BOTSWANA DEVELOPMENT CORPORATION

ENVIRONMENTAL AND SOCIAL MANAGEMENT FRAMEWORK
1. INTRODUCTION

1.1. Background

Botswana Development Corporation (BDC) continues to play a pivotal role in commercial and industrial development in Botswana as per its mandate. In so doing, the Corporation invests in businesses with potential environmental and social harms that if not well managed, can cause damage or severe disturbance to the environment (flora, fauna, land, air and other natural resources) and people (communities, employees, customers and other stakeholders). It is however the policy of BDC to ensure that appropriate measures are timely taken to avoid or minimize environment and social impacts associated with any of the Corporation’s investments in any direct or indirect way.

In the context of BDC, environmental and social impacts refer to: i) any change, potential or actual, to the physical, natural, or cultural environment, and ii) impacts on people (including social aspects of labour, health, safety, equity and security), resulting from any activity and business supported by BDC and/or its subsidiary and affiliated companies.

For the purposes of ensuring a more cohesive response mechanism to potential environmental and social impacts arising from BDC activities the Corporation has set up an Environmental and Social Management System which is outlined in this document.

1.2. Purpose of the ESMS

The ESMS provides a structured and methodology based approach to managing environmental and social impacts of BDC activities such that negative impacts are either avoided or minimized whilst positive ones are stimulated. Specifically, the ESMS will aid BDC in ensuring that:

- all projects and activities are screened to identify and evaluate their environmental and social impacts;
- all projects are evaluated for environmental and social impacts and an appropriate mitigation hierarchy is adopted in avoiding or reducing all negative impacts in compliance with all applicable laws and standards, whilst stimulating positive ones;
- grievances from persons affected, directly or indirectly by BDC activities and communications from any other stakeholders are responded to and managed effectively;

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1 Definition adopted from the International Union for Conservation of Nature ESMS framework

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environmental and social performance is improved through adherence to agreed upon management measures typically outlined in applicable legislation and Environmental and Social Management Plans (ESMPs) of individual activities and projects.

- Credit approval processes include appropriate categorization of projects in terms of potential environmental and social impacts and portfolio monitoring systems include continuous assessment of client’s capacity to responsibly manage the environment and social risks associated with their business.

2. ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

2.1. Key principles

BDC shall at all times adhere to the following over-arching policy principles;

- Stakeholder engagement and consultation
- Addressing stakeholder concerns through a formalised grievance management system
- Free prior and informed consent
- Information disclosure

2.2. Organisation and Responsibilities

The ESMS shall form part of the core responsibilities of the Risk Division within which a Senior Environmental Officer shall assume oversight responsibility for environmental and social issues. Her/his roles shall include the development and implementation of the Environment and Social Policy and all aspects of risk-appropriate Environment

The Senior Environmental Officer will oversee the maintenance of the ESMS and all reporting requirements. A detailed Terms of Reference for the Senior Environmental Officer is attached in Annex 1.

The Risk division shall nominate an **ESMS coordinator** to perform the following functions:

- Coordinate the application of the environmental and social management system as an integral part of BDC’s investment cycle;
- Implementation of the ESMS procedures
- Ensuring adequate access to Environmental and Social Risk Management tools
- Schedule periodic staff training on the use of Environmental and Social Risk Management tools
• Provide in-house communication, training and advisory services in order to raise broad commitment on application of the ESMS guidelines and standards;
• Generate lessons on the application of the ESMS, identify good practices and help to synthesize these practices for dissemination.
• Ensuring adequate documentation around the ESMS
• Provide feedback on the ESMS framework and ensure that its is updated on a regular basis for comprehensiveness and effectiveness, based on reviews of ESMS application.

The Senior Environmental Officer will

• Ensure that policy standards are applied consistently during all processes and steps described in the environmental and social management system (ESMS), including screening, scoping, assessment, planning, monitoring and evaluation;
• Actively work with clients in the process to undertake environmental and social impact assessments (ESIA) according to project categories, where appropriate. Especially in terms of environmental screening, drafting of Terms of Reference and contracting of consultants, reviewing draft and final ESIA reports;
• Ensure that environmental and social management plans (ESMP) provide adequate guidance on mitigation of adverse environmental and social impacts, as well as reviewing monitoring reports including compliance to the ESMPs;
• Ensure that budgets for project preparation and implementation include provisions for any mitigation measures of adverse impacts.
• Maintain close interaction with Business Executives to ensure quality of plans, mitigation measures and decisions during appraisal, implementation, monitoring, and evaluation;
• Support development of a roster of expert consultants capable of providing quality screening, reviews, assessments, investigations etc.
• Contribute on a regular basis to monitoring and review of projects:
• Ensure that ESMP and mitigation plans are implemented, and that supplemental monitoring activities, and corrective and preventive actions are set in place, as appropriate;
• Provide strategic and operational advice to the Operations Division on the development and design of large projects that may have environmental and social impacts.

