

Environmental, Social & Governance (ESG) and Impact Policy Summary

About Aceli Africa

Aceli Africa (“Aceli”) is a market incentive facility providing financial incentives to lenders to mobilize private capital for development impact. Aceli draws upon groundbreaking financial benchmarking data on the economics of lending to small- and medium-enterprises (SMEs) in the agriculture sector to optimize the impact and capital leverage of smart subsidy. Aceli plans to award \$40M in financial incentives for lenders and \$10M in technical assistance for agricultural SMEs to mobilize \$700M in lending by 2025.

Aceli Africa believes that environmental, social, and governance (ESG) standards can have a positive impact on the performance of both lenders and their agricultural SME borrowers and should therefore be integrated into the policies and practices of these actors. We require our partner lending institutions to commit to and practice ESG standards that meet or exceed Aceli Africa’s ESG standard outlined in this document.

Scope

This ESG policy applies to all lending institutions seeking to participate in Aceli Africa’s financial incentive program. The policy is complementary with the laws and regulations for environmental and social practices in each country. Lenders participating in Aceli Africa are expected first and foremost to comply with laws in each country where the lender is operating and, secondarily, to comply with Aceli’s ESG policy by meeting or exceeding the ESG due diligence criteria related to underwriting and managing any loans that are submitted to Aceli Africa for financial incentives.

Aceli Africa ESG Policy

The purpose of this policy is to document ESG standards that all lenders seeking to participate in Aceli Africa will be required to meet in order to qualify for accreditation and access to financial incentives. The Aceli policy references the ESG policy established by the [Council on Smallholder Agricultural Finance \(CSAF\)](#) and global standards from the [International Finance Corporation \(IFC\)](#) and [International Labour Organization \(ILO\)](#). The objectives of the Aceli policy are to:

i) Establish clear guidelines for Environmental, Social & Governance (ESG) based on best practices in the finance sector and attainable in East Africa by:

- Excluding lenders and enterprises engaged in practices that are harmful or destructive to human wellbeing or the environment.
- Promoting positive ESG practices by incentivizing loans to borrowers that comply with national environmental regulations and labor standards and that have demonstrated social impact.

ii) Require all lenders to meet a basic standard and not participate in any negative exclusions for activities supported by Aceli and that all loans submitted by lenders abide by this ESG policy and the negative exclusions list.

iii) Define a higher impact standard at the loan-level across three focus areas -- food security & nutrition, gender inclusion, climate-smart & resilient agriculture -- to determine an Impact Bonus.

iv) Promote continuous improvement of ESG practices among lenders and borrowers that do not meet all the criteria but have made a commitment to improve in the areas required through capacity building, such as staff training or updated systems and processes.

Aceli Africa's ESG Standards and Eligibility

To qualify for accreditation with Aceli Africa, a lender must be able to:

- a) Demonstrate capacity to verify borrower compliance with Aceli's ESG policy (not supporting activities on the negative exclusions list and meeting the country's labor, health and safety laws) for each qualifying loan submitted to Aceli for financial incentive.
- b) Have an ESG policy that meets Aceli's standards relating to environmentally prohibited activities, upholding country labor laws, avoiding the infringement of indigenous people, and aligning workers' rights with human resources and health & safety policies
- c) Train lending staff to implement the ESG policy

Lenders that do not meet the above listed criteria but demonstrate commitment to continuous improvement may be eligible to work with Aceli for a period of 12 months to develop the ESG policy and due diligence tools, conduct staff training, and implement these practices as part of standard procedure for loan underwriting.

Aceli requires lenders to verify that each loan submitted for financial incentive meets the following ESG criteria:

- a) Positive impact criteria (must meet at least one):
 - Borrower sources from at least 25 smallholder farmers
 - Borrower supplies inputs, including seeds, fertilizer, and allowed crop protection products that are consistent with environmental principles and appropriate for the local agro-ecology, for at least 100 smallholder farmers
 - Employ at least 5 full-time workers
- b) Revenue criteria:
 - Annual revenue in the last financial year of at least \$50k and not more than \$3M (for origination incentives) or \$10M (for portfolio first loss).

