

Innovative Finance for Social Justice

2016



## **The Social Dimensions of Development Finance in Africa**

**Results of a survey among AADFI members**

**Working Paper No. 70**

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# Foreword

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The International Labour Organisation (ILO) and the Association of African Development Finance Institutions (AADFI) are pleased to publish this working paper on “The Social Dimensions of Development Finance in Africa”. For almost 100 years, the ILO has worked towards achieving social justice and acknowledged the role that the finance system plays in this endeavour by a multitude of collaborations with financial service providers, support organisations, and relevant policy makers. The AADFI is an international organisation, created in 1975, striving to promote economic and social development in Africa through cooperation among banks and financial institutions. Both organisations are united in a vision of a just world in which the benefits of growth are shared more equitably to create positive social development. Through its unique position, development finance holds a great promise towards advancing the necessary social change.

The analytic work leading to the report was inaugurated at the Joint CEO Forum in Kuala Lumpur, Malaysia, in November 2014, when more than 140 CEOs and senior officials of Development Finance Institutions (DFIs) from Africa and Asia and the Pacific convened to discuss Alternative Models of Development Financing in a Changing World. Participants eagerly engaged with ILO and together developed an agenda for investigating what management systems DFIs employ to identify social risks, impacts, and opportunities. 13 African DFIs stepped forward to participate in the study. This report summarises the status of such systems across the African industry, it identifies gaps in the currently available systems, and proposes a way forward.

The main purpose of this report is to share the African experience and open the eyes of the stakeholders as to where the financial industry stands these days. In doing so, this report also proposes an engagement agenda for the industry and calls on the African DFIs and the ILO to continue the collaboration to increase the social capacity of development finance on the continent and beyond.

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Many thanks to the CEOs and Managing Directors who spearheaded the engagement of these institutions and freed staff to engage with the ILO. Many thanks to the DFI staff members who tirelessly shared relevant documentation and answered to our questions.

This study would not have been possible without the excellent support of the AADFI secretariat, especially Joseph A. Amihere (AADFI Secretary General) and Cyril A. Okoye (Training & Research), who coordinated the initial sign up of the DFIs to the study and supported the finalisation of the publication.

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# Glossary

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AADFI	Association of African Development Finance Institutions
ADFIAP	Association of Development Finance Institutions in Asia and the Pacific
AfDB	African Development Bank
CSR	Corporate Social Responsibility
DB	Development Bank
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
EIA	Environmental Impact Assessment
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
ESM	Environmental and Social Management
FAO	Food and Agriculture Organisation
FI	Financial Institution
FPIC	Free, Prior, and Informed Consent
GRI	Global Reporting Initiative
GHG	Greenhouse gas
GIIN	Global Impact Investing Network
HR	Human resources
ICESDF	Intergovernmental Committee of Experts on Sustainable Development Financing
IFC	International Finance Corporation
IFI	International Finance Institution
ILO	International Labour Organisation
MIGA	Multilateral Investment Guarantee Agency
OSH	Occupational Safety and Health
SEMS	Social and Environmental Management System
S&E	Social and Environmental
SME	Small and Medium-sized Enterprise
WB	World Bank

# 1 Introduction

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UN Member States have repeatedly referred to financial assistance as the “lifeblood” of the Post-2015 Development Agenda (Lebada, 2014). Acknowledging the importance of finance for development, the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) has, however, underlined that the “current financing and investment patterns will not deliver sustainable development” (Lebada, 2014). The committee accentuates the potential contributions of development banks (DBs) to support long-term sustainable investments - in regions and sectors where access to capital is limited and which are in line with national development strategies (United Nations General Assembly, 2014, p. 23).

Through their lending activities, development finance institutions (DFIs) are exposed to a number of social and environmental risks linked to the activities of their clients including occupational safety and health concerns, involuntary resettlement, child labour, or environmental pollution. These risks do not only influence the sustainable development impact of the institutions, but also have a direct link to credit, reputational, and liability risk. A structured management approach is required to effectively assess and manage social and environmental risks and impacts as well as to seize social and environmental opportunities. Likewise, a rigorous approach to measure social and environmental impacts is of utmost importance to portray and justify the special mission and additionality of DFIs.

New initiatives such as the Sustainable Stock Exchanges Initiative, networks like the Global Impact Investing Network (GIIN) and actors such as NGOs and service providers (like sustainability rating agencies or auditors) are evolving to enforce the financial sector’s willingness and capability to deliver on socially just and environmentally friendly development. Cornerstones in the development of sustainability standards in the financial industry - globally, and specifically in the African context - were the launch of the Equator Principles in 2003, the adoption of Performance Standards on Social and Environmental Sustainability by the International Finance Corporation (IFC) in 2006 and their overall revision in 2012. Based on two social and environmental safeguard policies from 2003/4 as well as existing cross-cutting thematic and sectoral policies, the African Development Bank (AfDB) developed and adopted an Integrated Safeguard System in 2013. Furthermore, regulators at the national level brought forward initiatives like the National Performance and Benefit Measurement Framework in Kenya or, at the international level, the Sustainable Banking Network that unites banking regulators and associations from countries like Kenya, Nigeria, and Morocco. Guided by these developments, DFIs at national and regional level integrated sustainability considerations in their operations through developing and implementing *Social and Environmental Management Systems (SEMS)*.

Simultaneously, the International Labour Organisation’s (ILO) Social Finance Programme - whose mission it is to support the development and adoption of financial services and policies for social justice through innovation, research, policy dialogue and capacity building<sup>1</sup> - observed a stronger focus on integrating environmental dimensions in the SEMS while social concerns received less attention. This perception was echoed by the Association of African Development Finance Institutions (AADFI), whose mission it is to promote economic and social development in Africa through its members.

It is undisputed that environmental degradation and climate change have socio-economic impacts on poverty and employment, and differently affect social groups (in terms of gender, ethnicity, race, etc.). However, substantial issues of child labour, for example in the mining sector, or the recent rise in large-scale land acquisitions, illustrate the

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<sup>1</sup> Recent engagements of the ILO to support the development and adoption of innovative financial services for social justice include research and capacity building for social compliance and impact in agricultural finance; action research on microfinance for decent work, and testing insurance innovations and developing insurance markets.



dramatic and extensive social impact of neglecting to adequately address social risks and impacts and manifest the need for compliance with distinctive social safeguards. Although the Democratic Republic of the Congo (DRC) established a National Code on the Rights of Children in 2009, and ratified the ILO Conventions No. 138 and 182 on minimum age and worst forms of child labour, statistics suggest that 80,000 children under the age of 15 were employed in the mining sector in DRC in 2010 (Marks, 2010). They constitute 40% of the total workforce in this sector and their tasks include carrying heavy loads, crushing ore and sometimes extracting minerals while inhaling the dirt and toxic fumes often in the presence of harmful and even radioactive minerals.

Another example is large-scale land acquisitions. While projects involving large-scale land acquisitions may create opportunities for economic development and livelihood improvement in rural areas they may also carry high risks for local communities like the loss of access to resources that are imperative for food security (Cotula et al., 2009). For instance, a large-scale investment in Madagascar related to 452,500 ha promised to create employment for around 4,500 local part-time workers (Cotula et al., 2009 referring to Benetti, 2008). However, the affected local community also experienced negative effects of resettlement practices (Cotula et al., 2009). Research of the Food and Agriculture Organisation (FAO) of the United Nations argues that large-scale agricultural investments need investor commitment on the individual investment level in order to create benefits in the host countries (Cotula et al., 2009). A recent study by GIIN and JP Morgan Social Finance shed light on alternative strategies to create social opportunities and long-lasting positive impact for people and communities: for example, impact investors try to create such positive impact by investing in businesses that seek to provide products and services that benefit target populations; by providing employment to target populations; or by integrating target populations into investee supply or distribution chains (JP Morgan and GIIN, 2015). Responsible finance can also make business sense: research from the Global Finance Institute found that portfolios of assets with high environmental, social and governance (ESG) ratings outperform their benchmarks in various contexts (Hoepner, 2013).

The conviction of the need for compliance with distinctive social safeguards brought together the ILO and AADFI to investigate the extent to which DFIs in Africa have implemented formal Social and Environmental Management Systems with a particular focus on the level of inclusion of the social dimension. A related study was launched at the Joint CEO Forum in Kuala Lumpur, Malaysia in November 2014. This report presents the summary findings of the study to which thirteen AADFI members contributed. In parallel, a similar analysis was conducted in Asia and the Pacific in collaboration with the Association of Development Finance Institutions in Asia and the Pacific (ADFIAP).

The report first outlines the analytical approach (chapter 2) and describes the methodology and the participants (chapter 3). Chapter 4 presents the main findings regarding the level of SEMS implementation, as well as related challenges. Finally, conclusions are drawn and potential ways forward are discussed in chapter 5.



## 2 Analytical Approach

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The study aimed to shed light on the level of implementation of Social and Environmental Management Systems (SEMS) by DFIs in Africa with a particular interest in analysing the social dimension of such systems. The analytic approach consisted of identifying and assessing i) the main building blocks that underpin these SEMS and ii) the inclusion/incorporation of social dimensions. The following sub-sections provide more details on the two components of the analytical approach.

### 2.1 Building Blocks of a Social & Environmental Management System

To be the backbone of a structured management approach, a Social and Environmental Management System needs to be formal and sufficiently resourced. It typically comprises the following six elements:

Figure 1: Building Blocks of a Social and Environmental Management System.



These six building blocks are described in more detail in the next paragraphs.

**Building Block 1:** A **Social & Environmental Policy** discloses the institution's approach towards sustainability - such as towards risks, impacts and opportunities related to labour conditions, environmental pollution or stakeholder engagement - and should equally address social and environmental elements. It includes at least a general commitment to sustainable development, as well as some reasoning for this commitment. The policy should be reviewed periodically to allow for adjustments to new developments. Furthermore, the broader legal and regulatory framework (national and international), which is applicable to the institution and clients, could be identified. A further detailed description of this framework should feature in the DFI's institutional S&E standards or safeguards, which form SEMS building block 2.

**Building Block 2:** The **Social and Environmental safeguards or standards** with which the institution complies should be mentioned and described in detail. They might be oriented towards AfDB's operational safeguards or the IFC performance standards but need to be adapted to the local context within which the DFI is operating to render them meaningful guidelines for the institution and staff implementing the SEMS.

**Building Block 3: Social & Environmental Procedures** describe the institutional practices to identify, assess, mitigate and monitor social and environmental risks and impacts. Hence, the procedures should include all stages of the DFI's credit cycle and match the institution's operational processes. Typically, this process covers:

- Identification,
- Assessment,
- Mitigation / avoidance / management,
- Monitoring / reporting.