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2 A detailed ToR for the Senior Environmental Officer is in Annex 1

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Table 1 below summarises key responsibilities at each step of the ESMS implementation:

<table>
<thead>
<tr>
<th>Step</th>
<th>Chief Risk Officer</th>
<th>Senior Environmental Officer</th>
<th>ESMS Coordinator</th>
<th>Business Development Executive</th>
<th>Head of Legal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Signs off categorization/and or exclusion</td>
<td>Advises on uncertainties concerning categorization/exclusion</td>
<td>Periodic assessment of the effectiveness of Stage 1 functions (inter-relations)</td>
<td>Determines Exclusion/performs categorisation Climate Screening</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Approves action plans and signs off assessment outcomes Approves covenants Approves inputs to financing agreements</td>
<td>Guides on compliance with BDC E&amp;S Policies and national laws Assess adequacy of assessments performed/perform assessments as may be appropriate Recommend covenants</td>
<td>Periodic assessment of the effectiveness of Stage 2 functions, coordinate continuous improvement and training on ESMS</td>
<td>Ongoing client interface</td>
<td>Draft financing agreements to include appropriate E&amp;S covenants</td>
</tr>
<tr>
<td>3</td>
<td>Approves draft divisional budgets incorporating ESMS activities Reviews and approves reports prepared by the ESMS coordinator and Senior Environmental officer.</td>
<td>Closely monitor compliance with covenants and national laws Periodically assess project impacts on environment and communities Prepares periodic reports on E&amp;S aspects of BDC’s investments Receives and recommends</td>
<td>Contributes to the periodic reports, with focus on effectiveness of the ESMS Prepares improvement and training plans</td>
<td>Communications to client on action plans and any other E&amp;S related matters</td>
<td>Provide input on compliance matters as and when they arise</td>
</tr>
<tr>
<td>Periodic reports from clients. (Quarterly/semi-annual/annual depending on E&amp;S Risk levels).</td>
<td>Periodic client visits and audits</td>
<td>Tracks effectiveness and timeliness of client reporting on E&amp;S matters.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2.3. Resourcing the ESMS

Management is fully committed to ensuring that BDC remains a responsible development finance institution investing in environmentally and socially sustainable projects with reduced negative impact/increased positive impact on the climate. This will be archived through a fully resourced comprehensive ESMS that will remain relevant at all times. Management will adopt a bottom up approach (planned activity based) approach in budgeting for ESMS related resources. This will occur each year during the normal budgeting cycle of the Corporation. Such resources will periodically go towards training, systems, monitoring as well as overall coordination and continuous improvement.

### 2.4. Policies

#### 2.4.1. Full compliance with applicable laws and standards in force

BDC shall only fund investments and projects which are capable of demonstrating that applicable environmental laws (see section 2.4 below), labour laws\(^3\) and well as any other enforceable regulations issued by competent authorities in the Republic of Botswana will be complied with without exception. In compliance with these legislations and standards, BDC and its clients shall meaningfully engage with its stakeholders through

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\(^3\) **Employment Act CAP 47:01**

**Workers Compensation Act No. 23 of 1998**

**Trade Unions and Employers Organisations Act, 2003**

**Employment of Non-Citizens Act CAP 47:02**

**Trade Disputes Act, 2003**

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transparent consultative processes to address matters affecting their well being as a result of BDC activities.

2.4.2. Systematic risk and impact assessment

BDC is committed to full and consistent compliance with its ESMS to ensure that environment and social risks are assessed and evaluated throughout project life cycles. Screening for environmental and social impacts for appropriate categorization is an integral part of credit assessment process and credit approval shall not be given where environmental and social risks cannot be avoided or minimized to manageable levels.

2.4.3. Health and Safety

At the very minimum, BDC and its clients shall adhere to the generally accepted occupational health and safety standards (as stipulated in Botswana Labour Laws\(^4\)) and the International Labour Organisation core labour standards.

2.4.4. Gender equality and youth empowerment

In line with Government’s stated goals, BDC shall actively but responsibly invest in projects that advance the promotion of gender equality and youth economic empowerment.

2.4.5. Climate Change

The assessment of the susceptibility to climate change shall form an integral part of BDC’s environmental and social assessment process. Wherever applicable, clients will be either encouraged or enticed to develop projects and initiatives that mitigate against the impacts of climate change with a proper costing mechanism for such projects and initiatives.

A Climate Screening process has been introduced as the initial procedure towards safeguarding the climate, which entails a pro-active climate risk management approach that in part encourages and/or enforces the incorporation of climate adaptation measures into the design of investment projects as may be applicable. The Climate Screening process will entail a detailed assessment of projects supported

\(^4\) Employment Act CAP 47:01
\(^\dagger\) Workers Compensation Act No. 23 of 1998
by BDC in order to determine the extent of additional climate risk management measures required.

Climate Change Screening is performed by Business Development Executives assigned to individual projects, using the ‘BDC Climate Screening Guidelines and Tools’.

### 2.5. ESMS Process overview

Table one below outlines the basic environmental and social risk management procedures, clearly identifying the sequence of steps to be undertaken in ensuring that the environmental and social risk assessment is adequate and appropriate for the transaction under consideration:

**Figure 1: Step by Step ESMS procedures (identification and appraisal)**

<table>
<thead>
<tr>
<th>Initial Stage (actions performed before or at first discussions with client)</th>
<th>Qualification</th>
<th>Categorization</th>
<th>BDC Exclusion list</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation Stage (actions performed during client engagement)</td>
<td>Risk Appraisal</td>
<td>Low risk</td>
<td>Compliance checks and Reviews. Brief E &amp; S Risk Statement, Std ESMP</td>
</tr>
<tr>
<td>Medium Risk</td>
<td>Compliance checks and Reviews. E &amp; S assessment client. E&amp;S Risk summary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Risk</td>
<td>Compliance checks and Reviews. Action plan, Technical E&amp;S Assessment, Risk mitigation measurers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Control**

- Loan Agreements/ E & S Covenants

**Monitoring**

- Transaction Monitoring
- Annual Reporting
2.6. Applicable Environmental and Social requirements