Impact Bonus Focus Areas & Definitions

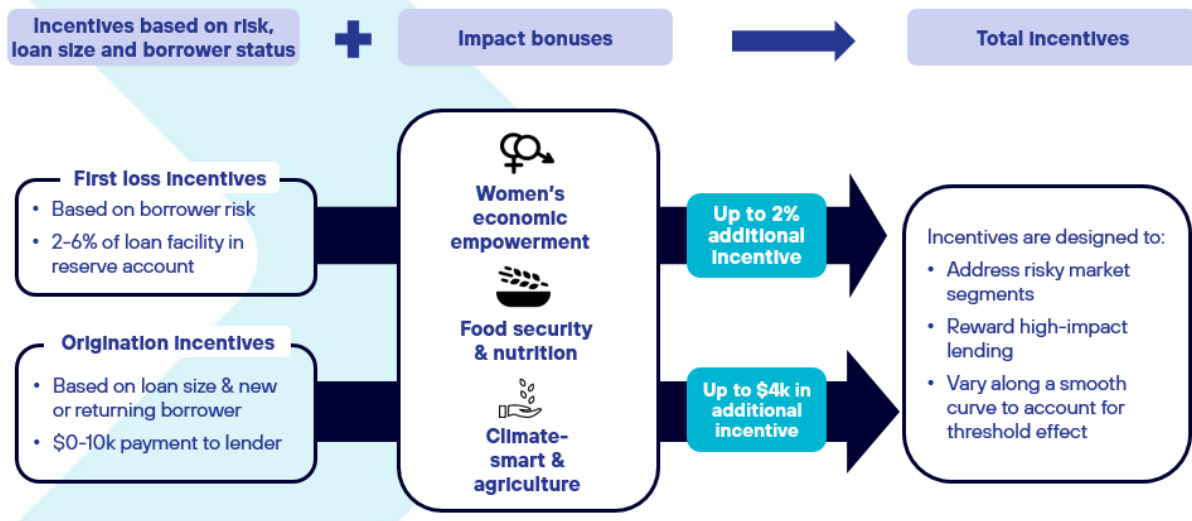
Aceli will offer an "Impact Bonus" in addition to first loss coverage and origination incentives for loans to enterprises that have significant positive impact across one or more of the following three areas: gender inclusion, food security and nutrition and climate smart and resilient agriculture.

The Impact Bonus will be calculated based on the level of contributions that loans make to the three impact areas, ranging from 1-2% in additional incentives. As the Impact Bonus is intended to get lending flowing to particularly high-impact agricultural SMEs with limited access to finance, loans to returning borrowers will only be eligible for up to 50% of the Impact Bonus for new



borrowers. Important note: lenders are not required to report on the higher impact areas. Rather, gathering and reporting this information is voluntary on the part of lenders.

Diagram 1. Aceli offers lenders bonuses for loans that meet higher impact criteria



Gender Inclusion

Aceli has adopted the [2X Challenge](#) standard for gender inclusion that has been designed and implemented by leading Development Finance Institutions globally. The 2X criteria assesses gender inclusion in investments across five dimensions: entrepreneurship, leadership, quality employment, consumption and investment through financial intermediaries. To qualify for the Impact Bonus for gender inclusion, lenders must verify that a loan meets one or more of the 2X Challenge criteria:

- **Entrepreneurship**
 - Majority owned by women (51%); OR
 - Business founded by women (51% of founders or shareholding at time of founding).
- **Employment**
 - At least 40% of employees are women with employment conditions in compliance with national laws;
 - Quality indicator beyond compliance with local law - Evidence of policies that address barriers to women employment (examples include childcare, transportation, wage equity, non-discrimination policies).
- **Leadership**
 - Number of women in senior leadership position (25%); OR
 - The board is comprised of women (at least 30%).
- **Consumption**
 - Proportion (51%) of products that benefit women. These could include:
 - Products that are designed for women's unique needs; OR
 - Products address a problem that disproportionately impacts women; OR
 - Have a majority of women customers; OR
 - Have a majority of women beneficiaries
- **Suppliers**

- Proportion of engaged women suppliers (40%).
- Quality indicator beyond local law compliance – addressing barriers to women participation through access to markets¹ (examples include prices above market price, facilitation of transport, provision of services such as agronomic extension).

