

FINANCIAL INTERMEDIARY: ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

A. Introduction

1. The proposed project is an equity investment of up to \$45 million in the Creador III fund ("Fund"). The Fund is focused on making equity investments of more than US\$10 million each in three main industries (i) financial services (banks, finance companies); (ii) consumer goods and services (healthcare, education); and (iii) business services (B2B services, outsourcing, payment processing, logistics). The Fund also plans to invest in healthcare investments, including those that support delivery of more cost-effective health services and goods, and participate in secondary and tertiary education institutes, to help improve access to and quality of skills development in target markets to reduce skills shortages. These targeted investments are consistent with Creadors' prior funds (Creador I and Creador II), wherein several investments align with ADB's inclusive growth mandate. The Environmental, Social and Governance (ESG) Policy of Creador will be updated to ensure compliance with ADB's SPS.
2. ADB's safeguard due diligence was conducted through the review of relevant documents and discussions with the deal team, and with key Creador investment staff. These discussions covered the requirement for the Fund to establish an environmental and social management system (ESMS), documentation and implementation of the ESMS; application of ADB's Prohibited Investment Activities List; screening and categorization, and due diligence process.

B. Review of existing environmental and social management systems

Policy. The ESG Policy defines the Fund's strategy and approach regarding environmental and social procedures and applies to all activities. The Fund seeks to invest in businesses that uphold high standards of business integrity, honesty and operate in accordance with local laws and good practices. The Fund mandates that each of the investments be assessed for possible environmental and social impacts prior to investing equity, then periodic monitoring of its EHS performance is conducted after investment has been made. The Fund managers check on subproject's compliance with local regulations prior to investing as part of its screening process.

3. **Procedures.** The Fund screens a proposed investment's ESG standing as part of its equity approval process. An Environmental and social review and due diligence is carried out to evaluate the existing operations of the business including interviews with key management personnel and desktop reviews. External experts are hired to conduct the due diligence, based on the complexity of the project. Based on the findings of the due diligence, corrective action plans are discussed with the investee companies for implementation. The results of the due diligence are taken into account prior to finalizing the Fund's Investment Committee's decision on the project
4. **Monitoring and Reporting.** The Fund also monitors the compliance of the investee companies with the ESG requirements with a particular focus on local regulatory compliance. Annual performance reviews of the investee companies are conducted by the Fund's deal team. Any violation is reported to the Senior Managing Director, who has the overall ESG responsibility. The deal team also closely coordinates with the investee companies for remedial action plans.

5. **Staff Capacity.** The Fund's ESG management is handled by the Chief Executive Officer and supported by the Senior Managing Director and Senior Associate. Deal teams assess the ESG compliance of their investment independently and report to the Senior Managing Director on instances of investee companies' violations, with further escalation to the Fund's Advisory Board in cases when the violation may cause negative publicity to the Fund.
6. **Training Requirements.** Each new employee of the Fund is required to undergo the ESG policy training. There is no specific development training program for the staff specific to ESG. Quarterly team meetings are held regularly in which staff are encouraged to participate in discussions on various items (e.g. ESG matters), as necessary.

C. Environmental and Social Management System Improvements

7. ADB's review has identified gaps between the existing ESG Policy and ADB's Safeguard Policy Statement requirements. The following measures have been agreed with the Fund management:
 - (i) The Fund has an existing exclusion list that needs to be updated to adopt ADB's standard prohibited investment activities list (PIAL) and use it as the primary screening tool for new investments. Proposed investments that deal with any of the activities listed in the PIAL must be excluded from ADB financing. Creador advised that in their previous experience they have excluded mining activities in their portfolio.
 - (ii) Adopt ADB's environmental and social screening checklist, which include Climate Risk Assessment, to assist the deal team in the project categorization of a subproject. The screening process will check that the following criteria are met before proceeding to the due diligence: (a) it does not undertake any activity on the PIAL; (b) it is in compliance with the Applicable E&S Law; (c) the project is not located in legally protected areas; (d) there are no E&S legal issues associated with the subcompany or subproject; and (e) nature of subprojects have no potential to cause significant adverse environmental impacts. Subprojects that do not meet the above criteria shall be excluded from financing or be further evaluated in case the investee company agrees to a corrective action for any unmet criteria.
 - (iii) Include Project classification for each subproject¹ by considering the impact on environmental, involuntary resettlement and indigenous peoples' safeguards. The ADB's Safeguard Policy Statement definitions of category A, B, and C for the environment, involuntary resettlement and indigenous peoples' safeguards must be adopted when assessing potential investments. Category A investments are to be excluded from ADB financing.
 - (iv) During Creador's due diligence, obtain the Portfolio Company's confirmation that: (a) it has all relevant environmental, health and safety ("EHS") permits; (b) it is in compliance with the Applicable E&S Laws; and (c) it has an Environmental and Social Management System (ESMS)². In the absence of any of these items or non-compliance to these items, Corrective Action Plan (CAP) will be formulated. The Fund will agree with the

¹ Creador evaluates an investee company based on the nature of its subprojects.

² For FI investments, Creador will check if the FI has an existing ESMS, or screening procedure to identify the E&S impacts associated with their portfolio. If Creador identifies that the FI's portfolio is Category C, the Fund will ring-fence the agreement with the FI to Category C projects, while FI portfolio with Category B and C projects will require an FI investment to implement an ESMS. In any event, the FI will be required to ensure that the portfolio comply with national laws.

- subcompany for implementation of the CAP.
- (v) Strengthen the E&S capacity of the organization by identifying the E&S responsibility of the deal team and their E&S training requirements. This includes training of ADB's screening process, project Categorization system, training on knowledge of local and national environmental and social laws and regulations and experience in addressing environmental issues associated with the Fund's pipeline.
 - (vi) Require the portfolio companies to submit to the Fund an annual environmental and social compliance report
 - (vii) The Fund also has to submit to an Annual Report on Status of ESMS Implementation and compliance of portfolio companies.
8. The Fund's ESG Policy will be updated to include an appropriate and practically feasible screening mechanism for all of its investments and, a provision to ensure that each investee company will establish and implement its own ESMS commensurate to the environmental and social impacts and risks of its operations. The Fund will require each investee company utilizing the proceeds of ADB's investment in the Fund to exclude category A subprojects based on ADB SPS definition. An ESMS satisfactory to ADB will be a condition precedent to ADB's first disbursement for the Fund.