BDC investment appraisal processes will ensure that all transactions are reviewed and evaluated against the following applicable laws, standards and applicable environmental and social requirements:

2.6.1. Labour Laws and Standards

- Employment Act CAP 47:01
- Workers Compensation Act No. 23 of 1998
- Trade Unions and Employers Organisations Act, 2003
- Employment of Non-Citizens Act CAP 47:02
- Trade Disputes Act, 2003
- International Labour Organisation Core Labour Standards
- Any international labour conventions that Botswana is a signatory to

2.6.2. Environmental Laws

- Acquisition of Property Act (Cap. 32:10 of 1955):
- Agricultural Resources (Conservation) Act (Cap.35:06 of 1973)
- Aquatic Weeds (Control) (CAP.34:04 of 1971)
- Atmospheric Pollution (Prevention) (Cap.65:03 of 1971)
- Environmental Assessment act, 2011
- Fish Protection (CAP.38:05 of 1975):
- Forest Act (CAP.38:04 of 1976):
- Herbage Preservation (Prevention of Fires) (CAP.38:02 of 1978):
- Mines and Minerals (CAP.66:01 of 1977)
- Mines, Quarries, Works and Machinery (CAP.44:02 of 1978)
- National Monuments and Relics Act (Cap.59:03)
- Noxious Weeds (CAP.35:04 of 1916)
- Public Health (CAP.63:01 of 1981)
- State Land (CAP.32:01 of 1966)
- Tourism Act (Act No. 22 of 1992)
- Town and Country Planning (Cap.32:09 of 1980)
- Tribal Land (Amendment) Act (Cap.32:02 of 1993):
- Tribal Land Act (Cap.32:02 of 1970):
- Waste Management Act (CAP.40.02 of 1999):
- Water (CAP.34:01 of 1968):
- Waterworks (Cap.34:03 of 1962):
- Wildlife Conservation and National Parks Act (Act No.28 of 1992)

2.6.3. Other Standards and policies

- BDC Environmental and Social Policy
- BDC Corporate Social Investment policy
- BDC exclusion list
- Any safety, health and equity conventions that Botswana is a signatory to, or may become signatory to from time to time
- Any conventions on environment and social concern, including those of climate change that Botswana is a signatory to, or may become signatory to from time to time
- Environmental and Social covenants and requirements under financing agreements with BDC lenders and strategic partners

The Senior Environmental Officer shall undertake to keep abreast with all changes in the applicable national and international laws, conventions and standards/codes including new ones, and ensuring complete alignment of BDC’s ESMS to such developments on an ongoing basis.

2.7. Environmental and Social Risk Management Procedures

This subsection outlines the step-by-step risk management procedures that shall be applied to all BDC investment transactions to ensure that they are reviewed against, and compliant with the applicable environmental and social requirements stipulated in sub section 2.4 (above).

As a key condition, these procedures were finalised through an organisational wide consultation process including in particular the Operations teams which will be implementing them on an ongoing basis.
These procedures will be integrated into BDC’s credit appraisal process and all relevant environmental and social requirements, conditions and undertakings will be included in legal financing agreements entered into between BDC and its clients.

2.7.1. Step 1: Transaction Qualification

**WHAT** At an initial stage of client inquiry, Business Development staff concerned will ensure that activity/ies to be financed is/are not excluded from financing under the BDC’s Exclusion list (See below).

**OUTPUT** If the proposed transaction involves an excluded activity further consideration of financing will be terminated. If the proposed transaction is not excluded from financing, that should be documented

BDC’s Exclusion list

- Production or trade in any product or activity deemed illegal under Botswana or applicable international laws or regulations including any international conventions and agreements which Botswana is signatory to.
- Production or trade in radioactive materials, with the exception of medical materials and quality-control equipment where the radioactive source is trivial and adequately shielded;
- Production or trade in or use of unbonded asbestos fibers or other products with bonded asbestos as dominant material;
- Production or trade in pharmaceuticals, chemical compounds and other harmful substances subject to international phase-outs or bans, including pesticides classified as Class Ia (extremely hazardous), Ib (highly hazardous) or II (moderately hazardous);
- Production or trade of ozone-depleting substances subject to international phase-out;
- Production of and trade in tobacco
- Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); Purchase of logging equipment for use in unmanaged primary tropical rainforests; and
- Production and activities involving harmful or exploitative forms of forced labour and/or child labour as defined by national regulations.
- Any activities that are in the exclusion list of BDC’s lenders, provided that such exclusion shall be in respect of financing accruing under such lending. However, senior management shall endeavour to align BDC’s exclusion list with international best practice and trends.
2.7.2. Step 2: Environmental and Social Risk Categorization

BDC shall categorise transactions/activities according to the following criteria:

Table 1: Risk categorization criteria

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH RISK</td>
<td>Those that are likely to induce significant and/or irreversible adverse environmental and/or social impacts, or significantly affect environmental or social components that BDC or the Government considers sensitive</td>
</tr>
<tr>
<td>MEDIUM RISK</td>
<td>Those that are likely to have detrimental site-specific environmental and/or social impacts that are less adverse. Likely impacts shall be few in number, site specific, largely reversible and readily minimized by applying appropriate management and mitigation measures or incorporating internationally recognized design criteria and standards.</td>
</tr>
<tr>
<td>LOW RISK</td>
<td>Those that are not likely to directly or indirectly affect the environment adversely and are unlikely to induce adverse social impacts.</td>
</tr>
</tbody>
</table>

At a minimum, all transactions involving land acquisition, wildlife and diamond handling activities will be categorized as ‘Medium Risk’, and appropriate steps shall be undertaken to ensure that any land acquisition concerning activities to be financed neither constitutes ‘land grabbing’ nor involuntary re-settlement, and that they fully comply with Botswana laws.

