



# **Sustainability Guideline**

## Guideline of KfW IPEX-Bank for Environmentally and Socially Responsible Financing

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## Abbreviations

CCRA	Climate Change Risk Assessment
EHS	Environmental, Health and Safety
EP	Equator Principles
EPA	Equator Principles Association
EPAP	Equator Principles Action Plan
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
FI	Financial Intermediary
FPIC	Free Prior and Informed Consent
GBIF	Global Biodiversity Information Facility
HRIA	Human Rights Impact Assessment
IESC	Independent Environmental and Social Consultant
IFC	International Finance Corporation
IFC PS	IFC Performance Standards
ILO	International Labour Organisation (ILO)
KCUS	Competence Centre Environmental and Social Sustainability (of KfW Group)
KfW	Kreditanstalt für Wiederaufbau
OECD	Organisation for Economic Cooperation and Development
SDG	Sustainable Development Goals
TCFD	Task Force on Climate-related Financial Disclosures
UNGPs	United Nations Guiding Principles on Business and Human Rights

# Definitions

Unless otherwise defined, the definitions of the Equator Principles (EP, as amended: [Equator Principles EP 4 July 2020](#)) apply to this Guideline. This list is not an exhaustive overview.

**Acquisition Finance** is the provision of financing for the acquisition of a Project or a Project company which exclusively owns, or has a majority shareholding in a Project, and over which the Client has Effective Operational Control.

**Affected Communities** are local communities within the Project's area of influence, directly affected by a Project. This may include indigenous peoples.

**Bridge Loan** is an interim loan given to a company until the longer term stage of financing can be obtained.

**Client** is the entity who exercises **Effective Operational Control** over the Project or – in the case of financing for Financial Intermediaries – over the End Project. Examples of economic actors that may be Clients are borrowers, Project sponsors, Project developers, Financial Intermediaries or lessees.

**Country of Investment** means the country in which the Project site is located.

**Critical Habitats** are areas with high biodiversity value, including (i) habitats of significant importance to critically endangered and/or endangered species; (ii) habitats of significant importance to endemic and/or restricted-range species; (iii) habitats supporting globally significant concentrations of migratory species and/or congregatory species; (iv) highly threatened and/or unique ecosystems; and/or (v) areas associated with key evolutionary processes.

**Effective Operational Control** includes both direct control (as operator or major shareholder) of the Project by the Client and indirect control (e.g. where a subsidiary of the Client operates the Project).

**End Project** refers to the purpose and ultimate use of proceeds of financing for Financial Intermediaries, for example the financing of an asset (with or without reference to a location or Project), or financing for general corporate purposes.

The following financing products fall within the **scope of the EP**, if the criteria are met:

- **Project Finance Advisory Services** with total Project capital costs of USD 10 million or more.
- **Project Finance** with total Project capital costs of USD 10 million or more.
- **Project-Related Corporate Loans** where all the following criteria are met:
  - The majority of the loan is related to a Project over which the Client has Effective Operational Control,
  - The total aggregate loan amount of all lenders is at least USD 50 million,
  - KfW IPEX-Bank's commitment (before syndication or sell down) is at least USD 50 million, and
  - The loan tenor is at least two years.
- **Bridge Loans** with a tenor of less than two years that are intended to be refinanced by Project Finance or a Project-Related Corporate Loan and which themselves fall under the scope of the EP.
- **Project-Related Refinance and Project-Related Acquisition Finance** where all three of the following criteria are met:

- The underlying Project has previously been financed in compliance with the EP,
- There has been no material change in the scale or scope of the Project,
- Project Completion has not yet occurred at the time of signing the facility or the loan agreement.

Depending on whether financing is intended to refinance/acquire Project Finance or a Project-Related Corporate Loan, a distinction is made between Project-Related Refinance/Acquisition Finance *for Project Finance* and Project-Related Refinance/Acquisition Finance *for Project-Related Corporate Loans*.

**Environmental and Social Aspects** refer to the areas of nature and society that can be positively and adversely influenced by economic activities (impacts, risks and opportunities). This includes, but is not limited to, the climate, environment/nature, biodiversity, human and labour rights, health, safety, cultural assets.

**Financial Close** is defined as the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived.

**Initiative** refers to the purpose and ultimate use of proceeds of a financing for Financial Intermediaries, for example the financing of an object (with or without reference to a location or Project), or a financing for general corporate purposes.

**Location Relevance** is to be assumed if it can be assigned to one or more countable specific locations. The locations do not have to be contiguous and can extend over one or more geographical areas. Essentially mobile assets can be tethered to specific locations, for example if they are used on essentially identical routes (e.g. ferries) or at essentially identical locations (e.g. floating production, storage and offloading units (FSPOs)).

