

ENVIRONMENTAL AND SOCIAL POLICY AND PROCEDURES



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1. INTRODUCTION

The U.S. International Development Finance Corporation (DFC) is the U.S. Government's development finance institution. DFC partners with the private sector to support solutions to the most critical challenges facing the developing world today. It invests across sectors including energy, healthcare, critical infrastructure, and technology projects. DFC investments include financing for small businesses and women entrepreneurs, which create jobs in emerging markets. Environmental and social sustainability is an essential component of the solutions DFC supports. Therefore, DFC investments adhere to high standards and respect the environment, human rights, and worker rights.

The Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, Div. F of P.L. 115-254, 22 U.S.C. §9612 et seq.) is the governing legislation for DFC.

a. Statement of Purpose

The purpose of the Environmental and Social Policy and Procedures (ESPP) is to set out DFC's commitments for environmental and social screening, review, risk mitigation, and monitoring that will help ensure the environmental and social sustainability of DFC-supported projects. This ESPP also includes guidance for what DFC **Clients** need to prepare, submit, and implement.¹

b. Scope

The environmental and social requirements described in this document apply to all **Projects**, **Subprojects**, and **Clients** supported through DFC's products including insurance, reinsurance, direct loans, guaranties, equity, and support through **Financial Intermediaries**. This document also applies to DFC and describes its responsibilities. This ESPP does not apply to DFC's technical assistance (TA) activities.

c. DFC Commitment to Environmental and Social Sustainability

- i. DFC will ensure through its processes that **Projects** receiving support are environmentally and socially sustainable. To this end, DFC will partner with its **Clients** to assist them in managing environmental and social risks, identifying opportunities to add value, promote longer-term sustainability, and strengthen their environmental and social management capacity. Specifically, DFC expects and will support **Clients** to:
 - Identify, assess, and avoid adverse environmental and social impacts of the **Project** and, if such impacts are unavoidable, properly minimize, mitigate, compensate, and/or remedy impacts through application of the mitigation hierarchy (as defined in IFC **Performance Standard 1**).
 - Review the **Project** for alignment with climate-resilient, low- and no-carbon economic development.
 - Include measures in the **Project** to safeguard and, where feasible, enhance ecosystems and the biodiversity they support with the aim of achieving no net loss of biodiversity as well as to sustainably manage and use living natural resources.
 - Assess and mitigate the risks of deforestation and other land conversion for investments in infrastructure development, agriculture, land use planning or zoning, and energy siting and generation.
 - Promote inclusion and non-discrimination in the **Project**, particularly with respect to disadvantaged or **Vulnerable Groups**.
 - Respect **Human Rights**, **Labor Rights**, and the rights of **Project Affected People**.
 - Identify disproportionate gender-specific risks as well as gender-specific opportunities of the **Project** and take steps to mitigate the risks of exclusion, discrimination, and harm, including the risk of **Gender-Based Violence and**

¹ Bolded text in this document refers to defined terms that can be found in the Glossary – Appendix C.

Harassment (GBVH).

- Undertake **Meaningful Consultation** with **Project Affected People** regarding **Project** activities, including engagement with **Vulnerable Groups**.
 - Undertake **Projects** in a host country that is taking steps to adopt and implement laws that extend **Internationally Recognized Worker Rights**.
 - Ensure that **Project Affected People** are aware of and have access to **Project-level** grievance mechanisms for voicing complaints and seeking remedy for harm.
 - Not tolerate any action that amounts to retaliation or reprisals – including threats, intimidation, harassment, or violence – against those who voice their opinion regarding the activities of DFC or its **Clients**.
- ii. DFC will implement best practices in environmental management and reporting in accordance with the provisions of Executive Order 14057 – Catalyzing Clean Energy and Jobs Through Federal Sustainability (December 8, 2021).
- iii. DFC makes information concerning its activities available on DFC’s website to enable members of the interested public an opportunity to better understand DFC’s business activities.

d. Revision and Update of ESPP

The ESPP will be reviewed and updated periodically as needed to reflect and align with institutional priorities, international best practice, and lessons learned from implementation.

e. DFC’s Independent Accountability Mechanism

DFC has established an Office of Accountability (OOA) to assess and review complaints about DFC-supported Projects and Subprojects. The OOA, which functions as DFC’s independent accountability mechanism, gives local communities, which may be adversely affected by DFC-supported Projects and Subprojects, a means through which complaints may be raised. OOA’s mandate is to deliver problem-solving and compliance review services in a manner that is fair, objective, and transparent, thereby enhancing DFC’s mission effectiveness.

- i. OOA requires all **Clients** and **Subprojects** to disclose DFC’s potential participation in a proposed investment and the existence of DFC’s OOA to **Project Affected People** in a culturally appropriate, gender-sensitive, and accessible manner.
- ii. Further information on the OOA and how to request its services can be found at DFC’s website.²

² <https://www.dfc.gov/our-impact/transparency/office-of-accountability>

2. ENVIRONMENTAL AND SOCIAL STANDARDS

Objectives: (1) to specify DFC's required standards of performance necessary to manage environmental and social risks and achieve environmentally and socially sustainable outcomes; and (2) to specify additional sector-specific requirements.

a. Source of Requirements

- i. This ESPP adopts, as a standard for assessment, review, and management of environmental and social risks and impacts, the **International Finance Corporation's (IFC's) Performance Standards on Social and Environmental Sustainability (Performance Standards)**,³ and the World Bank Group's **Environmental, Health, and Safety (EHS) Guidelines**.⁴ Any subsequent revisions to those standards (and any underlying standard or guideline) are incorporated into this ESPP by reference.⁵
- ii. When co-financing **Projects** in which a multilateral development bank (MDB), such as the European Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, or the Inter-American Development Bank is involved, DFC may apply the standards, in whole or in part, (other than the **Performance Standards**), of the respective MDB to facilitate DFC participation in the transaction. In such circumstances, DFC may adopt a common approach with co-financiers for **Project** assessment, review, management of environmental and social risks and impacts, monitoring, and reporting only when that approach is considered materially consistent in content and outcomes with the ESPP and the **Applicable Standards**.

b. Minimum Requirements

- i. In addition to compliance with all applicable laws, at a minimum, DFC requires that all **Projects** meet the **Performance Standards**, applicable **EHS Guidelines**, and **Labor Rights** in accordance with DFC review procedures. These are collectively referred to as DFC's **Applicable Standards**. The relevant provisions of this ESPP, together with the **Applicable Standards**, are referred to as DFC's **Environmental and Social Requirements**.⁶
- ii. **Performance Standard 1** (Assessment and Management of Environmental and Social Risks and Impacts) and **Performance Standard 2** (Labor and Working Conditions) are applicable to all **Projects** and **Clients** regardless of their environmental and social risks and impacts. Externally and internally facing grievance mechanisms as described in **Performance Standard 1** and **2** are part of these minimum requirements.
- iii. **Applicability** of the other **Performance Standards** and any other sector-specific requirements are dependent on the nature of the **Project** and its environmental and social risks and impacts.
- iv. In **accordance** with the provisions of **Performance Standard 3** (Resource Efficiency and Pollution Prevention), alternative pollution prevention and control technologies may be approved, provided that (1) the alternative performance levels are consistent with the overall requirements of **Performance Standard 3**; and (2) the alternative performance levels are

³ The IFC Performance Standards can be found here:

<https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>

⁴ The World Bank EHS Guidelines can be found here:

<https://documents1.worldbank.org/curated/en/157871484635724258/pdf/112110-WP-Final-General-EHS-Guidelines.pdf>

⁵ The EHS Guidelines incorporate by reference standards issued by other international organizations, such as the World Health Organization (WHO). If an international organization updates such standards, then DFC will apply the updated standards.

⁶ The applicability of this ESPP to Subprojects is addressed in Section 8.

protective of the environment and **Project Affected People** within the **Area of Influence**.

- v. Where host country law and environmental, health, safety, and social requirements differ from the **Applicable Standards**, the **Project** is expected to meet whichever is more stringent.

c. Revision of Standards

- i. The U.S. Government, international organizations, and industry groups periodically revise guidelines and standards referenced in DFC's **Environmental and Social Requirements** to reflect technological advances and improved understanding of environmental, health, safety, and social risks. Complete **Client** applications to DFC that are received after the effective date of a new guideline or standard will be assessed against that new guideline or standard.
- ii. Complete **Client** applications to DFC that are received before the effective date of a new guideline or standard will be assessed against the guideline or standard in effect on the date of application, provided that DFC's commitment to provide support is achieved within one year of the effective date of the new guideline or standard. If the commitment is not achieved within one year after the effective date, the **Project** will be subject to the new guideline or standard.

d. Scope of Application of Requirements

- i. The **Environmental and Social Requirements** apply to all **Project**-related activities including those carried out by on-site contractors and sub-contractors of the **Project** that work for a substantial duration of time on the **Project** or are material to the **Core Business Processes** of the **Project**. **Clients** are responsible for ensuring that on-site contractors and sub-contractors meet the requirements.
- ii. Projects that involve new facilities or business activities must be designed to meet the **Applicable Standards**.
- iii. For existing projects, including privatizations, compliance with the **Applicable Standards** must be attained within a designated period of time following the receipt of DFC support that is considered acceptable to DFC and specified in **DFC Agreements**. If material compliance has not been demonstrated at the time of DFC approval, **Clients** will be required to implement additional measures within a specified time period (See Section 8).

e. Supplemental Sector-Specific Requirements

DFC is responsible for identification of supplemental standards when additional preventive or protective measures are necessary to adequately mitigate specific **Project**-related environmental and social risks and impacts.

Supplemental standards may include (1) relevant and applicable U.S. federal standards; (2) standards issued by other international organizations relating to public health, safety, and the environment such as those from the International Labour Organization, the World Health Organization, the International Maritime Organization (IMO), the Food and Agriculture Organization, or the International Civil Aviation Organization; and (3) standards of best practice developed by governments other development finance institutions, industry associations, or non-governmental organizations.

i. Construction and Operations of Dams

For projects involving the construction and operation of dams that are not otherwise categorically prohibited (See Appendix A), DFC applies screening and environmental and social assessment criteria consistent with international best practice, including the core values and strategic priorities as identified in the November 16, 2000, Report from the

World Commission on Dams.⁷ Specific factors that are considered in DFC's screening and review of projects involving dams may be found at:

- IFC Good Practice Handbook on Environmental Flows for Hydropower Projects (March 2018)⁸
- World Bank Good Practice Note on Dam Safety: New Guidance on Managing Risks Associated with Dams (April 2021)⁹
- IFC Good Practice Note: Environmental, Health, and Safety Approaches for Hydropower Projects (March 2018)¹⁰
- International Council on Mining and Metals (ICMM), UN Environmental Programme, and UN Principles for Responsible Investment Global Industry Standard on Tailings Management¹¹

ii. Forestry Projects

- DFC will not support Projects that directly or indirectly involve the extraction of timber from or the conversion or degradation of Critical Habitats (See Appendix A).
- All other Projects involving timber extraction from forests, including all boreal, temperate, and plantation forests, must be certified by an independent non-governmental organization. The purpose of certification is to demonstrate that timber extraction activities are managed sustainably and can include traceability of wood to the point of harvest. Certification must be maintained throughout the term of DFC support. The cost of this certification is the responsibility of the Client.
- Any forest product labeling associated with a certified forest must be guaranteed by a credible independent certification body that connects the labeled product to its certified forest of origin.
- Projects involving forest products that source raw materials from third parties must demonstrate that the raw materials are not being sourced from a Critical Habitat and that the raw material extraction is conducted in compliance with the Applicable Standards.

iii. Health Care

All **Projects** providing patient care must be certified by a local regulatory health authority and work toward obtaining satisfactory accreditation based on:

- A quality evaluation of the institution's resources and organization by an internationally recognized accreditation organization¹² or similarly aligned accreditation organization,¹³
- An assessment of the institution by a nationally recognized accreditation organization, or
- A high-quality rating by a third-party expert in the health care field satisfactory to DFC.

