

Environmental, Social & Governance (ESG) and Impact Policy Summary

About Aceli Africa

Aceli Africa ("Aceli") is a market incentive facility providing financial incentives to lenders to mobilize private capital for development impact. Aceli draws upon groundbreaking financial benchmarking data on the economics of lending to small- and medium-enterprises (SMEs) in the agriculture sector to optimize the impact and capital leverage of smart subsidy. By providing financial incentives to lenders and technical assistance to SMEs, Aceli Africa expects to mobilize \$600M in lending and \$200M in incremental income for at least one million smallholder farmers and enterprise employees by year-end 2025.

Aceli Africa believes that environmental, social, and governance (ESG) standards can have a positive impact on the performance of both lenders and their agricultural SME borrowers and should therefore be integrated into the policies and practices of these actors. We require our partner lending institutions to commit to and practice ESG standards that meet or exceed Aceli Africa's ESG standard outlined in this document.

Scope

This ESG policy applies to all lenders seeking to participate in Aceli Africa's financial incentive program. The policy is complementary with the governing laws and regulations for environmental and social practices in each country. Lenders participating in the Aceli financial incentive program are expected first and foremost to comply with laws in each country where the lender is operating and, secondarily, to comply with Aceli's ESG policy by meeting or exceeding the ESG due diligence criteria related to underwriting and managing any loans that are submitted to Aceli for financial incentives.

Aceli Africa ESG Policy

The purpose of this policy is to document ESG standards that all lenders seeking to participate in Aceli Africa will be required to meet in order to qualify for accreditation and access to financial incentives. The Aceli policy references the ESG policy established by the [Council on Smallholder Agricultural Finance \(CSAF\)](#) and global standards from the [International Finance Corporation \(IFC\)](#) and [International Labour Organization \(ILO\)](#). The objectives of the Aceli policy are to:

i) Establish clear guidelines for Environmental, Social & Governance (ESG) based on best practices in the finance sector and attainable in East Africa. This includes:

- Excluding lenders and enterprises engaged in practices that are harmful or destructive to human wellbeing or the environment.
- Promoting positive ESG practices by incentivizing loans to agri-SMEs that comply with national environmental regulations and labor standards and that have demonstrated social impact across one or more areas: sourcing from smallholder farmers, providing products or services to smallholders, or formal employment.

ii) Require all lenders to meet a basic standard and not participate in any negative exclusions for activities supported by Aceli and that all loans submitted by lenders abide by this ESG policy and the negative exclusions list.

iii) Define a higher impact standard at the loan-level across four focus areas – food security & nutrition, gender inclusion, climate & environment, and youth inclusion – to determine an Impact Bonus.

iv) Reward activities that meet one or more of these higher standards with an Impact Bonus and support lenders and SMEs in progressing towards and beyond these higher standards.

v) Promote continuous improvement. Aceli will promote continuous improvement among lenders and borrowers that do not meet all the criteria but have made a commitment to improve in the areas required.

Aceli Africa's ESG Standards and Eligibility

To qualify for accreditation with Aceli Africa, a lender must be able to:

- a) Demonstrate capacity to verify borrower compliance with Aceli's ESG policy (not supporting activities on the negative exclusions list and meeting the country's labor, health and safety laws) for each qualifying loan submitted to Aceli for financial incentive.
- b) Have an ESG policy that meets Aceli's standards relating to environmentally prohibited activities, upholding country labor laws, avoiding the infringement of indigenous people, and aligning workers' rights with human resources and health & safety policies
- c) Train lending staff to implement the ESG policy

Lenders that do not meet the above listed criteria but demonstrate commitment to continuous improvement may be eligible to work with Aceli for a period of 12 months to develop the ESG policy and due diligence tools, conduct staff training, and implement these practices as part of standard procedure for loan underwriting.

Aceli requires lenders to verify that each loan submitted for financial incentive meets the following ESG criteria:

- a) Positive impact criteria (must meet at least one):
 - Borrower sources from at least 25 smallholder farmers
 - Borrower supplies inputs, including seeds, fertilizer, and allowed crop protection products that are consistent with environmental principles and appropriate for the local agro-ecology, for at least 100 smallholder farmers
 - Employ at least 5 full-time workers
- b) Revenue criteria:
 - Annual revenue in the last financial year of at least \$50k and not more than \$3M (for origination incentives) or \$10M (for portfolio first loss).

Impact Bonus Focus Areas & Definitions

Aceli will offer an "Impact Bonus" in addition to first loss coverage and origination incentives for loans to enterprises that have significant positive impact across one or more of the following four areas: gender inclusion, food security and nutrition, youth inclusion, climate & environment.