A **Project** is a development at one or specific locations. The locations do not have to be contiguous and can extend over one or more geographical areas. Furthermore, it applies that

- A Project can be a new development, expansion or upgrades both in a greenfield area and in a previously developed area.
- In the case of export credit agency supported transactions, the new commercial, infrastructure or industrial undertaking to which the export is intended will be considered the Project.
- A Project is also a mobile asset with a Location Relevance.

**Project Capital Cost** means the total cost of a Project.

**Project Completion** is the date on which a Project is finished, functions and performs according to certain pre-defined benchmarks (usually defined in a completion test). After this date, the Project's cash flows become the primary method of repayment.

**Project Finance** is a method of financing in which the lender primarily considers the revenues generated by a Project, both as the source of repayment and as security for the exposure. The Client is usually a special-purpose vehicle that may not perform any other function than the development, ownership and operation of a facility. As a result, the repayment depends primarily on the Project's cash flow and the collateral value of the Project's assets.

**Project Finance Advisory Service** is the advice on the potential financing for a Project as Project Finance.

**Project-Related Corporate Loans** are corporate loans where use of the proceeds of the loan is related to a Project in one of the following ways:

- The source of repayment is primarily the revenue generated by a Project (as in the case of Project Finance) and collateral exists in the form of a corporate or parent company guarantee.
- Documentation for the loan indicates that the majority of the proceeds of the total loan are directed to the Project. Such documentation may include the term sheet, information memorandum, loan agreement or other representations by the Client about the intended purpose of the loan.

**Refinance** is the process of replacing an existing loan with a new one, whereby the proceeds of the new loan are used to repay an existing loan, and that loan is not near or in default.

**Sensitive Area** is an area of international, national or regional importance, such as protected habitats in accordance with IFC PS 6,<sup>1</sup> wetlands, forests with high biodiversity value, coral reefs, areas of archaeological or cultural significance, areas of importance to indigenous peoples or other vulnerable groups, national parks and other protected areas identified by national law or considered worthy of protection according to international standards.

**Workers** are all workers engaged directly or indirectly by the Client to work at the Project site, including full-time and part-time workers, contractors, subcontractors and temporary workers.

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<sup>1</sup> Habitats worthy of protection are defined as modified, natural and/or Critical Habitats in accordance with IFC PS 6.

# 1. Preamble

**(1) Sustainability mission statement and self-image.** KfW IPEX-Bank provides financing in the interest of the German and European economies. Together with the German and European export industry and its global corporate customers, the bank supports sustainable economic, social and environmental development in Germany, Europe and throughout the world. By developing suitable financing solutions, KfW-IPEX Bank supports technological progress with the aim of improving and securing livelihoods and quality of life for future generations. The bank is guided by the principles of responsibility and sustainability. This self-image is laid down in KfW IPEX-Bank's [sustainability mission statement](#).

**(2) Sustainability Guideline.** This Guideline specifies KfW IPEX-Bank's sustainability mission statement with regard to the consideration of Environmental and Social Aspects in its advisory and financing activities. At the same time, KfW-IPEX Bank is committed to the Equator Principles (EP) and – in addition to economic factors – also expressly incorporates Environmental and Social Aspects into the decision-making process for granting loans. KfW IPEX-Bank is committed to responsibly and appropriately considering Environmental and Social Aspects in the Initiatives it supports. It also supports the implementation of international human rights in accordance with the [Policy statement of KfW and its subsidiaries on human rights and on its human rights strategy](#) (Policy Statement on Human Rights). The aim of this Guideline is to create a uniform and binding framework for dealing with Environmental and Social Aspects in KfW IPEX-Bank's advisory and financing activities. The Environmental and Social Appraisal is a key tool for this. All Initiatives supported by KfW IPEX-Bank are comprehensively and systematically assessed for their environmental and social impact, taking into account international environmental and social standards as well as KfW's Statement on Human Rights. The Guideline defines the principles and method of the Environmental and Social Appraisal, thereby contributing to transparency in the decision-making processes.

**(3) Environmental and Social Appraisal.** The Environmental and Social Appraisal ensures that potential adverse environmental and social risks and impacts (including climate aspects and human rights violations) of the Initiatives supported by KfW IPEX-Bank are properly identified and assessed. The results of this assessment are included in KfW IPEX-Bank's financing decisions. During Project implementation, steps are taken and documented to ensure compliance with the Environmental and Social Standards or rather to avoid, minimise, mitigate or compensate for potential impacts and/or risks.