The first procedural step is the identification of S&E risks, which includes screening all new applications against an exclusion list, and using a categorisation tool for a preliminary S&E risk classification which may restrict funding going into certain sectors or risk classes. Subsequently, an S&E assessment (including a re-evaluation of the risk category) takes place and risk mitigation / avoidance / management measures are defined in case of non-compliance. These may be fixed in an S&E action plan or S&E monitoring and management plan, which clearly indicates who has which S&E responsibility and which assigns concrete timelines for implementing and reporting on milestones. Moreover, management of S&E risks and impacts includes incorporating the mitigation measures into the loan agreement and monitoring their implementation and effectiveness. The measures should regularly be redefined based on their effectiveness to reach the envisioned impact. Furthermore, in order to help staff to apply the S&E procedures, adequate tools like sectoral guidelines and templates for S&E due diligence or monitoring should be integrated or attached to the S&E procedures. Application of the S&E procedures - in credit appraisal, decision and monitoring - should show that the DFI cannot only describe but also live by its S&E values.

**Building Block 4: Social & Environmental Responsibilities** describe who in the organisation takes over which SEMS responsibility - from board to senior management, middle management and front and back office staff. In addition, it should be clearly articulated which resources are provided for taking on the respective responsibilities (e.g. human, technical, financial). The board and senior management should guide the institution's overall approach towards sustainability, which includes at least commitment to the S&E policy and critical assessment and approval of suggested S&E covenants. In order to be able to bring forth potential strategic change such as shifting envisaged impact or de-risking, the board and senior management need to be knowledgeable about the S&E risks and impacts on a portfolio level. The middle management should coordinate between the guidance of the board as well as senior management and the actual implementation by staff. This is typically done by an S&E coordinator or manager. Specifically, middle management assists loan and credit officers in evaluation and monitoring of clients, updates the procedures and relevant documents and evaluates S&E risks on the portfolio level. On the implementation level, loan and credit officers (and staff from the monitoring unit, if existent) evaluate and monitor clients on an individual level. Depending on the size of the organisation, further roles might exist in internal audit, legal etc. Furthermore, the human resource function is part of S&E responsibilities for ensuring long-term institutional S&E capacity. These responsibilities should include aligning job descriptions and the performance measurement framework with S&E tasks and targets, recruiting qualified staff for positions that have S&E responsibilities, and ensuring implementation of an S&E capacity building strategy.

**Building Block 5: Social & Environmental training** shall raise skills and awareness and enable staff to perform their S&E duties. The actual training should be guided by an S&E training strategy, which again should be integrated into the overall institutional capacity building framework and performance management system. Human resources and the S&E coordinator need to work closely to effectively implement the S&E training strategy. This coordinated approach ensures that training can be offered on a sustainable basis and not as a one off or ad hoc activity.

**Building Block 6: Internal and external Social & Environmental reporting** is crucial for controlling S&E performance, sharing relevant S&E information with the right persons

and making related decisions, achieving transparency, and positioning the institution as a sustainable finance provider.

## 2.2 The Approach to Focussing on Social Risks, Impacts, and Opportunities

Building on the assumption that a SEMS is a management tool to promote and ensure a sustainable development impact of a DFI, each building block of a SEMS should balance environmental and social elements and allow the institution to adequately address them. This study analyses each building block of a SEMS to the extent it exists in principle and incorporates social elements. In practical terms, the study looks at specific social safeguards and how they are integrated into S&E due diligence, whether S&E reporting covers positive social development impacts in a systematic way, or whether specialists with experience in social topics are engaged in S&E assessments, either as staff or consultants, when projects involve resettlement, indigenous peoples, or other socially relevant themes.

Although S&E safeguards and standards of large International Finance Institutions (IFIs) and DFIs are typically based on international law there is no consensus which conventions shall be integrated into a safeguard system and how specifically to design the standards. Although the *safeguards on indigenous peoples* of AfDB, WB and IFC differ - for instance, either acknowledging “Free, Prior and Informed Consent” (FPIC) or only “Consultation”, or addressing indigenous peoples through an entire safeguard or only within the context of social and environmental impact assessments - they are all based on the ILO convention on Indigenous and Tribal Peoples (No. 169; adopted 1989). Generally founded on human rights principles, the *safeguards on involuntary resettlement* of the named institutions tackle in a similar, but not identical manner, physical and economical displacement. Gaps exist, for instance, in the IFC and WB standards which do not cover *temporary* displacement or loss of access to assets or resources. In addition, none cover *voluntary resettlement*, which, despite its voluntary nature, may require safeguard measures against impoverishment and to maximize development benefits (Bugalski and Pred, 2013). *Labour rights and working conditions*, based on the 1989 ILO Declaration on Fundamental Principles and Rights at Work<sup>2</sup>, are differently incorporated by the institutions. Whereas AfDB operational safeguards, as well as the IFC safeguards refer to all of these fundamental labour rights, the WB does not include standards on labour rights and working conditions. Other social safeguards relate to *community engagement, community health and safety, gender*, as well as to *cultural heritage*.

Hence, there is no clear guidance for a DFI, which international laws are to be translated into safeguards. Based on the comparison (see Table 1), IFC performance standards are most comprehensive and can therefore serve as a good basis. However, no matter which S&E safeguard guidelines of an IFI a DFI uses as a basis, they *must* be adjusted to the legal requirements of the location where the DFI operates. Ultimately, the stringent implementation of the S&E safeguard guidelines is crucial: A recent Oxfam report (Oxfam, 2015) accuses IFC for not properly investigating the social and environmental systems of the financial intermediaries it invests in and therefore not managing compliance of its sub-investments. Oxfam makes this claim vis-à-vis a total investment value of USD 36 billion in FIs by IFC as of 2013. The fact that also large IFIs are criticised for not adequately applying their safeguards in practice - next to the described inconsistencies among the safeguards - discloses that existing safeguard and operating systems can only serve as a point of comparison rather than as a role model. Sustainable finance is an emerging field, which is open for improvement and innovation.

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<sup>2</sup> Fundamental Principles and Rights at Work cover the ILO conventions on Freedom of Association and Protection of the Right to Organise and Bargain (No. 87, No. 98); Forced Labour (No. 29, No. 105); Child Labour (No. 138, No. 182); and Equal Remuneration and Discrimination (No. 100, No. 111).

Table 1: Consideration of social safeguard dimensions in WB Safeguards, IFC Performance Standards, and AfDB Operational Safeguards.

	World Bank Safeguard Policies (2016 review and update not considered)	IFC Performance Standards on S&E Sustainability (2012)	AfDB's Integrated Safeguard System. Policy Statement and Operational Safeguards (December 2013)
<b>Related social safeguards</b>	<ul style="list-style-type: none"> <li>✓ Involuntary Resettlement (2001) (4.12)</li> <li>✓ Indigenous Peoples (2005) (4.10)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Labour and Working Conditions (PS2)</li> <li>✓ Community Health, Safety and Security (PS4)</li> <li>✓ Land Acquisition and Involuntary Resettlement (PS5)</li> <li>✓ Indigenous Peoples (PS7)</li> <li>✓ Cultural Heritage (PS8)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Indigenous People tackled in OS1 on Environmental and Social Assessment</li> <li>✓ Cultural heritage tackled in OS1 on Environmental and Social Assessment</li> <li>✓ Community Impacts tackled in OS1 on Environmental and Social Assessment</li> <li>✓ Involuntary resettlement: land acquisition, population displacement and compensation (OS2)</li> <li>✓ Labour conditions, health and safety (OS5)</li> </ul>

## 3 Methodology

### 3.1 Participants

The study was launched by AADFI and the ILO at the Joint CEO Forum in Kuala Lumpur, Malaysia in November 2014. After the launch, the AADFI secretariat sent out individual email invitations to the associations' membership and thirteen DFIs from across Africa signed up to participate. The study analysed the S&E policies and practices of these thirteen DFIs. Table 2 lists the participating institutions and presents a brief overview of their ownership structure, assets, and the priority lending sectors and areas. Apart from 3 DFIs, all other institutions are government-owned. Among the participants, 5 are multilateral DFIs and 8 operate within their national contexts. The priority sectors and areas vary across the institutions and range from agriculture and rural areas to industry, SMEs, infrastructure and the habitat sector, to trade and finance. The participating DFIs constitute 20 % of AADFI's ordinary and special members.

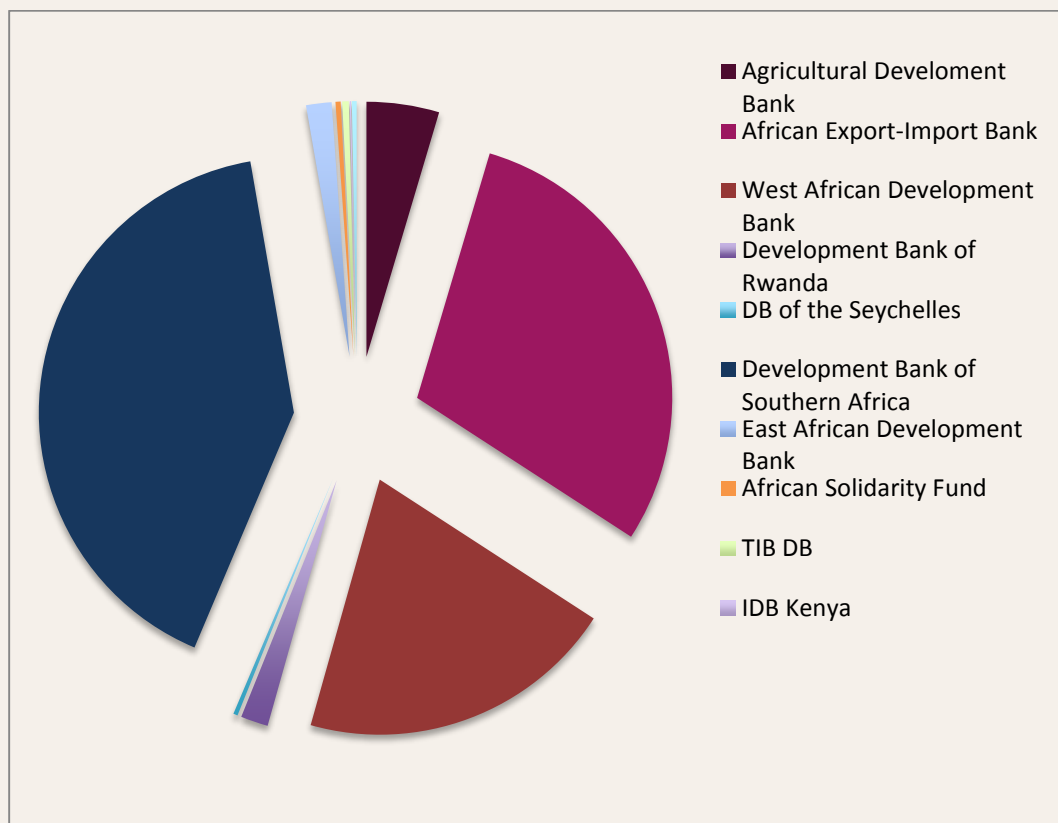
Table 2: Overview of DFIs participating in the study.