**WHAT**

When the project does not involve an excluded activity, the responsible Credit Risk Officer must objectively determine the environmental and social risk category for the proposed activity, this will include a request for full disclosure from the client at the very early stages of client engagement.

**HOW**

Utilizing the Categorization Tool, the Business Development Officer, in coordination with the Credit Officer will determine the business activity category and (where applicable) the sub-category most closely related to the client’s business activity.

Having accurately identified the client’s business activity, the Credit Officer will document both the relevant Environmental & Social risk category (high, medium, or low) and the numerical code (e.g., 16.2) upon which the E&S risk categorization is based. When the environmental risk indicated is different from the social risk (e.g., 15.2, 17.11), the higher risk level is utilized for the preliminary E&S risk categorization.
The environmental and social requirements applicable to BDC supported activities are outlined in Table 2 below:

**Table 2: BDC Environmental and Social Requirements**

<table>
<thead>
<tr>
<th>High Risk</th>
<th>Medium Risk</th>
<th>Low Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion List</td>
<td>Exclusion List</td>
<td>Exclusion List</td>
</tr>
<tr>
<td><strong>Internal Risk Categorization only preliminary, final rating subject to an Environmental Scoping Study</strong> as per Environmental Assessment act, 2011</td>
<td><strong>Internal Risk Categorization only preliminary, final rating subject to an Environmental Scoping Study</strong> as per Environmental Assessment act, 2011</td>
<td><strong>Internal Risk Categorization only preliminary, final rating subject to an Environmental Scoping Study</strong> as per Environmental Assessment act, 2011</td>
</tr>
<tr>
<td>Compliance with Botswana environmental, health, safety and labour laws, and public disclosure requirements engendered therein</td>
<td>Compliance with Botswana environmental, health, safety and labour laws, and public disclosure requirements engendered therein</td>
<td>Compliance with local environmental, health, safety and labour laws, and public disclosure requirements engendered therein</td>
</tr>
<tr>
<td>Relevant Operational Safeguards, including those required by BDC’s lenders</td>
<td>Relevant Operational Safeguards, including those required by BDC’s lenders</td>
<td>Standard ESMP</td>
</tr>
<tr>
<td><strong>Full Environmental and Social Appraisal commensurate with the level of potential impacts and risks. This must be in full compliance with the Environmental Assessment act, 2011.</strong></td>
<td><strong>An Environmental Scoping report in accordance with the Environmental Assessment act, 2011</strong></td>
<td><strong>Resulting in an ESMP, or an Abbreviated RAP</strong></td>
</tr>
<tr>
<td>Usually this will result in an Environmental and Social Management Plan (ESMP), Environmental and Social Impact Assessment (ESIA) and/or a Remedial Action Plan (RAP)</td>
<td><strong>Focus should be on the conclusions of independent, third party assessments, and the results of stakeholder</strong></td>
<td><strong>Focus should be on identifying any non-compliance, client to have a</strong></td>
</tr>
<tr>
<td><strong>Focus should be on the client’s behaviour to determine their ability to manage E&amp;S risks and,</strong></td>
<td><strong>Focus should be on the client’s behaviour to determine their ability to manage E&amp;S risks and,</strong></td>
<td><strong>Focus should be on the client’s behaviour to determine their ability to manage E&amp;S risks and,</strong></td>
</tr>
<tr>
<td>WHAT</td>
<td>HOW</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>The objective of client engagement during appraisal is to ensure</td>
<td>Depending on the nature of the business activity and the Applicable</td>
<td></td>
</tr>
<tr>
<td>compliance of the transaction with the Applicable Standards. Such</td>
<td>Requirements, the Environmental and Social risk appraisal can be</td>
<td></td>
</tr>
<tr>
<td>Environmental and Social risk appraisal involves identifying the</td>
<td>based upon a desk review, and conversation with the client, a site</td>
<td></td>
</tr>
<tr>
<td>likely Environmental and Social risk issues potentially associated</td>
<td>visit, and/or be based the review of technically qualified experts</td>
<td></td>
</tr>
<tr>
<td>with the client’s business activity, and appraising the client’s</td>
<td>(either client staff, independent third-party experts, or both). The</td>
<td></td>
</tr>
<tr>
<td>capacity to responsibly manage those Environmental and Social issues.</td>
<td>use of Environmental and</td>
<td></td>
</tr>
</tbody>
</table>

2.7.3. **Step 3: Environmental and Social Risk Identification and Appraisal**

The initial categorization serves as an important indicator of the likely level of Environmental and Social risks associated with a project and determines the commensurate level of risk appraisal, which then either confirm or modify the preliminary risk categorization. In all cases where it becomes evident that the preliminary Environmental and Risk categorization was not appropriate to a transaction, such transactions should be re-categorized appropriately and this should be on the basis of fully documented reasons. Typically, this would be on the basis of an environmental scoping study which should be filed in the client’s credit file.
Social Appraisal Tools by the Credit Risk Officer is essential.

**OUTPUT**

The appraisal effort should be sufficient that, when summarized by the Senior Environmental Officer, it allows the Risk Division to make an informed decision regarding the acceptability of the Environmental and Social risks associated with the transaction. The Credit Risk Officer must then ensure that the any additional Applicable Requirements are communicated to the client and adequately appraised, with a full documentation of all steps followed and actions taken in the appraisal report to be filed in the client’s credit file.