With the Environmental and Social Appraisal, KfW IPEX-Bank also wants to encourage:

- Clients to take Environmental and Social Aspects into account as early as possible when designing an Initiative and its financing,
- Clients to recognise the significance of environmental and social risks and the positive impacts of measures taken promptly, and to be committed to preventive, mitigating and, if necessary, compensatory measures and to transparent disclosure with regard to Affected Communities,
- Clients to be motivated by the discussion of the results of the Environmental and Social Appraisal to improve their actions in terms of Environmental and Social Aspects on a lasting basis.

**(4) International Environmental and Social Standards.** This Guideline is based on the following internationally recognised rules, as amended from time to time:

- Equator Principles (EP)
- International Finance Corporation Performance Standards on Environmental and Social Sustainability (IFC PS)
- World Bank Group Environmental, Health, and Safety Guidelines (EHS)
- United Nations Guiding Principles on Business and Human Rights (UNGPs)

- Core labour standards of the International Labour Organisation (ILO)
- OECD Guidelines for Multinational Enterprises and the OECD document “Due Diligence for Responsible Corporate Lending and Securities Underwriting”
- UN Global Compact.

## 2. Applicability of this Guideline

(1) This Guideline applies to all banking activities supported by KfW IPEX-Bank, regardless of the form of financing.

(2) Conversely, environmental protection and sustainable procurement in the banking operations are not covered by this Guideline. These are governed across the Group by KfW Group’s [“Sustainability guideline on in-house environmental protection”](#) [German version] and KfW Group’s [“Sustainability requirements for KfW Group procurement”](#), and are valid for KfW IPEX-Bank in their current version.

(3) KfW IPEX-Bank’s management system for greenhouse gas neutrality is not covered by this Guideline. With regard to Paris compatibility, the requirements set out in the [Paris-compatible sector guidelines of KfW Group](#) must be complied with.

## 3. Assessment of Environmental and Social Compliance

### 3.1. Basic Principles of Assessment

(1) All new Initiatives and existing Initiatives involving significant changes, which KfW IPEX-Bank supports with financing or advisory services, are subject to an Environmental and Social Appraisal on the basis of this Guideline. The assessment of environmental and social compliance refers to the entire Initiative, even if KfW IPEX-Bank only finances parts or individual components thereof. The assessment of an Initiative also includes all necessary auxiliary and ancillary facilities (known as Associated Facilities) that are necessary for the establishment and operation of the Initiative or without which it would not be feasible.

(2) The results of the Environmental and Social Appraisal are documented and embedded into the lending decision.

(3) It is imperative to look for appropriate protection and mitigation measures that are economically viable. If the Environmental and Social Appraisal concludes that unacceptable adverse impacts and/or risks related to Environmental and Social Aspects remain despite protective or compensatory measures, KfW IPEX-Bank will not participate in the financing.

(4) The Environmental and Social Appraisal is divided into:

a) **Mandatory minimum assessment** for all Initiatives, consisting of

#### 1. Screening

- of the Client’s **behaviour** with regard to Environmental and Social Aspects, and
- of the **Initiative** to assess its environmental and social risks

#### 2. **Categorisation** of the Initiatives into category A, B+, B or C

### 3. **Assessment** of the Client's Environmental and Social Management System (ESMS)

b) For category A, B+ and B Initiatives, additional **in-depth assessment**.

(5) The level of consideration of the Environmental and Social Appraisal differs depending on the type of financing:

- **Location-related financing**

The level of consideration is the **Project**. Examples include Project Finance or Project-Related Corporate Loans, for example for a power plant. The Project is assessed for potential adverse impacts and/or risks related to Environmental and Social Aspects. KfW IPEX-Bank applies the EP for all Project- and location-related Initiatives, regardless of whether the EP application criteria (e.g. minimum Project Capital Costs) are met.

- **Non-location-related financing for assets**

The level of consideration is the **company**. Examples are asset financing where the assets operate in or on existing infrastructure networks and where those assets are not tied to a Location Reference (ships, aircraft, rail vehicles). Such financing shall assess the company's ability to address impacts and/or risks related to Environmental and Social Aspects arising from the company's business activities (through the assessment of the ESMS in accordance with 3.4). The asset itself (e.g. vessel, airplane, rail vehicle) is not subject to an assessment, provided that international standards regarding safety, occupational health and safety and environmental compatibility apply to its operation.