Participant	Regional reach: National / Multilateral	Ownership Structure	Total Assets (in USD)	Priority Sectors
Agricultural Development Bank (ADB), Ghana	National	Government	678.2 million (as of 2013)	Agriculture
African Export-Import Bank (Afreximbank), Egypt	Multilateral (serving the whole African continent)	Private company (governmental and non-governmental shareholders)	4.36 billion (as of 2013)	Trade Finance, Project and Export Development Finance
Banque de l'habitat de Côte d'Ivoire	National	Private company	TBC	Habitat Sector
West African Development Bank (BOAD), Togo	Multilateral (serving Western Africa)	Governments	2.98 billion (as of 2013)	Rural Development, Industry and Agro-industry, Infrastructure, Transport
Development Bank of Rwanda (BRD)	National	Public Limited Company	256 million (as of 2013)	Agriculture and Livestock, Industries and Services, Tourism and Hotels
Development Bank of the Seychelles (DBS)	National	Government	40.32 million (as of 2011)	Agriculture, Fisheries, Industry, Tourism and Service
Development Bank of Southern Africa (DBSA), South Africa	Multilateral (Serving Southern Africa)	Governments	6.03 billion (as of 2014)	Infrastructure: water, energy, transport and ICT
East African Development Bank (EADB), Uganda	Multilateral (Serving Eastern Africa)	Governments	237.94 million (as of 2013)	Commercial Banks; Electricity and Water; Agro, Marine and Food Processing; Construction,

Participant	Regional reach: National / Multilateral	Ownership Structure	Total Assets (in USD)	Priority Sectors
				Building, Real Estate; Education, Health and other Community Services
Fonds de Promotion de l'Industrie (FPI), RDC	National	Government	TBC	Industry and SEMs, mainly in the sectors food; construction and building; wood
African Solidarity Fund (FSA), Niger	Multilateral (13 member states from Western, Central, Eastern, and Southern Africa)	Governments	47.98 million (as of 2010)	Basic infrastructure, rural development, agro-industry
IDB Capital Limited, Kenya	National	Government	11.4 million (as of 2013)	Small, medium and large scale industrial enterprises
Kenya Tourist Development Corporation (KTDC), Kenya	National	Government	45 million (as of 2013)	Tourism
TIB Development Bank, Tanzania	National	Government	61.29 million (as of 2010)	Industry, Infrastructure, SMEs, Agriculture

As diverse as the priority sectors is the size of the balance sheets of the participating institutions, as shown in Table 2 and Figure 2. Naturally, the assets of DFIs from small island states or specialised national DFIs are lesser, such as USD 40.32 million in total assets for the Development Bank of the Seychelles, or USD 11.4 million for IDB, Kenya. Total assets of multilateral DFIs, such as the African Export-Import Bank stood at USD 4.36 billion at the end of 2013 and at USD 6.03 billion for the Development Bank of Southern Africa at the end of the first quarter in 2014.

Figure 2: Total assets, compared across DFIs participating in the study.



### 3.2 Method

The analysis is mainly based on a document review. Specifically, the following documents were reviewed: S&E policies, S&E procedures or S&E manuals, descriptions of how S&E responsibilities are embedded in the organisational structure, training materials, tools and documentation of the actual implementation of the SEMs like completed credit appraisals, as well as sustainability sections of annual reports. In addition, outstanding queries were raised in individual written correspondence and telephone interviews during which open survey questions were discussed. The individual inputs substantiate the analysis and allowed to better take into account the specific circumstances of each DFI, perceived challenges and opportunities.

For each institution, the analysis established which building blocks of a SEMs exist and to what extent all relevant elements of each building block, as outlined in chapter 2 of this report, are covered. For this assessment, the following questions lead the analysis:

- How comprehensive, formalised, rigorous, documented, measurable-results orientated, inclusive and easy to implement is the concerned element?
- The analysis paid particular attention to the *social dimension* of the SEMs: how do the management systems consider the assessment and management of social risks and impacts (such as child labour or involuntary resettlement), and to what extent is this ensured by having or involving social experts and by providing training to staff on social risks, impacts, and opportunities?

To analyse each of the six building blocks, we employed a set of indicative questions. Each set of questions was assigned a maximum score.

Table 3 summarises the maximum scores that each SEMs building block could achieve. The maximum score was then weighed with a factor between 0.0 and 1.0 (in steps of one tenth) with 0.0 being the lowest and 1.0 being the highest possible value.

Table 3: Building Blocks of a SEMS.

Building Block of a SEMS	Maximum Scores
1) Social & Environmental Policy	15
2) Social & Environmental Standards	5
3) Social & Environmental Procedures	42
4) Social & Environmental Responsibilities	15
5) Social & Environmental Skills and Training	18
6) Social & Environmental Reporting	5
<b>Total</b>	<b>100</b>

Institutions that did not have any elements of a formal SEMS could reach a maximum of 20 points. In this case, we assessed how comprehensively and rigorously elements of a SEMS are applied *informally* and to what extent the institution commits itself to develop a formal system. Institutions that *described* elements of SEMS building blocks in the S&E policy but that were *not yet implemented* could receive a maximum weight of 0.5 for the related elements.

To compare the current state of SEMS implementation across the different institutions, we clustered the DFIs according to similarity in i) scores reached in each building block and ii) qualitative comments. This approach allowed grouping the institutions along similar opportunities for improvement.

At the end of this methodology section we need to mention that the analysis has certain limitations: First of all, although a substantive number of 13 DFIs (20 % of AADFI’s ordinary and special members) participated in the study, this self-selected sample is still non-representative. Therefore, robust conclusions on the state of the art in the whole industry in Africa may not be drawn. Furthermore, some institutions provided more detail than others, e.g. due to confidentiality restrictions. In addition, we could not look at *all* elements of the SEMS, e.g. at all tools that are being used, neither could we study several examples of how one institution applies its SEMS (e.g. several completed credit appraisals). The examples provided by the institutions were self-selected and hence may represent positive cases and not necessarily the average. Lastly, and most importantly, this analysis is based on desk research and has therefore some inevitable limitations in breadth and depth.



## 4 Survey Results

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### 4.1 Identification of DFI clusters

The analysis identified five clusters that represent different stages of SEMS implementation among DFIs:

- **Cluster “Advanced and balanced SEMS”**  
DFIs with formal and comprehensive SEMS that address social and environmental concerns in a balanced manner;
- **Cluster “Advanced SEMS with bias”**  
DFIs with formal and comprehensive SEMS that are biased towards either social or environmental themes;
- **Cluster “Early stage SEMS”**  
DFIs with formal SEMS with significant room for improvement;
- **Cluster “S&E Policy only”**  
DFIs that have adopted a formal S&E Policy without having a system in place for its implementation;
- **Cluster “No SEMS”**  
DFIs without formal SEMS.

The following paragraphs describe each cluster and indicate the distribution of the participating DFIs across the clusters.

**Cluster “Advanced and balanced SEMS”** includes institutions that have a Social and Environmental Management System which is formal, comprehensive, advanced, and balanced towards social and environmental issues. The majority of building blocks as well as the overall scores of this cluster should reach at least 76% of the maximum scores. 4 of the participating DFIs belong to this cluster. On average, they scored 83.9 out of the maximum 100.

**Cluster “Advanced SEMS with bias”** includes institutions that implemented a formal, comprehensive and advanced Social and Environmental Management System. However, either the environmental or the social dimension is significantly more developed than the assessment and management of the other. The majority of building blocks as well as the overall scores of this cluster obtain between 65% and 75% of the maximum scores. None of the participating institutions belong to this cluster.

**Cluster “Early stage SEMS”** consists of institutions that have a formal Social and Environmental Management System in place. However, the SEMS is significantly less comprehensive and fine-tuned than in the previous clusters. In general, this cluster may or may not have a bias towards either social or environmental themes. The majority of building blocks and the overall scores of this cluster receive between 50% and 64%. We found 2 institutions in this cluster that scored, on average, 57.3 out of 100. One of the institutions had a balanced SEMS; one was biased towards environmental concerns.

**Cluster “S&E Policy only”** includes institutions that have an S&E Policy but lack a *formal* system to implement the policy. As in the previous clusters, this cluster may or may not have a bias towards either social or environmental themes. The majority of the building blocks and the overall score of these institutions receive between 21% and 49% of the maximum scores. 4 institutions belong to this cluster. On average, they scored 33.3 out of 100. Two of these institutions were equally addressing social and environmental issues; two were mainly focused on environmental concerns.

**Cluster “No SEMS”** is comprised of DFIs that have no formal Social and Environmental Management System in place. These DFIs can obtain a maximum score of 20 out of 100. 3 of the participating institutions belong to this cluster. On average, the institutions scored 4.6. Despite the low score, the DFIs in this cluster do have a number of the

informal SEMS elements in place and they confirmed their commitment to develop a formal SEMS in the future.

Table 4 summarises the classification of clusters as well as the distribution of participating DFIs across the clusters and indicates the average scores that the DFIs reached.

Table 4: Clusters of DFIs presenting stage of SEMS implementation.

Cluster	Description	Range of Scores	# DFIs	Average Score
Advanced and balanced SEMS	Social and Environmental Management System which is formal, comprehensive, advanced, and balanced towards social and environmental issues	76 - 100	4	84.3
Advanced SEMS with bias	Advanced, formal Social and Environmental System with a bias towards social or environmental concerns	65 - 75	0	-
Early stage SEMS	Less advanced, though formal Social and Environmental System, significant opportunities for improvement in Social & Environmental dimension	50 - 64	2	57.3
S&E Policy only	S&E Policy, without having installed a formal system to implement the policy	21 - 49	4	33.3
No SEMS	No formal Social and Environmental System (neither policy, nor procedures)	0 - 20	3	4.6

The subsequent sections present the analytic results for the four clusters to which DFIs from Africa could be assigned:

- Cluster “Advanced and balanced SEMS”,
- Cluster “Early stage SEMS”,
- Cluster “S&E Policy only”, and
- Cluster “No SEMS”.

At first, the level of implementation of each SEMS building block is described and, where applicable, additional noteworthy developments are highlighted. Then, the challenges encountered in SEMS development and implementation are summarised per cluster.

### 4.2 Cluster “Advanced and balanced SEMS”

Four of the participating DFIs fall in this cluster, which is characterised by having an advanced SEMS, which mostly equally addresses social and environmental themes. At times, certain building blocks were biased towards one dimension. On average, the four institutions score on the higher end of the demarcation lines of this cluster (range between 76%-100%) in four out of the six SEMS building blocks. With 74.7, the building block “S&E Responsibility” scored just below the acceptable range; the “low” score mainly traces back to a lack of integration of S&E responsibility assignment within the general HR function. Only one building block, “S&E Reporting”, scored significantly lower with 69.5 %. Table 5 summarises the average results of the DFIs in this cluster<sup>3</sup>.

<sup>3</sup> One of the “Advanced and balanced SEMS” institutions could not submit documents reflecting in detail the institutional SEMS for confidentiality reasons. However, it did submit Social and Environmental Safeguard Standards, which it has compiled specifically for one credit line. These were nonetheless taken into consideration in the analysis. However, the document did not provide any information regarding S&E responsibilities and S&E training. In order to allow sharing the described practices in the safeguards, an auxiliary factor was constructed for these two building blocks. Due to the high scores, which the institution received otherwise, a factor below its own average factor, but above the 76% required to belong to this cluster, was chosen for these two building blocks.

