

## SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

The Arab Bank of Economic Development in Africa  
20 November 2023

### VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Sustainable Financing Instruments

Relevant standards

- Green Bond Principles (as of June 2021 with June 2022 Appendix 1), Social Bond Principles (as of June 2023), Sustainability Bond Guidelines (as of June 2021), as administered by the ICMA
- Green Loan Principles and Social Loan Principles (as of February 2023), as administered by the LMA

Scope of verification

- BADEA's Sustainable Finance Framework (as of November 20, 2023)
- BADEA's Eligibility Criteria (as of November 20, 2023)

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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## SCOPE OF WORK

The Arab Bank for Economic Development in Africa (“the Issuer”, “the Bank”, or “BADEA”) commissioned ISS Corporate Solutions (ISS-Corporate) to assist with its Sustainable Financing Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. BADEA’s Sustainable Finance Framework (as of November 20, 2023) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), the Loan Market Association’s (LMA) Green Loan Principles (GLP) and Social Loan Principles (SLP).
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Linking the transaction(s) to BADEA’s overall Environmental, Social, and Governance (ESG) profile – drawing on the issuance-specific Use of Proceeds (UoP) categories.


## BADEA’S BUSINESS OVERVIEW

The Arab Bank for Economic Development in Africa (BADEA) is classified in the Development Banks industry, as per ISS ESG’s sector classification.

The Arab Bank for Economic Development in Africa (BADEA) is a financial institution owned by eighteen Arab countries who are members of the League of Arab States (LAS). The member states are the Hashemite Kingdom of Jordan, United Arab Emirates, Kingdom of Bahrain, Republic of Tunisia, People’s Democratic Republic of Algeria, Kingdom of Saudi Arabia, Republic of Sudan, Arab Republic of Syria, Republic of Iraq, Sultanate of Oman, State of Palestine, State of Qatar, State of Kuwait, Republic of Lebanon, State of Libya, Arab Republic of Egypt, Kingdom of Morocco, and Islamic Republic of Mauritania. The Bank began its operations in 1975. The Bank’s headquarters is located in Khartoum, the capital of the Republic of Sudan. Since April 2023, the Bank has relocated to Saudi Arabia.

BADEA provides public financing for development projects in infrastructure such as transportation, health, education, water supply and sanitation projects, etc. BADEA also provides financing for private sector operations in beneficiary countries by providing credit loans to private sector projects and contributes to trade operations by providing financing lines to governments of beneficiary countries, financial institutions, government institutions, etc. Further, capacity-building operations are funded for the benefit of African countries including preparation of technical and economic feasibility studies for development projects. BADEA had a net loss of USD 187.9 million and approved loans to customers worth USD 6.583 billion as of 31st December 2022.

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION
<p><b>Part 1:</b></p> <p><b>Alignment with GBP, SBP, SBG, GLP and SLP</b></p>	<p>The Issuer has defined a formal concept for its Sustainable Financing Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the International Capital Market Association's Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), as well as the Green Loan Principles (GLP) and Social Loan Principles (SLP).</p>	<p><b>Aligned</b></p>
<p><b>Part 2:</b></p> <p><b>Sustainability quality of the Eligibility Criteria</b></p>	<p>The Sustainable Financing Instruments will (re)finance eligible asset categories which include:</p> <p>Green categories: Renewable Energy, Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use.</p> <p>Social categories: Affordable Basic Infrastructure, Access to Essential Services, Affordable Housing, Employment Generation, Food Security &amp; Sustainable Food Systems.</p> <p>Product and/or service-related use of proceeds categories<sup>2</sup> individually contribute to one or more of the following SDGs:</p> 	<p><b>Positive</b></p>

<sup>1</sup> The evaluation is based on the BADEA's Sustainable Financing Framework (November 2023 version), on the Indicative Corporate Rating updated on October 5, 2023 and applicable at the SPO delivery date.

<sup>2</sup> Renewable Energy, Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use, Affordable Basic Infrastructure, Access to Essential Services, Affordable Housing, Employment Generation, Food Security & Sustainable Food Systems.

	The environmental and social risks associate with those use of proceeds categories are partially managed.	
<b>Part 3: Linking the transaction(s) to BADEA's ESG profile</b>	The key sustainability objectives and the rationale for issuing Sustainable Financing Instruments are clearly described by the Issuer. The majority of the project categories considered are in line with the sustainability objectives of the Issuer.	<b>Consistent with Issuer's sustainability strategy</b>

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH THE GREEN BOND PRINCIPLES, SOCIAL BOND PRINCIPLES, SUSTAINABILITY BOND GUIDELINES, GREEN LOAN PRINCIPLE AND SOCIAL LOAN PRINCIPLES

This section evaluates the alignment of BADEA’s Sustainable Finance Framework (as of November 20, 2023) with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Green Loan Principles and Social Loan Principles.