Tiered approach: To incentivize and reward lenders for serving SMEs that have the highest impact, in 2022 Aceli divided the gender inclusion, food security & nutrition, and climate & environment impact areas into two sub-categories each. Loans that meet one sub-category will receive the standard impact bonus while loans that meet both sub-categories will earn a higher bonus. The sub-categories are as follows:

Gender

- Gender – Leadership

- Gender – Inclusion

Food security and Nutrition

- Food security
- Nutrition

Climate and Environment

- Climate and Environment – Regenerative
- Climate and Environment – Circular

The Impact Bonus will be calculated based on the level of contributions that loans make to the seven impact and sub-impact areas. As the Impact Bonus is intended to get lending flowing to particularly high-impact agricultural SMEs with limited access to finance, loans to returning borrowers will only be eligible for up to 50% of the Impact Bonus for new borrowers. Important note: lenders are not required to report on the higher impact areas. Rather, gathering and reporting this information is voluntary on the part of lenders.

Gender Inclusion

Aceli has adopted the [2X Challenge](#) standard for gender inclusion that has been designed and implemented by leading Development Finance Institutions globally. The 2X criteria assesses gender inclusion in investments across five dimensions: entrepreneurship, leadership, quality employment, consumption and investment through financial intermediaries. Aceli has slightly adapted the 2X criteria to incorporate farmer suppliers, which is a significant impact dimension for loans in the agriculture sector. Loans will be eligible for a double bonus if they meet gender inclusion both at leadership and inclusion level as outlined below:

Gender - Leadership

This sub-category focuses on women in ownership or leadership positions in the business, including:

- Majority owned by women (51%); OR
- Business founded by women (51% of founders or shareholding at time of founding).
- Position: Number of women in senior leadership position (25%); OR
- Board composition: The board is comprised of women (at least 30%).

Gender - Inclusion

This sub-category focuses on women who benefit from the business based on its sourcing or employment practices or the product it sells to consumers.

- **Employment** (*Business has large share of women employees and actively improves women's employment access*)
 - At least 40% of employees are women with employment conditions in compliance with national laws;
 - Quality indicator beyond compliance with local law - Evidence of policies that address barriers to women employment (examples include childcare, transportation, wage equity, non-discrimination policies). *Note: reporting on this indicator is optional and lender must be able to demonstrate that a borrower meets the 40% employment threshold above to qualify under the Employment category.*
- **Consumption** (*Business provides goods or services targeting and benefiting women*)
 - Proportion (51%) of products that benefit women. These could include:
 - Products that are designed for women's unique needs; OR
 - Products that address a problem that disproportionately impacts women; OR

- Have a majority of women customers; OR
- Have a majority of women beneficiaries (e.g., a male household member may purchase product, but the end users are female household members).
- **Suppliers** (*Business procures 40% of produce directly from women suppliers*)
 - Proportion of engaged women suppliers (40%). As this indicator is not included in the 2X Challenge for agriculture, Aceli Africa has added it given the significant impact of smallholder farmers supplying to agricultural SMEs and set the percentage threshold based on the employment indicator.
 - Quality indicator beyond local law compliance – addressing barriers to women participation through access to markets¹ (examples include prices above market price, facilitation of transport, provision of services such as agronomic extension). *Note: reporting on this indicator is optional and lender must be able to demonstrate that a borrower meets the 40% supplier threshold above to qualify under the Supplier category.*

In year 1, Aceli aimed for **at least 30% of the loans** (totaling \$200M+) receiving financial incentive to meet the 2X Challenge standard. Aceli's target for Year 2 will **be at least 50%** of the loans (totaling 300M+) meeting the 2X criteria.

Food Security & Nutrition

Aceli Africa will offer an Impact Bonus for loans to SMEs that contribute to improved food security and nutrition in Africa by increasing food production using environmentally sustainable methods. We aim for **50% of the loans** supported by Aceli Africa to qualify for an Impact Bonus for food security & nutrition. Loans will be eligible for a double bonus if they meet criteria for both food security and nutrition as outlined below:

Food Security

- a. **Inputs:** Promote adoption of inputs and associated practices² **that improve productivity** in ways that are environmentally sustainable, adapted to climate change, and suitable for specific agro-ecological conditions
 - 30%+ of revenues focused on inputs such as early maturing or drought-tolerant seeds and/or extension services (agronomic training) to support farmers in producing more crops (food crops and cash crops) in an environmentally sustainable manner.
- b. **Climate resilience:** Promote adaptation to climate change through adoption of climate services and financial or tech innovations for both domestic and export value chains
 - a. 50%+ of its crop or end product sold for food consumption within Sub-Saharan Africa.
- c. **Diversification: Increase and diversify** production of food crops for **African** consumers
 - a. 50%+ of its crop or end product sold for food consumption within Sub-Saharan Africa. **OR**
 - b. 50%+ of its crop or end product consists of non-staple crops (not for export).
- d. **Reduce losses:** Implement post-harvest technologies to reduce food loss
 - Hermetic bags³
 - Metal silos⁴

¹ These services should not necessarily target women only but offered to all producers

² A range of good agricultural practices e.g high yielding seeds combined with smart water management; drought tolerant seeds paired with conservation tillage.