Table 5: Average scores per SEMs building block of DFI cluster “Advanced and balanced SEMs”.

Building Block	Maximum scores	Average score	Average score in %
<b>Total</b>	100	<b>84.3</b>	<b>84.3</b>
<b>S&amp;E Policy</b>	15	<b>14</b>	<b>93.3</b>
<b>S&amp;E Standards</b>	5	<b>4.6</b>	<b>92.5</b>
<b>S&amp;E Procedures</b>	42	<b>35.9</b>	<b>85.5</b>
<b>S&amp;E Responsibility</b>	15	<b>11.2</b>	<b>74.7</b>
<b>S&amp;E Skills and Training</b>	18	<b>15.1</b>	<b>83.9</b>
<b>S&amp;E Reporting</b>	5	<b>3.5</b>	<b>69.5</b>

The following paragraphs provide the detailed analytical results per SEMs building block.

### *Building Block 1: S&E Policy*

The institutions in the cluster “Advanced and balanced SEMs” show a clear commitment to sustainable development, justify their commitment and overall have an inclusive and comprehensive S&E policy that is periodically reviewed. In the following, distinctive elements of the policies, as well as the social topics cover by them and opportunities for improvement are discussed.

The S&E policies of the institutions in this cluster have various distinct elements, which set them apart from DFIs in other clusters. These elements comprise a recent review and significant adjustment of the S&E policy, a 5-year strategy laying out how to better address specific social and environmental risks and impacts by including climate finance or focusing on increasing skills and capacities in-house, and an extensive background section discussing in detail the national legislative and regulatory framework comprising a “gap analysis” between international standards and the national framework.

Environmental and social themes are equally addressed in the policies of this cluster. Social issues included: involuntary resettlement, community impacts, labour rights and working conditions, cultural heritage and impacts on vulnerable groups due to gender, economic status, ethnicity, religion, cultural behaviour, sexual orientation, language, or health conditions.

Nonetheless, some opportunities for improvement exist. One institution, for instance, referred inconsistently to social issues. Whereas it committed to conform to IFC performance standards, it did not cover all social topics of the IFC standards in the policy. Furthermore, only one institution of this cluster referenced consistently and formally the free, prior, and informed consent principle for engaging with affected communities while two DFIs committed to consultation instead of consent. One DFI committed to adapt to the specific S&E requirements requested by institutions providing credit lines.

### *Building Block 2: S&E Standards*

The DFIs of the cluster “Advanced and balanced SEMs” orient their S&E safeguards towards international standards like those from AfDB or IFC. The national DBs adapt them to their national contexts. The multilateral DBs articulate the need for compliance with local environmental, health, safety, labour, and other social law. Only one DFI did not reference one particular set of safeguards but adjusted to the specific S&E requirements of the providers of each credit line. This strategy may cause additional challenges for staff in implementing the S&E procedures. In addition, new investors or shareholders might find it difficult to review the bank’s S&E standards. The following paragraphs present the S&E standards of one national and of one multilateral DB.

**Example 1 - National DB:** the S&E standards discuss in detail the national legislative and regulatory framework. Furthermore, the bank committed to adhere to IFC / MIGA standards and conducted an analysis in order to identify the gaps between national and international law. The standards point out that the national regulatory requirements were stronger in addressing environmental than social topics. This resulted in the bank specifically requiring a “Social and Health Impact Assessment” for high and medium risk projects in addition to the “Environmental Impact Assessment” that is required by the national regulator.

**Example 2 - Multilateral DB:** the bank’s institutional safeguards are detailed and cover all relevant social themes. These themes are included in the safeguards “Environmental and Social Impact Assessment”, “Involuntary Resettlement”, “Community Stakeholders and Vulnerable Groups”, and “Physical and Cultural Resources”. Furthermore, the bank commits to comply with specific local legislation and intends to support and strengthen existing country systems for environment, climate, and social risk management.

### *Building Block 3: S&E Procedures*

The S&E procedures and the supporting tools of the DFIs in this cluster were advanced, comprehensive, mainly balanced, and fine-tuned, and consequently resulted in detailed SEMS applications. However, not all DFIs attached the tools to their SEMS manuals. Only at times, S&E risks were taken into account when pricing loans, for example, by including S&E risks in an Enterprise Risk Management Framework. In the following, some examples of these procedures and supporting tools are presented:

- **Categorisation:** 3 out of the 4 institutions categorised projects as high risk / medium risk / low risk / financial intermediary projects. Only one DFI did not have a unique category for financial intermediaries, and thus may risk inadequate S&E assessment and management of sub-loans. Categorisation tools used were straightforward, easy to apply and comprehensive concerning the contents. One DFI had a categorisation tool, which can be used with an easy key word search, suggests related categories and furthermore provides the relevant sectoral S&E guidelines. Another DFI employed an Excel tool in which the sector / number of employees / product / situation concerning indigenous peoples / percentage of groups at risk of the workforce (migrants, women, disabled, minors) / management of social issues in the value chains, etc. need to be filled in, in order to let the tool suggest the according risk category.
- **S&E assessment:** S&E due diligence may include interviews, community meetings and focus group discussions when visiting the project sites. One DFI provided staff with internal verification lists (issues to enquire, documents to request) that need to be fully completed. Learning from a lack of consideration of social risks in the past and given that social risk assessment was a new area for the bank, one DFI urged staff to use the sectoral *social* risk guidelines. Another institution implements Social and Health Impact Assessments in addition to the required Environmental Impact Assessments. Furthermore, one DFI provided specific guidelines to staff to review externally conducted Environmental and Social Impact Assessments (ESIAs). However, the analysis also identified gaps. For example, some generic tools were in use that had not been adjusted to the regional or national context like EBRD sectoral guidelines.
- **Mitigation / Management:** The “Advanced and balanced SEMS” DFIs requested S&E action plans from project owners. S&E action plans were to include mitigation measures, training plans, monitoring and reporting items and needed to provide a timeline for implementation and reporting milestones. Some DFIs provided templates for plans or special policies on resettlements, as well as for mitigating and managing impacts on indigenous peoples.
- **Monitoring / Impact Measurement:** The DFIs monitor the social and environmental impact, as well as the implementation and effectiveness of the mitigation measures

for medium and high risk projects. However, one DFI had only light requirements for medium risk projects, by means of annual declarations of conformity. The DFIs use templates and tools (e.g. data collection tools, outcome and performance tools) in order to track and measure impact. However, the analysis found gaps in some of these tools: at times, they focussed on measuring environmental and climate impact (soil degradation, air and water pollution, CO2 emissions, etc.) whereas social impact was only broadly measured (number of jobs created).

#### **Building Block 4: S&E Roles and Responsibilities**

The DFIs of the cluster “Advanced and balanced SEMS” assign responsibility on board, senior management, middle management, and operational level.

Usually, the *board* assumed overall responsibility for the SEMS implementation. However, only in one institution the risk committee was specifically designated to be responsible for S&E topics. Senior management (e.g. in the risk or operations departments) was responsible for having an overall understanding of the S&E risks in the portfolio by conducting regular quality checks and assessments of the bank’s portfolio and reporting the results to the board. Senior management was also responsible for resource allocation. Mainly middle management - usually SEMS coordinators - were to supervise, guide and update the DFI’s S&E policies and track changes in the applicable regulatory framework. The SEMS coordinator was also expected to supervise and assist investment or relationship officers in S&E assessments and management of projects. The S&E coordinator also served as a focal point for information on good S&E practices. Investment analysts or officers were responsible for individual project appraisals. In most DFIs, S&E responsibilities were also mainstreamed in the monitoring, legal or internal audit units. One DFI had an entire department on social, environmental and climate issues - including positions in senior and middle management, and at operational level that collaborate with financial analysts. However, such an approach may only be feasible for large DFIs. Alternative arrangements can be equally effective.

However, in most of the institutions S&E staffing was not embedded in the overall HR function in terms of tracking staff participation in S&E training. S&E performance, though, was included in staff appraisals for SEMS coordinators but not for other positions.

#### **Building Block 5: S&E Skills and Training**

The analysis found two strategies that the DFIs employed in order to build and develop the S&E skills of staff: i) DFIs have a social and environmental department, for which they specifically hire S&E experts, and ii) DFIs hire an S&E specialist as SEMS coordinator, and facilitate additional access to or provide training for other staff.

Strategy i): The S&E experts hired for the S&E department had, for instance, post-graduate education in environmental science, sustainable development, or related subjects. Furthermore, the bank developed a training strategy to top up staff expertise in climate change finance, since this was declared to be the main pillar of the new S&E strategy. Training was included in the overall staff capacity development plan. Besides, further training and awareness raising programmes were planned in order to allow staff to internalise and implement the new strategy.

Strategy ii): The DFIs, not having a separate S&E department, hired S&E specialists as SEMS coordinators and facilitated access to further training. We observed the tendency to hire S&E specialists with a stronger background concerning environmental matters (e.g. education as an environmental scientist and past experience as an environmental and clean development manager). In addition, the externally provided training tended to focus on environmental and climate issues (e.g. climate change or cleaner production). However, one SEMS coordinator had also received technical training on land acquisition, resettlement and rehabilitation earlier in his carrier. For other “non-S&E” staff, the banks provided introductory training on the SEMS and S&E procedures. However, this

training was not always fully implemented and was ad hoc training in one DFI. This DFI mentioned that further continuous and intense training was needed.

**Building Block 6: S&E Reporting**

3 out of the 4 DFIs in the cluster “Advanced and balanced SEMS” report on their social and environmental impact and on the level of implementation of their SEMS. However, they do so with different regularity. One DFI was developing a reporting strategy with a consultant and planned to report along GRI4 guidelines that allow comparing an institution’s sustainability approach with other institutions in a standardized way.

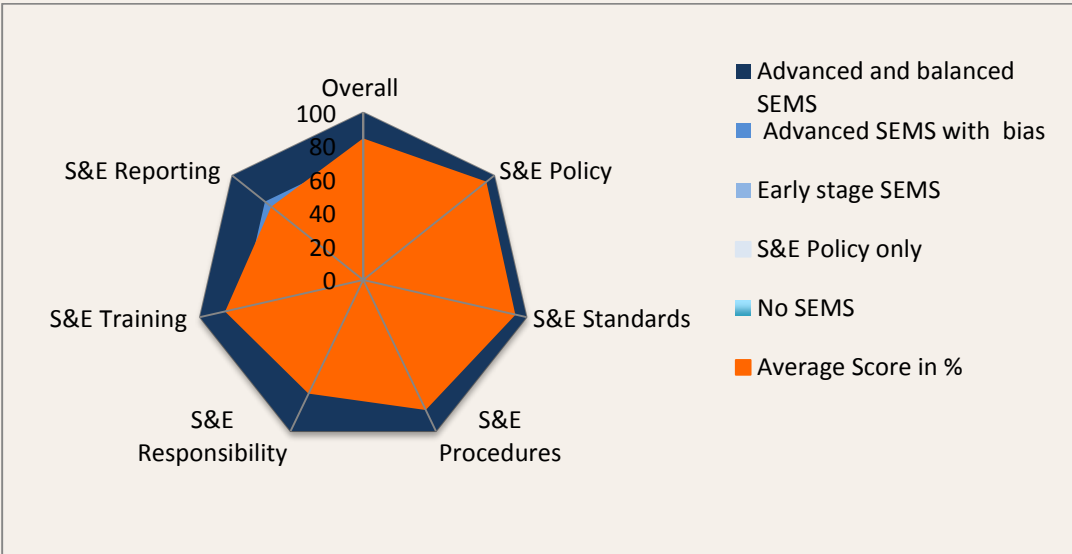
The DFIs reported on social and environmental risks, impacts, and opportunities. In terms of *risks*, the DFIs reported on the risk categories of new projects, Social and Environmental Assessments conducted, high-risk projects financed and SEMS implementation at clients. Reporting of *impacts* took place through publishing the results of S&E monitoring of existing projects, socio-economic impact studies, and quantifying impacts such as creation of jobs (permanent, temporary, female, male) or GHG emissions. Naturally for DFIs, social, environmental and development opportunities were consistently reported on by describing the amount of financing for high impact and priority sectors such as promotion of exportations, climate finance, financing to increase access to drinking water, sustainable agriculture or the management of specialised funds to increase job creation or greening the economy.