- **Non-location-related financing without an asset**

The level of consideration is the **company**. Examples include general corporate loans. In the case of non-project or non-location-related financing, the company's ability to deal with potential adverse impacts and/or risks related to Environmental and Social Aspects arising from the company's business activities is assessed (through the assessment of the ESMS in accordance with 3.4).

- **Financing for Financial Intermediaries (FI)**

The level of consideration is the **End Project** or **the FI**. If FIs are financed, an assessment is carried out to ascertain whether the financing can be assigned to a clear/identifiable End Project. If this is the case, the financing is assessed in accordance with the relevant level of consideration (section 3.1. (5)). If the financing cannot be (clearly) assigned to an identifiable End Project, the ability of the FI to deal with potential adverse impacts and/or risks related to Environmental and Social Aspects that may arise from the FI's business activities is assessed (through the assessment of the ESMS in accordance with 3.4).

(6) In the case of Initiatives involving a change to an existing Initiative, a new Environmental and Social Appraisal is required if the change is material. A change is considered material if it could result in new adverse impacts and/or risks, or alter or amplify existing ones, or if the change is on such a scale that an Environmental and Social Impact Assessment (ESIA, see section 3.6.) would ordinarily be required on its own. The EPs are not applied retroactively.

(7) KfW IPEX-Bank does not generally conduct appraisals on nuclear facilities and military goods. In these areas, it adheres to the guidance given by the German Federal Government and the appropriate export regulations.

### 3.2. **Screening**

The screening covers the Client's business sector(s) and the Client's own behaviour with regard to Environmental and Social Aspects. In addition, the planned Initiative is assessed with regard to potential adverse impacts and/or risks related to Environmental and Social Aspects. The aim

is to identify or estimate the type and extent of adverse impacts and risks that may arise from a planned Initiative.

Annex I shows an illustrative list of potential Environmental and Social Aspects for guidance.

### 3.3. Categorisation

(1) The screening results in the categorisation of the Project, company or FI<sup>2</sup> into one of the four categories A, B+, B or C based on the magnitude of the potential adverse impacts and/or risks related to Environmental and Social Aspects.

(2) **Category A** includes Projects, companies or FIs with business activities with **potentially significant adverse** impacts and/or posing risks related to Environmental and Social Aspects that are diverse, irreversible or unprecedented.

Impacts and risks can be significantly adverse if, for example, the Project is very complex and large or is located in a Sensitive Area. This applies in particular to Projects on newly developed (greenfield) sites. The impacts and risks may affect either a larger area than merely the plant/facility under construction/in operation, the location of the plant and, if applicable, any connected secondary facilities, or the Project area in the narrower sense.

An illustrative list of Projects or sectors which may fall under category A is set out in Annex II.

(3) **Category B** includes Projects, companies or FIs with business activities with **potentially limited adverse** impacts and/or posing risks related to Environmental and Social Aspects that are few in number, generally site-specific, largely reversible and can be mitigated by appropriate measures. The risks and/or impacts are less severe than under category A and can usually be mitigated with state-of-the-art countermeasures or standard solutions.

An illustrative list of Projects or sectors which may fall under category B is set out in Annex III.

(4) Since category B can cover a wide range of Projects, companies or FIs with higher and lower risks, a distinction is made between less risky Initiatives in category B and more risky Initiatives in **category B+** with regard to the design of the in-depth assessment. Category B+ includes Initiatives that (compared to A) only have or (compared to B) still have occasional significant adverse impacts and/or risks related to Environmental and Social Aspects.

(5) **Category C** includes Projects, companies or FIs with business activities that have minimal or no adverse impacts and/or risks related to Environmental and Social Aspects. Initiatives in this category do not normally require an in-depth assessment within the meaning of this Guideline. However, during the course of the credit relationship, attention must be paid to whether there are any material changes.

### 3.4. Assessment of the Client's ESMS

(1) **ESMS.** An Environmental and Social Management System (ESMS) comprises management processes and procedures that enable an organisation to analyse, control and reduce the impact of its activities, products and services relating to Environmental and Social Aspects. It represents the overall framework at company or Project level with the aim of continuously identifying, evaluating and managing risks and/or impacts relating to Environmental and Social Aspects.

(2) The existence, design and functionality of the Client's ESMS is assessed for all Initiatives. For Initiatives in categories A, B+ and B, the assessment of the Client's ESMS is part of the in-depth assessment in accordance with section 3.5.

The components of such an ESMS (in accordance with IFC PS 1) are:

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<sup>2</sup> In the case of financing for FIs, either the Project or the FI is categorised in accordance with the provision in 3.1. (5).