⁷ https://archive.internationalrivers.org/sites/default/files/attached-files/world_commission_on_dams_final_report.pdf

⁸ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_eflows

⁹ <https://www.worldbank.org/en/topic/watersupply/publication/good-practice-note-on-dam-safety-new-guidance-on-managing-risks-associated-with-dams>

¹⁰ <https://www.ifc.org/content/dam/ifc/doc/mgrt/gpn-ehshydropower.pdf>

¹¹ https://globaltailingsreview.org/wp-content/uploads/2020/08/global-industry-standard_EN.pdf

¹² Such as those accredited by ISQua <https://www.isqua.org/>

¹³ One example is SafeCare <https://www.safe-care.org/>

Once obtained, all **Projects** must maintain this accreditation, certification, or high-quality rating throughout the term of DFC support. The cost of this accreditation or certification is the responsibility of the **Client**.¹⁴

All healthcare service providers that purchase pharmaceuticals for the purpose of providing them, directly or indirectly, to patients shall restrict drug purchasing to pharmaceuticals that comply with national regulatory requirements and are registered for use in the host country.

Projects involving the manufacturing of pharmaceuticals or medical equipment are reviewed closely by DFC. All **Projects** manufacturing pharmaceuticals or medical equipment must obtain satisfactory facility certification of good manufacturing practices by the appropriate national regulator as well as satisfactory product approval or authorization by the appropriate national regulator. Evidence that the safety and effectiveness of such products are certified by the national regulatory authorities and if relevant, the World Health Organization, U.S. Food and Drug Administration, or other similar regulatory authority, must be received as determined by DFC.

iv. **Biomass as Fuel Projects**

Projects involving the use of **Renewable Biomass** as fuel that are not otherwise categorically prohibited (see Appendix A) must demonstrate that (1) the fuel was sourced in a sustainable manner, i.e., that avoids or adequately mitigates pollution or degradation of the source ecosystem; (2) the fuel supply did not result in the conversion of **Critical Habitats**; (3) the fuel supply does not compete with food feedstock; and (4) combustion of the **Renewable Biomass** results in fewer **Greenhouse Gas (GHG)** emissions than the least GHG-intensive fossil fuel alternative.

v. **High-Risk Supply Chain**

DFC applies screening and environmental and social assessment criteria consistent with international best practice for **Projects** utilizing a **Supply Chain** at risk for the use of forced or child labor, significant health and safety issues, or conversion of **Critical Habitat**. For **Projects** with high-risk **Supply Chains**, **Clients** must provide relevant information on suppliers within the **Supply Chain** that provide products essential to the **Project's Core Business Processes**.

¹⁴ In the case of micro, small, and medium enterprises providing needed healthcare goods and services to the most economically disadvantaged segments of a country's population and third-party accreditation is prohibitively expensive, but there is a well-established consultation process in place to identify the most appropriate standards to apply given the country context, minimum requirements for accreditation or certification may be determined in conjunction with United States Agency for International Development's (USAID's) mission health officer and documented accordingly.

3. SCREENING AND CATEGORIZATION

Objectives: (1) to determine whether the **Project** and **Client** are eligible to receive, or are precluded from receiving, DFC support on environmental and social grounds; (2) to determine a risk categorization for the **Project** based on the nature and magnitude of environmental and social risks and impacts; (3) to identify issues to be investigated in detail in the environmental and social review process; and (4) to determine requirements for documentation, consultation, disclosure, monitoring, and reporting.

a. DFC Responsibilities

- i. DFC screens applications as early as possible to identify the risk of adverse environmental and social impacts of proposed projects and determine if a **Project** is eligible for DFC support.
- ii. Support for a **Project** will be declined when (1) a **Project** is a **Categorically Prohibited Project** (Appendix A); (2) a **Project** fails to address environmental and social issues in a satisfactory manner and cannot be expected to meet the requirements of the **Applicable Standards** over a time frame considered reasonable and feasible; (3) residual impacts after mitigation are unacceptable; (4) a **Project** does not comply with the host country's environmental and social laws or regulations and cannot be expected to comply over a time frame considered reasonable and feasible; and/or (5) a **Project** does not respect **Human Rights** and **Labor Rights**.
- iii. During the screening process, DFC reviews the **Project's** anticipated risks and impacts, its defined **Area of Influence**, and information on **Project Affected People** to determine whether the information is adequate, accurate, objective, and appropriate to the significance and severity of potential impacts of **Project** activities. Additional information may be required from the **Client** and from independent experts.
- iv. In screening **Projects**, environmental and social impacts that are direct, indirect, induced, supply-chain related, regional, trans-boundary, associated-facilities related, contextual, and cumulative are considered. DFC assesses risk at key stages in the **Project** life cycle including pre-construction, construction, operations, decommissioning, closure, and where applicable, post-closure.
- v. In screening investments in existing **Projects**, DFC assesses environmental and social impacts and risks associated with (1) current operations; and (2) planned expansions or modifications.

b. E&S Risk Categorization

- i. DFC categorizes **Projects** based on a preliminary assessment of (1) the potential environmental and social risks and impacts within a **Project's Area of Influence** in the absence of any required mitigation; (2) the **Client's** commitment and capacity to effectively manage the environmental and social risks and impacts, including the ability to implement any required mitigation; (3) the potential role of third parties in achievement of successful outcomes; and (4) the scope and profile of **Project Affected People**, including **Workers**.
- ii. **Projects** under consideration for direct DFC support are categorized as Category A, B, or C based on environmental and social risk factors. See Chapter 8 on **Financial Intermediaries** (FIs) for risk categorization and additional requirements specific to FIs.

Environmental and Social Risk Categories for Direct Support		
Category	Description	Examples
Category A	Projects that may have significant adverse environmental and/or social impacts that are irreversible, sensitive, diverse, or unprecedented in the absence of adequate mitigation measures. Category A Projects are considered high risk.	Appendix B provides an illustrative list of sensitive sectors and project-siting factors that may lead to a Category A categorization.
Category B	Projects that are likely to have limited adverse environmental and/or social impacts that are fewer in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. Category B Projects are considered medium risk. The scope of environmental and social assessment for Category B projects may be narrower than that required for Category A projects.	Examples of Category B Projects may include small-to-medium-scale construction, manufacturing, and processing; commercial/retail businesses; and rooftop solar and facility expansions within an existing footprint.
Category C	Projects that are likely to have minimal adverse environmental or social impacts. Category C Projects are considered low risk.	Examples of Category C Projects may include financial services, web-based platforms, software development, and project development activities that do not involve physical impacts.

iii. Below are **aspects of Projects** that may lead to a higher categorization of environmental or social risk:

- **Projects** that discharge high levels of contaminants (including **Greenhouse Gases**) into the environment in the absence of pollution controls or sound environmental and social management, consistent with international goals (Sustainable Development Goals, Paris Agreement) and standards.
- Large-scale **Projects** are generally considered to represent a higher risk because of the greater potential to impact the environment and/or people in nearby communities over large geographic areas outside of a **Project's** immediate boundary. Although quantitative screening thresholds that define what is meant by "large-scale" are not available for all **Projects**, several examples are provided in Appendix B.
- **Projects** that could result in significant impacts on priority ecosystem services or social values at a particular site. Ecosystem services are benefits that people obtain from ecosystems including food, freshwater, shelter, timber, surface water purification, carbon storage and sequestration, climate regulation, and protection from natural hazards. Examples of social values include site attributes important for ethnic or religious reasons or attributes of cultural or historic significance, including those considered important to indigenous peoples.
- **Projects** in locations, industries, or sectors with greater potential for adverse impacts on **Project Affected People** and **Human Rights**, including impacts to land and resources; health and safety; physical and/or economic displacement; demonstrated local opposition; significant in-migration; impacts to cultural heritage; gender-related impacts; or impacts to indigenous peoples or **Vulnerable Groups**.
- **Projects** that are in locations, industries, or sectors that are labor-intensive; involve hazardous work with a documented history of **Labor Rights** issues; rely on large pools of contracted, migrant, casual, or unskilled **Workers**, including within the **Supply Chain**;

or are in locations, industries, or sectors with elevated risks of gender discrimination, exclusion, or **GBVH** may also be higher risk. Examples of such **Projects** are those that involve significant construction activities, manual harvesting of agricultural commodities, **Extractive Industries**, or are in industries in which **Workers** face difficulty in exercising trade union rights or have a higher likelihood of using forced (including trafficked) or child labor, including in their **Supply Chains**.

- **Contextual Risk** factors in the external environment that the **Client** does not control may further exacerbate the **Project's** environmental and social risks and lead to a higher risk categorization.

c. Corporate Investments

- i. Where the use of proceeds of a **Corporate Investment** and the environmental and social footprint of the business activities are known at the time of DFC's environmental and social review, the risk categorization of a **Corporate Investment** will be based on the potential environmental and social risks of the known use of proceeds. Where the use of proceeds is unknown or not well-defined, the risk category will be based on the inherent risks associated with the particular sector, the environmental and social characteristics of the business activity, and the country context.
- ii. Where the use of proceeds of a **Corporate Investment** is known and understood, the environmental and social review should proceed as it is done for traditional project finance, and the **Applicable Standards** will apply only to the business activities financed using the DFC funds. **Corporate Investment Projects** deemed to be Category A will have the same requirements as for traditional project finance Category A **Projects** including **Environmental and Social Impact Assessment (ESIA)/Baseline Audit** and disclosure requirements as described in Sections 5 and 6. Where the use of proceeds involves working capital, equity, or an investment in holding companies, the DFC review will consider the full range of operations undertaken by the entity in which DFC is investing, and the **Applicable Standards** will apply to the entire company, including its subsidiaries and companies in which it has management control. In all cases, the DFC review involves investigation of the capacity, maturity, and reliability of the company's corporate environmental and social management.

