ACGF

EMPOWERING DEVELOPMENT

Environmental & Social (E&S) Policy – Summary

ACGF Foundation

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1. Introduction

The ACGF Foundation is committed to promoting environmentally and socially responsible financing in Afghanistan. As part of its mandate to improve access to finance for micro, small, and medium-sized enterprises (MSMEs), ACGF integrates environmental and social (E&S) risk management into its operations through a structured Environmental and Social Management System (ESMS).

This summary outlines the key principles, commitments, and high-level processes of ACGF's E&S Policy. It is intended to provide transparency to stakeholders while reflecting internationally recognized good practice for financial intermediaries.

2. Alignment with Donor and International Standards

ACGF's E&S Policy has been developed and updated in close alignment with the E&S requirements of its donors and partners, including:

- World Bank Environmental and Social Framework (ESF), with particular reference to Environmental and Social Standard 9 (ESS9 – Financial Intermediaries).
- World Bank EMERGe Project – Environmental and Social Commitment Plan (ESCP).
- UNDP Social and Environmental Standards (SES).
- KfW Group and other Development Finance Institution (DFI) E&S requirements.

The policy reflects the specific operating context of Afghanistan while ensuring consistency with international best practices applicable to guarantee instruments and financial intermediary operations.

3. Purpose and Scope of the E&S Policy

The purpose of ACGF's E&S Policy is to:

- Identify, assess, and manage potential environmental and social risks associated with MSME financing supported by ACGF.
- Avoid support to activities with unacceptable E&S risks.
- Promote improved awareness and management of E&S risks within partner financial institutions.
- Ensure compliance with applicable national regulations and international donor requirements.

The policy applies to ACGF's activities implemented through its Partner Institutions. ACGF does not directly finance or manage MSMEs but works through regulated financial institutions.

4. Environmental and Social Management System (ESMS)

In line with World Banks' ESS9, ACGF has established and maintains an Environmental and Social Management System (ESMS) proportionate to the nature, scale, and risk profile of its operations.

Key elements of the ESMS include:

a) <u>Exclusion of High-Risk Activities</u>

ACGF does not support activities that are prohibited under applicable national laws or international conventions, or that present unacceptable environmental or social risks. These include, among others, activities involving harmful child labor, forced labor, significant environmental degradation, or illegal trade.

b) <u>E&S Risk Screening and Categorization</u>

All MSME financings supported by ACGF are subject to E&S screening and are classified into defined risk categories based on the nature of the business activity and observed E&S risks. This risk-based approach ensures that higher-risk activities receive enhanced attention and mitigation.

c) Mitigation and Monitoring

Where relevant, appropriate and proportionate mitigation measures are identified to address E&S risks. These measures are designed to be technically and financially feasible within the Afghan MSME context. Ongoing monitoring supports the effective implementation of agreed measures.

d) Capacity Building

ACGF supports its Partner Institutions through training, guidance, and tools to strengthen their capacity to implement E&S risk management in line with the ESMS.

5. Roles and Responsibilities

ACGF has designated E&S officers and governance arrangements to ensure effective oversight of E&S risk management. Partner Institutions similarly appoint responsible staff to implement E&S screening, monitoring, and reporting within their organizations.

These arrangements ensure clear accountability while maintaining alignment with donor expectations and international standards.

6. Monitoring, Reporting, and Continuous Improvement

ACGF monitors the implementation of its ESMS through regular reviews and reporting mechanisms in cooperation with its Partner Institutions. This includes:

- Ongoing oversight of E&S performance.
- Periodic verification of ESMS implementation.
- Reporting to donors in accordance with agreed requirements, including those under the World Bank EMERGe Project.

Findings from monitoring activities are used to improve systems, address gaps, and strengthen E&S performance over time.

7. Grievance Mechanism

ACGF maintains a grievance mechanism that enables stakeholders to raise concerns related to environmental and social (E&S) issues in a safe, confidential, and accessible manner, in line with international good practice and the World Bank Environmental and Social Framework, particularly ESS9 (Financial Intermediaries).

Given operating model as a financial intermediary, ACGF does not engage directly with end-customer MSMEs. Accordingly, grievances from MSME customers are received and initially handled through the Partner Institutions that have direct contractual relationships with the customers.

Partner Institutions are required to:

- Maintain their own grievance handling arrangements that are accessible to MSME customers.
- Inform customers about available channels to raise concerns related to E&S issues.

- Collect, document, and appropriately channel relevant grievances to ACGF for further review and oversight.

ACGF is committed to ensuring confidentiality, non-retaliation, and fair treatment for all individuals who raise grievances. Sensitive cases, including SEA/SH, are handled with particular care, applying a survivor-centered and confidential approach consistent with international standards.