- a) policies
- b) a systematic procedure for assessing environmental and social risks,
- c) management programmes or management plans for the structured implementation of the assessment results,
- d) appropriate organisational capacities and skills,
- e) programmes/plans for emergency preparedness and hazard prevention,
- f) structured communication with stakeholders,
- g) monitoring and reporting.

### 3.5. In-Depth Assessment for Category A, B+ and B Initiatives

**(1)** Initiatives in categories A, B+ and B are generally subject to an in-depth Environmental and Social Appraisal. For the in-depth assessment, the front-office departments draw on the expertise of in-house environmental and social specialists (KfW Group's Competence Centre for Environmental and Social Sustainability). The information in section 3.5. refers to all Initiatives in categories A, B+ and B, unless individual categories are explicitly excluded. However, for category B Initiatives, the scope, priority areas and depth of the Assessment Documentation are defined on a case-by-case basis.

**(2) In-depth assessment for companies and FIs.** For corporate finance and FIs in categories A, B+ and B, the topics of safety, working conditions and occupational health and safety, human rights, environmental protection and climate change mitigation must be examined in greater detail. A public statement or information on compliance or non-compliance with the ILO core labour standards, the UN Guiding Principles on Business and Human Rights or the OECD Guidelines for Multinational Enterprises, or the OECD document "Due Diligence for Responsible Corporate Lending and Securities Underwriting" may serve as guidance for the assessment.

**(3) In-depth assessment for Projects.** The basis for the in-depth assessment for Projects is information and documents (referred to in the following as "Assessment Documentation"), which must always be provided by the Client to KfW IPEX-Bank in good time. The Assessment Documentation addresses and assesses the relevant impacts and/or risks relating to Environmental and Social Aspects in a comprehensive, appropriate and objective manner. Annex I shows an illustrative list of potential Environmental and Social Aspects to be addressed in the Assessment Documentation when relevant. Depending on the categorisation of the Initiative, documents of different scopes must be submitted by the Client or created as part of the in-depth assessment.

### 3.6. Requirements for Assessment Documentation

**(1) ESIA.** For category A and B+ Projects, the Assessment Documentation includes a Project-related Environmental and Social Impact Assessment (ESIA), which identifies and assesses positive and adverse impacts and/or risks relating to Environmental and Social Aspects. For category B Projects, a limited or focused ESIA may be appropriate to address the impacts or risks identified during the Categorisation process.

**(2) ESMP.** The Environmental and Social Management Plan (ESMP) is part of the Assessment Documentation and summarises the Project's obligations to identify, assess and mitigate risks and impacts relating to Environmental and Social Aspects. It contains specific measures to avoid, minimise and compensate for these risks. It also sets out responsibilities for the implementation of the actions and their costs. The level of detail and complexity of the ESMP must be appropriate to the potential risks and impacts of the Project.

**(3) Climate change.** The Assessment Documentation addresses and assesses potential adverse impacts and/or risks related to climate change. In the following cases, a Climate Change Risk Assessment (CCRA) is mandatory in accordance with the EP requirements:

- For all category A and B+ Projects, the CCRA comprises relevant physical risks (as defined by the Task Force on Climate-Related Financial Disclosure (TCFD)).
- For all Projects that are expected to emit more than 100,000 tonnes of CO<sub>2</sub> equivalent annually (Scope 1 and 2 emissions in accordance with EP definition), the CCRA comprises transitional risks (according to the TCFD definition) and an analysis on alternatives that are less greenhouse gas-intensive. The analysis should help the Client to opt for the technically and financially most efficient alternative that results in the lowest possible annual CO<sub>2</sub>e emissions.

**(4) Human rights.** The Assessment Documentation addresses and assesses potential adverse impacts and/or risks to human rights in accordance with the EP requirements. If a critical human rights situation can be expected in the Project, a Human Rights Impact Assessment (HRIA, in-depth investigation of human rights issues) and measures to ensure compliance with human rights, aligned with the UNGPs, are required.

If in the case of syndicated or parallel financing with other EP banks or other financial institutions compliant Assessment Documentation on Environmental and Social Aspects is available, a plausibility check of such documentation is generally sufficient. This does not waive the possibility of examining selected areas in more detail, nor does it waive the need to clarify inconsistencies.

### 3.7. Content of the In-Depth Assessment

**(1) IESC.** For category A and B+ Projects, an external Independent Environmental and Social Consultant (IESC) must be involved, who has not been and will not be directly part of the preparation of the Initiative on behalf of the Client. If adverse impacts on indigenous communities, Sensitive Areas, biodiversity or cultural heritage are to be expected or it is feared that significant relocations will be necessary, an Independent Review is always carried out. The IESC reviews the Client's ESMS and ESIA, the resulting ESMP (or plans) and the stakeholder engagement process, and assesses the Initiative's conformity with the EP and this Sustainability Guideline (Independent Review) and draws up an Environmental and Social Due Diligence Report. Thereafter, the IESC carries out independent monitoring of the Initiative to assess its conformity with the applicable standards.