4. ENVIRONMENTAL AND SOCIAL REVIEW

Objectives: (1) to determine whether the **Project** seeking DFC support can be implemented in accordance with this ESPP and the **Applicable Standards**; (2) to identify opportunities to avoid adverse impacts and, if impacts are unavoidable, to identify required mitigation measures; and (3) to identify opportunities to improve the environmental and social performance of the **Project** seeking DFC support.

a. DFC Responsibilities

- i. After screening and categorization, and prior to DFC approval, DFC undertakes a review of the **Project** and the **Client's** organizational capacity and past environmental and social performance to determine whether the **Client** meets or can meet the requirements of the **Applicable Standards**. This may involve reviewing a **Project's ESIA** (See Section 5), its **Environmental and Social Management System (ESMS)**, and/or the **Client's** relevant policies, plans, and procedures.¹⁵
- ii. DFC reviews the available documents related to the environmental and social performance of the **Project** as well as the **Client's** organizational capacity to assess whether they are adequate to address identified environmental and social risks and impacts and are appropriate to the significance or severity of the **Project** activity's potential impacts. During the review process, DFC will identify the relevant **Performance Standards** that the **Project** is required to meet in addition to project-specific conditions and actions required to reach or maintain compliance with the **Applicable Standards**.
- iii. DFC's review will consider direct, indirect, induced, **Supply Chain**-related, associated facilities, regional, trans-boundary, and cumulative environmental and social risks and impacts. DFC will also consider **Contextual Risks** and their potential to affect the environmental and social risk profile of the **Project**.
- iv. As part of its review, DFC will assess **Meaningful Consultation** undertaken as per the requirements of the IFC Performance Standards, including those required when **Performance Standard 7** is applicable. For those projects with the potential for significant adverse impacts on **Project Affected People**, DFC will confirm prior to **Project** approval that there is **Broad Community Support** for the **Project**. DFC may rely on support from independent experts to assess **Meaningful Consultation**, **Broad Community Support**, and/or applicable consultation requirements under **Performance Standard 7** (Indigenous Peoples).
- v. During due diligence, DFC consults with the **U.S. Department of State** on how Project-specific activities interact with country-level human rights concerns. For consistency across U.S. Government agencies, DFC relies on guidance provided by the **U.S. Department of State**, the lead U.S. agency on **Human Rights** matters and determinations.
- vi. As needed, DFC may undertake on-site due diligence visits for higher-risk projects and/or engage independent experts for additional support in its review.

b. Client Responsibilities

- i. The **Client** must demonstrate a sound understanding of the **Project** and have undergone a process to (1) identify all factors that define the **Project's Area of Influence**, including direct

¹⁵ Additional guidance on the format and content requirements for **ESMS**, **ESIAs**, and **Baseline Audits** may be found in Guidance Note 1 (Social and Environmental Assessment and Management Systems) at: [Guidance Note 1: Assessment and Management of Environmental and Social Risks and Impacts - Published January 1, 2012 \(updated June 14, 2021\) \(ifc.org\)](https://www.ifc.org/~/media/IFC/ESPP/ESPP-Guidance-Note-1-Assessment-and-Management-of-Environmental-and-Social-Risks-and-Impacts-Published-January-1-2012-updated-June-14-2021.pdf)

and indirect impacts; (2) identify potential project-related environmental and social risks and impacts; (3) identify and commit to appropriate mitigation measures including adequate resources for implementation; and (4) identify and engage with relevant **Project Affected People** and other interested **Stakeholders** that may be directly or indirectly affected by the **Project**, including **Vulnerable Groups**. The process of identifying risks, impacts, **Area of Influence**, and **Project Affected People** shall be adequate, accurate, objective, and appropriate to the severity of **Project** risks and significance of **Project** impacts.

- ii. For higher-risk **Projects**, additional assessment and analysis may be required. For Category A and B **Projects**, the **Client** should submit one or more documents during DFC's review that describe the following aspects. The level of detail required will vary depending on the nature, size, and level of risk of the **Project**. Key aspects include:
 - The **Project** activities and/or key components, its **Area of Influence**, and its environmental and social aspects.
 - Maps, drawings, or schematics of the **Project** and its **Area of Influence**.
 - Key potential environmental impacts and risks, including impacts on biodiversity and estimated **Direct and Indirect Emissions of Greenhouse Gases**.
 - Key potential social impacts and risks, including identification and a description of impacts on any **Project Affected People** and disadvantaged or **Vulnerable Groups**, as well as gender-related risks and impacts including discrimination, exclusion, and harm (including **GBVH**).
 - An **ESMS** and/or related policies and management plans that describe proposed mitigation measures.
 - A description of the process of **Meaningful Consultation**, including a Stakeholder engagement plan (if available).
 - Organizational capacity and resources for environmental and social management.
- iii. Category C **Projects** are not required to establish a formal **ESMS** but are required to have in place appropriate environmental and social policies and procedures that will guide the **Project** (as described in **Performance Standard 1**), human resource management systems, and internal and external-facing grievance mechanisms.
- iv. **Clients** are required to undertake, and provide demonstration of, **Meaningful Consultation** with **Project Affected People** and meet the requirements related to **Stakeholder** engagement of **Performance Standard 1**. The form and scope of the consultation should be commensurate with the project risks and the nature and scope of the **Project**. **Meaningful Consultation** must be safe and inclusive, and **Stakeholder** analysis and engagement should capture the views of diverse groups including women, men, youth, the elderly, displaced or disabled persons, and any other disadvantaged or **Vulnerable Groups**. In some contexts, separate engagements with certain groups may be required to obtain different perspectives, priorities, and concerns about impacts, mitigation mechanisms, and project benefits. For those **Projects** with the potential for significant adverse impacts on **Project Affected People**, the **Client** is also required to demonstrate there is **Broad Community Support** for the **Project**. For those projects where **Performance Standard 7** is applicable, the **Client** will be required to meet the applicable consultation requirements of that **Performance Standard**.
- v. **Clients** are required to have in place and maintain over the life of DFC support adequate organizational capacity and resources to manage the environmental and social risks associated with the **Project** and implement the **Project** in accordance with the terms of the **DFC Agreement**.

c. Environmental and Social Impact Assessments and Audits

- i. For **Projects that** involve significant greenfield development or expansions or modifications of existing projects, the **Client** is required to prepare an **ESIA** aligned with DFC's **Applicable Standards** (or other standards deemed equivalent by DFC). **ESIAs** are required to include a **Climate-related Vulnerability** assessment (See Section 10). This is applicable to all greenfield Category A **Projects**, and some greenfield Category B **Projects**.
- ii. For any Category A and for some Category B **Projects** that include existing or operating facilities, **DFC** requires the submission of a **Baseline Audit** or targeted study depending on potential environmental and social risks. The purpose of a **Baseline Audit** or targeted study is to identify past and present concerns, current status of regulatory and **Applicable Standards** compliance, management systems and performance, as well as potential risks and liabilities of the **Project**.
- iii. For lower risk, Category B **Projects** that don't fall under Paragraph 4.c.i and 4.c.ii above, such as those that include modernization and upgrade of existing production facilities or no major expansion or transformations, a limited or focused environmental and social analysis or study may be sufficient.
- iv. **Projects** that have been screened as Category C (i.e., **Projects** with minimal environmental or social impacts) are not required to prepare an **ESIA** or **Baseline Audit**.

5. TRANSPARENCY AND DISCLOSURE

Objectives: (1) to enhance transparency and accountability related to DFC's environmental and social management; and (2) to enhance transparency and the provision of information to **Stakeholders** of DFC-supported **Projects**.

a. DFC's Institutional Disclosure

- i. Institutional information that is made available on DFC's website includes this **ESPP**, annual **reports**, audited financial statements, program handbooks, Board resolutions, claims determinations, arbitral awards, bilateral agreements, and annual **Greenhouse Gas** accounting for DFC's portfolio.
- ii. DFC may withhold records or portions of records that are exempted from public disclosure under the Freedom of Information Act (FOIA) or as required under other laws or regulations.¹⁶
- iii. DFC provides advance notice and information about potential **Projects** to be voted on by DFC's Board of Directors to ensure that interested parties are aware in advance of public hearing dates and have sufficient information to prepare for the public hearing.¹⁷
- iv. DFC is committed to disseminating information that meets its standards for objectivity, integrity, and utility in accordance with its **Information Quality Guidelines**.¹⁸
- v. DFC reports annually to Congress and the public regarding its implementation of this **ESPP**. That report, which is contained within DFC's **Annual Report**, is published on the DFC website.

b. DFC's Project-related Disclosure Requirements

- i. DFC prepares and discloses project information summaries that contain environmental and social information for each **Project**. The summaries include the following environmental and social information as appropriate to the nature and scale of the **Project** and commensurate with the potential environmental and social risks and impacts:
 - Rationale for environmental and social risk categorization.
 - Environmental and social standards applicable to the **Project**.
 - Description of the major environmental and social risks and impacts of the Project.
 - Approved alternative pollution prevention and control technologies that meet Performance Standard 3 (if applicable).
 - Description of action(s) required to achieve compliance with Applicable Standards.
 - Information related to DFC environmental and social due diligence visits (if applicable).
 - Description of the Client's engagement with Project Affected People (if applicable).
- ii. For Projects that require Board of Directors approval, DFC provides advance notice by disclosing the project information summaries at least 7 days in advance of the Board meeting or action.

