

FINANCIAL INTERMEDIARY: ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM ARRANGEMENT

- 1. Introduction.** The Asian Development Bank (ADB) proposes to commit an equity investment of up to \$50 million in the True North Fund VI LLP. The fund aims to make up to 10 equity investments of \$50–\$150 million each in companies operating in sectors such as financial services (nonbanking finance companies, microfinance, affordable housing finance), health care (services, non-pharmaceutical), consumer, and technology products and services. Although the fund is open to opportunities outside of these sectors, it will avoid investments in real estate industries. ADB will opt out of any investments in companies with activities having significant impacts and classified as *category A* for environment, involuntary resettlement, or indigenous peoples per ADB's Safeguard Policy Statement (2009).
- 2.** ADB's safeguard due diligence was conducted through a review of documents and discussions with key investment staff of True North on relevant safeguard requirements; the establishment of an environmental and social management system (ESMS); the application of ADB's prohibited investment activities list; and an exclusion or opt out clause for ADB on investments that can have significant impacts on the environment, involuntary resettlement, and indigenous peoples (*category A*). Considering the likely potential of environmental and social impacts and risks associated with the likely future portfolio of the fund, the transaction is classified as *category FI* for environment, involuntary resettlement, and indigenous peoples in accordance with ADB's Safeguard Policy Statement (2009).
- 3. Findings.** True North does not have an operational ESMS. In funds II and III, it adopted environmental and social policies as a requirement of the CDC Group, which invested in both funds. Since then, however, True North has not updated the documents or advanced any further in strengthening and updating its environmental and social policies and procedures. Its environmental due diligence (carried out during its investment process) is predominantly linked to ensuring statutory compliances performed internally or by external agencies, prior to its investment committee deciding whether to proceed with any proposed investment.
- 4.** Post investment, True North has adopted a sustainability index to assess portfolio companies' policies, organization (structure, staffing, and resources), systems and processes (operating procedures, training, reporting), and compliance (feedback, grievance redress, whistleblower protection, and governance) in delivering, amongst other things, environmental conservation and corporate social responsibility.
- 5. Recommendations.** True North will build upon its current practice and update and expand its current policies and manuals to incorporate an ESMS in compliance with ADB's Safeguard Policy Statement (2009). Prior to ADB's first disbursement, the fund will be required to establish an ESMS as part of its overall management system that incorporates the following: (i) environmental and social policies; (ii) a screening, categorizing, and review procedure; (iii) organizational structure and staffing including skills and competencies in environmental and social areas; (iv) training requirements; and (v) monitoring and reporting. The fund will also be required to assign either a member of its management or staff to be responsible for environmental and social matters, as well as the day-to-day implementation of the ESMS. To strengthen the fund's environmental and social capacity, related training programs will be provided and detailed in the ESMS.

6. Requests for each subsequent disbursement will require ADB's affirmation and concurrence on the proposed categorization and adequacy of environmental and social documentation. Annual reporting on the fund's overall environmental and social performance will be included in the investment documentation.

7. The screening procedure adopted as part of the ESMS will ensure that all investee companies are screened against ADB's prohibited investment activities list and against activities with potential significant impacts across ADB's Safeguard Policy Statement (2009) requirements on environment, involuntary resettlement, and indigenous peoples. Investee companies assessed to be involved in these types of activities and resulting in significant impact (*category A*) will be excluded from ADB financing. The fund shall require the investee companies, as applicable, to submit an annual environmental and social compliance monitoring report. The fund will prepare and submit reports annually to ADB on the implementation of its ESMS and the status of compliance of the investee companies.