Aceli Africa aims for **at least 30% of the loans** receiving financial incentive through Aceli to meet the 2X Challenge standard. Aceli Africa aims to increase these figures by over \$200M through gender inclusive loans supported by Aceli financial incentives.

Food Security and Nutrition

Aceli Africa will offer an Impact Bonus for loans to SMEs that contribute to improved food security and nutrition in Africa by increasing food production using environmentally sustainable methods. We aim for **50% of the loans** to qualify for the food security Impact Bonus. A loan qualifies if the borrower does at least one of the following as reported by the lender and subject to external audits:

- Promote adoption of inputs that increase productivity in ways that are environmentally sustainable and suitable for specific agro-ecological conditions**
 - 30%+ of revenues from inputs such as early maturing or drought-tolerant seeds and/or extension services to support farmers in producing more food crops in an environmentally sustainable manner.²
- Increase and diversify production of food crops for local consumers**
 - 50%+ of its crop or end product sold for food consumption within Sub-Saharan Africa.
- Implement post-harvest technologies for at least 30% of business activities to reduce food loss** (e.g., hermetic bags³ metal silos⁴, refrigerated trucks, packaging of perishable produce)
- Enhance nutritional value for consumers (e.g., nutrient-fortified flour)**
 - 30%+ of total output is of high nutritional value and consumed within Africa.

Climate-Smart & Resilient Agriculture

Aceli Africa will provide an Impact Bonus for loans to businesses that use climate-smart technologies and/or promote restoration of soils, sequestration of carbon, and sustainable utilization of natural resources. We aim for at least **20% of the loans** supported by Aceli Africa to qualify for this bonus. A business meets the standard for climate-smart if it encompasses one of the three sub-categories:

- Promotes or practices climate-smart and resilient agriculture.** To qualify for the climate-smart impact bonus, a business must implement at least two of the practices across the dimensions listed below under A and B.

¹ These services should not necessarily target women only but offered to all producers

² Aceli Africa will not reward financial incentives for genetically modified crops.

³ Hermetic bags are airtight bags that prevent air or water from getting into the cereals stored in them. First developed by Purdue University, they preserve the contents while restricting the existence of cereal pests by depleting oxygen supply levels and producing carbon dioxide

⁴ A metal silo is a cylindrical structure, constructed from a galvanized iron sheet and hermetically sealed, killing any insect pests that may be present. Plastic containers apply the same principle and cost less.

A. Climate-smart and resilient agriculture - support long-term solutions by restoring soil health and applying holistic land and ecosystem management practices across the following dimensions:

i). Soil health improvement

- a. Crop management practices, including cover crops, diversified crop rotations, mixed or intercropping, rotational grazing, no-till or low-till practices that build soil organic matter.
- b. Use of compost, manure, and natural fertilizers and amendments
- c. Carbon capture through closed-loop systems, carbon sequestration.

ii). Enhancing ecosystem functions

- a. Erosion control, integrated water resource management, natural pollination.

iii). Increasing biodiversity

- a. Promotion of biological diversity across the farm and in the soil.
- b. Habitat provision for wildlife, integrated pest management (IPM), biological pest control.

iv). Reforestation or restoration activities

- a. Restocking existing forests and woodlands or returning land to its natural landscape.