GBP, SBP, SBG AND GLP, SLP	ALIGNMENT	OPINION
<p><b>1. Use of Proceeds</b></p>	<p>✓</p>	<p>The Use of Proceeds description provided by BADEA’s Sustainable Finance Framework is <b>aligned</b> with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, the Green Loan Principles and Social Loan Principles.</p> <p>The Issuer’s green and social categories align with the project categories as proposed by the Principles. Criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by project category is provided and environmental and social benefits are described. The Issuer defines exclusion criteria for harmful project categories.</p> <p>The Issuer defined a look-back period of two years, in line with best market practice.</p>

<p><b>2. Process for Project Evaluation and Selection</b></p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by BADEA’s Sustainable Finance Framework is <b>aligned</b> with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, the Green Loan Principles and Social Loan Principles.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer and show the intended benefit to the relevant population.</p>
<p><b>3. Management of Proceeds</b></p>	<p>✓</p>	<p>The Management of Proceeds provided by BADEA’s Sustainable Finance Framework is <b>aligned</b> with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, the Green Loan Principles and Social Loan Principles.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed per instrument (instrument-by-instrument approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p>
<p><b>4. Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting provided by BADEA’s Sustainable Finance Framework is <b>aligned</b> with the Green Bond Principles and Social Bond Principles.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer’s website. BADEA explains that the level of expected reporting will be at project category level as well as the type of</p>

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		<p>information that will be reported. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>The Issuer defines the reporting frequency and duration of the impact reporting, as well as the information reported, and the level and scope of reporting, in line with best market practice.</p>
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## PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

### A. CONTRIBUTION OF THE SUSTAINABLE FINANCING INSTRUMENTS TO THE UN SDGs<sup>3</sup>

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

#### 1. Products and services


The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):



Each of the Sustainable Financing Instrument's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

#### Green Categories

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Renewable Energy</b></p> <ul style="list-style-type: none"> <li>▪ <i>Wind (onshore &amp; offshore)</i></li> </ul>	<p><b>Contribution</b></p>	

<sup>3</sup>The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

- Solar – including PV and CSP projects (provided that 85% or more of electricity production comes from solar)

**Renewable Energy**

Hydro (with capacity less than 1000MW) - provided that any financed hydro project meets at least one of the following criteria:

- life-cycle carbon emissions intensity is below 50gCO2e/kWh;
- power density above 10W/m2
- is run-of-river without an artificial reservoir.

**Sustainable Water and Wastewater Management**

- Wastewater treatment (e.g., water intakes, water distribution networks)
- Sustainable infrastructure for clean and/or drinking water (e.g., tube wells with automatic pumps, sustainable river dams, water intakes, gravity mains, water treatment plants, clean water pumping stations, concrete reservoirs)

**Sustainable Water and Wastewater Management**

- Sustainable urban drainage systems and river training <sup>4</sup> and other forms of flooding mitigation
- Development of flood-protected areas in urban environments (including road rehabilitation, rainwater draining systems, public lighting, and developing social institutions such as educational and health centers)

**Environmentally Sustainable Management of Living Natural Resources and Land Use**

- Climate smart farm inputs such as biological crop protection<sup>5</sup>
- Preservation or restoration of natural landscapes (where the activity did not



<sup>4</sup>The review is limited to the examples of projects spelled out in the framework.





<sup>5</sup>The review is limited to the examples of projects spelled out in the framework.

previously cause damage to the natural landscape)

- Environmentally sustainable forestry, including afforestation or reforestation, where resources are not exploited post-project.



**Social Categories**

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Affordable Basic Infrastructure</b></p> <p>Eligible Projects may include financing to support:</p> <p>Water, Sewers &amp; Sanitation: Increasing the number of people with access to clean drinking water</p>	<p><b>Contribution</b></p>	
<p><b>Affordable Basic Infrastructure</b></p> <p>Eligible Projects may include financing to support:</p> <ul style="list-style-type: none"> <li>▪ Water, Sewers &amp; Sanitation: Expanding access to improved sanitation and hygiene services for individuals, households and public spaces</li> </ul>		
<p><b>Access to Essential Services</b></p> <p>Eligible Projects may include financing to support access to essential services such as:</p> <ul style="list-style-type: none"> <li>▪ Health and Healthcare: Rehabilitation and expansion of hospitals and hospital capabilities</li> </ul>		
<p><b>Access to Essential Services</b></p> <p>Eligible Projects may include financing to support access to essential services such as:</p> <ul style="list-style-type: none"> <li>▪ Education and Vocational Training: Construction and equipping of educational facilities and associated infrastructure (e.g. student living quarters)</li> </ul>		

<sup>6</sup> Ibid.