¹⁶ Additional information on DFC's FOIA implementing regulation is available at: <https://www.dfc.gov/who-we-are/transparency-and-accountability>

¹⁷ DFC Board of Directors disclosure requirements are contained in the DFC Board of Directors Public Engagement Policy:

https://www.dfc.gov/sites/default/files/media/documents/BDR21%2805%29BoardPublicEngagementPolicy_0.pdf

¹⁸ DFC's Information Quality Guidelines are available at: <https://www.dfc.gov/who-we-are-transparency/information-quality-guidelines>

- iii. For all Category A **Projects** (including Category A **Subprojects**), **Clients** are required to submit to DFC an **ESIA** and/or **Baseline Audit**, a local language translation of the executive summary of the **ESIA/Baseline Audit**, and a **Stakeholder** engagement plan (See Section 5c). DFC will post these documents for disclosure on DFC's website for a public comment period of at least 60 days. DFC may require additional, topic-specific environmental and social documents to be disclosed alongside the **ESIA/Baseline Audit** on DFC's website depending on the nature and type of the **Project** and the materiality of the specific plan or report. All **Project** documents posted for public disclosure must be deemed adequate by DFC. DFC may require revision to the documents to achieve adequacy.
 - iv. After the 60-day public comment period ends, DFC will post on its website any comments received, as well as DFC management's response, at least 7 days prior to the final decision on whether DFC will support a **Project**. If no comments are received, DFC may proceed directly to final project approval.
 - v. No Category A **Project** may be approved without this public disclosure, opportunity for public comment, and management response (if needed). Disclosure of documents for public comment does not imply project approval.
 - vi. At the same time the **ESIA** and/or **Baseline Audit** is released for public comment, DFC drafts and posts on its website an initial project summary. The initial project summary outlines:
 - Project name, location, and description.
 - DFC's initial environmental and social screening and categorization.
 - Description of the anticipated major environmental and social risks and impacts of the Project.
 - Anticipated Applicable Standards.
 - Location of local disclosure of **ESIA** and/or **Baseline Audit**.
 - vii. DFC notifies host-country governments of any Category A **Project** considered for support. This notification is required to identify guidelines and other standards of international organizations relating to public health, safety, or the environment that are applicable to the **Project** and, to the maximum extent practicable, any restriction related to public health or safety that would apply to the **Project** if it were undertaken in the U.S. All **Host Country Notifications** are disclosed on DFC's website.
 - viii. A **Project's ESIA** and/or **Baseline Audit** submitted for disclosure may not contain all of the final negotiated measures to mitigate or remediate environmental and social risks and impacts. DFC's project summary describes additional measures required to achieve compliance with the **Applicable Standards**.
- c. **Client Disclosure Responsibilities**
- i. As per the **Performance Standards**, **Clients** are expected to maintain appropriate communication channels with **Stakeholders**, including regular reporting on **Project** activities to **Stakeholders**. This communication must be in a language and format that is accessible to **Stakeholders**, particularly **Project Affected People**.
 - ii. For Category A **Projects**, **Clients** are required to submit to DFC an **ESIA** and/or **Baseline Audit** and **Stakeholder** engagement plan for public disclosure on the DFC website.
 - iii. **ESIAs**, **Baseline Audits**, and any other environmental and social documents requested by DFC that are submitted for public disclosure must be in English or accompanied by an English language translation.

- iv. The Client is required to provide to DFC a local language translation of the executive summary of the **ESIA** and/or **Baseline Audit** and make the summary available to **Project Affected People** in a format that is readily understandable, at a location that is accessible locally to the **Project**, and tailored to meet the information needs of **Project Affected People**. The translated summary should be distributed by means that account for the ability of **Project Affected People** to receive, address, and effectively comment on the content. The location of local disclosure by the **Client** will be disclosed in DFC's initial project summary (see Section 5.b.vi).

6. MONITORING AND REPORTING

Objectives: (1) to review and evaluate DFC-supported **Projects'** compliance with the **Applicable Standards**; and (2) to evaluate the effectiveness of mitigation measures, action plans, and corrective actions, including input received from Stakeholders.

a. DFC Responsibilities

- i. DFC monitors **Projects'** compliance with all **Environmental and Social Requirements** (and underlying representations) that are reflected in conditions and covenants in **DFC Agreements** throughout the term of the contract. DFC also monitors changes in the **Project** and its local context that may affect its environmental and social risk profile and the **Project's** ability to achieve ongoing compliance.
- ii. Monitoring visits are intended to check for on-the-ground compliance, identify areas where the **Project** is implementing good practices and/or potential areas for improvement, and enable an opportunity for **Workers, Project Affected People**, and other **Stakeholders** to interact and provide feedback on the **Project's** performance including its engagement practices to DFC.
- iii. The extent and frequency of monitoring will be commensurate with the environmental and social risks associated with the **Project**. DFC undertakes monitoring through review of environmental and social reports (client self-reporting and/or third-party reports), communication with **Clients** regarding the **Project's** environmental and social performance, and/or site visits to **Projects** by DFC's environmental and social specialists and/or independent experts.
- iv. Selection for monitoring site visits is determined through a risk-based prioritization process. The scope, timing, and periodicity of the visits are commensurate with the significance and severity of environmental and social risks and impacts of a **Project, Client, or Financial Intermediary**.
- v. For Category A and some Category B **Projects**, DFC requires a third-party audit to monitor the environmental and social performance of the **Project** against the **Applicable Standards**. At least one third-party audit is required for all Category A **Projects**. The audit should be performed at a time specified in the **DFC Agreement**, and no later than three years after receiving DFC support. For certain **Projects**, additional third-party audits may be required during the construction phase. DFC must approve the scope of work of the monitoring activities and selection of the independent experts.
- vi. If DFC identifies deficiencies in performance and/or non-compliance with the **Applicable Standards**, DFC will work with **Clients** to identify recommendations for improvements and appropriate corrective measures in cases of non-compliance. If the **Client** fails to comply with the agreed corrective measures, DFC may take such action and/or exercise such rights and/or remedies contained in the **DFC Agreement** as it deems appropriate (See Section 7).

b. Client Responsibilities

- i. **Clients** are required to submit a Development Outcomes Survey (DOS) starting 12 months after receiving DFC support and on an annual basis thereafter. The DOS reporting requirement provides an avenue for DFC to evaluate project data regarding development impact outcomes.
- ii. All **DFC Agreements** require timely notification to DFC of any incident occurring at the **Project** site that results in the loss of life or that has a material, adverse impact on or poses material risk to the environment, **Workers**, or **Project Affected People**.

- iii. All Category A and some Category B **Projects** are required to submit annual environmental and social reports. At a minimum, environmental and social reports must include information on the following:
- Compliance with all conditions and covenants in **DFC Agreements**.
 - **Client's** progress on implementation of the **Project's Environmental and Social Management Plan**, the **Environmental and Social Action Plan (ESAP)**, and/or any corrective actions.
 - Results of environmental and social monitoring activities.
 - Project-related environmental and social incidents.
 - Summary of training provided on environment, social, health, and safety issues.
 - Results of any environmental and social audits conducted, including any deficiencies identified by the auditors or local regulatory authorities as well as any remedial actions taken.
 - **Stakeholder** engagement activities.
 - Summary of grievances received from **Project Affected People** or **Stakeholders** and actions taken to resolve them.
- iv. **Clients** are required to facilitate the third-party audit(s) as required by DFC, including covering all costs associated with conducting the audit. **Clients** are required to submit to DFC the third-party audit reports so DFC can ensure that the audit was conducted in accordance with the agreed scope of work and that the **Project** is in compliance with the **Environmental and Social Requirements** contained within the **DFC Agreement**.
- v. In the event that monitoring by DFC, DFC's independent experts or third-party audits finds gaps in the **Project's** or **Client's** compliance with the **Environmental and Social Requirements** of the **DFC Agreement**, **Clients** will be required to implement corrective actions **within** a time frame that is reasonable and feasible as determined by DFC in order to achieve compliance and to provide DFC with periodic updates on implementation. The **Client** may be subject to additional monitoring by DFC or its independent experts to ensure corrective actions are adequately implemented and that compliance has been achieved and maintained.
- vi. **Clients** are required to retain the rights afforded under each investment structure to ensure that DFC has the rights to (1) visit and inspect **Project** site(s); (2) access **Project** and **Subproject** environmental and social performance monitoring records, including human resources records; and (3) meet with **Project** and **Subproject** management and **Project Affected People**, including **Workers**.

7. LEGAL CONDITIONS AND COMPLIANCE

Objectives: (1) to establish specific requirements for environmental and social performance in **DFC Agreements**; and (2) to define corrective actions in the event such requirements are not met.

a. DFC Standard Contractual Obligations

- i. In addition to **compliance** with all applicable laws, DFC requires that all **Projects** must meet the **Applicable Standards**.
- ii. At a minimum, all **DFC Agreements** include standard project requirements to have an overarching environmental and social policy statement, commensurate human resources policies, and appropriate internal and external grievance mechanisms. For all Category A and B **Projects**, **Clients** are required to establish and maintain an **ESMS** that meets the requirements in **Performance Standard 1**.¹⁹ The level of detail and complexity of the **ESMS** should be risk-based and commensurate with the significance of potential impacts or the severity of the risks of the **Project**.
- iii. Based on DFC's environmental and social review (See Section 4), DFC develops appropriate, project-specific conditions required of the **Client** to achieve compliance with the **Applicable Standards**. These conditions are included in the **DFC Agreement** as part of the **Environmental and Social Requirements** and remain in effect throughout the term of the **DFC Agreement**. This may come in the form of an **ESAP**. **ESAPs** are required for all Category A projects and for some Category B **Projects** that are dependent on mitigation and monitoring measures to avoid or reduce potentially significant environmental and social impacts.
- iv. All **DFC Agreements** include contractual language that addresses **Internationally Recognized Worker Rights** in substantially the following form (as outlined in Section 1451(d)(2) of the **Build Act of 2018**):
 - The person receiving support agrees not to take actions to prevent employees of the foreign enterprise from lawfully exercising their right of association and their right to organize and bargain collectively. The person further agrees to observe applicable laws relating to a minimum age for employment of children, acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety, and not to use forced labor or the worst forms of child labor (as defined in section 507 of the Trade Act of 1974 (19 U.S.C. 2467)). The person is not responsible under this paragraph for the actions of a foreign government.
- v. The terms of the **DFC Agreement** are applicable to all project-related activities including those carried out by on-site contractors and sub-contractors of the **Project** that work for a substantial duration of time on the **Project** or are material to the **Core Business Processes** of the **Project**.
- vi. **Clients** are required to comply with all contractual conditions, including any applicable **ESAP**, and require compliance according to the **Client's** controlling interest in the **Project**. The terms of the conditions take into account, among other things, the level of project control the **Client** will have regarding compliance with **Applicable Standards** and the **Client's** role in the **Project**.

¹⁹ Additional guidance on the establishment of an **ESMS** may be found in Guidance Note 1 – Assessment and Management of Environmental and Social Risks and Impacts: [Guidance Note 1: Assessment and Management of Environmental and Social Risks and Impacts - Published January 1, 2012 \(updated June 14, 2021\) \(ifc.org\)](#)

- vii. In addition to other matters, all **Projects** must satisfy DFC's "know your customer" due diligence process. DFC's "know your customer" due diligence reviews the **Client's** ownership and corporate governance structures and compliance with anti-money laundering sanctions and prohibited payments, as well as the **Client's** organizational capacity to continue to comply with such laws. **DFC Agreements** include contractual provisions to ensure acceptable ownership structures, corporate governance, and continued compliance with such laws.

b. Non-Compliances

- i. For all **Projects**, material misrepresentations or material non-compliance with contractual environmental and social provisions, including reporting requirements, may constitute an event of default under the terms of the **DFC Agreement**.
- ii. DFC determines what is material and whether a default is curable or incurable. DFC makes determinations as to materiality based, for example, on the severity of the environmental, health, safety, social, or labor impacts or other result caused by the non-compliance and the nature and degree of such non-compliance by the **Client**.
- iii. In the case of a curable default, corrective actions are generally required by DFC to cure the default. In the case of an incurable default, DFC may exercise contractual remedies including insurance contract termination, acceleration of loan repayment, divestiture of an investment of a DFC-supported investment fund, or sale of a direct equity investment.