B. Circular agri-based systems: These approaches are based on the principles of optimising biomass and renewable resources at farm, enterprise, and value chain level to strengthen local economies.

v). Design out waste and pollution

- a. Production that improves ecosystem services to reduce waste, energy, and water.
- b. Environmentally sustainable packaging, increase local sourcing, shorter supply chains
- c. Smart integration between plant-based and animal-based supply chains.

vi). Re-use by-products from farming and processing activities at farm and enterprise level

- a. Bio-economy based solutions, where food by-products are transformed into organic fertilizers, biomaterials (e.g., for packaging), medicines, and bioenergy.
- b. Optimize waste streams in one supply chain to be the raw materials for another.

2. **Certification by one of the following:** Rainforest Alliance/UTZ, Organic, Forest Stewardship Council. We have determined that these certifications require a minimum level of practices consistent with the climate-smart objectives above.
3. **Validation of climate-smart practices by a recognized third party.** Aceli maintains and updates a list of programs that have demonstrated success in leading to implementation of climate-smart practices. Where lenders can obtain documentation either from borrowers or a recognized third party that a borrower has completed such a rigorous training program, Aceli will consider loans made to the borrower as meeting the higher standard for climate-smart and eligible for the impact bonus.

Assessment of Enterprise Eligibility of Impact Bonus

Aceli's ESG and Impact approach begins with reviewing and accrediting each lender's ESG due diligence practices. Once this threshold has been met, the approach emphasizes self-reporting at

the lender and loan level with appropriate oversight from Aceli where needed to ensure compliance. Aceli will also engage a network of auditors trained in ESG practices and compliance to conduct targeted⁵ checks on lenders' ESG due diligence practices as well as on a subset of enterprises submitted by each lender.

For any loan where the lender is seeking an impact bonus across one or more categories, the lender will be required to submit an additional evaluation scorecard associated with the impact area(s). Formal documentation will be required to demonstrate enterprise practices per the indication in the "Supporting evidence" column of each checklist. Audits at the enterprise level will particularly focus on borrowers that lenders have identified for an impact bonus.

Appendix 1: List of Exclusions

Lenders accredited by Aceli Africa are required to maintain an exclusion list for their agricultural lending that covers all of the items listed below. Lenders must conduct due diligence to verify that their borrowers are not involved in any of these practices and lenders must then report to Aceli Africa, as part of the information required for submitting a loan for financial incentive, that the borrower is not in violation of any of these practices.

- i. Production or activities involving harmful or exploitative forms of forced labour⁶ or child labour⁷ as defined in the [ILO core labour standards](#).
- ii. Change the total land use of an area (e.g from residential to industrial land) and/or infringement on the rights of indigenous peoples or local communities, including activities that impinge on lands owned or claimed by indigenous peoples without their full documented consent.
- iii. Production or activities that are not in compliance with national regulation on minimum wage and working conditions.
- iv. Production or trade in tobacco.
- v. Production or trade in alcoholic beverages, other than beer and wine.
- vi. Agricultural activities within the boundaries of national parks and other protected areas.
- vii. Activities that lead to deforestation or degradation of protected areas due to agricultural production, road construction or maintenance, construction of dams or other water control structures.
- viii. Production, use of or trade in pesticides/herbicides or other hazardous substances that are deemed illegal under host country laws and are subject to international bans.
- ix. Commercial logging operations in primary tropical forests and/or purchase of logging equipment.
- x. Activities which could result in altering stream or river flows (such as construction or improvements of irrigation infrastructure).
- xi. Trade or production of any product or activity deemed illegal under host country laws, international conventions and agreements, including without limitation, wildlife or

⁵ Targeted checks could include lenders with low capacity on ESG due diligence and their borrowers

⁶ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁷ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development

products regulated under the [Convention on International Trade in Endangered Species](#) (CITES) of Wild Fauna and Flora.

- xii. Production or trade in weapons and munitions.
- xiii. Production or trade in radioactive materials.
- xiv. Production or trade in unbonded asbestos fibres.