**Access to Essential Services**

Eligible Projects may include financing to support access to essential services such as:

- **Health and Healthcare:** Financial assistance to governments for the purposes of expanding health services and achieving development goals e.g.: Equipment for Hospital healthcare.
- Development of a strategic framework for health sector

**Access to Essential Services**

Eligible Projects may include financing to support access to essential services such as:

Construction/ rehabilitation of hospitals and specialized centres

**Access to Essential Services**

Eligible Projects may include financing to support access to essential services such as:

- **Health and Healthcare:** Early epidemic outbreak detection

**Access to Essential Services**

Eligible Projects may include financing to support access to essential services such as:

Financing and Financial Services: Support measures for Micro enterprises to increase access to financial institution

**Access to Essential Services**

Eligible Projects may include financing to support access to essential services such as:

Financing and Financial Services: Support measures for SMEs to increase access to financial institution

**Access to Essential Services**

Eligible Projects may include financing to support access to essential services such as:

Support measures for SMEs to increase access to financial institutions for low- and middle-income countries.

**Contribution**



**Contribution**



**Contribution**



**Contribution**



**Contribution**



**Contribution**



**Affordable Housing**

*Eligible Projects may include:*

- *Financing provided to sovereigns for management of social and affordable housing carried out by governmental authorities to increase housing access where the ownership of the units goes directly to the target population consisting of underserved people, low- and middle-income and offered to the Target Population at below-market commercial levels.*
- *Creation of new ways to obtain social housing (e.g. State subsidies) provided at a reduced rent rate to underserved people.*

**Employment Generation<sup>7</sup>**

*Eligible Projects may include financing to support:*

- *Programmes designed to prevent and/ or alleviate unemployment: Financial support measures for Micro Small and Medium Enterprises (MSMEs) following COVID-19 in Equatorial Guinea.*

**Employment Generation**

*Eligible Projects may include financing to support:*

- *SME financing*
- *Creation of new SMEs generating new jobs*

**Employment Generation**

*Eligible Projects may include financing to support:*

- *SME financing for low- and middle-income countries<sup>8</sup>*



<sup>7</sup> Target population for employment generation eligible projects is: underserved people, owing to a lack of quality access to essential goods and services; aging populations and vulnerable youth; women and/or sexual and gender minorities.

<sup>8</sup> The majority of BADEA's countries of operation (37 out of 44) have been classed by the World Bank's latest classifications, as Lower-Middle Income or Lower-Income countries. The following beneficiary countries are classified as such: Angola, Benin, Cabo Verde, Cameroon, Congo, Rep., Côte d'Ivoire, Eswatini, Ghana, Guinea, Kenya, Lesotho, Nigeria, São Tomé and Príncipe, Senegal, Tanzania, Zambia, Zimbabwe, Burkina Faso, Burundi, Central African Republic, Chad, Congo, Dem. Rep., Eritrea, Ethiopia, Gambia, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, South Sudan, Togo and Uganda.

**Employment Generation**

Eligible Projects may include financing to support:

- Provision of financial resources to support financial inclusion efforts for low-income people as well as MSMEs<sup>9</sup>
- Creation of new Micro Enterprises generating new jobs

**Food Security & Sustainable Food Systems<sup>10</sup>**

Eligible Projects may include financing to support:

- Physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements

**Food Security & Sustainable Food Systems**

Eligible project may include financing to support:<sup>11</sup>

- Farming training on sustainable agriculture practices

**Food Security & Sustainable Food Systems<sup>12</sup>**

Measures to increase crop productivity/production and help achieve food security for the Target Population, including: Installation of Sustainable irrigation networks such as furrow irrigation, canal irrigation, pivot irrigation and drip irrigation systems, in place of manual watering alongside construction of earthen reservoirs/pumps/upper tanks.<sup>13</sup>

(Underserved people, owing to a lack of quality access to essential goods and services, Aging populations and vulnerable youth, Women and/or sexual and gender minorities)

**Contribution**



**Contribution**



**Contribution**



**Contribution**



<sup>9</sup> Ibid.

<sup>10</sup> Target population for food security & sustainable food systems is: underserved people, owing to a lack of quality access to essential goods and services; aging populations and vulnerable youth, women and/ or sexual and gender minorities.

<sup>11</sup> The assessment is limited to the projects that are listed in the Issuer's framework.

<sup>12</sup> Ibid.

<sup>13</sup> BADEA confirms that those systems will be used to grow plant-based food products without further processing, such as raw vegetables, fruits, salad, pulses, nuts, seeds, oats, rice, cereals, cassava, sorghum and millet.