**(2) Applicable standards.** The scope of applicable standards the Project has to comply with is reviewed and assessed during the in-depth assessment. Different standards must be observed depending on the country of investment:

- **Projects in Designated Countries.** For Projects in countries that have implemented extensive environmental and social legislation (Designated Countries), compliance with relevant national laws, regulations and permits relating to Environmental and Social Aspects is assessed. In addition, KfW IPEX-Bank always evaluates (in the case of category A and B+ Projects, and with the involvement of the IESC) whether one or more IFC PS should be applied in addition to the national standards. A list of Designated Countries can be found on the EP website.

If indigenous communities are affected, the Project's compliance with IFC PS 7 must always be evaluated.

- **Projects in Non-Designated Countries.** For Projects in all other countries, compliance with the IFC PS and the EHS Guidelines is assessed in addition to the local standards.

In doubtful cases, the Competence Centre Environmental and Social Sustainability (of KfW Group) clarifies the extent to which the relevant legal and institutional framework of international requirements is sufficient. In addition, benchmarks from the European Union's environmental legal framework or other guiding frameworks of international initiatives<sup>3</sup> may also serve as guidance.

<sup>3</sup> For example, Guidance of the International Council on Mining and Metals (ICMM), the World Commission on Dams, the Global Industry Standards on Tailings Management, etc.

**(3) Stakeholder engagement.** As part of the in-depth assessment, it must be determined whether stakeholder participation took place in a structured manner aligned to their cultural and linguistic needs. For Projects with potentially significant adverse impacts on Affected Communities, an Informed Consultation and Participation Process is required. This process is customised to the identified impacts and risks, the state of development of the Project, the language preferences and decision-making processes of the Affected Community as well as the needs of disadvantaged and vulnerable groups. It must also be free from manipulation, interference, coercion and intimidation.

Appropriate stakeholder participation also includes making the Assessment Documentation, customised to the scope of the risks and impacts of the Project, available to relevant stakeholders in their respective national language and in a culturally appropriate manner. Disclosures of risks and adverse impacts relating to Environmental and Social Aspects should be constantly ongoing and start as early as possible, in any event before the start of construction of the Project.

As part of the stakeholder engagement process, stakeholders are also informed about the grievance mechanism.

The Client will take into account and document the results of the stakeholder engagement process, including any actions agreed resulting from such process.

In countries and areas where stakeholders have to be involved with participation or coordination of state institutions, the Client should participate in the relevant planning, implementation and monitoring measures as required by the state institutions.

**(4) Indigenous peoples.** Communities affected by the Project may include indigenous peoples who are a particularly vulnerable group. Adverse impacts and/or risks for indigenous peoples include the infringement of traditional and established usage and ownership rights over resources and areas, resettlement from such areas and damage to cultural and identity-forming heritage, including commercial exploitation of such. If adverse impacts for indigenous peoples are identified, the Project's compliance with IFC PS 7 must be assessed. These Projects require a consistent process for Free, Prior and Informed Consent (FPIC) of the affected indigenous peoples.

If it is unclear whether FPIC exists for a Project that adversely affects indigenous peoples, KfW IPEX-Bank may, after consulting the IESC, determine further steps with regard to the fulfilment of the EP.

**(5) Grievance mechanism.** For category A and B+ Projects, the Client must establish appropriate mechanisms during the Project tenor (preparation and operation) for receiving and facilitating resolutions of concerns and grievances about the Project's performance in relation to Environmental and Social Aspects from Workers at the Project site and from Affected Communities. The grievance mechanism should be appropriate and customised culturally. Cases and resolutions must be documented and are part of the reporting requirements to KfW IPEX-Bank.

**(6) ESAP.** For Projects that are not fully compliant with the applicable standards, or the standards are not met to the satisfaction of KfW IPEX-Bank, the IESC prepares an Environmental and Social Action Plan (ESAP, also known as an Equator Principles Action Plan (EPAP)). The purpose of the ESAP is to align the Project with the EPs or to indicate justified deviation from the applicable standards. It specifies the pending need for action as well as a time schedule for management and monitoring compliant with the applicable standard during the construction and operating phase (including demolition and discontinuation, if applicable). The ESAP forms part of the financing agreement for the Project and can, in the course of the Project, be updated following a qualified review, e.g. by an IESC.