The following procedures apply for transactions initially categorized as medium and high risk (where the need for a scoping report has been determined). NB: Credit Review processes for all medium and high risk projects will only proceed upon completion of a scoping study and approval of the environmental scoping report by the Senior Environmental officer.

- The Senior Environmental Officer will receive and review the environmental scoping report and consider the Environmental and Social impacts and a summary of how the client intends to manage them. The Senior Environmental Officer reserves the right to agree with the client on any further work that may be required based on the outcome of the environmental scoping report.
- A full Environmental and Social Impact Assessment will be carried out for all transactions that has been determined to require one, and no further appraisal work shall continue pending the completion of this assessment, the credit review processes will only commence upon completion of such additional work and acceptance of the outcome by the Senior Environmental Officer. Any resultant Environmental and Social Management Plan and other critical actions shall form part of loan covenants between BDC and the client.
- Upon satisfying her/himself that the transaction does not face the risk of regulatory disapprovals based on Environmental and Social concerns, the Senior environmental officer will then advise the client to proceed with necessary requests for regulatory approvals.

### 2.7.4 Low Environmental and Social Risk Transactions

<table>
<thead>
<tr>
<th>WHAT</th>
<th>When the Environmental and Social risks associated with a transaction are categorized (per Section 2.5.2) as Low, little, if any, additional environmental and social appraisal is required. It is only necessary to ensure the client’s compliance with environmental, health, safety, and labour laws and regulations applicable in Botswana and document that in the appraisal report and loan agreements (as undertakings, covenants, conditions or representations as may be applicable).</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOW</td>
<td>In order to ensure the client’s compliance, the client will provide a written Certification of Compliance (or a notification of material non-compliance) with Environmental and Social requirements. Where material non-</td>
</tr>
<tr>
<td>WHAT</td>
<td>The Senior Environmental Officer leads a site visit and engages with the Client using the following tools:</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td>• BDC’s Environmental and Social requirements (including those of BDC lenders) and risk appraisal tools.</td>
</tr>
<tr>
<td></td>
<td>• Operational Safeguards Guidelines (see Annex 2) to make a preliminary determination whether any OS applies to the transaction.</td>
</tr>
<tr>
<td></td>
<td>• Risk identification guidelines applicable under the Botswana Environmental and Social safeguard laws and regulations.</td>
</tr>
<tr>
<td></td>
<td>• Critical documentation possessed by the client, e.g. environmental and social clearances obtained, bye-law clearances and ESMP (if already available).</td>
</tr>
</tbody>
</table>

| OUTPUT | Prepare a **brief** Environmental and Social Risk Summary (see Annex 4) to be included in the credit application and project appraisal documents. |

**2.7.5. Medium Environmental and Social Risk Transactions**

When the Environmental and Social risk category is **Medium**, the Credit Risk Officer must identify the Environmental and Social risks associated with the business activity, see whether BDC’s Operational Safeguards (including those of BDC’s lenders) are triggered and assess whether the client has the capacity to manage these risks.

**OUTPUT**

Certification of Compliance or notification of material non-compliance and commitment to remedy the non-compliance in a reasonable period of time. Certificate from the Risk Division (drafted by the Senior Environmental Officer) that all conditions have been met (at appropriate interval).
**Note:** What is critical is for the Credit Risk Officer, with support from the Senior Environmental Officer to identify Environmental and Social risks of concern, and allow the client to demonstrate to BDC that adequate risk control and mitigation measures are in place taking into consideration the capacity to implement them.

### 2.7.6. High Environmental and Social Risk Transactions

<table>
<thead>
<tr>
<th>WHAT</th>
<th>The objective is to gather as much information as possible regarding the nature of the Environmental and Social risks associated with the transaction in order to make an informed decision regarding its compliance with Applicable Standards and acceptability to BDC. Given that the issues are likely to be technical in nature, the focus should be on accessing available information from third-party expert assessments (e.g., EIA, ESIA, RAP) and verifying the information submitted by the client to regulatory authorities regarding such risks. All approvals for high risk transactions shall be based on the Senior Environmental Officer’s approval to the Credit and Investment Committee upon satisfying her/himself that all applicable national and bye laws have been complied with in full.</th>
</tr>
</thead>
</table>
| HOW | • Visit the client to ensure that the client understands the nature of the Environmental and Social risks associated with its business activity and can demonstrate the capacity to manage those risks.  
  • Use the Operational Safeguards guidelines in Annex 2 to make a preliminary determination whether any guideline is applicable to the transaction.  
  • Utilize the relevant BDC Sub-Sectoral Environmental and Social Guideline (see Annex 4) to help identify relevant Environmental and Social risk issues and the best practices for managing such risks.  
  N.B: In the absence of a relevant BDC Sub-Sectoral Environmental and Social Guideline, utilize the relevant IFC sectoral, or generic, Environmental, Health and Safety Guideline[^5] to assist in preparing to engage the client.  
  • Request appropriate documentation from Client: most importantly, all documentation requisite under the Botswana environmental legislation and applicable town and district bye-laws. |
| OUTPUT | Prepare a **Detailed** Environmental and Social Risk Summary (Annex 6) to be included in the relevant transaction documentation to the credit

2.7.7. Environmental and Social Risk Control and Monitoring

<table>
<thead>
<tr>
<th>WHAT</th>
<th>When unreasonable Environmental and Social risks are identified, BDC must ensure that the necessary actions are taken by the client and/or the identified risks are rendered acceptable to BDC throughout the term of BDC funding and involvement.</th>
</tr>
</thead>
</table>
| HOW  | - **Include Environmental and Social covenants:** The Legal Manager should ensure that appropriate Environmental and Social warranties and covenants as advised through the Credit appraisal process are incorporated in each client loan agreement to ensure compliance of the client with the Applicable Environmental and Social Requirements.  
  - **Monitoring by BDC:** it is incumbent upon the Risk division, in collaboration with the Operation and Legal Divisions of BDC to monitor Environmental and Social risks during the term of BDC funding to ensure that the FI and its customer remain compliant with the Applicable Requirements.  
    