**Food Security & Sustainable Food Systems<sup>14</sup>**

*Environmentally sustainable agriculture (including sustainable irrigation networks).<sup>15</sup>*

*Eligible instances of environmentally sustainable agriculture include: preparing land before planting season.*

**Food Security & Sustainable Food Systems**

*Eligible instances of environmentally sustainable agriculture include: providing agricultural inputs such as seeds,<sup>16</sup> sustainable fertilizers and sustainable chemicals, via certified processes such as EU Organic, USDA Organic, and/or labels accredited by IFOAM.*

**Contribution**



**Contribution**



<sup>14</sup> Ibid.

<sup>15</sup> Preparing land will not include use of water polluting pesticides (aldicarb, carbofuran, atrazine, alachlor, chlorothalonil, ethylene dibromide (EDB), DCPA or 1,2 – dichloropropane).

<sup>16</sup> BADEA confirms that those fertilizers will not include nitrogen, phosphate or urea-based fertilizers.



## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ELIGIBILITY CRITERIA

The table below evaluates the eligibility Criteria against issuance-specific KPIs. The entirety of the assets are and will be located in the following countries:

Seychelles, Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia, South Africa, Angola, Benin, Cabo Verde, Cameroon, Congo, Rep., Côte d'Ivoire, Eswatini, Ghana, Guinea, Kenya, Lesotho, Nigeria, São Tomé and Príncipe, Senegal, Tanzania, Zambia, Zimbabwe, Burkina Faso, Burundi, Central African Republic, Chad, Dem. Rep., Eritrea, Ethiopia, Gambia, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, South Sudan, Togo and Uganda.

### ASSESSMENT AGAINST KPIs

#### ESG guidelines into financing process

BADEA has a policy called "The Guidelines of Environmental Requirements for Development Projects" for the E&S requirements of all investments at the Bank. The policy also includes the community and social aspects of the proposed projects and ensures that sustainable development would reduce the potential disadvantages and damages to the environment and the society. It is noted that consultation with the local community is considered when taking the decisions related to the implementation of the projects that might affect the environment. The environmental impact assessment of the projects will also identify the temporary and permanent social changes arising therefrom and estimate the positive and negative consequences thereof. This policy covers both the entirety of current and future transactions, including development loans and bonds underlying this specific transaction. 94% of BADEA's investments (as of June 2023) are made in sovereign borrowers or sovereign-owned institutions/national development Banks. This policy was issued further to realization of the importance of taking in consideration the environmental and social impacts of development projects, in what would contribute to the preservation of the environment and the realization of sustainable development.

- BADEA has 5 main phases of the project cycle which are identification, preparation, appraisal, agreement, and implementation.
- With regards to identification, BADEA finances the preparation of feasibility studies for development projects in the form of grants and ensures that the terms of reference of the studies include preparation of Environmental and Social Impact Assessments (ESIAs) applicable to all development loans. The draft ESIAs are among the documents that are reviewed and approved by the Bank.
- When it comes to preparation and appraisal, BADEA checks if the projects being prepared have ESIAs and whether they have been approved by the environmental authorities. BADEA includes a chapter in its appraisal reports on the environmental and social impacts of the projects.



- For loan agreements, BADEA requires the beneficiaries to prove that an environmental license has been obtained for the project.
- During implementation, if BADEA finances the design and supervision consultants for the projects, the Environmental & Social requirements are captured in the Terms of Reference. For the tender documents for civil works and draft contracts of the contractors, BADEA ensures that the E&S clauses are captured. In the project completion and post evaluation reports BADEA includes a section on E&S. Where ESG risks are identified, BADEA engages with the executing agency, who is responsible for the delivery of the ESIA, and ensures that the mitigation measures are included in the contracts. IPCs (Interim Payment Certificates) are withheld if the E&S obligations are not fulfilled. Thus, BADEA aligns the financial incentives of all parties with implementing sufficient and appropriate ESG risk mitigation.

BADEA has a mandate to contribute to the sustainable development of African countries through financing of regional and national (public and private) projects in order to meet the sustainable development goals on the horizon of 2030 and Africa's Agenda 2063.<sup>17</sup> The Bank's 2030 strategy aims to contribute to sustainable development and structural transformation in African countries and enhance Arab-African partnership in the context of the Fourth Industrial Revolution.<sup>18</sup>

In this context, the Bank is developing a new sustainability framework within the Arab Coordination Group (ACG), that will promote best practices and a deeper focus on climate change and ESG. This will be complementing the current E&S framework. Moreover, the Environmental and Social Aspects of Procurement document is also being developed, that will focus on E&S procurement practices.