The DFIs had mechanisms for internal S&E reporting to senior management and to the board, in order to allow them to understand the S&E risks and impacts at portfolio level and therefore enable them to make informed decisions.

The comparatively low points of this building block are due to the fact that one institution did not report on S&E issues as of yet; that only one institution published the results of rigorous impact studies and that, in general, S&E performance including impact could have been more fine-grained and quantified.

Figure 3 graphically shows the main findings for DFIs in the cluster “Advanced and balanced SEMS”. The blue areas of the spider graphic illustrate the range of scores that define each DFI cluster. The orange area shows how the DFIs in this cluster actually scored.

Figure 3: Average scores of DFIs reached, in per cent, per SEMS building block in cluster “Advanced and balanced SEMS”.



### Challenges of DFIs in cluster “Advanced and balanced SEMS”

The challenges faced by the DFIs of the cluster “Advanced and balanced SEMS” relate mostly to the need for *capacity building*. One DFI that relied on external partners for the provision of training articulated the need for a training strategy including intense and continuous rather than ad hoc training. Past training was also perceived as not specific enough to the processes and context of this DFI. Capacity building needs referred to staff in need of internalising the bank’s provisions towards social and environmental management and to understanding and addressing the distinctive social and environmental issues within various sectors. Due to the recognition that social risks and impacts received less attention in the past, one DFI exchanges knowledge with S&E officers from AfDB, through meetings and trainings, to develop the bank’s capacity for social risk assessment and management. However, this exchange is not a formal and established training programme. Lastly, DFIs faced difficulties in finding adequate expertise for analysing environmental risks and impacts.

Next to staff and external expert capacity, the urgency to *strengthen clients’ awareness* of social and environmental themes was raised. Furthermore, additional *costs* for clients due to implementing social and environmental management plans were perceived as challenging.

The DFIs of this cluster aimed to *develop their social and environmental management systems*, for instance, by further developing tools and ensuring the adequate use of the *tools*. One DFI newly integrated a *climate* component and needed to adjust all building blocks accordingly with a particular focus on capacity building.

Furthermore, *regulators* were criticised for poorly enforcing S&E laws and it was claimed that current legislation and regulation would pay more attention towards environmental than social issues.

Lastly, one DFI aimed to strengthen *cooperation with specialised institutions* and to help develop institutional collaborative systems across the region to manage common S&E challenges. This ambition was built on the conviction that regional leadership on social and environmental issues was weak and that existing initiatives were inappropriately institutionally anchored.

### 4.3 Cluster “Early stage SEMS”

DFIs in the cluster “Early stage SEMS” are characterised by having a formal social and environmental management system. The SEMS building blocks, however, have significant room for improvement in terms of assessing S&E risks, impacts, and opportunities in more detail and more comprehensively.

This cluster is composed of 2 DFIs. Whereas these 2 DFIs had advanced S&E policies, full implementation of other SEMS elements lagged behind. One bank was committed to develop its system and already had an action plan for strengthening the SEMS. The other DFI mentioned a lack of responsibility at the senior management level as hindrance for fully implementing the S&E policy. Also, one DFI had a socially and environmentally balanced system, while the other one was biased towards environmental considerations.

Most of the SEMS building blocks of this cluster score between 50% and 64%, namely “S&E Standards”, “S&E Procedures”, and “S&E Training”. Two of the building blocks, however, score below 50%, namely “S&E Responsibility” and “S&E training”. The S&E policy would fall in the higher rated cluster “Advanced SEMS with bias”. Given the overall score of 57.3 and the fact that the majority of the building blocks of each institution qualify for cluster “Early stage SEMS”, we assigned the two institutions to this cluster. Table 6 summarises the scores of the DFIs in this cluster.

Table 6: Average scores per SEMs building block of DFI cluster “Early stage SEMs”.

Building Block	Maximum scores	Average score	Average score in %
Total	100	57.3	57.3
S&E Policy	15	11	73.7
S&E Standards	5	2.8	56
S&E Procedures	42	25.5	60.7
S&E Responsibility	15	6.5	43.3
S&E Skills and Training	18	9.6	53.3
S&E Reporting	5	1.9	38

The following paragraphs provide detailed analytical results per SEMs building block.

### Building Block 1: S&E Policy

Through their S&E policies, the DFIs in this cluster formally committed to sustainable development and gave reasons for this commitment. One DFI stressed in its S&E policy that sustainability should not only consider risks but also opportunities, and therefore aimed to promote projects which favour cleaner technologies and renewable resources, waste reduction, resource recovery and recycling. However, these examples show that opportunities were sought in environmental protection and not equally in social progress like promoting women entrepreneurship. This DFI was also inconsistent to some extent when mainstreaming social issues. Whereas the policy referred to health and safety, poverty reduction, welfare of communities and key human rights, the procedures included mainly resettlement, gender, youth, cultural heritage and community participation. This inconsistency reappeared in terms of community engagement: whereas one of the DFIs did adhere to community *consultation* on a case-by-case basis, this practice is not formally recognised in the policy. The other DFI did formally include adhering to community *consent*.

### Building Block 2: S&E Standards

The two DFIs sought to conform to relevant national environmental and social legislation and regulation, as well as to international treaties and conventions and international practices, such as AfDB safeguards or IFC performance standards. However, the analysis identified three issues with room for improvement:

1. The DFIs did not provide *details* of their understanding of relevant environmental and social legislation and regulation. For one DFI, this was generally the case, and for the other only regarding social topics.
2. Related to 1), one DFI had an *environmental bias* since it did refer to specific environmental acts and regulations but not to social ones such as labour rights in the constitution, an Employment Act or a Trade Union Act.
3. The referenced international standards were neither described nor discussed in detail, nor put into national or regional context.

The cluster “Advanced and balanced SEMs” previously described, provides examples how these three gaps can be addressed.

### Building Block 3: S&E Procedures

The procedures of the cluster “Early stage SEMs” covered the whole lending cycle including categorisation, assessment, mitigation, and monitoring. One institution relied on the support of co-financing partners or external consultants. The analysis identified three main issues that characterise the procedures and define opportunities for improvement. Whereby not all observations are valid for both institutions in their



entirety, they may describe typical challenges for DFIs being at this stage of SEMS development:

1. *Scope*: Whereas assessment and monitoring took place for medium and high risk projects, one DFI had only light assessment requirements for medium risk project of filling a short internal checklist. This procedure hampered subsequent monitoring possibilities. Furthermore, this DFI had no unique category for financial intermediaries thereby putting adequate S&E management of sub-loans at risk. This DFI had to rely on external support for S&E assessment and management due to a lack of internal capacity. The DFI identified this as problematic for monitoring projects, since frequent monitoring could not be done. In addition, low risk projects were not considered for S&E assessment beyond the initial categorisation step.
2. *Consistency*: Early stage S&E procedures may be inconsistent and only to some extent fine-tuned. For instance, one DFI structured the S&E section of its appraisal reports only along an environmental, and a social category. Without further elaborating the specific social and environmental safeguards, the work of staff is made more difficult and bears risks of omissions and mistakes. Another example is that safeguards were incompletely included in templates. For instance, a template Environmental and Social Management Plan did address occupational health and safety issues. However, no other labour and working condition requirements (such as minimum wage, human resource policy requirements, etc.). Generally, the number of tools used by the participating DFIs in the cluster could be increased to ensure sound application of S&E procedures.
3. *Bias*: One DFI extensively collaborated with the relevant environmental regulatory agency as the main government actor to address social and environmental risks and impacts of financial institutions. In this case, the regulator categorised the banks' projects. If the DFIs do not provide for additionally addressing social risks and impacts, such set-up may carry the risk of lagging behind in achieving desirable social impacts.

#### **Building Block 4: S&E Roles and Responsibilities**

Given the different institutional circumstances, the two institutions chose different S&E staffing strategies to manage social and environmental concerns. One institution mainly relied on an Environmental and Social Management (ESM) Committee. The other DFI aimed to establish two main S&E positions comprised of a senior officer and an environmentalist.

Strategy i): The ESM committee was responsible for the implementation of the SEMS and consisted of staff from the legal, compliance, and business development departments. They were tasked to regularly update the *board* on the implementation of the S&E policy. Furthermore, the DFI had a designated ESM officer, who had not yet taken over this responsibility fulltime. The DFI said that this strategy was sufficient given the little exposure to S&E risks at that point in time and would be changed if need arose.

Strategy ii): The S&E policy outlined the establishment of a senior position with overall responsibility for S&E topics, including managing, reviewing, preparing annual performance reports, and an environmentalist position. Only the latter, tasked to ensure ad hoc management and direct liaisons with clients and the environmental regulatory agency among others, was actually filled. This officer, however, had extensive duties and lacked authority to effectively bring forward implementation of the SEMS as it was planned.

Both institutions did not mainstream S&E staffing and training in the HR function. In one DFI, though, S&E training was organised by HR on an ad hoc basis, and the other DFI planned to further engage HR in S&E training plans.

### Building Block 5: S&E Skills and Training

Also the S&E training strategies varied significantly. One DFI facilitated access to externally provided training for the ESM committee members, however, *not yet* for other operational staff. The training provided an introduction to the main elements of a SEMS and more detail for certain S&E procedures (categorisation, assessment, client compliance, legal documentation) as well as for client engagement. The bank planned to facilitate access to further externally provided, perhaps tailor-made, training.