8. FINANCIAL INTERMEDIARIES

Objectives: (1) to define environmental and social risk categories specific to **Financial Intermediaries**; (2) to outline approach for DFC’s review of **Financial Intermediaries** and their **Subprojects**; and (3) to specify requirements for documentation, disclosure, and reporting.

a. Overview

- i. **Financial Intermediaries (FIs)** are vehicles or entities that provide debt to, make equity investments in, or provide financial services to eligible companies (referred to as **Subprojects**). DFC supports **FIs** to achieve DFC’s mandated role as the U.S. Government’s development finance institution and to more efficiently deliver and utilize DFC’s resources to benefit a larger number of investments with more development benefits than possible without the use of these intermediaries.
- ii. The **nature of FI Transactions** means that **FIs** assume partial or fully delegated responsibility for environmental and social assessment, risk management and monitoring, as well as overall portfolio management. The nature of delegation may take various forms depending upon a number of factors, such as the type of investment provided by DFC and the nature and type of investments by the **FIs**.

b. FI Screening and Categorization

- i. No **FI** may use DFC support for the purpose of investing in, lending to, or providing services to an entity engaged in a **Categorically Prohibited Project**. All **DFC Agreements for FI Transactions** will require the **FI** to apply DFC’s Categorical Prohibition List (See Appendix A).
- ii. DFC determines the environmental and social risk categorization for **FI Transactions**. The environmental and social risk categorization is commensurate with the environmental and social risk profile of the **FI Transaction’s** existing and/or proposed portfolio and considers the type, size, and sector exposure of the **Subprojects** in the portfolio.

Environmental and Social Risk Categories for Financial Intermediaries		
Category	Description	Examples
Category FI-A	The use of proceeds of the DFC investment is expected to include exposure to business activities with potentially significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented in the absence of adequate mitigation measures. FI-A Transactions are not eligible for fully delegated environmental and social responsibility. Category A Subprojects supported by FI-A Transactions must be referred to DFC for a policy review of each Subproject.	FIs that invest in major infrastructure construction, extractive industries, large-scale forestry, or other investments that entail significant involuntary resettlement or adverse impacts to indigenous peoples; and equity investments in banks that have significant portfolio exposure to extractive industries or fossil fuel-related infrastructure.
Category FI-B	The use of proceeds of the DFC investment is expected to include exposure to business activities that have limited adverse environmental or social risks and impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. FI-B subproject environmental and social risks are often characterized as “moderate” or risks that are considered less adverse than Category A risks in terms of magnitude and likelihood of occurrence.	FIs that invest in medium- and small-to-medium-scale construction, manufacturing, and processing; commercial/retail businesses; rooftop solar; and facility expansions within an existing footprint.

	FI-B Transactions are eligible for fully delegated environmental and social responsibility.	
Category FI-C	<p>The use of proceeds of the DFC investment is expected to include exposure to business activities that have minimal adverse environmental or social risks or impacts.</p> <p>FI-C Transactions are eligible for fully delegated environmental and social responsibility.</p>	FIs that invest in tech or tech-enabled investments that do not involve significant physical assets and investments in financial institutions or fund-of-funds. Also applicable to loans to banks where the use of proceeds will involve lending to micro, small, and medium enterprises, mortgage and retail banking, leasing of small or light equipment, factoring, and insurance.

c. DFC Review of FIs and Subprojects

- i. The **FI's** proposed investment or lending strategy is considered in DFC's assessment of the risk of adverse environmental and social impacts associated with the **Subprojects** at the time the **FI's** structure is approved by DFC.
- ii. DFC will review and assess: (1) the **FI's** existing environmental and social policies and procedures; (2) available environmental and social due diligence or monitoring reports that may illustrate the **FI's** prior environmental and social performance; (3) environmental and social risks and impacts associated with the **FI's** existing portfolio and expected future **Subprojects**; (4) the **FI's** organizational capacity to identify environmental and social risks and address impacts; and (5) measures necessary to strengthen the **FI's** existing **ESMS**.
- iii. For **FI-A** and some **FI-B Transactions**, DFC may conduct on-site due diligence to further evaluate the **FI** and its management capacity to implement the **ESMS**. As needed, DFC may engage independent experts for additional support in its due diligence.
- iv. The **FI** is required to submit to DFC an **ESIA** and/or **Baseline Audit** (See Section 5) and **Stakeholder** engagement plan for review prior to DFC support for all Category A and some Category B **Subprojects**, as determined by DFC.
- v. DFC will evaluate and monitor the effectiveness of the **FI's** environmental and social risk management throughout the project life cycle. This may include review of annual environmental and social reports, communication, and meetings with the **FI** on environmental and social performance of its portfolio and/or on-site monitoring of the **Subprojects**.

d. Standard Policy Requirements for FI Transactions

- i. **FI-A** and **FI-B Transactions** are required to establish and maintain an **ESMS** that meets the requirements of **Performance Standard 1**. The level of detail and complexity of the **ESMS** should be commensurate with the potential risks and impacts of the portfolio. The **ESMS** is required to address the risks that are anticipated from the **FI's** prospective **Subprojects**.
- ii. The **ESMS** must include a process for: (1) screening **Subprojects** against the **Applicable Standards**; (2) environmental and social risk categorization of **Subprojects**; (3) **environmental** and social due diligence including the use of third-party support where needed and the

establishment of **ESAPs**, as applicable; (4) monitoring and reporting of environmental and social performance of the **FI** and its **Subprojects**; (5) ensuring adequate and qualified staff dedicated to environmental and social performance; and (6) the **FI's** external communication channels and the evaluation of **Subprojects' Stakeholder** engagement and grievance mechanisms.

- iii. **FI-C Transactions** are not required to establish an **ESMS** but are required to have in place appropriate environmental and social policies and procedures, human resource management systems, and internal- and external-facing grievance mechanisms.
 - iv. The **FI** is required to put in place a methodology to track, monitor, and report its **Greenhouse Gas** emissions at the portfolio level and to provide annual accounting to DFC.
 - v. The **FI** is responsible for ensuring the applicable requirements of this **ESPP** are met by the individual **Subprojects**.
 - vi. The **FI** shall provide DFC with any requested **ESIAs**, environmental and social due diligence reports, monitoring reports, **Stakeholder** engagement and grievance mechanism documentation, alternatives analyses, and other environmental and social documentation.
 - vii. **FI-A Transactions** and some **FI-B Transactions** will be required to submit to DFC an annual report on their environmental and social performance. The report should include information on the implementation of the **ESMS** and the status of any **ESAP** activities for **Subprojects**.
 - viii. All **FIs** are **encouraged** to publish relevant environmental and social policies and performance indicators on their website. This may include corporate environmental and social policies, a summary of their **ESMS**, and/or environmental and social performance reports, if available.
- e. **Disclosure of Category A Subprojects**
- i. For any **Subproject** determined to be Category A, the **FI** is required to submit to DFC an **ESIA** and/or Baseline **Audit** and **Stakeholder** engagement plan for the **Subproject** that are deemed adequate by DFC for disclosure on DFC's website for a public comment period of not less than 60 days. These documents will be disclosed for public comment on DFC's website prior to DFC support, in line with DFC's public disclosure requirements (See Section 6).
 - ii. **FIs** are encouraged to list on their website the link to any publicly disclosed **ESIA** reports for Category A **Subprojects**.

9. CLIMATE

Objectives: (1) to support the reduction of **Greenhouse Gas** emissions associated with **Projects**; (2) to promote energy efficiency and conservation; (3) to promote low- and no-carbon fuels and technologies; (4) to encourage carbon sequestration in **Sustainable Landscapes**; and (5) to promote the adoption of climate adaptation and resilience measures.

a. DFC Responsibilities

- i. Investments are reviewed for **Climate-related Risks** and **Climate-related Vulnerability**.²⁰ Investments are reviewed for alignment with the goals of the Paris Agreement.²¹
- ii. DFC is continuing Overseas Private Investment Corporation's (OPIC's) commitment to reduce the **Direct Emissions** associated with **Projects** and **Subprojects** in OPIC/DFC's active portfolio by 50 percent over a 15-year period (June 30, 2008 – September 30, 2023).²² The active portfolio includes all insurance contracts in force, equity investments, and all guaranty and direct loans with an outstanding principal balance. Annual accounting reports that track this commitment and detail the methodology associated with this commitment may be found on DFC's website.²³
- iii. DFC will track and annually report on portfolio **Greenhouse Gas** emissions in conformance with *The Global Greenhouse Gas Accounting and Reporting Standard for the Financial Industry*, as updated periodically by the Partnership for Carbon Accounting Financials (PCAF).²⁴

b. Client Responsibilities

- i. For certain sectors, the **EHS Guidelines** establish resource efficiency requirements, which require identification and implementation of technically and financially feasible and cost-effective measures for improving efficiencies in consumption of energy, water, and other resources and material inputs. Rehabilitation and other modifications of existing **Projects** should plan to meet these resource efficiency requirements within a feasible time frame.
- ii. **Clients** must demonstrate that measures to reduce significant, project-related **Greenhouse Gas** emissions were evaluated and that technically and financially feasible and cost-effective measures were incorporated into the final design of the **Project**.
- iii. As a condition of DFC support, all **Projects** must quantify and annually report to DFC the **Direct Emissions** (Scope 1) from their **Project**.²⁵ As a condition of DFC support, **Clients** shall quantify the significant **Indirect Emissions** (Scope 2) associated with off-site production of electricity, steam, heating, or cooling used or purchased by the **Project**.
- iv. As a condition of DFC support, **Projects** in **Energy-Intensive Sectors** must meet energy

²⁰ Executive Order 13677 (September 23, 2014) requires the integration of climate-resilience considerations into all United States international development work.

²¹ Executive Order 14008 (January 27, 2021) requires agencies that engage in extensive international work to develop strategies and implementation plans for integrating climate considerations into their international work.

DFC's [Climate Action Plan](https://www.sustainability.gov/contributing-agencies.html#dfc) can be found at <https://www.sustainability.gov/contributing-agencies.html#dfc>

²² Public Law 111-117 Sec 7079(b) (12/16/2009) required OPIC/DFC to implement a revised climate change plan to reduce the Greenhouse Gas emissions associated with its projects by at least 30 percent over 10 years and by 50 percent over 15 years.

²³ <https://www.dfc.gov/media/reports/archived>

²⁴ <https://carbonaccountingfinancials.com/>

²⁵ Clients shall use the highest-quality data available for each Project for emissions calculations and, where relevant, improve the quality of the data over time. Types of emissions data, listed from highest to lowest quality according to the PCAF Standard, include: verified emissions data; unverified, calculated emissions data; primary data on energy consumption; primary data on economic production; and sectoral data.

efficiency guidelines and benchmarks established by international organizations or develop and implement an energy management program to achieve these guidelines and benchmarks within a feasible time period. Energy management programs should be appropriate to the nature and scale of project operations. The **Project** shall document methods to reduce overall energy usage patterns through reduction in energy losses and improvements in energy conversion efficiency. In some **Projects**, process modifications will be required to achieve such guidelines and benchmarks.

