Africa Finance Corporation

Green Bond Framework

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AFC’s Sustainability Strategy

Founded in 2007, AFC is a multilateral financial institution, created by sovereign African states to provide pragmatic solutions to Africa's infrastructure deficit and challenging operating environment, by developing and financing infrastructure, natural resources and industrial assets for the enhanced productivity and economic growth of African states.

AFC is committed to investing in projects that will provide substantial, measurable benefit to a region or sector in the long term and will be the template for future infrastructure investment and development. However, the Corporation also considers the short-term social, economic and environmental impact. Where possible, the projects utilize local resources and suppliers, with jobs being created during both construction and operational phases.

With 27 member countries, and an investment footprint that has cumulatively disbursed over US$7.2 billion across 30 countries[1] in Africa in the Power, Transport, Telecommunications, Heavy Industries and Natural Resources sectors, we are a truly Pan-African institution.

Moreover, in recent years we have been radically rethinking our approach in response to the ever-growing needs of Africa's infrastructure. Rather than simply providing funding for individual projects, AFC now seeks to take a wholesale approach to infrastructure investing by seeking to invest in every step of the value chain through financing eco-systems that help integrate economies and communities as well as transform lives. We call this eco-system investing, and our experience has found that in taking this approach, we increase a project's competitiveness, alleviate key social, economic and environmental risks that a government which does not have the necessary local capacity, may face. It also helps governments overcome capacity gaps.

As one of the highest rated institutions in Africa – A3/P2 rating from Moody's – we are able to deliver on ambitious projects, manage our investments, and pursue the highest levels of corporate governance, transparency and sustainable development. In becoming a member of the Corporation thus bestowing on the Corporation preferred creditor status, member countries are able to derisk development projects and access capital at a cost they would themselves be unable to attain

Looking ahead, our aim is to build an agile organisation with US$10 billion in assets under management by 2023 to address the urgent and important mandate of developing and financing infrastructure, natural resources and industrial assets to catalyze sustainable inclusive economic growth of the African continent for enhanced productivity.

AFC's Sustainability Strategy

Africa is the region that has contributed the least to global Green House Gas (GHG) emissions, yet it is among the most vulnerable to climate change. In addition, the economic and social costs associated with climate change impacts are expected to hit Africa the hardest, with certain sectors being greatly affected. It is also estimated that the cost of Africa's adaptation to climate change will be between US$10-30 billion a year by 2030. A holistic sustainable investing strategy which delivers financing solutions for lower carbon emission projects thus becomes quite critical.

Over the last 5 years, AFC has improved its internal capacity and ability to shape policy discourse on sustainable investing on the continent, by diversifying its funding sources and broadening the suite of products and solutions available to clients. AFC's ultimate objective is to significantly contribute to human development, poverty reduction, and job creation, all key pillars under several of the Sustainable Development Goals (SDGs).

AFC's Sustainability Strategy is thus designed to reflect its commitment to (i) sustainable investing principles in delivering impactful solutions for Africa, whilst continuously adapting our investment decisions to incorporate climate and development impact considerations; (ii) mainstreaming climate

[1] 31 December 2019

finance thinking in all our activities through a dedicated cross-divisional team (iii) Environmental and Social Governance in the context of investment opportunities and risk management (iv) driving thought leadership and conducting research and (v) strengthening strategic partnerships to provide continued access to competitive financing solutions. Through this, AFC will realize its mandate to not only deliver highly impactful infrastructure and industrial solutions, but also drive the sustainable development of the continent.

Examples of successful implementation of AFC's strategy include:

AFC's participation in the Global Innovation Lab for Climate Finance ("The Lab"), since 2015. The Lab is constituted of international private investors that accelerate the design of financial instruments that can unlock billions for many of the sectors within which AFC invests. Since being created in 2014, the Lab has launched 41 innovative climate finance instruments and has achieved more than US$2 billion in sustainable investments.

Similarly, AFC's accreditation with the Green Climate Fund ("GCF") in 2015, as the first African Development Financial Institution to be accredited, supports the efforts of developing countries to respond to the challenge of climate change. These blended financing instruments support the critical participation of local financial institutions that are often price-constrained, thus widening the available long-term funding solutions for climate finance projects across various sectors.

AFC's Development Impact Framework is aligned with the Corporation's mandate and entrenches development considerations at the centre of our investment philosophy. The Framework contains development impact measurement metrics in line with the United Nations Sustainable Development Goals, as well as best practice measurement and reporting standards.

Enhancing Management of Environmental and Social Risk

AFC has an approved Environmental and Social (E&S) Risk Management Policy and System to ensure that it carries out its lending, investment and advisory services to its clients and counter parties in a manner that is not negatively impactful on the environment, which ensures sustainable development. The Corporation's ongoing portfolio monitoring process includes an active oversight of E&S risks on all transactions, with emphasis on medium and high-risk projects and is embedded into AFC's enterprise-wide risk management approach.