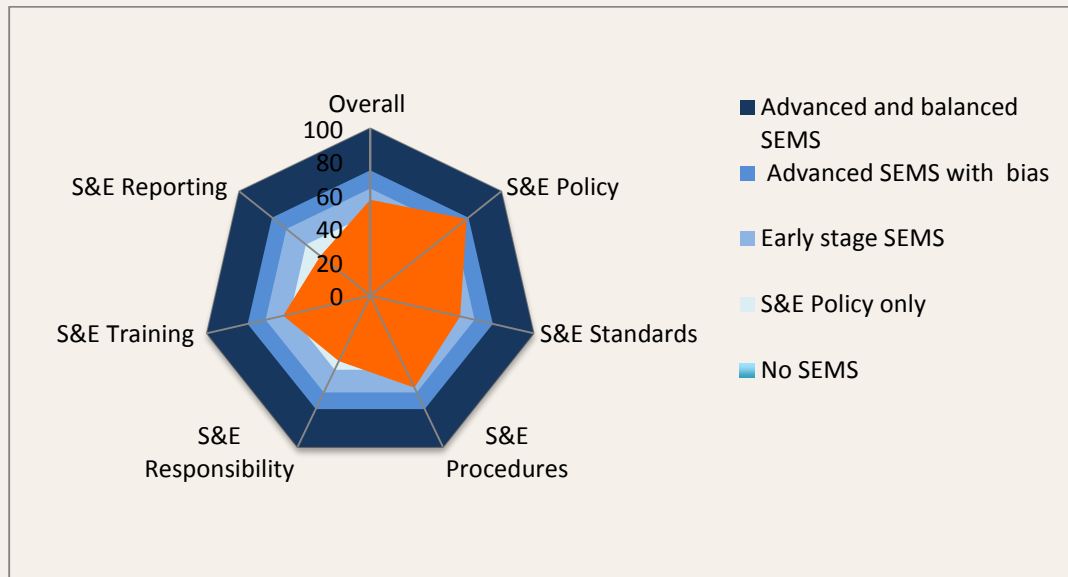
Relationship managers, credit analysts and the environmental officer of the other DFI were provided with training by the consultant who developed the SEMS. This one-off training introduced the reasoning behind, as well as the main elements of the S&E policy and procedures, including the policies on public consultation and resettlement. Although planned, training for senior management was not implemented.

### Building Block 6: S&E Reporting

Regarding *internal management reporting*, the DFIs had established reporting lines to senior management and the board. *External reporting*, though, lagged behind. While some external reporting of socio-economic development impact like support of specific economic sectors or of export diversification existed, the institutions of the cluster “Early stage SEMS” did not report on the level of implementation of the SEMS or on social and environmental performance in their annual reports.

Figure 4 graphically shows the main findings for the DFIs in cluster “Early stage SEMS”. The blue areas of the spider graphic illustrate the range of scores that define each DFI cluster. The orange range shows how the DFI in the cluster “Early stage SEMS” actually scored.

Figure 4: Average scores of DFIs reached, in per cent, per SEMS building block in cluster “Early stage SEMS”.



### Challenges of the DFIs in the cluster “Early stage SEMS”

Unfortunately, we can only report about S&E management challenges faced by one DFI. This DFI relied on co-financing partners and consultants. Because only few S&E risks were assumed to exist in the portfolio, the bank managed without extensive internal capacity. Although the bank perceived this strategy as generally sufficient, it caused problems in terms of *monitoring*. External experts were hired for an annual portfolio review and the bank checked for validity of approval certificates. However, quarterly monitoring could

not be accomplished. Since this DFI already has a balanced early stage SEMS, it did not face particular challenges in terms of further addressing social concerns.

The bank was committed to strengthen its system and already had an action plan to further implement the S&E policy and considered additional, perhaps tailor-made, S&E training.

#### 4.4 Cluster “S&E Policy only”

Four of the participating DFIs fall in this cluster, which is characterised by having adopted or developed an S&E policy, without having a *formal* system to implement the policy. However, the DFIs have, to a greater or lesser extent, implemented *selective* elements of the SEMS building blocks, without having necessarily documented these steps.

All SEMS building blocks of this cluster score, on average, between 20% and 50%. The S&E policies score at the upper demarcation line of this cluster with 49.8%. On the one hand, this is by definition the case in cluster “S&E Policy only”. On the other hand, however, this shows that the policies of this cluster still have room for improvement in comparison to other clusters. On the other end of the cluster demarcation line we find the scores for building block 4, 5, and 6 that have the highest potential for improvement. Table 7 summarises the scores of the four DFIs in this cluster.

Table 7: Average scores per SEMS building block of DFI cluster “S&E Policy only”.

Building Block	Maximum scores	Average score	Average score in %
<b>Total</b>	100	<b>33.3</b>	<b>33.3</b>
<b>S&amp;E Policy</b>	15	<b>7.5</b>	<b>49.8</b>
<b>S&amp;E Standards</b>	5	<b>2.1</b>	<b>42.5</b>
<b>S&amp;E Procedures</b>	42	<b>14.7</b>	<b>34.9</b>
<b>S&amp;E Responsibility</b>	15	<b>4.1</b>	<b>27.2</b>
<b>S&amp;E Skills and Training</b>	18	<b>3.7</b>	<b>20.8</b>
<b>S&amp;E Reporting</b>	5	<b>1.2</b>	<b>30.6</b>

The following paragraphs provide detailed analytical results per SEMS building block.

##### Building Block 1: S&E Policy

The S&E policies of this cluster articulated commitments to sustainable development and gave reasons for the commitments. However, at times, the S&E policy was very brief or remained on a general level, which is problematic given that the policies were not substantiated by other documents. Two DFIs did only have an *Environmental* Policy which was in line with the regulatory requirements. In some cases, social issues like tackling community impacts or participation of affected communities was outsourced into CSR policies. Given that CSR policies do not ensure legal compliance of lending activities, this is an important decision, which can have dramatic and extensive impacts as argued in the introduction of this report.

At times, DFIs in this cluster aimed to address not only S&E risks, but also opportunities. These were mainly related to supporting clients’ environmental impact but also to creating employment. However, while the social mission lies at the heart of DFIs as discussed earlier, S&E opportunities, though they exist, were not at length discussed in the S&E policy.

### Building Block 2: S&E Standards

The DFIs in the cluster “S&E Policy only” largely committed to comply with national legislation and regulation. One also committed to comply with international standards, namely IFC performance standards and World Bank Group Environmental, Health and Safety Guidelines - though, without discussing or linking them to national requirements. Furthermore, when the national legislation was referred, it had a strong environmental focus by mainly stating the National Environmental Act. If social legislation was mentioned, only selective laws were stated, namely the Occupational Safety and Health Act. One DFI also articulated to support governmental and international initiatives on sustainable development.

### Building Block 3: S&E Procedures

Where they informally existed or where they were at least part of a sound action plan, the S&E procedures of the DFIs in this cluster comprised, to different extents, some of the following elements: exclusion list, S&E risk and impact assessment during credit appraisal, requirements for Environmental Impact Assessment and Environmental and Social Management Plan, S&E loan covenants, and S&E performance monitoring. One institution had installed a threshold and only considered loan requests exceeding USD 85,200 for S&E categorisation and assessment. At times, S&E risks were taken into account in the credit risk framework and pricing policy.

However, none of the DFIs had a *manual* that described these procedures. At times, some were included in the S&E policy. Furthermore, there was a tendency towards considering environmental topics originating from the described bias in the S&E safeguards. For instance, one assessment checklist was based on the national Environment Act. If addressed at all, social issues were mainly related to employment creation and socio-economic development impacts. One credit appraisal, for instance, was structured along the categories “Environmental Impact Assessment” and “Economic Impact” with the latter recording some socio-economic impacts. In addition, the templates and applications did not allow for much detail.

### Building Block 4: S&E Roles and Responsibilities

The DFIs in this cluster had several strategies to assign S&E responsibility to staff, without having a formal S&E staffing strategy (yet). In one case, a task force consisting of four staff members was responsible for the preparation and implementation of the S&E policy and the Head of the Portfolio Management Division was assigned as S&E coordinator. However, these responsibilities were not yet aligned with the job descriptions. In other DFIs, the Personal Assistant to the Managing Director was assigned to be the focal point for S&E issues, or generally the credit or operations department were responsible for S&E issues in operational matters. Hence, the strategies for assigning S&E responsibility varied from senior management to operational level.

The DFI with an S&E action plan in place intended to make appraisal officers responsible for screening, categorising and appraising projects and S&E account officers for monitoring, evaluating and reporting during the implementation of projects. Annual portfolio management reports were planned to inform the board about S&E issues and enable board members to oversee the implementation of the S&E policy.

### Building Block 5: S&E Skills and Training

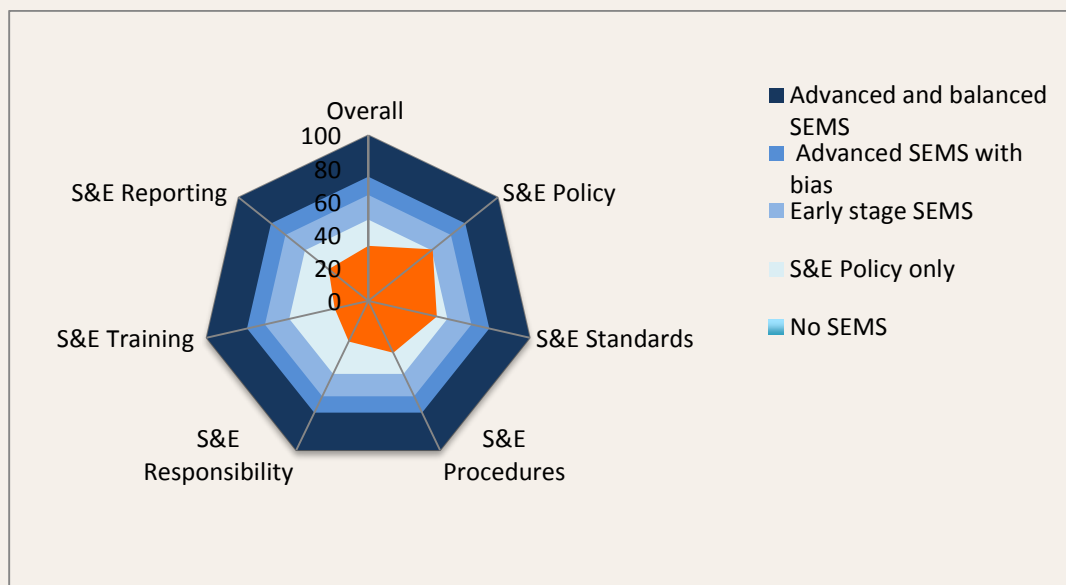
Only two of the four DFIs had some form of S&E training. In these cases, access to external training provided by governmental agencies, consultants, or other DFIs was facilitated by the banks. This training had a strong focus on environmental topics. One DFI described the environmental focus as problematic, because the bank does not feel capacitated to neither conduct social risk assessments - which it plans to do - nor to manage these risks.

### Building Block 6: S&E Reporting

None of the DFIs reported S&E performance to the public. However, some reported about the implementation of the S&E policy in annual reports. One DFI needed to report quarterly to the governmental environmental authority about the progress towards implementing the national regulatory requirements on compliance. Furthermore, one DFI planned quarterly internal reporting on accidents and S&E incidents, high risk projects, and S&E performance from senior management to the board. The DFI also intended to include a section on sustainability in the annual report, as well as to conduct impact studies on the effectiveness of the SEMS.

