citation or notice from any Authority under applicable [*specify country*] law and local requirements which has, or could reasonably be expected to have, a Material Adverse Effect or any material impact on the implementation or operation of the Project”
- “Design, construct, operate, maintain and monitor the project in compliance with the Government of [*specify country*] and local requirements, as well as the Fund’s Environmental and Social Policy”
- “Use all reasonable efforts to ensure the Environmental and Social performance of the Project is in compliance with the Fund’s Environmental and Social Policy”
- “Implement the environmental mitigation and management measures specified in the [*ESAP*]”
- “[Specify any particular conditions of disbursement addressing certain corrective actions recommended for the project]”
- “Within [60] days after the end of each Financial Year, deliver to the Fund the Annual Monitoring Report consistent with the requirements of this Agreement confirming compliance with the Action Plan, the Environmental and Social covenants set forth in Section \_\_, or, as the case may be, identifying any non-compliance or failure, and the actions being taken to remedy any such deficiency”; “Within three days after its occurrence, notify the Fund of any social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on the implementation or operation of the Project in compliance with the Fund’s

Environmental and Social Policy or a Material Adverse Effect, specifying in each case the nature of the incident, accident, or circumstance and the impact or effect arising or likely to arise therefrom, and the measures the Borrower is taking or plans to take to address them and to prevent any future similar event; and keep the Fund informed of the on-going implementation of those measures”

- “[Specify additional covenants – e.g., additional monitoring or reporting requirements, or provisions addressing certain corrective actions recommended for the project]”

## **Appendix F: Environmental and Social Action Plan**

An Environmental and Social Action Plan consists of a set of mitigation, management, monitoring, and institutional measures to be taken during implementation and operation to eliminate, offset or reduce adverse environmental and social impacts to acceptable levels. The Plan also includes the actions needed to implement these measures. The plan should include the following sections:

- **Environmental and Social Management Context.** Provide a brief description of the way in which environmental and social matters are addressed in the company. This should include details of any environmental policies and environmental management systems that are in place or proposed, as well as details of reporting lines and responsibilities for environmental and social issues. This section should also include details of training proposed or undertaken in relation to environmental management
- **Mitigation.** Identify feasible and cost-effective measures to prevent or reduce potentially significant adverse environmental and social impacts to acceptable levels. Include measures to address emergency response requirements for accidental events. Each mitigation measure should be described in as much technical detail possible, including the type of impact to which it relates, and the conditions under which it is required, along with designs, equipment descriptions, and operating procedures (e.g., Health and Safety Plans, Emergency Preparedness and Response Plans, Spill Prevention and Control Plans, Contamination Remediation/Reclamation Plans, etc.). Estimate any impacts of these measures and of any institutional and training requirements needed to implement them. For impacts, which cannot be mitigated, consider compensation to affected parties
- **Monitoring.** Prepare a detailed plan to monitor the implementation of mitigating measures and the impacts of the project described above. The monitoring plan will include a specific description, and technical details of the monitoring program, including methods to be used, sampling locations, frequency of measurements, detection limits, and thresholds that will signal the need for corrective actions. The plan should also include monitoring and reporting procedures to (1) ensure early detection of conditions that require particular mitigation measures, and (2) furnish information on the progress and results of mitigation. Also, include a description of other inputs (training and institutional strengthening) needed to conduct the monitoring plan
- **Schedule and Cost Estimate.** For mitigation and monitoring, provide (1) an implementation schedule for measures that must be carried out as part of the project, showing phasing and coordination with overall project implementation plans; and (2) the capital and recurrent cost estimates and sources of funds for implementing the Action Plan.