### **ESG Guidelines into financing process for forestry and agriculture**

For agricultural projects, BADEA conducts a tailored Environmental and Social Impact Assessment to identify risks associated with such projects. ESIA is conducted by credible and experienced external consultants and their work is supplemented by BADEA's review of the ESIA. In addition, BADEA makes a site visit during appraisal to confirm the findings of the ESIA. Additionally, all projects require the approval of relevant environmental authorities, who will also have their own diligence process to ensure that the risks have been assessed robustly and that appropriate mitigants are in place.

Once risks have been identified by the ESIA, they are reviewed/approved by BADEA and other financing parties and a discussion is then held with the consultant and the borrower to identify the appropriate mitigants, and to ensure that the appropriate risk mitigation measures are included in the work contracts for the project. These E&S obligations vary based on the risk

<sup>17</sup> Strategic priorities, page 14, BADEA Annual report, 2021,

'[https://www.badea.org/Portal/Document\\_Repository/1175/1\\_56343%20BADEA%20full%20report%20EN%20final-min.pdf](https://www.badea.org/Portal/Document_Repository/1175/1_56343%20BADEA%20full%20report%20EN%20final-min.pdf) '

<sup>18</sup> Ibid.

and project payments are withheld if these E&S obligations are not met. In doing so, all parties are aligned in their incentives to prioritize the mitigation of all E&S risks on every project.

### Labor Standards



BADEA currently does not have policies in place to ensure that clients comply with all the ILO core conventions. However, BADEA ensures that labour standards are covered in the ESIA and the work contracts. The labor standards are covered in the code of conduct. The ESIA is tailored to reflect the relevant national legislation of the respective country and the borrower has to comply with BADEA’s exclusion list, national laws and regulations and the ILO Labor Standards and ILO Basic Terms and Conditions of Employment.

### Health and Safety



BADEA currently does not have policies in place to ensure that clients comply with high health and safety standards such as ISO 45001, Equator Principles or IFC Performance Standards. However, BADEA confirms that it has an internal Environmental policy that covers Health and Safety of all employees, subsidiaries, jurisdictions, suppliers and clients. 100% of assets underlying each transaction are evaluated for health and safety based on the national regulations<sup>19</sup>. Health and Safety risks are included in the risk review set out in ESIA. Where Health and Safety risks have been identified, BADEA ensures that the appropriate mitigation measures are identified and that clauses are included in the work contract such that if contractors are non-compliant, they do not receive payment from the executing agency of the project. There are always Health and Safety requirements included in the contracts irrespective of any identified risks as a base-case and the due diligence process is done on a deal-by-deal basis.

### Biodiversity



BADEA currently does not have policies in place to ensure that national regulations of all the clients’ jurisdictions specifically cover biodiversity risks and mitigation measures. However, BADEA requires that the ESIA is conducted by credible and experienced external consultants and their work is supplemented by BADEA’s review of the ESIA. The ESIA includes information regarding any

<sup>19</sup> BADEA refers to each country’s individual national laws that govern health & safety. Few examples include:

Ghana:

[https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO::P1100\\_ISO\\_CODE3,P1100\\_SUBCODE\\_CODE,P1100\\_YEAR:GHA,,2015#:~:text=Summary%2Fcitation%3A%20The%20Labour%20Act,Ghana%20National%20Fire%20Service%20Act](https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO::P1100_ISO_CODE3,P1100_SUBCODE_CODE,P1100_YEAR:GHA,,2015#:~:text=Summary%2Fcitation%3A%20The%20Labour%20Act,Ghana%20National%20Fire%20Service%20Act)

Rwanda:

[https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO:1100:P1100\\_ISO\\_CODE3,P1100\\_SUBCODE\\_CODE,P1100\\_YEAR:RWA,,2015:NO](https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO:1100:P1100_ISO_CODE3,P1100_SUBCODE_CODE,P1100_YEAR:RWA,,2015:NO)

Kenya:

[https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO:1100:P1100\\_ISO\\_CODE3,P1100\\_SUBCODE\\_CODE,P1100\\_YEAR:KEN,,2015:NO](https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO:1100:P1100_ISO_CODE3,P1100_SUBCODE_CODE,P1100_YEAR:KEN,,2015:NO)

impacts where endangered species have been identified and site visits for verification. In addition, BADEA makes a site visit during appraisal to confirm the findings of the ESIA. Additionally, all projects require the approval of relevant environmental authorities, who will also have their own diligence process to ensure that the risks have been assessed robustly and that appropriate mitigants are in place. This risk assessment does include biodiversity risks where present at the project level for all projects. Once risks have been identified by the ESIA, they are reviewed/approved by BADEA and other financing parties and a discussion is then held with the consultant and the borrower to identify the appropriate mitigants, and to ensure that the appropriate risk mitigation measures are included in the work contracts for the project. These obligations vary based on the risk and project payments are withheld if these obligations are not met. In doing so, all parties are aligned in their incentives to prioritize the mitigation of such risks on every project.