Figure 5 graphically shows the main findings for the DFI in cluster “S&E Policy only”. The blue areas of the spider graphic illustrate the range of scores that define each DFI cluster. The orange area shows how the DFIs in the cluster “S&E Policy only” actually scored.

Figure 5: Average scores of DFIs reached, in per cent, per SEMS building block in cluster “S&E Policy only”.



### Challenges of the DFI in the cluster “S&E Policy only”

The DFIs of the cluster “S&E Policy only” mentioned to face challenges in technically developing and implementing a *system* to manage social and environmental issues, getting access to financial support to develop and implement monitoring and evaluation tools including impact studies, building capacity and increase sensitivity to address social and environmental risks and impacts of own staff and of clients, and managing the financing needs of clients to implement the S&E requirements. The DFIs also raise concerns regarding the regulators who were perceived as not adequately enforcing social and environmental compliance like not following-up on the validity of S&E certificates.

### 4.5 Cluster “No SEMS”

Institutions in the cluster “No SEMS” did not have a *formal* social and environmental management system, including formal S&E policies or procedures. In our sample, three of the thirteen DFIs belong to this cluster. On average, they scored 4.6 out of 100. While the three institutions did not have a formal system, the analysis identified a number of *informal* SEMS elements that existed in all three institutions. The informal elements relate mainly to building block 1, 3 and 5 and are described below.

### *Building Block 1: S&E Policy*

One institution of the cluster “No SEMS” aimed to provide finance with a social purpose and for low-income households. Therefore, the bank did take into consideration social issues and income indicators when analysing credit requests and would potentially provide preferential access to credit for the defined target group.

### *Building Block 3: S&E Procedures*

The DFIs in cluster “No SEMS” did address certain social and environmental themes in their credit appraisals, however, not in a consistent or comprehensive way.

The institutions set ad hoc requirements, like ensuring the necessary approvals from relevant ministries like the Ministry of Land Use, Ministry of Health, or Ministry of Environment, to conform to regulations. Another ad hoc requirement was requesting feasibility studies to include an economic and social justification like considering impacts on skills development, job creation or environmental impacts; however, without requiring legal S&E compliance. Only one DFI actually conducted site visits before and during project implementation, which included an S&E assessment to the degree just described.

In one of the three DFIs, the related S&E documentation was filed and included in credit appraisal reports. In addition, an S&E section existed in the loan agreements.

### *Building Block 5: S&E Skills and Training*

Although none of the DFIs had central contact points for S&E issues and staff received no training, one DFI mentioned to work in close collaboration with relevant ministries and agencies to clarify any doubts regarding social and environmental regulatory compliance issues. Such collaboration was happening on an ad hoc basis when needed.

### **Noteworthy addition: Commitment to develop a formal SEMS**

The institutions in this cluster expressed their interest to develop a more structured and consistent approach towards social and environmental management. However, no institution had yet made concrete steps like developing an action plan, including a timeframe and the assignment of clear responsibilities.

### **Challenges of DFIs in the cluster “No SEMS”**

For the DFIs in this cluster, the challenge was to develop a structured management approach towards social and environmental issues in the context of non-existing internal capacity. This study was seen as a starting point to elaborate plans on developing a SEMS, to increase knowledge and enhance capacity about social and environmental management systems. The DFIs mentioned their need for external support to develop systems, and specifically called for assistance to establish procedures and tools.

## 5 Conclusions and Way Forward

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### 5.1 Conclusions

This study was founded on the observation of the ILO and AADFI that recent developments in sustainable finance - in particular the implementation of Social and Environmental Management Systems - were characterised by a stronger focus on environmental elements, while social topics received less attention. In addition, the two organisations were convinced that DFIs need to balance both dimensions in order to be able to truly promote sustainable development. Therefore, the AADFI and ILO jointly launched a study investigating the extent to which DFIs in Africa have implemented formal Social and Environmental Management Systems with a particular focus on the level of inclusion of the social dimension. Overall, thirteen DFIs based in Côte d'Ivoire, Democratic Republic of the Congo, Egypt, Ghana, Kenya, Niger, Rwanda, the Seychelles, South Africa, Tanzania, Togo and Uganda participated in the study.

In a first step, the study identified **six building blocks** of a Social and Environmental Management System:

- **Building block 1: S&E Policy**
- **Building block 2: S&E Standards**
- **Building block 3: S&E Procedures**
- **Building block 4: S&E Responsibilities**
- **Building block 5: S&E Skills and Training**
- **Building block 6: S&E Reporting**

In a second step, S&E-related documents received from the participating DFIs were analysed and points for each building block of an institutional SEMS given to the individual DFIs. The results allowed clustering the participating institutions according to similarity in i) scores attained in each building block and ii) qualitative comments. The study identified **five clusters** that showed similar characteristics and opportunities for improvement:

- **Cluster “Advanced and balanced SEMS”**
- **Cluster “Advanced SEMS with bias”**
- **Cluster “Early stage SEMS”**
- **Cluster “S&E Policy only”**
- **Cluster “No SEMS”**

Four of the participating DFIs were classified as belonging to the cluster “*Advanced and balanced SEMS*”, two to the cluster “*Early stage SEMS*”, four to the cluster “*S&E Policy only*” and three to the cluster “*No SEMS*”.

The main findings across all clusters - including the perceived challenges of the DFIs - are summarised below:

#### *Building block 1: S&E Policy*

The building block “S&E Policy” receives the highest scores among all building blocks across all DFI clusters. However, the difference in scores is substantive especially in the clusters “Early stage SEMS” and “S&E Policy only”. On the one hand, this result shows that DFIs have commitment towards sustainable development, while on the other hand, opportunities for improvement exist for a systematic implementation of the S&E policy in the other SEMS building blocks.

Overall, the S&E policies showed a clear commitment to and justification for the DFIs engagement in sustainable development. The policies decreased in comprehensiveness when scores were lower. Some, but not all DFIs, explicitly mentioned in their S&E policies to not only avoid or minimise S&E risks, but to seize specific S&E opportunities like managing governmental financing initiatives to green the economy or explicitly seeking

opportunities to increase income of the poor or women. However, DFIs may renounce from these statements in the S&E policy, since they have, by definition, a social mission. In the clusters “Early stage SEMs” and “S&E Policy only”, the analysis found environmentally biased policies in some DFIs. These biased policies focussed, for instance, on achieving a positive environmental performance or were inconsistent when mainstreaming social issues in the policy and other SEMs building blocks.

### *Building block 2: S&E Standards*

In comparison to other SEMs building blocks, S&E standards also receive high scores across clusters. This is a positive result, given that the safeguards are ultimately integrated into all building blocks, and are therefore of utmost importance for a social and environmental management system. Only the safeguards of the cluster “Early stage SEMs” significantly lagged behind the S&E policy and S&E procedures. This finding underscores that the development of the safeguards is a crucial step to further advance the systems.

Whereas only one DFI had “own” institutional safeguards, the majority of the DFIs committed to comply with relevant national S&E legislation and regulation, as well as with international standards, such as the AfDB operational safeguards and IFC performance standards. However, in the clusters “Early stage SEMs” and “S&E Policy only” some DFIs did not specify in detail to which social and environmental legislation they refer, did not discuss or adapt international standards, and focused on environmental law, for instance, by only or mainly referring to the national Environmental Act.

### *Building block 3: S&E Procedures*

Across clusters, the S&E procedures score higher than the assignment of S&E responsibility, S&E training and S&E reporting but below the S&E policy. In 2 of the 3 clusters, S&E procedures score below S&E standards. This reveals that the DFIs are strong in implementing the S&E policy and safeguards in S&E procedures – and lag behind in translating the S&E policy and safeguards into the other SEMs building blocks.

S&E procedures of the clusters “Advanced and balanced SEMs” and “Early stage SEMs” covered the whole lending cycle including categorisation, S&E assessment, mitigation and management, monitoring, and impact measurement. Whereby the DFIs of the first cluster stand out with detailed and inclusive procedures and applications, and innovative tools, DFIs of the second cluster lack comprehensiveness and consistency, and at times have an environmental bias partially as a result of close collaboration with the environmental authorities only. The clusters “S&E Policy only” and “No SEMs” do apply some of the mentioned procedures and tend to have an environmental bias resulting from an environmental focus already in the safeguards. Social issues mainly relate to enquiring about potential employment creation, in numbers but not necessarily quality. Across clusters, S&E risks were only sometimes taken into account in the credit risk framework and pricing policy. We are not aware of existing incentive mechanisms to maximise desirable social and environmental impact, such as adjusting the price of a loan to a project’s achieved S&E impact.

Furthermore, the DFIs did not always have a unique category for financial intermediaries. Sometime, the DFIs did not include the whole portfolio in the S&E categorisation and management process. In addition, if included and categorised low risk, projects almost exclusively did not undergo further S&E assessment. This approach limits actual risk identification and has strong consequences for monitoring and reporting S&E impacts. Cumulatively, many small risks may have a considerable impact on an institution’s S&E quality of the overall lending portfolio.

### *Building block 4: S&E Responsibilities*

Comparatively, the assignment of S&E responsibilities lags behind the implementation of other building blocks. Only S&E reporting received lower scores in the clusters “Advanced



and balanced SEMS” and “Early stage SEMS”. However, the cluster “S&E Policy only” was stronger in assigning responsibilities than in providing or facilitating access to training, or in S&E reporting.

The cluster “Advanced and balanced SEMS” assigned formal responsibilities on the operational (investment officers, credit analysts, as well as staff in monitoring, legal, internal audit units), middle management (SEMS coordinator), senior management, and board level. However, on the highest organisational level S&E responsibilities were only once formally assigned to a specific committee or to a responsible board member. The clusters “Early stage SEMS” and “S&E Policy only” used either a task force or committee to implement the SEMS, assigned S&E responsibilities to middle management and operational level only, or had S&E focal points. The DFIs in the “No SEMS” cluster have no S&E focal point.

In most DFIs across the clusters, S&E responsibilities are not mainstreamed in the HR function in terms of tracking systematically the participation of staff in S&E training. S&E performance is included in staff performance appraisals only for SEMS coordinators of the cluster “Advanced and balanced SEMS”.

#### *Building block 5: S&E Skills and Training*

In two clusters, “Advanced and balanced SEMS” and “Early stage SEMS”, S&E skills and training is ranked as the 4<sup>th</sup> developed building block; in cluster “S&E Policy only” it is the least developed one. On the one hand, this shows that training is important for strengthening an entire SEMS, and on the other hand that this building block has room for improvement across all clusters.

Only the cluster “Advanced and balanced SEMS” employed S&E experts, endorsed further training to update the experts’ knowledge, and provided S&E training to all relevant staff. However, also this cluster includes one DFI that only had ad hoc training. The other clusters, if at all, mainly provided access to externally provided training for the most relevant staff on an ad hoc basis. The training focused on introducing the concepts of a SEMS, and did not entail profound technical training on the assessment of specific risks. Several DFIs, however, acknowledged the utmost importance of S&E training. They identified the environmental focus of the externally available trainings and mentioned as a challenge that restrained them from adequately integrating and conducting social risk assessment and management.