    The Senior Environmental officer shall conduct periodic client visits, and consider periodic reports prepared by clients (quarterly, semi-annually or annually) depending on the level of assigned E&S risk level. Typically, High Risk projects will attract higher monitoring and reporting intervals than low risk projects.  |
| OUTPUTS | **Environmental and Social covenants could include:**  
  - mitigation by the client prior to disbursement  
  - an agreed upon action plan and timetable to mitigate the risk after disbursement (subsequent covenants)  
  - requisite actions by the client to limit its exposure to environmentally and socially derived liabilities in the transaction (e.g., monitoring and/or reporting requirements, insurance, warranties by the client, etc.)  
  - reporting requirements regarding non-compliance of major environmental or social incidents, etc).  |

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• requires the client to produce a self-monitoring report on a defined schedule
• provide copies inspection reports by regulatory authorities as received by the client
• regular monitoring visits by BDC staff (Senior environmental officer)

The extent and nature of Environmental and Social covenants to be included in funding agreements will be determined by the Senior Environmental Officer in consultation with the Legal Manager and approved by the Chief Risk Officer. These covenants shall be conveyed to the client for consent by the business executive handling the transaction prior to negotiation of agreements.

The Senior Environment Officer will also be responsible for Environmental and Social monitoring and producing reports on the outcome of such monitoring.

2.7.8. Disclosure, Reporting and Mechanisms for the ESMS review and improvement

BDC will publically disclose its Environmental and Social Policy on its website.

An internal reporting system will be maintained to provide senior management with periodic information on the effectiveness of the ESMS, any difficulties staff have with implementing the ESMS as well as the Environmental and Social risk nature of the Corporation’s loan portfolio. The system will identify for senior management all of the High risk and Medium risk transactions financed during the reporting period. BDC will continuously review and improve the ESMS on the basis of the feedback from internal reporting.

BDC will also report annually to its lenders on Environmental and Social considerations and the performance of the ESMS. The internal reporting system will be maintained by the Senior Environmental Officer.
3. ANNEXES

ANNEX 1: Terms of Reference for the Senior Environmental Officer

The Candidate

The Senior Environmental Officer will be someone at a senior level within the Risk Division of BDC and should have sufficient authority and organizational influence to ensure the ESMS is properly implemented organization-wide. He or she should have reasonable background in both environment and finance.

What are the main tasks he/she will have to perform?

The Senior Environmental Officer should be able to perform the following tasks:

- Oversee the institution’s E&S risk management and implementation of ESMS
- Manage resources (budget and staff) for Environmental and Social risk management and training
- Ensure the coordination and integration of Environmental and Social risk management procedures with the institution’s internal credit process
- Report any major Environmental and Social issues to senior management and secure the support for and approval of Environmental and Social risk management issues by senior management
- Review and approve the BDC’s annual Environmental and Social performance report to stakeholders.
- Coordinate with different funders on the Environmental and Social requirements of their funding procedure

Topics of collaboration with other departments
Depending on the institution’s organizational structure and business scope, the E&S officer may be supported by one or more E&S coordinators to review or coordinate the day-to-day E&S tasks performed by other staff (i.e., credit officers, environmental and social specialists, and consultants), according to the staff roles specified in the ESMS, including:

- Evaluate environmental compliance of a target client company with applicable requirements during due diligence, such as site visits, collection of necessary Environmental and Social documentation (e.g., certificates and authorizations), and preparation of Environmental and Social due diligence reports (or an Environmental and Social section of the credit application)
- Ensure that all investment decisions are supported by appropriate due diligence documentation, including, but not limited to, an Environmental and Social section in each final Investment Memorandum
- Ensure that appropriate environmental representations, warranties, and covenants are incorporated in each loan or investment agreement
- Supervise portfolio projects’ on-going compliance with the applicable requirements on a regular basis, which may include:
  - Conducting site visits, monitoring the implementation of Environmental and Social action plan (if any) by the clients, reviewing clients’ annual reports, and recording clients’ Environmental and Social ongoing performance
  - Resolving Environmental and Social issues in case of non-compliance, and where needed, preparing a time-bound corrective action plan with specific follow-up procedures
- Prepare the BDC’s annual environmental performance report, based on the annual performance reports provided by its client companies
- Ensure that these procedures are implemented for each project, and that records of environmental reviews (i.e., appraisal and monitoring) are maintained.
- Keeps abreast with all changes in the applicable national and international laws, conventions and standards/codes including new ones, and ensuring complete alignment of BDC’s ESMS to such developments.

3.1. **ANNEX 2- Operational Safeguards Guidelines**

OS1 (Environmental and Social Assessment) and OS5 (Labour Conditions, Health and Safety) always apply to transactions categorized as Medium and High risk. The other OSs, may or may not be relevant to a transaction, and a determination must be made as to their relevance.