The system is based on the following international best practice standards:

1. The Equator Principles;
2. International Finance Corporation Performance Standards on Environmental and Social Sustainability;
3. World Bank Group's Environmental, Health, and Safety Guidelines; and
4. African Development Bank Integrated Safeguards System.

AFC's E&S Risk Management Process Encompasses:

Robust policy framework

- Based on a comprehensive set of policies and procedures that have been developed to ensure the early identification of significant E&S risks and issues.

Risk categorization

- Using a specially developed tool, every transaction is allocated an E&S category, which depends upon its tenor and the inherent nature of project or company operations

Pre-transaction risk assessments and reviews

- E&S risks are identified through general and context specific assessment studies, which form the basis of our understanding of the risks and issues associated with each transaction.

Mitigation action planning

- E&S Action Plans (ESAPs) are fundamental to the successful implementation of mitigation actions, which are necessary to reduce the E&S risks. AFC works with clients and sponsors to develop fit-for-purpose ESAPs, with clearly allocated responsibilities and implementation timelines.

Post-transaction monitoring

- We work directly with projects to monitor the implementation of various E&S mitigation action plans. These often provide opportunities to add value to clients and/or sponsors' E&S risk management efforts, through training and the transfer of knowledge/skills.

AFC has a focus on environmental stewardship, through integrating environmental, safety, health and security risk considerations into our investment process and channeling funds towards infrastructure development projects that take into account the impact of climate change.

As an Accredited Entity to the Green Climate Fund since 2015 and a recipient of climate financing lines from international Developmental Financing Institutions, AFC constantly seeks opportunities to ensure clients and project sponsors integrate climate impact considerations into the identification, mitigation and monitoring of E&S risks.

AFC requires that all projects undertake an Environmental and Social Impact Assessment (ESIA) of all potential environmental, labour, community, health, safety and security risks relating to project operations. To mitigate any potential E&S risks and impacts of its projects, AFC requires that clients and project sponsors adhere to internal E&S risk management best practice by:

1. Establishing policies that will guide the achievement of high-level E&S performance;
2. Establishing and maintaining a process for identifying E&S risks and impacts of project and company activities, in accordance with the type, scale and location of these activities;
3. Establishing programmes that describe the procedures, tools, mitigation measures and monitoring and review processes instrumental in addressing identified E&S risks and impacts;
4. Providing periodic reports to AFC regarding their E & S performance and compliance.

AFC’s Green Bond Framework

As part of its continued commitment to sustainable finance, AFC has elected to create a Green Bond Framework in accordance with International Capital Markets Association's (ICMA) Green Bond Principles (GBP), and taking into consideration the EU Taxonomy for sustainable activities and the EU Green Bond standard.

As a development bank, AFC is focused on realizing its mandate to not only deliver impactful infrastructure and industrial solutions, but also drive the sustainable development of Africa's infrastructure. AFC's Green Bond Framework and green issuance will help achieve this approach.

The GBPs are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of Green Bonds. The AFC Green Bond Framework follows the ICMA Green Bond Principles 2018 edition - any AFC-issued green debt-financing instrument will be invested and managed using the following five categories:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review

ISS ESG, a global leader in environmental, social and corporate governance research and ratings has provided second party opinions on AFC' Green Bond Framework.

This framework may, from time to time, be updated, in order to comply with future changes to the Green Bond Principles and/or general Green Bond market practices.

1. Use of Proceeds

The net proceeds raised from the AFC Green Bonds will be allocated to finance (or refinance) eligible projects as outlined below. Eligible projects will contribute to one or more of the high-level objectives of the Green Bond Principles.

Select eligible green projects and their alignment to the UN SDGs are shown below:

AFC Sector	ICMA GBP	Example projects	Supported SDG
Power	Renewable Energy	Instillation of wind farms to support energy independence, displacing liquid fuel plants.	7 AFFORDABLE AND CLEAN ENERGY; 13 CLIMATE ACTION
		Hydroelectric power plants to increase power capacity and reduce generation costs.	
		Solar power projects encompassing production, transmission and maintenance.	
Transport & Logistics	Clean transportation	Clean transportation such as electrification of public transport and railways as well as transportation such as toll roads that decongest urban cities and reduce commuting time.	7 AFFORDABLE AND CLEAN ENERGY; 13 CLIMATE ACTION

2. Process for Project Evaluation and Selection

AFC's definition of a Green Project

AFC defines green projects as any mitigation or adaptation project that focus on reducing carbon emissions or increasing resilience. Examples of the types of projects AFC considers eligible include the following:

- Energy Generation and Access through renewable energy sources (solar, hydro and wind)
- New transport technologies, including the use of alternative fuels, more efficient engines, and electric and hybrid technologies. More sustainable approaches to urban transport and infrastructure planning can have a huge impact on future emissions trajectories.
- Reducing emissions from deforestation and forest degradation
- Energy efficiency and the adoption of lower emission sources of energy for industries
- Efforts to reduce emissions from energy, transport, and cities and the creation of resilient infrastructure systems such as integrated water supply systems.