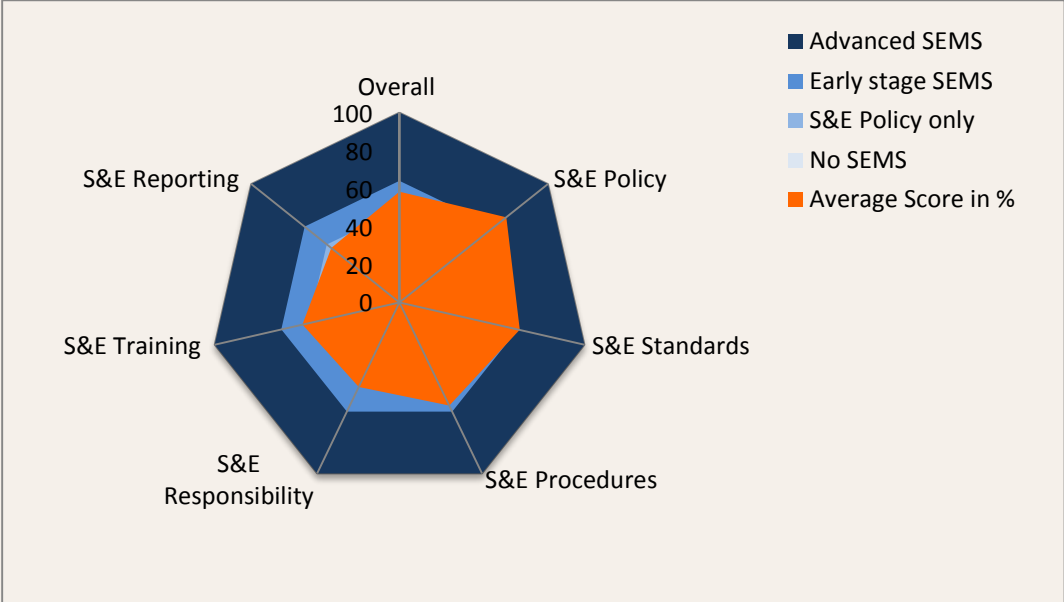
#### *Building block 6: S&E Reporting*

S&E reporting is the building block that receives the lowest scores in clusters “Advanced and balanced SEMS” and “Early stage SEMS”; however, this building block scores average in cluster “S&E Policy only”. This is a surprising result, given the belief that many financial institutions address social and environmental issues for reputational reasons. This finding may be a distinctive characteristic of DFIs. However, the low scores of this building block may also reveal that many DFIs do not have the capacity or techniques to measure and report social and environmental impacts of their overall lending activities in detail.

If annual reports included sustainability concerns, these mainly tackled S&E opportunities in terms of financing for high development impact sectors or projects, as well as socio-economic and environmental impacts like job creation or internal resource consumption. Only one DFI reported on impact studies conducted, which rigorously assessed whether or not the projects achieved the envisioned social and environmental performance. Furthermore, reports covered S&E risks, conducted Social and Environmental Impact Assessments and at times financed high-risk projects. If implemented, mechanisms for internal reporting to senior management and to the board allowed updates on the level of overall SEMS implementation, accidents and S&E incidents, and S&E performance.

Figure 6 graphically shows the average scores across all African DFIs that participated in the study, excluding the DFIs of cluster “No SEMS”. The blue areas of the spider graphic illustrate the range of scores that define each DFI cluster. The orange area shows how all DFIs actually scored.

Figure 6: Average scores of DFIs reached, in per cent, per SEMS building block across all clusters.



**Challenges across DFI clusters**

The challenges faced by DFIs are quite similar across clusters and mainly relate to four themes:

- Further developing and implementing or establishing a system to manage social and environmental issues;
- Building capacity and increase sensitivity of staff as well as clients to address social and environmental risks and impacts;
- Managing the financing needs of clients to implement S&E requirements; and
- Regulators are perceived to not adequately enforce social and environmental compliance and at times tend to favour addressing environmental issues while social concerns lag behind.

In summary, while there are DFIs with high-scoring, advanced and balanced SEMS among the AADFI members, the results of this study suggest that improvement opportunities exist across DFIs. In addition, the study finds a tendency towards considering environmental issues to a greater extent than social concerns in some building blocks, in some DFIs and in some national contexts.

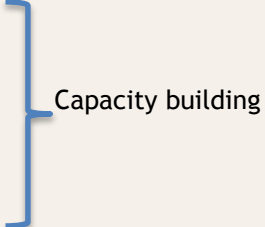
**5.2 Suggestions on ways forward**

This last section reflects on potential ways forward inspired by the results of the study. In the following, ideas for ways forward are presented along the main stakeholder groups identified by the survey.

The study identified three stakeholder groups that are relevant for improving the social impact of development finance in Africa:

- DFIs
- Central Banks
- Ministries of Environment, and Ministries of Labour

To unlock the positive social impact of development finance, these three stakeholder groups could benefit from capacity building and research:

- Awareness / Sensitisation
  - Training
  - Mentoring
  - Consulting
  - Helpdesk platform
  - Research
- 

The next paragraphs describe activities for each stakeholder group and touch on both capacity building and research elements.

### 1) DFIs

**Capacity Building:** The analysis revealed several options for capacity building for DFIs, including *sensitisation*, *training*, *mentoring*, *consulting*, and the set-up of a *helpdesk*.

The ILO, AADFI and other collaborators and other collaborators could jointly develop and facilitate *sensitisation* and *training* for DFIs on why and how to incorporate a stronger management of social concerns into their current social and environmental management systems or sustainability approaches. The implementation thereof could entail:

- Sensitisation at the board level;
- Management training, targeting senior or middle management of DFIs; or
- Technical training on social risk assessment addressing, for instance, child labour or involuntary resettlement, targeting middle management or operations staff of DFIs.

Such capacity building could be organised through national workshops, institutional training, longer-term distance learning facilities, or *mentoring programs* that could include study visits or temporary staff exchanges through staff development programmes.

In addition, an online platform could be developed to allow DFIs mutual *mentoring*: to share good practices, learn from each other, exchange on recent developments in social and environmental legislation, and develop and share information about a pool of S&E expert consultants. Such a platform could entail a “*helpdesk*” where the ILO and AADFI could provide support to answer specific questions (e.g. related to the development of tools). Another feature of the platform could be the hosting of the “ILO SEMS Assessment Tool” which was developed for this study and has been presented to some extent in chapter 2.1. Access to this tool could allow other DFIs and other sustainable finance providers to self-assess and benchmark their S&E practices. Similar platform concepts are already administered by the International Trade Centre for agricultural value chains<sup>4</sup>, or by the ILO for multinational companies seeking advice on International Labour Standards<sup>5</sup>. Such a platform would be a sustainable contribution to the suggestion of the report by the Intergovernmental Committee of Experts on Sustainable Development Financing advocating for the establishment of facilitative platforms to encourage coordination among international funds and initiatives, as well as joint platforms for investor groups.

<sup>4</sup> <http://www.sustainabilityxchange.info/>

<sup>5</sup> <http://www.ilo.org/empent/units/multinational-enterprises/lang--en/index.htm>

**Research:** The design and set-up of a new SEMS or the improvement of an existing SEMS by integrating social concerns could be accompanied by vigorous research drawing from the ILO Social Finance Programme’s expertise in researching social impacts of innovative financial services and tools. Research based on robust methodologies could shed light on the impact of improving one SEMS building block on i) other building blocks of the SEMS (“internal trickle down effects”), ii) on the S&E quality of the lending portfolio, and iii) a cost-benefit analysis could be conducted. Potential research questions are:

- To what extent does a capacity building programme on social risk and impact management (building block 5) improve the S&E procedures (building block 3) of a DFI and strengthens social topics in the due diligence, credit appraisals, monitoring, and impact measurement? How do supporting tools, such as appraisal and monitoring formats, checklists, or data collection tools, benefit from capacity building?
- What is the impact of aligning social safeguards with national legislation on the S&E quality of the lending portfolio? Baseline, mid-term and endline data over 3-5 years would need to be collected and analysed. Simultaneously, tools for continuous data collection and decision making could be developed, tested, improved, and shared.
- How large are the benefits of technical training on social risks and impacts in comparison to the costs of conducting the training? Benefits could arise, for instance, through a decrease of client defaults and delayed payments, as well as a reduction in fines related to liabilities. Results could shed light on whether or not a “business case for S&E for DFIs” exists.

Research results could be discussed at regional conferences or national S&E workshops inviting other relevant stakeholder groups.

The ideas suggested for DFIs are attached to timelines spanning up to 3-5 years, especially for implementing robust research efforts.

## **2) Central Banks**

**Capacity Building:** The analysis revealed several options for capacity building for central banks, including *awareness raising*, *sensitisation* and *training*. The need for *raising awareness* of central banks to ultimately encourage them to demand financial institutions under regulation to report on sustainability matters or to make certain sustainable financial practices mandatory was not mentioned by the DFIs. However, the fact that only 3 of 22 members of the Sustainable Banking Network - which unites banking regulators and banking associations to make financial systems more sustainable - are African reveals a need of strengthening central banks’ contributions to foster sustainable development. To this end, the ILO and AADFI could encourage and help central banks to learn about experiences of institutions currently implementing regulatory approaches to guide and support actions of financial institutions towards sustainability (e.g. Nigeria, Kenya or Brazil). As a second step, *training* could be developed and facilitated by ILO, AADFI, and other relevant stakeholders to help central banks design and implement such an approach.

## **3) Ministries of the Environment and Ministries of Labour**

**Capacity Building:** The analysis identified several options for the building capacity of relevant ministries, specifically focussing on *awareness raising* and *sensitisation* as a first step, and *training* to follow suit. Collaboration between the Ministries of the Environment and Ministries of Labour and other national and local authorities could facilitate the integration of a social component in national regulatory approaches targeting the environmental impact of FIs - such as the National Performance and Benefit Measurement Framework in Kenya. If there is interest from the named parties, the ILO and AADFI could help build capacity to develop and implement balanced regulatory approaches towards a sustainable financial system by providing *training workshops*.

As discussed in the introduction of this report, capacity building for DFIs to assist making measurable progress towards sustainable development is well in line with the recommendations of the UN Intergovernmental Committee of Experts on Sustainable Development Financing. Likewise, the suggestion to extend capacity building to central banks and the ministries of the environment as well as the ministries of labour, would be a valuable contribution to the committee's proposition to encourage joint reporting not only on financial return but also on environmental and social impacts; to invite regulators to create regulatory frameworks that encourage sustainable practices (e.g. by providing certain portfolio requirements); as well as to invite governments to encourage financial market players to train their employees on social and environmental issues (UN General Assembly, 2014).

The DFIs that participated in this study expected to be able to benchmark their S&E practices against industry standards, to get a better understanding of the current gaps in their systems and approaches, to be in a better position to find access to external technical assistance, and to get support in raising awareness within the national context for the importance of regulating and managing social and environmental risks and impacts. We hope that this report provides some relevant input to these DFIs and we look forward to the results of making the learnings of the study available to other DFIs and stakeholders of development finance who are interested in unlocking further positive social impact of development finance.

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