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**Involuntary Resettlement (OS2)**

Resettlement is considered involuntary when the project-affected people are not in a position to refuse the activities that result in their physical or economic displacement. This occurs in cases of lawful expropriation or temporary or permanent restrictions on land use, and in negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions on land use if negotiations with the seller fail. The term “displacement” refers to both physical displacement and economic displacement.

Some simple questions assist in a preliminary determination of the relevance of OS2 to a particular transaction.

1) Does the proposed activity to be financed involve land acquisition? (If the answer is NO, OS2 is probably not relevant).

2) If land acquisition is involved, are any individuals with legal titles and if not, with customary rights, physically or economically displaced as a result of the transaction? (If the answer is NO, OS2 is probably not relevant).

**Biodiversity and Ecosystem Services (OS3)**

The objectives of OS3 are to conserve biological diversity and ecosystem integrity by avoiding or, if not possible, reducing and minimizing potentially harmful impacts on biodiversity, protect natural, modified and critical habitats; and, sustain the availability and productivity of priority ecosystem services to maintain benefits to the affected communities.

Some simple questions assist in a preliminary determination of the relevance of OS3 to a particular transaction.

1) Does the proposed transaction extract renewable natural resources as a main purpose (e.g., plantation forestry, agriculture, livestock, fisheries and aquaculture)? (If the answer is YES, OS3 probably is applicable to the transaction)

2) Is the proposed activity to be financed located in or near a legally protected or internationally recognized area? (If the answer is YES, OS3 is probably applicable to the transaction).

3) Is the proposed activity to be financed located in or near a natural, modified, or critical habitat? (If the answer in YES, OS3 probably is applicable to the transaction).

**Pollution Prevention and Control, Greenhouse Gases, Hazardous Materials and Resource Efficiency (OS4)**

OS4 outlines the main pollution prevention and control requirements that borrowers or clients shall adhere to in order to achieve a high-quality environmental performance and efficient and sustainable use of natural resources. The specific objectives are to manage
and reduce pollutants resulting from the project so that they shall not pose harmful risks to human health and the environment – including hazardous, non-hazardous waste and GHG emissions; and set a framework for efficiently using all of a project’s raw materials and natural resources, especially energy and water.

Some simple questions assist in a preliminary determination of the relevance of OS3 to a particular transaction.

1) Does the proposed activity to be financed produce pollutants in important quantities – (i.e. hazardous, non-hazardous waste). If the answer is NO, OS4 probably is not applicable.

2) Does the proposed activity to be financed utilize significant amounts of raw materials and natural resources, especially energy and water. If the answer is NO, OS4 is probably not applicable.

3) Will the proposed activity emit more than 200,000 tons of CO2 equivalents per year (absolute emissions). If the answer is NO, OS4 probably is not applicable.

3.2. ANNEX 4 – Index of BDC’s Sectoral Environmental and Social Guidelines

The below list is evolving and will be subjected to periodic updates.6

6 Adopted from the European Bank for Reconstruction and Development

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| **Agriculture, Forestry and Fisheries** | Agricultural Production – Crops  
Animal Feed Processing  
Animal Husbandry  
Aquaculture (Marine and Freshwater) – Onshore and Offshore  
Commercial Fishing  
Fish Processing  
Intensive Livestock Rearing (Poultry & Pigs)  
Warehouse Receipts Commodity Trading |
| **Chemical Industries** | Agrochemicals  
Chemicals and Allied Product (Wholesale Distribution and Storage)  
Production of Drugs and Pharmaceuticals  
Paint and Allied Products  
Pesticide Production  
Petroleum and Coal Products  
Petroleum Refineries  
Petroleum Storage  
Impact Summary Petroleum Refineries and Storage  
Industrial Inorganic Chemicals  
Plastics and Synthetics  
Rubber Products  
Glass and Glass Wool |
| **Communications** | Cable Television  
Mobile Phone Systems  
Telecommunications |
| **Construction** | Building and Construction Activities  
Brick Manufacture  
Cement Production  
Clay, Ceramic and Refractory Materials |
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<th>Construction of Pipelines</th>
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<td><strong>Electronic and Electrical Equipment</strong></td>
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<td>Electrical Equipment and Machines</td>
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<td>Electrical Goods</td>
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<tr>
<td>Production of Semi-Conductors</td>
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<td><strong>Food and Beverages</strong></td>
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<td>Bakery Products</td>
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<td>Breweries</td>
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<td>Confectionery</td>
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<td>Dairy Processing</td>
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<td>Drinks Canning</td>
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<td>Edible Oils, Soap and Candle Manufacture</td>
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<td>Food Canning</td>
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<td>Fruit and Vegetable Processing</td>
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<td>Grain Mill Products</td>
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<tr>
<td>Meat Processing</td>
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<td>Non-Alcoholic Beverages</td>
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<td>Poultry Processing</td>
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<td>Poultry Production</td>
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<td>Slaughterhouses</td>
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<td>Sugar Production</td>
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<td>Vegetable Oil Processing</td>
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<td>Wine Making</td>
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<td>Wholesale Food Outlets and Agricultural Markets</td>
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<td><strong>Metal Industries</strong></td>
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<td>Base Metal Smelting and Refinery</td>
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<td>Ferrous Metal Processing</td>
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<td>Foundries</td>
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<tr>
<td>Industrial Equipment and Machines</td>
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<td>Metal Fabrication</td>
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<td>Metal Surface Engineering</td>
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<tr>
<td>Category</td>
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</table>
| **Mining, Extractive Industries and Mineral Processing** | Mineral Processing  
Mining Open Cast  
Mining Underground  
Oil and Gas Extraction (Exploration & Production)  
Stone, Sand and Gravel Extraction |
| **Paper and Printing**                       | Paper Packaging and Products  
Printing and Publishing  
Pulp and Paper manufacture |
| **Power Generation & Transmission**          | Thermal Power Generation – Large Combustion Plants  
Renewable Power Generation  
Electricity Transmission |
| **Real Estate and Equipment Leasing**        | Leasing of Machinery and Equipment  
Leasing of Property and Land  
Leasing of Vehicles |
| **Retail Trade**                             | Automotive Dealers/Retailers  
DIY Stores  
Eating and Drinking Places  
Petrol/Gasoline Retailing  
Supermarkets |
| **Services**                                 | Dry Cleaning  
Hazardous Waste Management  
Health Services and Clinical Waste Disposal  
Hotels  
Pharmacies  
Photographic Studios and Processing  
Vehicle Repair, Services and Parking |
<p>| <strong>Textile Manufacture</strong>                      | Apparel and Other Textile Products |</p>
<table>
<thead>
<tr>
<th>Industry</th>
<th>Sub-Industries</th>
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<tr>
<td>Tanneries and Leather Products</td>
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<td>Textile Manufacture</td>
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<td>Timber and Wood Products</td>
<td>Furniture and Fittings</td>
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<td>Road Freight Services</td>
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<td>Small Scale Port Development</td>
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<td>Shipbuilding and Shipyards</td>
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<td>Water Transportation</td>
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<td>Miscellaneous</td>
<td>Instruments and Related Equipment</td>
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<td>Miscellaneous Manufacturing</td>
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<td></td>
<td>Motor Vehicle Assembly</td>
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<td>Packaging Manufacture</td>
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3.3.  **ANNEX 5 – Environmental and Social Risk Summary (Brief Form)**