**Template for E&S Action Plan**

Area of concern as identified through the assessment	Comment on level of E&S risk and priority for action	Action	Responsibility	Indicator for Achievement of Target	By When	Cost



**Template for an Incident Report**

<b>Report on E&amp;S issues/incident in portfolio company</b>	
<b>Date of report</b>	
<b>Fund manager</b>	
<b>Fund</b>	
<b>Fund manager contact person</b>	
<b>Name of investee company involved</b>	
<b>Date of investment</b>	
<b>Amount invested</b>	
<b>Total investee company investments (cost)</b>	
<b>Description of issue</b>	<ul style="list-style-type: none"> <li>○ Date and time of incident</li> <li>○ Type of incident: environmental issue, fatality, alleged fraud or other</li> <li>○ Name of person/s involved / injured / deceased, if applicable</li> <li>○ Narrative and contextual information</li> <li>○ Whether incident was work or non-work related</li> <li>○ Causes of incident</li> <li>○ Status of investigation</li> <li>○ Listing of parties involved in investigation (witnesses and staff, unions, police, other authorities and other parties)</li> </ul>
<b>Follow-up by fund manager</b>	<ul style="list-style-type: none"> <li>○ Fund manager's view of incident: degree of severity, possible uncertainties or disputed facts to be investigated</li> <li>○ Status of investigation</li> <li>○ Reports received (and outstanding, if any)</li> <li>○ Immediate actions taken by the fund manager and other parties</li> <li>○ Further actions to prevent re-occurrence of incident</li> <li>○ Monitoring / reporting arrangements to follow up on efficacy of actions taken</li> <li>○ Results to date of actions taken</li> </ul>
<b>Conclusion</b>	<ul style="list-style-type: none"> <li>○ Next steps: whether to close the case, or proceed with investigations, how to do so, and the rationale for it</li> </ul>

## **Appendix G: Generic Language for Mandate Letter/Memorandum of Understanding**

“The Fund has reviewed the preliminary information submitted ( for *[name of project]*). *[Insert category A, B, C below, as appropriate]*.

- **If the project is determined to be major during preliminary due diligence, insert the following language:**

“Because the project is likely to have significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented, the Fund considers it to be a major project for the purpose of our environmental and social due diligence. Consequently, *[name of project sponsor/borrower]* is required to prepare a full and detailed Environmental Impact Assessment. In addition, the Fund will require *[name of project sponsor/borrower]* to consult with stakeholders on preparation and results of the EIA, as well as disclose to the public the EIA results. *[Name of project sponsor/borrower]* will be required to prepare a Public Consultation and Disclosure Plan (PCDP) showing how they will implement this activity. The PCDP should be prepared according to the requirements of the Performance Standards 2012. Resolution of all environmental, occupational safety and health, and social issues in a manner satisfactory to Fund name is a condition precedent to any investment in *[name of project]* by the Fund.”

- **If the project is determined not to be major during preliminary due diligence, insert the following language:**

“Key environmental, occupational safety and health, and social issues that are of potential concern in this project include:

- [list]
- 
- 

Consequently, *[name of project sponsor/borrower]* is required to provide additional environmental and social assessment information as specified in the attached Terms of Reference for the Fund to proceed with this project. You will notice that the Terms of Reference includes a requirement to develop an Environmental and Social Action Plan (or, Management Plan), which consists of the set of mitigation, management, monitoring, and institutional measures to be taken during implementation and operation to eliminate potential impacts of concern, offset them, or reduce them to acceptable levels. This information should be provided no later than *[insert date]*. The Fund may also wish to conduct a visit of the project site during our ongoing appraisal process. Resolution of all environmental, occupational safety and health, and social issues in a manner satisfactory to Fund name is a condition precedent to any investment in *[name of project]* by the Fund.”

**Appendix H: Environmental Summary Memorandum Format**

- **Project Description** (including the site and environmental and social setting, surrounding land uses, confirmation of initial environmental and social categorization)
- **Specify the E&S acceptability of the investment, taking into account the impacts and measures identified during diligence.**
- **Company Environmental and Social Management Systems** (the processes by which the Company manages environmental and social performance, including community engagement activities)
- **Significant Environmental and Social Impacts and Risks** (summarized according to the topics covered by the applicable IFC Performance Standards – Labor and Working Conditions; Pollution Prevention and Abatement; Community Health Safety and Security; Land Acquisition and Involuntary Resettlement; Biodiversity Conservation and Sustainable Natural Resource Management; Indigenous Peoples; Cultural Heritage)
- **Recommended Corrective Actions** (for performance gaps, recommend corrective actions corresponding schedules, indicate priorities, and advise as to how to incorporate these into the Investment Agreement)
- **Risks to the Fund: potential reputational risks:**
- **Identify other conditions or external requirements for ensuring success of the company's operations.**