10. COUNTRY ELIGIBILITY - LABOR

Objectives: (1) to outline DFC's approach to country eligibility based on statutory labor requirements; and (2) to outline interagency coordination regarding country-level determinations on **Internationally Recognized Worker Rights**.

a. U.S. Law Requirements

Section 1451(d) of the **Build Act of 2018** contains the following provision:

The Corporation shall only support projects under title II ["Authorities"] in countries that are taking steps to adopt and implement laws that extend internationally recognized worker rights (as defined in section 507 of the Trade Act of 1974 (19 U.S.C. 2467)) to workers in that country, including any designated zone in that country.

b. Determining Country Eligibility: The USTR Process

- i. The statute establishing the U.S. **Generalized System of Preferences (GSP)** trade preference program provides that the president of the United States shall not designate a country as a **GSP** beneficiary if it "has not taken or is not taking steps to afford **Internationally Recognized Worker Rights** to workers in that country" (See 19 U.S.C. 2462). For consistency of worker rights country-level determinations across the U.S. Government, DFC accepts the determinations made by the president on the "taking steps" worker rights standard for the purpose of the **GSP** program.
- ii. Through the **Office of the U.S. Trade Representative (USTR)**, the Trade Policy Staff Committee (TPSC), an interagency committee chaired by **USTR** and made up of specialists from the **U.S. Department of State**, **U.S. Department of Labor**, and other U.S. Government agencies, advises the president as to which countries should be designated as **GSP** beneficiaries. Any person may request to have the **GSP** status of any beneficiary country reviewed with respect to any of the eligibility criteria, including the "taking steps" country standard for worker rights, in accordance with **USTR's** petition process. The TPSC may also self-initiate a review of a beneficiary country's **GSP** eligibility.
- iii. If a petition is accepted for review, the TPSC review typically includes an examination of the issues raised in the petition, as well as engagement with the foreign government to implement worker rights reforms. USTR also solicits comments through the Federal Register and holds a public hearing.
- iv. Upon completion of a country review, a country's eligibility status may remain unchanged, or be withdrawn, suspended, or limited. Modifications to a country's **GSP** eligibility are implemented by **Executive Order** or **Presidential Proclamation** and are published in the **Federal Register**. Based on the country review, should the president determine that a country is failing to meet the statutory "taking steps" worker rights standard, then the country will become ineligible for DFC programs. DFC will determine an effective date for ineligibility. The country list on DFC's website is updated to remove the country as of the effective date of the country's ineligibility, and DFC staff are notified of the change of country status. However, if a country becomes ineligible for **GSP** benefits on grounds other than worker rights, that country remains eligible for DFC programs.

c. Reviewing Country Eligibility: The DFC Process

- i. Countries that were previously **GSP**-eligible but whose benefits were withdrawn or suspended for failure to meet the statutory worker rights standard are considered for eligibility under the **USTR** process in 10.1. In non-**GSP**-eligible countries where DFC programs are being offered, DFC utilizes a petition and review process similar to the **USTR**-led process to determine a country's ability to meet the statutory worker rights standard.

Petitions can be submitted to DFC at its public hearings to reexamine whether the status of any such country should be changed on worker rights grounds.

- ii. Upon an initial petition review, if DFC makes the determination that the petition merits a formal review, DFC will follow a similar interagency process and consult with, at a minimum, the **U.S. Department of State**, **U.S. Department of Labor**, and **USTR** to carry out such a review.

d. Granting Country Eligibility on Worker Rights Grounds

For non-**GSP**-eligible countries that are deemed particularly sensitive on worker rights grounds due to a documented history of issues relating to **Internationally Recognized Worker Rights**, and where DFC seeks to implement its programs for the first time or to lift suspension of DFC programs due to foreign policy or other priorities, DFC will also follow an interagency process and consult with, at a minimum, the **U.S. Department of State**, **U.S. Department of Labor**, and **USTR** in making its “taking steps” determination.

e. Country Eligibility Review Criteria

- i. In addition to interagency consultation, DFC may use additional instruments to inform its country reviews on worker rights, including:
 - The **U.S. Department of State's Annual Country Reports on Human Rights Practices**, **Trafficking in Persons Reports**; **Investment Climate Statements**; and **Business Advisories**,
 - The **U.S. Department of Labor's International Child Labor & Forced Labor Reports**;
 - **Comments and reports of the International Labour Organization (ILO)**;
 - **International Trade Union Confederation (ITUC) annual reporting**;
 - **Third-party specialist review of country-level worker rights practices**;
 - **Information received through DFC's public hearings**; and
 - **Consultations with labor organizations**.
- ii. The “taking steps” standard is a purposely flexible standard to reflect the varying levels of economic and social development in developing countries. In its country reviews, DFC takes into account the totality of circumstances and facts available relevant to **Internationally Recognized Worker Rights**, and uses certain general criteria to assess whether countries meet the statutory standard, including: (1) ratification of the relevant **ILO** fundamental conventions; and (2) the progress the country has taken or is taking to adopt and implement laws and practices that extend **Internationally Recognized Worker Rights** in areas where national law and practice have not met the international standard.

f. Country Status Effect on DFC-Supported Projects

If a country becomes ineligible for DFC support on worker rights grounds, the change of status does not affect **Projects** to which DFC made a legally binding commitment prior to the date on which the country status changed. DFC's monitoring of the **Projects** in such country will be commensurate to the elevated labor risks. All other **Projects** that have not been formally committed to by DFC prior to the official ineligibility date will not be eligible for DFC support during the term of the country's ineligibility. If a country is under a formal review on worker rights grounds (by either **USTR's TPSC** or **DFC**), **Projects** that are in the application process are subject to a review that is sensitive to the labor issues highlighted in the **GSP** or DFC petition.

APPENDIX A – Categorical Prohibitions

1. Conversion or degradation of **Critical Habitat** unless it can be demonstrated through a Biodiversity Action Plan (as defined by IFC **Performance Standard 6**) that efforts to avoid, minimize, rehabilitate, or restore the habitat will ensure no net loss of threatened or endangered species.
2. Construction of dams that significantly and irreversibly impact: (a) biodiversity; (b) natural ecosystems, upstream or downstream of the dam; (c) natural hydrology; (d) large land areas; or (e) that will displace, physically or economically, large numbers of inhabitants (5,000 persons or more).
3. Production or trade in any product or activity deemed unlawful under host country laws or regulations; international agreements, including multilateral conventions; or subject to international phase-outs or bans such as pharmaceuticals;²⁶ pesticides/herbicides;²⁷ ozone depleting substances;²⁸ polychlorinated biphenyls (PCBs),²⁹ and other hazardous substances;³⁰ wildlife or wildlife products regulated under the Convention on International Trade and Endangered Species of Wild Fauna and Flora (CITES);³¹ and trans-boundary trade in waste or waste products.³²
4. The export of mercury and mercury compounds, and the manufacture, export, and import of a large range of mercury-added products.
5. Shipment of oil or other hazardous substances in vessels that do not comply with IMO requirements.
6. Resettlement of 5,000 or more persons.
7. Any impact on World Heritage Sites³³ unless it can be demonstrated through an environmental and social assessment that the Project (i) will not result in the degradation of the protected area; and (ii) will produce positive environmental and social benefits.
8. Any impact on areas on the United Nations List of National Parks and Protected Areas³⁴ unless it can be demonstrated through an environmental and social assessment that the Project (i) will not result in the degradation of the protected area; and (ii) will produce positive environmental and social benefits.
9. Extraction or infrastructure in or impacting protected area Categories I, II, III, and IV (Strict Nature Reserve/Wilderness Areas, National Parks, Natural Monuments, and Habitat/Species Management Areas), as defined by the International Union for the Conservation of Nature (IUCN) unless it can be demonstrated through an environmental and social assessment that (i) there is no degradation of the protected area; and (ii) there are positive environmental and social benefits.

²⁶ World Health Organization Pharmaceuticals: Restrictions in Use and Availability
<https://www.who.int/publications/i/item/9789240014770>

²⁷ WHO Recommended Classification of Pesticides by Hazard and Guidance to Classification. 2019 Edition is available at: <https://www.who.int/publications/i/item/9789240005662>

²⁸ As defined by the Montreal Protocol, a list of the chemical compounds that react with and deplete stratospheric ozone together with target reduction and phase-out dates is available at: <https://www.epa.gov/ozone-layer-protection/ozone-depleting-substances>

²⁹ Polychlorinated biphenyls (PCBs) are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

³⁰ As defined by the Rotterdam Convention, A list of hazardous chemicals is available at: <http://www.pic.int/TheConvention/Chemicals/AnnexIIIChemicals/tabid/1132/language/en-US/Default.aspx>

³¹ A list is of CITES species is available at: <http://www.speciesplus.net>

³² As defined by the Basel Convention; see: <https://www.basel.int/default.aspx>

³³ The list can be found here: <https://whc.unesco.org/en/list/>

³⁴ The list can be found here: <https://www.protectedplanet.net/>

10. Activities prohibited by host-country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
11. The manufacture, placing on the market, and use of asbestos fibers, and of articles and mixtures containing these fibers added intentionally.
12. Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing using nets in excess of 2.5 kilometers in length.
13. Production or activities involving forced labor³⁵ or child labor.³⁶
14. Projects or companies known to be in material violation of local applicable law related to protection of the environment, and of social, health, safety, and labor, and public disclosure requirements.
15. Projects where the primary business activities are in the following prohibited sectors: gambling; media communications of an adult or political nature; military production or sales; alcoholic beverages (if contrary to local religious or cultural norms); or tobacco and related products.
16. Projects or companies that replace U.S. production or are likely to cause a significant reduction in the number of employees in the U.S., including “runaway plants” and outsourcing the provision of goods and services (e.g., business process outsourcing) from the U.S.
17. Projects or companies that provide significant, direct support to a government that engages in a consistent pattern of gross violations of internationally recognized **Human Rights**, as determined by the U.S. Department of State.
18. Projects or companies that perform abortions as a method of family planning; motivate or coerce any person to practice abortions; perform involuntary sterilizations as a method of family planning; coerce or provide any financial incentive to any person to undergo sterilizations; or perform any biomedical research that relates in whole or in part, to methods of, or in the performance of, abortions or involuntary sterilization as a means of family planning.
19. Companies that are treated as inverted domestic corporations under 6 U.S.C. 395(b).

³⁵ Forced labor means all work or service, not voluntarily performed, that is exacted from an individual under threat of force or penalty, such as indentured labor, bonded labor, or similar labor-contracting arrangements. IFC Performance Standard 2, ¶ 22 (2012).