The Client must justify any permanent or temporary deviations from the applicable standards.

### **3.8. Result of the Environmental and Social Appraisal and Decision to Participate in the Financing**

**(1)** For all Initiatives, the results of the Environmental and Social Appraisal (subject, depth and scope of the assessment) must be presented to the bank's respective approval committees.

**(2)** If the Environmental and Social Appraisal concludes that an Initiative does not comply with the applicable standards or that unacceptable adverse impacts and/or risks relating to Environmental and Social Aspects remain despite protective or compensatory measures, KfW IPEX-Bank will not participate in the financing.

**(3) Requirements for financing agreements for Project Finance and Project-Related Corporate Loans (with location reference).** Following an approval to finance, appropriate covenants aligned with the EP are included in the financing agreements. In the financing agreements, the Client undertakes to comply with all relevant national and local laws, regulations and permits relating to Environmental and Social Aspects in all material respects.

In addition, for all category A, B+ and B Projects, the Client commits in the financing agreements:

- to comply with the ESMP(s) and ESAP (if any) during the construction and operation of the Project in all material respects,
- to report at sufficient intervals (at least annually) and in an agreed format with regard to legal conformity and fulfilment of ESMP(s) and ESAP (if any),
- to retire facilities, where applicable and appropriate, in accordance with an agreed retirement plan.

## 4. Monitoring and Reporting by the Client

**(1)** When extraordinary impacts relating to Environmental and Social Aspects occur, KfW IPEX-Bank will, where possible, help solve the matters arising.

**(2)** In the case of category A and B+ Projects, EP require independent monitoring and reporting after Financial Close and throughout the lifetime of the loan. Monitoring and reporting should be provided by an IESC or by a qualified and experienced external expert appointed by the Client.

**(3)** The reporting also includes cases and results under the grievance mechanism.

## 5. Transparency and Disclosure by the Client

**(1)** The supply of information on the Initiative is the responsibility of the Client.

**(2)** KfW IPEX-Bank will only share information that is not publicly available with prior consent from the relevant party.

**(3)** For category A and B+ Projects, the Client observes the following disclosure requirements/recommendations:

- The Client publishes online a summary of the ESIA, which – where relevant – refers to climate change and human rights, insofar as it does not concern Project-Related Acquisition Finance or Project-Related Refinance.
- For Projects that emit more than 100,000 tonnes of CO<sub>2</sub> equivalent annually, the Client publishes the annual greenhouse gas emissions (GHG, Scope 1 and Scope 2 emissions combined) and, if applicable, the greenhouse gas efficiency rate. KfW IPEX-Bank recommends that its Clients should publish GHG emissions when annual emissions are 25,000 tonnes of CO<sub>2</sub> equivalent or above.

- KfW IPEX-Bank recommends that its Clients make non-sensitive Project-specific biodiversity data available to the general public, for example via the Global Biodiversity Information Facility (GBIF) or other national or international databases.

**(4)** For Project Finance as well as Project-Related Acquisition Finance and Project-Related Refinance under all categories that fall within the scope of the EP, KfW IPEX-Bank seeks approval to publish Project-specific information as part of its annual EP reporting. Project-specific information includes:

- Project name (as stated in the loan agreement or publicly known),
- Calendar year in which the transaction reached Financial Close,
- Country of Investment, and
- Sector (Mining, Infrastructure, Oil and Gas, Power, Others).

For Project-related Corporate Loans, including Acquisition Finance and Refinance, which falls within the scope of the EP, approval of the publication of Project-specific information is recommended.

## 6. Reporting by KfW IPEX-Bank

**(1)** KfW IPEX-Bank reports annually to the Equator Principles Association (EPA) on Initiatives that fall within the scope of the EP as part of the EP reporting. The information is published on KfW IPEX-Bank's website and on the EPA's website.

**(2)** KfW IPEX-Bank reports annually in summarised form and within the legally defined framework on the implementation of this Guideline. The Supervisory Board is also informed as part of annual reporting on the KfW Group's environmental and social commitment.

## 7. Review of this Guideline

This Guideline is reviewed annually.