Due to the sovereign nature of the borrower base, all projects abide the E&S regulations governed by country laws. BADEA requires an impact & vulnerability assessment and adaptation plans to be in place for all assets underlying each transaction. BADEA's assessment of biodiversity risks, along with the associated mitigation measures and action plans etc., applies to all projects, and all aspects of each project including all assets.

### Community dialogue

BADEA has a policy framework "Guidelines of Environmental Requirements for Development Projects" which notes the inclusion of considerations relating to the community and social aspects for all the proposed projects and includes the principle of consultation with the local community when taking the decisions related to the implementation of the projects that might affect the environment. Engagement of the citizens and the private societies that are concerned of the environment is considered in taking the decisions related to development projects during project cycle. BADEA requires an ESIA report for all its projects and as per Chapter II, III of the ESIA report.



The BADEA project team shall identify the temporary and permanent social changes arising therefrom and estimate the positive and negative consequences thereof including the observation of the rights of the indigenous population, and the awareness of the impacts of the forceful re-inhabitation of the population, and the preparation of a practical plan for the treatment of such impacts and the implementation thereof, subject to fair compensation including the migration of citizens from or to the project site, and the resulting pressures therefrom on the services available in the area, the aggravation of poverty, and the negative or positive impact on the jobs of citizens and their level of income. In addition to

all this, the social issues related to women, children, and the elderly are also taken in consideration.

BADEA follows Item 8 within Chapter III of ESIA report on "Consultation with the Local Community", which is a primary requirement of the ESIA process of development projects, where the opinions of the groups that are affected by the project, as well as non-governmental private societies are heard and constructive positive dialogue and the freedom of expression, and transparency is built while taking decisions.

BADEA engages in various methods of consultation mechanisms, such as holding small meetings, meetings with concerned individuals and groups, filling surveys, publication in newspapers, and the use of radio, TV and the internet in consultation. It is required to simplify the used language and to use illustrations about the elements, objectives, benefits, and precautions of the project. All information about the project is published for access thereto by all the members of the society. BADEA ensures that if there is going to be a resettlement component, that there are compensation schemes as well as grievance mechanisms and a special condition for compensation of the affected persons prior to project commencement.

### Inclusion

BADEA finances projects in 44 African countries out of which 37 are low-income and low to middle income countries with disadvantaged populations. The loans financed under this framework will be specifically targeted toward underserved, vulnerable, and disadvantaged populations<sup>20</sup>. In the case of the Healthcare category, only financing of public hospitals is eligible. In the case of the Education category, only financing of public schools is eligible, in remote areas and villages for people with limited resources. 94% of BADEA's investments (as of June 2023) are made in sovereign borrowers or sovereign-owned institutions/national development Banks.



In BADEA's publicly available Establishment Agreement, it states that BADEA will apply generally accepted principles for development financing on favourable terms and the focus of the financed projects are those who are most disadvantaged and all of BADEA's funding is made in compliance with the international law of the country in which it is made, including those which refer to inclusion/anti-discrimination. On this basis, BADEA ensures that the impacts of their financing are made available to all people irrespective of gender, marital status, and that vulnerable/disadvantaged populations have universal access to the services financed by BADEA.

<sup>20</sup> As per BADEA's Framework, specifically the low- and middle-income portions of the country's population as determined via locally set income thresholds.

**Exclusion criteria**

BADEA will explicitly exclude from the eligible projects any financing for purposes within the following sectors<sup>21</sup> :

- Exploration, production/refining and/or storage of fossil fuels, fossil fuel power generation and infrastructure dedicated to the transport of fossil fuels.
- Alcohol, gambling, tobacco, and adult entertainment
- Weapons and defense-related goods and expenditures
- Child labor or forced labor.
- Any activity that is illegal according to any laws or regulations in which BADEA operates or in which BADEA's financings are utilized.
- Nuclear power generation
- Deforestation and degradation of forests

The exclusion criteria is valid at the Framework level. At the company level, almost all lending is done in compliance with the FW exclusion criteria – however there is a very small portion of the portfolio comprised of trade finance for oil. To reiterate, this is a very small proportion of the portfolio, which otherwise is in compliance with the FW exclusion criteria.

<sup>21</sup> This is applicable at the Framework level only.