³⁶ Child labor means the employment of children (persons below the age of 18) that is economically exploitative or is likely to be hazardous to or interfere with the child's education, or be harmful to the child's health or physical, mental, spiritual, moral, or social development. IFC Performance Standard 2, ¶ 21 (2012).

APPENDIX B – Illustrative List of Category A Projects

Risk categorization takes into account a number of different factors including but not limited to: sector, technology/methods, scale, location, leverage, and the specifics of the business relationships. Although decisions on categorization are made on a case-by-case basis, the following list is indicative of the types of **Projects** that are screened by DFC as Category A.

1. Large-scale industrial plants and/or estates.
2. Crude oil refineries (excluding undertakings manufacturing only lubricants from crude oil) and installations for the gasification and liquefaction of 500 tons or more of coal or bituminous shale per day.
3. Major **Greenhouse Gas-emitting Projects**, defined as **Projects** with Direct Greenhouse Gas Emissions of more than 91,000 metric tons of CO_{2eq} per year.
4. Cement manufacturing with an annual production rate of greater than 1 million dry weight tons.
5. Integrated works for the initial smelting of cast iron and steel; and installations for the production of non-ferrous crude metals from ore, concentrates, or secondary raw materials by metallurgical, chemical, or electrolytic processes.
6. Installations for the extraction of asbestos and for the processing and transformation of asbestos and products containing asbestos; for asbestos-cement products with an annual production of more than 20,000 tons of finished product; for friction material with an annual production of more than 50 tons of finished product; and for other asbestos utilization of more than 200 tons per year.
7. Integrated chemical installations, i.e., those installations that manufacture, on an industrial scale, substances using chemical conversion processes in which several units are juxtaposed and are functionally linked to one another and that produce: basic organic chemicals; basic inorganic chemicals; phosphorous-, nitrogen-, or potassium-based fertilizers (simple or compound fertilizers); basic plant health products and biocides; basic pharmaceutical products using a chemical process; and explosives.
8. **Projects** that manufacture, store, transport, or dispose hazardous or toxic materials.
9. **Projects** that pose significant occupational or community health or safety risks.
10. Construction of lines for long-distance railway traffic, and airports with a basic runway length of 2,100 meters or more. Motorways, express roads and new roads with four or more lanes; or realignment and/or widening of an existing road so as to provide four or more lanes where such new road, or realigned and/or widened section of road, would be 10 kilometers or more in a continuous length.
11. Pipelines with a diameter of more than 800 millimeters and a length of more than 40 kilometers; terminals; and associated facilities for the large-scale transport of gas, oil, metals/minerals, and chemicals.
12. Large-scale seaports and inland waterways and ports for inland waterway traffic; trading ports; piers for loading and unloading connected to land; and outside ports (excluding ferry piers).
13. Waste-processing and disposal installations for the incineration, chemical treatment, or landfill of hazardous, toxic, or dangerous waste.
14. Large-scale waste disposal installations for the incineration or chemical treatment of non-hazardous waste with a capacity exceeding 100 tons per day.
15. Construction or significant expansion of large dams and reservoirs not otherwise prohibited.

16. Groundwater abstraction activities or artificial groundwater recharge schemes in cases where the annual volume of water to be abstracted or recharged amounts to 10 million cubic meters or more.
17. Works for the transfer of water resources between river basins where that transfer aims at preventing possible shortages of water and where the amount of water transferred exceeds 100 million cubic meters/year, or works for the transfer of water resources between river basins where the multi-annual average flow of the basin of abstraction exceeds 2,000 million cubic meters/year and where the amount of water transferred exceeds 5 percent of that flow. (In both cases, transfers of piped drinking water are excluded.)
18. Industrial plants for the (i) production of pulp from timber or similar fibrous materials; or (ii) production of paper and board with a production capacity exceeding 200 air-dried metric tons per day.
19. Large-scale peat extraction.
20. Quarries and opencast mining where the surface of the site exceeds 25 hectares, or peat extraction where the surface of the site exceeds 150 hectares.
21. Major exploration and development of onshore oil and gas reserves.
22. Exploration and development of offshore oil and gas reserves.
23. Installations for storage of petroleum, petrochemical, or chemical products with a capacity of 200,000 tons or more.
24. Large-scale logging or deforestation of large areas.
25. Large-scale power transmission and/or long-distance overhead transmission lines.
26. Municipal wastewater treatment plants servicing more than 150,000 people.
27. Large-scale municipal solid waste-processing and disposal facilities.
28. Large-scale tourism and retail development.
29. Large-scale wind power installations for energy production (wind farms) with an installed capacity greater than 100 megawatts.
30. Large-scale land reclamation and sea dredging operations.
31. Large-scale primary agriculture/plantation or forestation involving intensification, land use change or conversion of priority biodiversity features, and/or Critical Habitat or conversion of natural habitat.
32. Plants for the tanning of hides and skins where the treatment capacity exceeds 12 tons of finished products per day.
33. Installations for the intensive rearing of poultry or pigs with more than: 85,000 places for broilers and 60,000 places for hens; 3,000 places for production pigs (over 30 kilograms); or 900 places for sows.
34. Greenfield housing developments that contain more than 2,500 residential units.
35. **Project** activities that entail significant, adverse transboundary and/or cumulative environmental, social, or human rights impacts.
36. **Projects** that require significant physical or economic displacement and/or government-managed resettlement processes.
37. **Projects** that entail direct, adverse impacts to indigenous peoples and areas of importance for indigenous peoples.

38. **Projects** that require the utilization or reliance to a large degree on large pools of sub-contracted, unskilled, temporary, casual, and/or migrant **Workers**, including within a **Project's Supply Chain** essential to its **Core Business Processes**.
39. **Projects** that involve a high degree of **Contextual Risk** that have the potential to amplify the significance of the **Project's** environmental and social impacts.
40. **Projects**, not otherwise categorically prohibited, that are located in or sufficiently near sensitive locations of national or regional importance, or proposed for such status by national governments that may have apparent negative environmental or social impacts on:
 - Wetlands;
 - Areas of archeological or cultural significance including critical cultural heritage;
 - Areas prone to erosion and/or desertification;
 - Areas of importance to indigenous peoples;
 - Primary temperate/boreal forests;
 - Areas that provide significant ecosystem services;
 - Coral reefs;
 - Mangrove swamps;
 - Habitats or other ecosystems that support priority biodiversity features;
 - Nationally designated seashore areas; and
 - Managed resource protected areas, protected landscape/seascape (International Union for the Conservation of Nature (IUCN) Categories V and VI) as defined by IUCN's Guidelines for Protected Area Management Categories. Additionally, these projects must meet IUCN's management objectives and follow the spirit of IUCN definitions.

APPENDIX C – Glossary

Annual Country Reports on Human Rights Practices – Reports that are submitted annually by the U.S. Department of State to the U.S. Congress in compliance with sections 116(d) and 502B(b) of the Foreign Assistance Act of 1961, as amended, and section 504 of the Trade Act of 1974, as amended.

Applicable Standards – As defined on a project-by-project basis, but includes the IFC Performance Standards, applicable EHS Guidelines, and Labor Rights.

Area of Influence – The area likely to be affected by: (i) the **Project** and the **Client's** activities and facilities that are directly owned, operated, or managed (including by contractors) and that are a component of the **Project**; (ii) impacts from unplanned but predictable developments caused by the **Project** that may occur later or at a different location; or (iii) indirect **Project** impacts on biodiversity or on ecosystem services upon which **Project Affected People's** livelihoods are dependent. The **Area of Influence** also encompasses:

- Associated facilities, which are facilities that are not funded as part of the **Project** and that would not have been constructed or expanded if the **Project** did not exist and without which the **Project** would not be viable.
- Cumulative impacts that result from the incremental impact, on areas or resources used or directly impacted by the **Project**, from other existing, planned, or reasonably defined developments at the time the risks and impacts identification process is conducted.

Baseline Audit – An assessment of environmental and social impacts of pre-existing or ongoing activities that is required for all Category A **Projects** that involve the acquisition of or support to pre-existing facilities. For new construction or expansion to an existing site, an **ESIA** will also be required.

Broad Community Support – The collective expression by **Project Affected People**, through individuals or their recognized representatives, in support of a **Project**. **Broad Community Support** may exist even if some individuals or groups object to a **Project**.

Build Act of 2018 – Better Utilization of Investments Leading to Development Act of 2018 (P.L. 115-254).

Categorically Prohibited Project – **Project** of the type listed in Appendix A where potential adverse environmental or social impacts of the **Project** preclude DFC support.

Client – The direct recipient or prospective recipient of DFC support, including **FIs**.

Climate-related Risks – Combination of the magnitude of the potential consequence(s) of climate change impacts and the likelihood that the consequence(s) will occur.

Climate-related Vulnerability – The degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including variability and extremes. Vulnerability is a function of the character, magnitude, and rate of climate variation to which a system is exposed, its sensitivity, and its adaptive capacity.

CO_{2eq} – Carbon dioxide equivalents are a metric measure used to compare the emissions from various **Greenhouse Gases** based upon their global warming potential (GWP) over a given time frame. The carbon dioxide equivalent for a gas is derived by multiplying the tons of the gas by the associated GWP. For example, the 100-year GWP for methane (CH₄) is 28 and for nitrous oxide (N₂O) 265. This means that the emissions of 1 million metric tons of methane and nitrous oxide are equivalent, respectively, to emissions of 28 million and 265 million metric tons of carbon dioxide.³⁷

³⁷ GWP values from the IPCC Fifth Assessment Report, 2014. <https://www.ipcc.ch/assessment-report/ar5/>

Contextual Risk – Risks in the external environment (at a country, sector, or subnational level) that the **Client** does not control but that could negatively impact a **Project's** or **Client's** ability to meet the **Applicable Standards**. Risks may be due to current circumstances or systemic, legacy, and/or historic issues. Key risk factors may include:

- Socially sensitive and/or labor-intensive sectors (e.g., sectors with known labor or human rights violations, risk of child/forced labor, hazardous work, elevated risks of gender or **Vulnerable Group**-based discrimination or **GBVH**, involvement of significant armed security personnel, and major environmental and social risks associated with the supply chain and/or sectors that have been subject to recent, documented public opposition).
- Broader, socially sensitive context (e.g., historic or current political or social conflict, country contexts with reported human rights violations, weak governance systems/enforcement of rule of law, recent or ongoing humanitarian crisis, war, restricted civic space/reprisal risk, relatively higher levels of gender inequality or **GBVH**, ethnic discrimination/violence, and large nearby presence of indigenous peoples and/or **Vulnerable Groups**).
- Residual or unmitigated adverse environmental and social impacts (e.g., legacy of displacement, inadequate consultation, or unresolved grievances in previous development projects).
- Environmental and community health and safety factors (e.g., biodiversity, ecosystem services, and climate change; access to natural resources; and health and population).