## **Appendix I: E&S Input for Due Diligence Report**

The findings of the due diligence assessments need to be consolidated and integrated into the due diligence report. It should include:

- The findings of the E&S risk rating and E&S assessments with a focus on the material risks, including those with the potential to impact on the Fund and its investors' reputation
- Describe the prospective investee company's operations and business and its geographic, biodiversity, social, health and safety aspects, location of operations, construction activities, facilities, staffing, working conditions, production methods, products, land tenure, potential beneficiaries, potential affected groups
- E&S categorization rationale (to be used later in at the Investment Memorandum)
- Scope of due diligence and methodology: describes the methodology used to conduct the due diligence, including details of site visits, stakeholder interviews, due diligence questionnaires, and type of assessment conducted.
- List of the documents reviewed (e.g., copies of operational permits, licenses, studies, procedures, certifications, etc) and results of public domain search for information
- Indication of which Performance Standards (regulatory compliance/liability, local/national laws, were verified and means of verification.
- Indication if company operations may affect an environmental sensitive area (e.g., rainforest, coral reefs, mangrove sites, etc)
- A summary of the investee company's current commitment and capacity to manage E&S risks and the gap between the company's performance and the Fund's E&S standards
- The identification of any E&S impacts/risks which may have an impact on the decision whether to invest or not and/or price
- The identification of the E&S improvements that can add value to the business
- E&S improvements that need to be taken during the investment period, the actions to realize these, timeframes and costs
- The identification of key performance indicators to track E&S improvements
- Monitoring requirements and recommendations on engagement options with the investee company during the course of the investment period, to influence and bring about improvements
- Potential reputational risks to the Fund
- Reporting requirements including the identification of any particular disclosure requirements e.g. progress reporting to parties directly affected by an environmental or social impact identified by the environmental and social impact assessments/audits.

It is recommended that prioritized actions for E&S improvements are documented in an Action Plan. This will be included in the investment documentation and must be developed in consultation with the investee company.

## **Appendix J: Annual Monitoring Report Format**

### **Supervision Report (usually IFC Report Format is in use)**

- **Project Business Status** (i.e., construction, operation, expansion, shut-down)
- **Status of E&S Corrective Action Implementation**
- **E&S Performance** (ongoing compliance with host country laws, IFC Performance Standards)
- **Significant Incidents and Other Issues**

## **Appendix K: Fund Performance Annual Report Format**

As part of the Fund's annual reporting requirements, it will provide information on:

- Portfolio breakdown by investment type: Listed equity, private equity, market debt instruments, privately placed debt and other
- Portfolio breakdown by industry sector: As a percentage of the total funds invested
- Project description for all new and existing investments:
  - Industry sector
  - Description of business activity of the commercial enterprise
  - Environmental and social risk category assigned
  - Specific environmental and social issues identified during the due diligence process,
  - Changes in the environmental and social performance of the commercial enterprise identified during the monitoring process
- New investments (as applicable): Completed environmental and social due diligence reports and corrective action plans
- Implementation of the Environmental and Social Management System:
  - Status of policies and processes to ensure compliance with the applicable IFC environmental and social performance requirements
  - Capacity for managing environmental and social risks
  - Two examples of completed environmental and social due diligence reports for high risk projects (if required)
  - Monitoring commercial enterprises for ongoing compliance with the applicable IFC environmental and social performance requirements
  - Internal and external reporting on environmental and social performance (as applicable)
- Sustainable finance: Investments in projects with environmental and social benefits such as management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, and community development.

## **Appendix L: Stakeholder Input Log**

PPE's external communications mechanisms ensure that any stakeholder input is managed systematically. Hence, the following aspects will be detailed in the stakeholder input log:

- Individual log number given to each input
- Investment to which input is related or PPE in general
- Category of input (environmental, social, labor, legal, etc.)
  
- Name of individual/party filing input
- Personal information of stakeholder (gender, phone, email address, physical address)
- Means of how input was received (email, phone, letter)
- Preferred means of return correspondence (email, phone, letter)
- Description of input and circumstances in case of a concrete situation (when and where situation occurred, who was involved, etc.)
- Stakeholder's suggestion(s)
- Supporting documentation received: pictures, letters, reports, etc.
  