# Annex

## Annex I: Illustrative List of Potential Environmental and Social Aspects

- a) Ecological and social survey of the intended location of, and area affected by, the Initiative
- b) Consideration of preferable viable alternatives from an ecological and/or social perspective
- c) Requirements under national law and international conventions and agreements
- d) Protection and preservation of biodiversity, including endangered species and sensitive ecosystems in anthropogenically altered natural and endangered habitats and identification of legally protected areas
- e) Sustainable exploitation and use of renewable natural resources (including sustainable resource management through appropriate independent certification systems)
- f) Use and handling of hazardous substances
- g) Risk analysis and risk management
- h) Efficiency in production, logistics and energy consumption
- i) Precautions to prevent environmental pollution and waste, restricting emission of pollutants (wastewater, noise pollution) and management of waste, including hazardous substances
- j) Sustainable Project operation in consideration of foreseeable climate change effects and possibilities for change
- k) Cumulative effects of current Projects combined with the intended Initiative and with Projects that are expected to be executed in the future
- l) Respect for human rights by taking appropriate action to prevent adverse impacts on human rights or counter encroachments with suitable measures
- m) Social needs in the workplace (including the ILO's core labour standards), as well as health and safety in the workplace
- n) Consulting and involving Affected Stakeholders during the design, assessment and implementation of the Initiative
- o) Socio-economic effects
- p) Effects on Affected Communities, disadvantaged and vulnerable groups
- q) Gender aspects and unequal effects on different genders
- r) Land acquisition and involuntary resettlement
- s) Effects on indigenous peoples and their cultures and values
- t) Protection of cultural property and cultural assets
- u) Protection of public health and safety (including risks and effects by employing safety personnel in Projects and addressing these issues)
- v) Fire prevention and safety

## Annex II: Illustrative List for Category A and B+

Subject-specific: Category A includes, for example, Projects, companies or FIs with business activities that

- can affect Sensitive Areas;
- can have significant international impacts or relevance in relation to international treaties (e.g. treaties on international waste legislation, marine conservation or conventions on protection biodiversity);
- are associated with a high level of resource consumption, particularly of soil, land use or water consumption;
- entail greater risks to human health or safety (e.g. industrial or traffic facilities near residential areas, significant emissions during construction and/or operation, use of hazardous substances, noise or harmful emissions);
- require a high degree of resettlement or lead to a significant loss of livelihoods;
- are expected to have a detrimental effect on human rights, such as those of indigenous peoples;
- involve social aspects, such as the necessity for extensive relocation; encroachment on the homes of indigenous peoples; impacts on traditional rights (e.g. land rights, rights of use); threats to cultural heritage, privatisation of social services;
- have integral social aspects, such as a large number of unskilled, temporarily employed workers and/or migrant workers; labour-intensive production processes; dangerous working conditions (e.g. hazardous substances, emissions); Initiatives in special economic zones with limited social standards.

Sector-specific: Initiatives in the following sectors, for example, can fall under category A:

- Infrastructure Projects such as roads, railway lines, bridges, pipelines, overhead high-voltage lines, tourism facilities (land usage, conservation, resettlement)
- Forestry and plantation management (land use, conservation)
- Large-scale hydraulic engineering such as reservoirs, coastal defence, ports, river and canal engineering (conservation, resettlement, intervention in water resources)
- Mining and the processing of mining products (intervention in the landscape, water pollution, resettlement)
- Carbon and mineral oil processing (plant safety, air pollution)
- Gas and mineral oil extraction (groundwater pollution, methane emissions)
- Non-ferrous metalworks and smelters (air pollution, particles)
- Ironworks/steelworks (air pollution, particles)
- Basic chemicals industry (plant safety, air pollution, water pollution, hazardous waste)
- Paper and pulp production (water pollution)
- Airports (land usage, noise, groundwater pollution)
- Thermal power plants (land usage, noise pollution, water pollution, ash disposal)
- Large-scale wind and solar power generation (land usage, noise pollution, biodiversity, water consumption)
- Feed and food industry (water pollution)
- Stone and earths industry, glass industry (particles, noise pollution)
- Mineral oil processing, distribution and storage (plant safety, air pollution, groundwater pollution)
- Agriculture, together with intensive animal farming facilities (land acquisition, water pollution, waste)

### **Annex III: Illustrative List of Initiatives and Sectors which May Fall under Category B**

Subject-specific: Category B includes, for example, Projects, companies or FIs with business activities that

- have no effect or only a minimal effect on third parties' social needs; or
- have working conditions with no major deviations from generally accepted standards.

Sector-specific: Initiatives in the following sectors, for example, can fall under category B:

- Metalworking (caustic and degreasing agents, waste, noise)
- Woodworking (particles, chemical treatment agents, noise)
- Textile production (dust, wastewater from dye works, noise)
- Manufacture of chemical and pharmaceutical products (noise, water pollution)
- Disposal facilities for wastewater and waste (sludge disposal, landfill safety, air pollution if applicable)

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