## PART III: LINKING THE TRANSACTION(S) TO BADEA'S ESG PROFILE

### A. CONSISTENCY OF SUSTAINABLE FINANCING INSTRUMENTS WITH BADEA'S SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the Issuer*

BADEA has established a 2030 strategic plan with four strategic priorities and focus areas: 1) Investment in infrastructure for inclusiveness, industrialization and innovation, 2) Agricultural value chain development for empowerment and food security, 3) Stimulate trade and private sector development for growth and job creation, 4) SME development and entrepreneurship.<sup>22</sup> BADEA aims to contribute to the sustainability development goals and to the African Union's Agenda 2063.<sup>23</sup> The Bank is acting on the three pillars: Environmental, Social and Governance (ESG), in both its investments and lending process. However, BADEA has currently not established short, medium and long term ESG targets in a defined timeline but commits to disclose such targets by the end of Q1 2024.

To mitigate and adapt to climate change, the Bank has financed around 400 green projects since 1974, which amounts to a total portfolio of USD ~\$2bn. The projects include the following activities: tree planting initiatives; improving coastal defenses; smart cities powered by solar energy; agricultural projects addressing food security and supporting farming techniques; dams generating clean energy; and water and sanitation infrastructure projects. Moreover, BADEA has launched the Green BADEA Initiative in 2018, which aims to reduce the environmental impact of its own operations, by putting in place environmental management systems (ISO 14001 certification), installing a solar system to power its headquarters and establishing recycling initiatives. Finally, the Bank aims to finance USD 24 Billion climate projects by 2030 as part of the Arab Coordination Group.

BADEA is a development institution, therefore, contributing to societal progress in developing countries is a compulsory requirement deriving from its Establishment Agreements. The Bank finances social projects in 44 Sub-Saharan Countries, aiming at reducing poverty and offering support to marginalized groups (youth and women) in those countries. The following activities are being financed: offering education to women, housing projects to help low-income people to have access to affordable housing, support MSMEs through microfinance. Moreover, the Bank has a commitment, as part of the Arab Coordination Group, to finance USD 1 Billion food security projects. Finally, BADEA is ISO 2600 certified, which offers guidance to effectively assess and address social responsibilities at the company level.

In regard to Governance, the Bank has received both ISO 37001 and ISO 9001, which provides principles and key aspects for good corporate governance. Moreover, BADEA has established measures to ensure an optimal qualitative composition of the Board both in terms of gender

<sup>22</sup> BADEA 2030 strategic plan, available at: [https://badea.org/Portal/Document\\_Repository/1189/1\\_BADEA-2030-Report-ENGLISH%20-%20Final.pdf](https://badea.org/Portal/Document_Repository/1189/1_BADEA-2030-Report-ENGLISH%20-%20Final.pdf)

<sup>23</sup> The African Union's strategic framework that aims to deliver on its goal for inclusive and sustainable development.

and geographic diversity. The Bank has also anti-corruption policies applicable at the company level and for projects that the Bank finances.

The Issuer currently does not have any verified Science Based Targets and does not yet publicly disclose its ESG targets and track its progress in a sustainability report annually. However, the Bank commits to create a sustainability report in alignment with the GRI standards by the end of Q1 2024. Moreover, the Bank is not a signatory of any industry alliance (i.e., Net Zero Banking Alliance and Principle of Responsible Banking) but has a financial commitment towards climate action and food security, as part of the Arab Coordination Group.

Finally, BADEA will use the Sustainable Finance Framework to issue its first Green, Social and Sustainability Bonds.

### *Rationale for issuance*

The first Sustainable Finance Framework that BADEA designed, aims at improving the quality of life within its beneficiary countries. The Green, Social and Sustainability Bonds that BADEA will issue, allows the Bank to:

- Contribute to its commitment to create advancing sustainable economic development in Africa;
- To drive positive social outcomes thanks to the impact of loan financings in Africa;
- Provide sustainable impact investors the opportunity to further diversify their portfolios;
- Encourage the development of further Sustainable Finance Frameworks by other issuers including African sovereigns.

**Opinion:** *The key sustainability objectives and the rationale for issuing Green Bonds are clearly described by the Issuer. The majority of the project categories financed are in line with the sustainability objectives of the Issuer.*



## B. BADEA'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

### *ESG risks associated with the Issuer's industry*

The Issuer is classified in the Development Banks, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Climate Change and Related Risks
Goal-Oriented Promotion of Sustainability Issues
Labor Standards and Working Conditions
Sustainability Standards for Financial Products and Services

### *ESG strengths and points of attention related to the Issuer's disclosures*

Leveraging ISS ESG's Research, the following strengths and points of attention<sup>24</sup> have been identified:

STRENGTHS	POINTS OF ATTENTION
The Bank provides social financial services, that contribute to promoting economic and social development in the areas of health, water and sanitation, education, infrastructure, and energy. Additionally, the Bank has integrated monitoring and evaluation measures to ensure goal-oriented financial services objectives are met.	<p>The Bank publicly discloses the volume of loans approved along with the sectors and regions served. The Bank's application procedures of environmental and social guidelines cover risk and impact assessment. However, information on other aspects such as action plans, disengagement in case of non-compliance, and training is not available.</p> <p>The Bank's environmental lending guidelines cover environmental risk and impact assessment as well as stakeholder</p>

<sup>24</sup> Please note that BADEA is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Development Banks sector, based on publicly available information exclusively. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.