- In case of a complex and critical input, details on individual(s)/parties involved in the response preparation with respective suggestions
- Details of response to stakeholder's input
- If continued concerns from stakeholder, details on further interaction
- In case of a meeting with stakeholder(s), details of meeting (date, venue, participants, minutes, etc.)
- If corrective action(s) necessary,
  - Action(s) taken
  - Date of correction(s)
  - Parties and/or individuals involved
- Follow-up on corrective action(s), if necessary.

## **Appendix M: Consultant ToR**

The following template is intended to be used as a guide for developing Terms of Reference (ToR) for a Consultant to perform certain aspects of the E&S appraisal of prospective investments of the Fund, as well as ongoing supervision of the investment portfolio.

### **Introduction**

The purpose of this Terms of Reference is to ensure that the Consultant performs the environmental and social review of a prospective investment, and later, the ongoing evaluation and supervision of portfolio projects according to the Fund's Environmental and Social management policies and procedures. The Fund will need to define the Terms of Reference (TOR) or work that should be carried out by the expert. In some cases, full E&S review may not be necessary and a restricted scope can be requested.

The Fund's E&S policy is available at [www.portlandpe.com](http://www.portlandpe.com). All projects in which the Fund invests will comply with all applicable E&S laws and regulations of the host country(ies) in which the project is located and operated. In addition, the Fund seeks to ensure that these same projects are operated in a manner consistent with IFC's Performance Standards on Environmental and Social Sustainability. These eight standards establish clear requirements for investee performance and project outcomes. The Fund's review of a prospective investment in relation to the IFC Performance Standards shall determine the scope of the E&S conditions of the Fund's financing.

### **Consultant Qualifications**

The Consultant must have substantial experience in the E&S review of projects located in the Fund's Target Region, with particular focus on the support of project finance activities. He/she must be thoroughly knowledgeable of the Fund's Environmental and Social management policies and procedures, including the IFC Performance Standards.

### **Scope of Work**

The Consultant will conduct the E&S appraisal of a prospective project, as well as the ongoing supervision of E&S performance of a portfolio project consistent with the Fund's policies and procedures. For new project appraisals, the four tasks include:

- **Preliminary Review** – Review all available information and documentation related to project environmental and social impacts and risks. Prepare a list of additional information and/or questions that will be needed to continue the appraisal
- **Site Visit and Further Review** – Conduct site inspections, review facility-based records, and interview key staff, including both sponsor personnel and relevant stakeholders (regulatory officials, community leaders, suppliers, and customers)
- **E&S Performance Gaps and Necessary Corrective Actions Analyses** – Analyze project environmental and social performance in relation to the Fund's Environmental and Social policy, including IFC Performance Standards. Identify these gaps and any corresponding corrective actions that will be necessary. Prioritize these and recommend acceptable and justified implementation schedules
- **Due Diligence Documentation** – Prepare a report summarizing the results of the E&S due diligence (ESDD). The ESDD report shall include a summary of the impacts and risks associated with the project, including the related performance gaps and corresponding correction actions that will be necessary in order for the Fund to invest.



For supervision of the Fund's portfolio projects, the three tasks include:

- **Review Monitoring Reports** – Review periodic documentation submitted by the project sponsor regarding implementation of any corrective actions included as conditions of investment, as well as overall environmental and social performance. Also, review information submitted by the sponsor concerning significant incidents or fatalities. Identify any follow-up corrective actions that might be necessary
- **Site Visit and Further Review (Optional)** – Where directed by the Fund Manager, conduct site visit to confirm E&S performance and/or to investigate incidents. Identify any follow-up corrective actions that might be necessary
- **Supervision Documentation** – Prepare a report summarizing the findings of the supervision activity.

### **Schedule**

The Consultant shall submit a draft *[Due Diligence/Supervision]* Report by *[insert date]*. The final Report shall be submitted within 2 weeks after receiving comments from the Fund Manager on the draft report. All reports should be written and prepared in English and delivered in electronic and hard copy.”