Core Business Processes – Defined by IFC as those production and/or service processes essential for a specific business activity without which the business activity could not continue.

Corporate Investment – A transaction in which (i) the use of proceeds is not limited to specific assets and the application of which is at the discretion of company management (e.g., working capital); (ii) the proceeds are for specific corporate activities (e.g., restructuring, financial engineering, long-term strategic support, or corporate-wide investments); or (iii) DFC is making a subscription for shares in a private company (equity).

Critical Habitats – (a) Areas that support globally important concentrations of an IUCN Red-listed Endangered (EN) or Critically Endangered (CR) species ($\geq 0.5\%$ of the global population AND ≥ 5 reproductive units of a CR or EN species). (b) Areas that support globally important concentrations of an IUCN Red-listed Vulnerable (VU) species, the loss of which would result in the change of the IUCN Red List status to EN or CR and meet the thresholds in (a). (c) As appropriate, areas containing important concentrations of a nationally or regionally listed EN or CR species.

Cultural Heritage – Tangible property or sites having archaeological (prehistoric), paleontological, historical, cultural, artistic, and religious value, as well as unique environmental features that embody cultural values, such as sacred groves. **Cultural Heritage** also includes intangible forms of culture, such as cultural knowledge, innovations, and practices of communities embodying traditional lifestyles.

DFC Agreement – Any contract pursuant to which DFC support is provided, including a finance agreement, guaranty, note, insurance contract, share purchase agreement, or subscription agreement.

Direct Emissions – Emissions from **Project** sources that are owned or controlled by the **Client**, including stationary combustion emissions, mobile combustion emissions, process emissions, and fugitive emissions.

Economic Displacement – Loss of land, assets, or restrictions on land use, assets, and natural resources that leads to loss of income sources or means of livelihood.

Energy-Intensive Sectors – Projects in the following sectors: aluminum, brewing, cement, mining, corn refining, forest products, glass, metal casting, motor vehicle manufacturing, oil and natural gas production, petroleum refining, petrochemicals, pharmaceuticals, pulp and paper, steel and iron, and thermal power.

Environmental and Social Action Plan (ESAP) – The **ESAP** will include specific corrective and preventive actions, mitigation measures, monitoring, and reporting commitments to achieve compliance with the **Applicable Standards**. The **ESAP** provides an implementation schedule for measures that must be carried out as part of the **Project** and reflects sequencing, periodicity, adequate budget, and responsible parties. Required on all Category A **Projects**.

Environmental and Social Impact Assessment (ESIA) – An instrument to identify and assess the potential environmental and social impacts of a proposed project, evaluate alternatives, and design appropriate mitigation, management, monitoring, and reporting measures. The assessment will be based on current and/or recent information, and environmental and social baseline data, including gender-disaggregated data, at an appropriate level of detail and using scientifically sound methodologies. Required for all **Projects** involving significant, new (greenfield) developments or significant expansion of existing facilities.

Environmental and Social Management System (ESMS) – Part of a **Project's** overall management system that includes the organizational structure, responsibilities, practices, and resources necessary for implementing the project-specific management program developed through the environmental and social assessment of the **Project**.

Environmental, Health, and Safety (EHS) Guidelines – Technical reference documents with general and industry-specific examples of Good International Industry Practice with regard to environment and occupational health and safety and are referred to in the **Performance Standards**. The **EHS Guidelines** contain the performance levels and measures that are normally acceptable to the World Bank Group, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology.

Environmental and Social Requirements – The **Applicable Standards** and the applicable provisions of this **ESPP**.

Executive Order – An order issued by the president – the head of the executive branch of the federal government.

Extractive Industry – An enterprise engaged in the exploration, development, or extraction of oil and gas reserves, metal ores, gemstones, industrial minerals (except rock used for construction purposes), or coal.

Federal Register – The official daily publication for rules, proposed rules, and notices of Federal agencies and organizations, as well as Executive Orders and other presidential documents.

Financial Intermediary (FI) – Vehicles or entities that provide debt to, make equity investments in, or provide financial services to eligible **Subprojects**.

Financial Intermediary Transactions – Loans (corporate lending; microfinance, small and medium enterprise finance; and loans from debt funds, including distressed debt, credit, and mezzanine debt funds and retail banking); equity investments (active and passive investments from private equity funds into **Subprojects**, and limited partner equity investments by fund-of-funds and secondary funds); and other financial services (leasing, factoring, and insurance) provided by **FIs**.

Gender-Based Violence and Harassment (GBVH) – Violence and harassment directed at persons because of their sex or gender, or affecting persons of a particular sex or gender disproportionately, and includes sexual harassment, exploitation, and abuse.

Generalized System of Preferences (GSP) – A trade preferences program, overseen by the **USTR** that provides preferential duty-free entry for products from designated beneficiary countries and territories with the purpose of promoting economic growth in the developing world.

Greenhouse Gases – The following six gases or class of gases: carbon dioxide (CO₂), nitrous oxide (N₂O), methane (CH₄), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF₆).

Host-Country Notification – A notification to government officials in the country where a Category A **Project** is located that identifies international guidelines and standards and restrictions under U.S. law that would be applicable to the **Project**.

Human Rights – Those rights expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.

Indirect Emissions – Emissions that are a consequence of project activities but occur at **Project** sources owned or controlled by another entity. Indirect **Greenhouse Gas** emissions result from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the **Project**.

International Finance Corporation (IFC) – A member of the World Bank Group that makes loans to and investments in private-sector projects in developing countries and emerging markets.

International Labour Organization (ILO) – The tripartite United Nations agency that brings together governments, employers, and workers of its member states in common action to promote decent work throughout the world.

Internationally Recognized Worker Rights – The term, as specified in the Trade Act of 1974 (as amended), includes: (1) the right of association; (2) the right to organize and collective bargaining; (3) prohibition on forced labor and the worst forms of child labor; (4) a minimum age for the employment of children; and (5) acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety.

Labor Rights – Rights of **Workers**, which includes **Internationally Recognized Worker Rights**, and protection from discrimination with respect to employment and occupation on the basis of personal characteristics that are unrelated to inherent job requirements such as: race; color; social, indigenous, ethnic, or national origin; migrant status; health status (including HIV status or genetic background); marital, family, or social status; sex or gender (including gender identity or expression and sexual orientation); political opinion; affiliation or non-affiliation to a workers' organization; disability (including physical or mental disability); religion or belief; age; or other disadvantaged or vulnerable status. Special measures of protection or assistance taken in order to remedy past discrimination will not be deemed discrimination for purposes of this definition.

Meaningful Consultation – A process that (1) begins early in the project preparation stage and is carried out on an ongoing basis throughout the project life cycle; (2) provides timely disclosure of relevant and adequate information that is understandable and readily accessible to **Project Affected People**; (3) is undertaken in an atmosphere free of intimidation or coercion; (4) is gender inclusive and responsive, and tailored to the needs of disadvantaged and **Vulnerable Groups**; and (5) enables the incorporation of all relevant views of **Project Affected People** and other **Stakeholders** into decision-making, such as project design, mitigation measures, the sharing of project benefits and opportunities, and implementation issues. Gender-inclusive consultation should include identification of any gender-based barriers to participation in consultation and decision-making (such as disproportionate burdens of household care, or cultural norms) and the implementation of mitigation strategies.

Office of the U.S. Trade Representative (USTR) – An agency of the U.S. Government that is responsible for developing and coordinating U.S. international trade, commodity, and direct investment policy, and overseeing negotiations with other countries.

Performance Standards – International Finance Corporation’s (IFC) Performance Standards on Social and Environmental Sustainability, which are technical reference documents issued by the IFC with environmental and social impact management performance criteria.

Physical Displacement – Relocation or loss of shelter.

Presidential Proclamation – An instrument that states a condition, declares a law and requires obedience, recognizes an event, or triggers the implementation of a law (by recognizing that the circumstances in law have been realized).

Project – A set of business activities, including those where specific physical elements, aspects, facilities, or **Subprojects** have yet to be identified.

Project Affected People – Individuals, local communities, indigenous peoples, and **Workers**, including those within the **Supply Chain**, as well as community-based or worker groups, which are or are reasonably expected to be affected by the **Project's Area of Influence**, directly or indirectly, including as a result of cumulative impacts. Emphasis should be placed on those who are directly and adversely affected, disadvantaged, or vulnerable.

Renewable Biomass – Wood and wood processing wastes; agricultural crops and waste materials; biogenic materials in municipal solid waste; and animal manure.

Stakeholder – Persons or groups who are directly or indirectly affected by a **Project**, as well as those who may have interests in a **Project** and/or the ability to influence its outcome, either positively or negatively. **Stakeholders** may include **Project Affected People** and their formal and informal representatives, workers’ organizations, national or local government authorities, politicians, religious leaders, civil society organizations and groups with special interests, the academic community, or other businesses.

Subproject – A project or enterprise that receives financing or investment from a DFC-supported **FI**.

Supply Chain – A tiered network of suppliers, facilities, or distribution channels that provide raw materials; assemble, install, or manufacture an intermediate or final product; or deliver a final good in each case essential for the **Core Business Processes** of the **Project** and procured by the **Client** during the **Project** life cycle.

Sustainable Landscapes – Sustainable Landscapes activities seek to reduce **Greenhouse Gas** emissions from land by promoting sustainable land use practices that reduce emissions or increase carbon sequestration. These projects support the implementation of natural climate solutions, which reduce net **Greenhouse Gas** emissions through the conservation, management, and restoration of forests, peatlands, mangroves, and other ecosystems, as well as low-emissions practices in agriculture and other production systems, while supporting economic growth, resilience, and other co-benefits.

U.S. Department of Labor – An agency of the U.S. Government that is responsible for administering labor laws on working conditions, unemployment insurance benefits, and re-employment services; and tracks national economic measurements.

U.S. Department of State – An agency of the U.S. Government that is responsible for the international relations of the United States.

Vulnerable Groups – Individuals or groups who, by virtue of, for example, their age, gender, race, ethnicity, religion, disability, social, civic or health status, sexual orientation, gender identity, gender expression, sex characteristics, economic disadvantages or indigenous status, human rights defender or environmental defender status, refugee status, head of household status, and/or dependence on unique natural

resources, may be more likely to be adversely affected by the project impacts and/or more limited than others in their ability to take advantage of a **Project's** benefits. Such an individual/group is also more likely to be excluded from or unable to participate fully in the mainstream consultation process and as such may require specific measures and/or assistance to do so. Vulnerability is not an inherent characteristic of people. Vulnerability is context-specific and should be understood through the interplay of three factors: (i) exposure to risk and adverse impacts; (ii) sensitivity to those risks and impacts; and (iii) adaptive capacity.

Workers – Individuals who are employed directly by the **Project** or under a **Project** contract, and who perform on-site work for a substantial duration of time on a **Project** or are material to the **Core Business Processes** of a **Project**. **Workers** can be temporary or permanent.