Information on grievance channels and procedures is communicated through Partner Institutions and is subject to periodic review as part of ACGF's broader E&S monitoring and reporting framework. This approach ensures that grievance handling remains effective, accessible, and aligned with donor requirements, including those under the World Bank EMERGe Project.

8. Commitment

Through its E&S Policy and ESMS, ACGF reaffirms its commitment to:

- Responsible financial intermediation.
- Compliance with donors and international E&S standards.
- Proportionate and practical E&S risk management in fragile contexts.
- Continuous improvement and transparency.

This summary is based on ACGF's internal E&S Policy. The full policy governs internal operations and partner institution requirements.

9. Annex 1: E&S Decision-Making Flow Charts

Annex 1 provides a visual overview of ACGF's Environmental and Social (E&S) risk management process. It illustrates, at a high level, how environmental and social considerations are integrated into the financing cycle supported by ACGF guarantees, from initial screening to monitoring.

The flow charts demonstrate how potential E&S risks are identified, assessed, categorized, and addressed in a structured and proportionate manner, in line with international good practice for financial intermediaries. They reflect ACGF's commitment to applying a risk-based approach consistent with the World Bank Environmental and Social Framework, particularly ESS9.

10. Annex 2: Exclusion List

Annex 2 sets out the list of activities that are not eligible for support under ACGF activities due to unacceptable environmental and social risks.

The Exclusion List is based on internationally recognized standards and draws in particular from the exclusion lists of the World Bank Group, KfW Group, and UNDP. It ensures that ACGF does not support activities that are illegal, harmful to people or the environment, or inconsistent with international conventions and donor requirements.

All financings considered under ACGF-supported programs are screened against this Exclusion List. Activities included in the list are not eligible for support under any circumstances.

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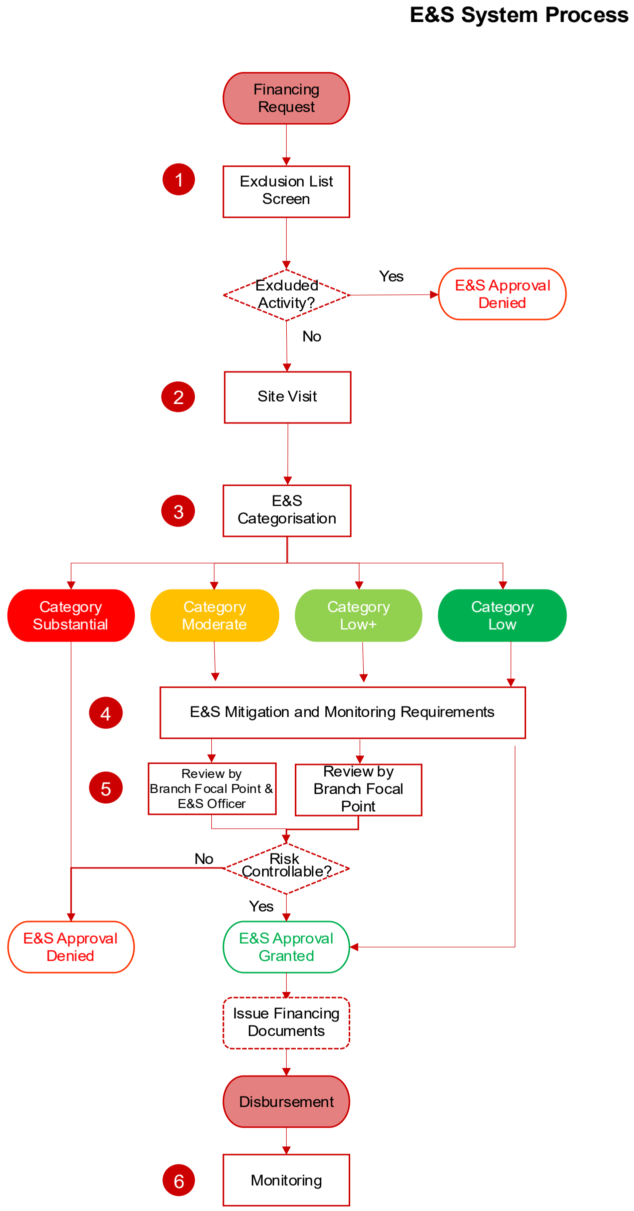
Annex 1

E&S Decision Making Flow Chart



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Annex II: List of Excluded Activities

Based on the KfW Group Exclusion List, the World Bank/IFC Exclusion List, and UNDP Exclusion List, ACGF will not guarantee any activity, production, use, distribution, business, or trade involving:

1. Production or trade in any product or activity deemed illegal under country laws or regulations or international conventions and agreements.
2. Production or trade in pharmaceuticals, pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls (PCBs) subject to international phaseouts or bans.
3. Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species (CITES)
4. Production or trade in weapons, ammunition, or critical components thereof (nuclear weapons and radioactive ammunition, biological and chemical weapons of mass destruction, cluster bombs, anti-personnel mines, enriched uranium).
5. Production or trade in alcoholic beverages [1]
6. Production or trade in tobacco[1]
7. Gambling, casinos, and equivalent enterprises[1]
8. Production or trade in radioactive materials (This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment where the radioactive source is considered to be trivial and/or adequately shielded)
9. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
10. Production or trade in or use of unbounded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
11. Unsustainable fishing practices, such as drift net fishing in the marine environment using nets in excess of 2.5 km. in length, electric shocks, or explosive materials.
12. Production or trade in wood or other forestry products other than from sustainably managed forests.[2]
13. Production or activities involving harmful or exploitative forms of forced labor[3] or harmful child labor[4]
14. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement[5]
15. Any activities involving significant degradation or conversion of natural[6,8] and/or critical habitats[7,8] and/or any activities in legally protected areas.
16. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes, and so on).
17. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by Indigenous Peoples[9]
18. Activities involving significant adverse impacts on critical cultural heritage.[10]
19. Production or trade in or use of non-biodegradable packaging material such as polythene bags and styrofoam.
20. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
21. Prospection, exploration, and mining extraction of coal; the production of gas by carbonization of coal, transport and storage infrastructure essentially used for coal; power plants, heating stations, and cogeneration facilities fired with coal, as well as associated stub lines.[11]
22. Prospection, exploration, and extraction of oil (upstream), transport and storage infrastructure for crude oil, oil terminals, and oil harbors as well as refineries.[12,13]
23. Prospection, exploration, and extraction of natural gas (upstream), new construction of natural gas grids and pipelines, vessels for the laying of natural gas pipelines, LNG liquefying terminals as well as production facilities for grey hydrogen (steam reforming of fossil fuels, without the use of CCS).[13,14]
24. Manufacturing, sale, or distribution of replica weapons marketed to children.
25. Production and sale of pornography.

Notes:

1. *This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.*

2. *Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system.*

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

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

5. *Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced). Land must be bought on a willing-buyer, willing-seller basis.*

6. *Natural habitats are areas composed of viable assemblages of plant and/or animal species of largely native origin, and/or where human activity has not essentially modified an area's primary ecological functions and species composition.*

7. *Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance required for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.*

8. *This includes High Conservation Value (HCV) forests. HCV areas do not directly correspond with definitions for modified, natural, and critical habitats. The HCV Resource Network, an internationally recognized group, provides information and support on the evolving usage of HCV to ensure a consistent approach. https://www.hcvnetwork.org/.*

9. *The term "Indigenous Peoples" is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:*
   - *Self-identification as a member of a distinct cultural group and recognition of this identity by others;*
   - *Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories;*
   - *Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture; or*
   - *A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.*

1. *Critical cultural heritage consists of (a) the internationally recognized heritage of communities who use or have used within living memory the cultural heritage for long-standing cultural purposes; and (b) legally protected cultural heritage areas, including those proposed by host governments for such designation.*
2. *Investments in power transmission grids with significant coal-based power feed-in will only be pursued in countries and regions with an ambitious national climate protection policy or strategy (NDC), or where the investments are targeted at reducing the share of coal-based power in the relevant grid.*
3. *The exclusion does not apply to refineries for biobased products. In the case of refineries for predominant material use, investments in site concentrations (without net extension) and in the prolongation of the technical lifetime are not excluded. Reprocessing (re-refining) and energetic use of waste oil are still eligible for financing.*
4. *Measures for the reduction of greenhouse gas emissions or for increase of efficiency are generally eligible for financing provided that they do not take place in the prospection, exploration, and extraction of oil and gas (upstream) and do not result in capacity extensions of more than 10%. Financing of carbon capture and storage is also eligible for financing.*
5. *The exclusion of new construction of natural gas grids and pipelines does not include gas grids and pipelines for cooking purposes.*

Note: Additionally, borrowers will covenant not to engage in cultivation, processing and sale of poppy and/ or other illegal addictive substances (for example, heroin, hashish, opium, bhang, alcohol) Sale of addictive substances such as tobacco, gutka, niswar, cigarettes, beeri, hukka, paan parag, sheesha and any other products containing such substances to persons under the age of 18, Illegal wood extraction, hunting, poaching and fishing in protected areas, informal cross-border trade, smuggling or sale and handling of smuggled good.