Selection Process

All projects under consideration for green bond financing undergo an assessment process on the basis of the AFC Investment Policy which includes consideration with regards a) Efficiency and effectiveness: this reflects economic potential / bankability of the project b) Impact potential: this reflects the level of impact with regards to reducing emissions or increasing resilience; and c) Sustainable development potential: this reflects the wider long-term development impact as it relates to E&S, gender etc.

Examples of some of the SDG's that may be addressed include SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure).

Phase 1: A project is identified as being green (in accordance with the definition above) at the origination stage

Phase 2: Green projects are appraised in accordance with AFC's internal investment process

Phase 3: Approved projects will become eligible for inclusion in the Green Bond program

Phase 4: If there is a need to replace any project on the list of potential projects, AFC may change it and find a substitute project that meets the eligibility criteria.

3. Management of Proceeds

Every project under the Green Bond Program is subject to AFC's portfolio monitoring under our Investment Policy. Our portfolio management approach includes control and monitoring of disbursements, operation status and contractual compliance, client and operation credit risk. In addition, disbursements for projects under the Green Bond Program are monitored by the Assets and Liability Committee (ALCO) in order to ensure the proper use of the Green Bond proceeds.

AFC intends to allocate the proceeds from green debt financing instruments to a portfolio of Eligible Projects, selected in accordance with the use of proceeds criteria and project evaluation and selection process presented above. AFC intends to allocate the proceeds within a year.

AFC will endeavor to achieve a level of allocation for the eligible green project portfolio which matches the balance of net proceeds from its outstanding green debt financing instruments. Additional eligible green projects will be added to the issuer's eligible green project portfolio to the extent required to ensure that the net proceeds from outstanding green debt financing instruments will be allocated to eligible green projects.

Any unallocated proceeds will be earmarked and held as cash or in our Treasury Liquidity Portfolio pending investment in Eligible Projects in accordance with ICMA's Green Bond Principles.

Green Bond Program Proceeds Monitoring

The net proceeds from any AFC Green Bond issuances will be managed within AFC's treasury liquidity portfolio ahead of distribution to the eligible projects selected. For the duration of the Green Bond's life, AFC will track the outstanding balance of the net proceeds and reconcile against allocations made to eligible green projects over the time horizon. AFC will manage any unallocated proceeds from green bond issuances in accordance with the Green Bond Principles. A selected project can be in one of the following three stages:

- i) New projects that have been approved and meet all the requirements in order to start the disbursement period
- ii) Projects that are already in the disbursement period.
- iii) Projects that have finished receiving disbursements and are either in their grace period or have begun to amortize, but still have a relevant amount in AFC's portfolio pending amortization.

Given that every individual project selected for the program has different characteristics including tenor, disbursement period, grace period and amortization schedule, cash flow mismatches when compared to the characteristics of the bonds are common.

4. Reporting

AFC will provide investors with reporting on the allocation of proceeds until proceeds have been fully allocated and the impact of eligible green projects on an annual basis for the duration of the Green Bonds. Data will be collected and reported at the project level using a data collection tool developed by the AFC and facility documents will include contractual clauses for annual ESG and Development Impact reporting to AFC.

Allocation Reporting

The allocation report provides:

- The total amount of investments in the Eligible Green Projects Portfolio
- The amounts of new and existing projects
- The balance of unallocated proceeds

Impact Reporting

AFC will report on the environmental impact of the projects funded with the Green Bonds proceeds or refer to existing sustainability reporting (within or outside of the Annual Report). Listed below are potential environmental impact indicators, in line with the 'Handbook – Harmonized framework for impact reporting' (ICMA 2019).

Potential Impact Indicators:

- Annual additional energy capacity (kW)
- Annual GHG emissions avoided (tons of CO^2eq)
- Capacity of renewable energy plant(s) built or rehabilitated (MW)
- Passenger-kilometres (i.e. the transport of one passenger over one kilometre) and/or passengers; or tonne kilometres (i.e. the transport of one tonne over one kilometre) and/or tonnes
- Annual GHG emissions reduced/avoided in tCO2–e p.a.
- Annual Greenhouse Gas (GHG) emissions reduced or avoided (tCO2e). Depending on the type of project, a relevant GHG emission factor will be applied to activity data, such as: annual energy savings (MWh) or annual renewable energy produced (MWh)
- Minimum energy efficiency improvement achieved (%)

Each report will be prepared and reviewed by the Investments and E&S teams and approved by the Chief Investment Officer and the Chief Risk Officer (or their designates). The reports will be available to view on our website www.africafc.org.

5. External review

Second-Party Opinion

AFC has appointed ISS ESG as an independent assurance provider to provide a second party opinion on this green finance framework pre-issuance and to annually assure the process used in financing of Eligible Projects in accordance with this framework.

This second party opinion will be made publicly available on AFC website (www.africafc.org).

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