	<p>engagement. However, information on other aspects such as resource efficiency, pollution prevention, and climate change is missing. Further, the Bank’s social lending guidelines cover social risk and impact assessment, stakeholder engagement, resettlement compensation, and occupational health and safety aspects. However, information on other aspects such as vulnerable and/ or disadvantaged populations, conflict, and security is missing. Also, information on environmental, and social guidelines covering specific requirements for various industries such as mining, oil and gas, agriculture, and forestry is missing.</p>
	<p>The Bank finances energy-efficient solutions. However, there is no indication of a portfolio decarbonization strategy that includes the exclusion of carbon-intensive activities. Further, the Bank’s position on climate change, risks and mitigation, carbon footprint, greenhouse gas emissions inventories, and reduction targets are missing.</p>
	<p>There is no disclosure pertaining to the responsible treatment of clients with debt repayment problems. Further, the bank’s stand on offshore banking and tax compliance is also missing.</p>
	<p>The Bank has no information pertaining to the implementation of a health and safety management system. Further, it remains unclear if the company has taken any measures to prevent the mental health problems of its employees.</p> <p>The Bank has no information on measures implemented to ensure the work-life balance of its employees. Further, no details are available on types of employment e.g., permanent, and temporary contracts.</p>

Please note that the consistency between the issuance subject to this report and the Issuer’s sustainability strategy is further detailed in Part III.A of the report.

*Sustainability impact of products and services portfolio*

Leveraging ISS ESG’s Sustainability Solutions Assessment methodology, the contribution of the Issuer’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs) has been assessed as per the table below. This analysis is limited to the evaluation of final product characteristics of ISS-Corporate and does not include practices along the Issuer’s production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE <sup>25</sup>	DIRECTION OF IMPACT	UN SDGS
Financing of water and/or wastewater services for disadvantaged/underserved residential customers	14.28 %	CONTRIBUTION	 
Financing of healthcare provisions	14.28 %	CONTRIBUTION	
Financing of educational programs	10.71 %	CONTRIBUTION	
Financing of energy supply to residential customers	7.14 %	CONTRIBUTION	
Financing of renewable energy	7.14 %	CONTRIBUTION	 
Financing of educational facilities	3.57 %	CONTRIBUTION	

<sup>25</sup> Percentages presented in this table are not cumulative.

*Breaches of international norms and ESG controversies*

*At Issuer level*

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

*At industry level*

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Development Banks industry are as follows: Anti-competitive behavior, strike action, and Layoffs.

Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

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and Sustainable Finance Framework

ISS-CORPORATE 

to combine ISS with Qontigo, another entity controlled by DB, with General Atlantic to become the sole minority shareholder of the combined entity. The combination is expected to be completed in the third quarter of 2023. In July 2023, the stakes of Genstar and ISS management in ISS HoldCo Inc. were acquired by DB. The non-interference and similar policies implemented by ISS related to Genstar are no longer applicable and disclosures regarding Genstar and ISS management's ownership of ISS are withdrawn.

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## ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.issgovernance.com/file/publications/SPO-Use-of-Proceeds-Bonds-and-Loans.pdf>

## ANNEX 2: ISS ESG CORPORATE RATING METHODOLOGY

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

## ANNEX 3: QUALITY MANAGEMENT PROCESSES

### SCOPE

BADEA commissioned ISS-Corporate to compile a Sustainable Financing Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines, Green Loan Principles and Social Loan Principles and to assess the sustainability credentials of its Sustainable Financing Instruments, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion:

- Green Bond Principles, Social Bond principles and Sustainability Bond Guidelines, as administered by the International Capital Market Association.
- Green Loan Principles and Social Loan Principles as administered by the Loan Market Association.

### ISSUER'S RESPONSIBILITY

BADEA's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management

### ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is part, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Sustainable Financing Instruments to be issued by BADEA has been conducted based on a proprietary methodology and in line with the ICMA's ICMA's Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines and LMA's Green Loan Principles, and Social Loan Principles.

The engagement with BADEA took place from September to November 2023.

### ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

Companies turn to ISS Corporate Solutions (ISS-Corporate) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: [SPOsales@iss-corporate.com](mailto:SPOsales@iss-corporate.com)

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