**Client Name:**

1 **Nature of the Loan**
   [Nature of activity financed]

2 **Environmental and Social Information Reviewed:**
   [e.g., environmental permits, state environmental review, inspection reports]

3 **Key Environmental and Social Issues**
   [What are the key environmental and social impacts, risks, and benefits associated with the loan]

4 **Environmental Regulatory Compliance**
   [Does/will the existing/proposed enterprise comply with national environmental regulations and standards?] 

5 **Social Standards Compliance**
   [Does the borrower comply with national health, safety and labour regulations and standards]

6 **Suggested Environmental and Social Covenants, Supervision and Monitoring Requirements**
   [List any appropriate items which should be covenanted into the loan agreement, including provision of monitoring information]

---

Senior Environmental Officer  __________  __________  __________

   Name   Signature   Date
3.4. Annex 6 -- Environmental and Social Risk Summary (Detailed)

1. **Nature of the Transaction and the Borrower’s Business:**
   - Type of transaction, amount and term
   - Borrower and its business operations
   - Purpose of loan

2. **Environmental and Social Information Reviewed and Issues Identified**
   - Information reviewed, e.g.: permits/licenses, E&S policies/procedures, ESIA, inspection reports, client submissions to environmental, health and safety, and/or labor authorities.
   - Main environmental and social impacts of company operations (e.g., air emissions, wastewater, hazardous waste, health and safety, public safety, labour standards)
   - Key environmental and social concerns identified (e.g., known areas of current or future non-compliance with regulations, high worker accident rate, significant major accident risk, community grievances/protest, poor employee/management relations)

3. **Environmental Regulatory Compliance and Liability**
   - Does the Borrower comply with environmental regulations and standards?
   - Has the Borrower obtained the necessary permits and approvals for construction/operation?
   - Has the borrower conducted the appropriate stakeholder engagement and performed the required public disclosures?
   - Has the Borrower paid excess charges or fines/penalties for non-compliance with environmental regulations and standards in the last two years? If yes, specify magnitude.
   - What are the main findings of the latest environmental inspection reports?

4. **Social Regulatory Compliance and Liability**
   - Does the borrower comply with national labour and employee protection regulations, in particular those related to occupational health and safety (OHS), employment of minors, the prohibition of forced labour, the non-discriminatory treatment of employees at the workplace, the freedom of association, and the right to bargain collectively?
   - Has the Borrower paid excess charges or fines/penalties for non-compliance with OHS, labour, and public safety/sanitary regulations and standards in the last two years? If yes, specify magnitude.
   - What are the main findings of the latest OHS/labour/inspection reports for the Borrower’s business?
   - Is the Borrower subject to ongoing or pending administrative or court action because of OHS or labour offences (e.g. discrimination)?
   - Does the activity to be financed have any adverse effects on indigenous peoples, cultural or archaeological heritage? If yes, how are these impacts being mitigated?
   - Is involuntary resettlement an issue for this business transaction?
5 If land is taken as collateral, is there any indication of material contamination? If yes, are there any liabilities of the Bank as a pledge holder to clean-up the land and what is their approximate magnitude?

6 Risk mitigation and monitoring:

- State further actions required/planned by the SMA client, in particular actions to address any environmental and social non-compliance problems and liabilities.

- State any risk mitigation measures to be taken by the FI, such as environmental and social conditions, loan covenants or monitoring requirements (e.g. regular reporting from client)

7 Environmental and Social Opportunities: State any measures taken/planned by the client to further improve the environmental or social performance of the enterprise, e.g. energy efficiency, cleaner technology, waste reduction, occupational health and safety management, community relations.

Senior Environmental Officer

_________________  ____________________  ____________________

Name  Signature  Date