³ Hermetic bags are airtight bags that prevent air or water from getting into the cereals stored in them. First developed by Purdue University, they preserve the contents while restricting the existence of cereal pests by depleting oxygen supply levels and producing carbon dioxide

⁴ A metal silo is a cylindrical structure, constructed from a galvanised iron sheet and hermetically sealed, killing any insect pests that may be present. Plastic containers apply the same principle and cost less.

- Refrigerated trucks, solar powered cold storage
- Sorting and packaging of perishable produce

Nutrition

At least 30% of total output related to production, aggregation and trade, or value-added processing that contributes to supply of nutritious foods for a diverse and healthy diet for African consumers. Examples include:

- traditional/indigenous fruits and vegetables, green leafy vegetables (e.g., amaranth, spider plant, Africa night shade, spinach, kales, moringa, pumpkin leaves, baobab fruit, hibiscus, tamarind, coconut)
- bio-fortified food crops (e.g., orange-fleshed sweet potatoes, beans, wheat, rice, cassava, maize, and pearl millet)
- animal-based proteins and other products (e.g., fish, insects, dairy products, eggs)
- alternative plant-based proteins for human consumption (e.g., soy, rapeseed)
fortified foods with added nutrients according to national standards such as flour, porridge, nutrition bars

Climate & Environment

The newly renamed “Climate & Environment” impact bonus (previously referred to as Climate-Smart & Resilient Agriculture or CSRA) continues to focus on reorienting agri-food systems to be planet positive. SMEs that promote **regenerative agriculture** and/or **circular agri-based systems** will qualify for the climate & environment impact bonus.

We aim for at least **25% of the loans** supported by Aceli Africa to qualify for an Impact Bonus for climate & environment.

A loan qualifies for the bonus if the borrower does at least one of the following as reported by the lender and subject to external audits or validated by either a recognized third party or pre-approved certifier:

1. Regenerative Practices: Activities that support long-term solutions by rebuilding soil health, restoring degraded land, and applying holistic land and ecosystem management practices resulting in both carbon sequestration and improving the water cycle.

i). Implement or source from farmers who implement agricultural practices that restore **soil health** and apply **holistic land and ecosystem management practices**. *These practices need to be applied in a purposeful manner and affect at least 50% of the farm level activities:*

- Soil health improvement (crop management, no/low till with increased retention of organic residues, organic fertilizer, rotational grazing, carbon sequestration)
- Enhancing ecosystem functions (erosion control, Integrated Water Resource Management, natural pollination)
- Integrated Pest Management

ii). Implement activities that increase biodiversity, agroforestry, and forestation of the ecosystem

- Increasing biodiversity (habitat provision, biological pest control)
- Reforestation or land restoration activities, including establishing commercial forestry, agroforestry, promoting avoided deforestation and conversion of waste land back to productive land.

2. Circular Agri-based systems: Approaches that optimize the use of biomass and renewable resources on-farm, in value-added processing, and along value chains.

iii). Design out waste and pollution: reduce waste, use renewable energy, optimise water management; apply sustainable packaging, promote local sourcing/short supply chains, apply smart integration between animal-based and plant-based supply chains

- *These practices need to be applied in a purposeful manner and affect at least 50% of the farm level activities. OR*
- *50%+ of sourcing volume originates from farmers who apply these holistic practices*

iv). Apply bio-economy based solutions and re-use by-products from farming and processing activities at farm and enterprise level. These include food by-products that are transformed into organic fertilisers, biomaterials (e.g., for packaging), medicines, bioenergy that is suited to the agroecological context and uses natural resources efficiently, or waste streams from one supply chain that are used as raw materials for another.

- This must be relevant for at least 50%+ of the business activities at farmer or enterprise level.

3. Certification by one of the following: Rainforest Alliance/UTZ, Organic, Forest Stewardship Council. We have determined that these certifications require a minimum level of practices consistent with the climate & environment criteria above. If a business is certified by one of these schemes that promotes sustainable practices at farm level, it is automatically be considered as meeting the C&E bonus standard.

4. Validation of C&E practices by a recognized third party. Aceli maintains and updates a list of programs that have demonstrated success in leading to implementation of regenerative and circular agricultural practices. Where lenders can obtain documentation either from borrowers or a recognized third party that a borrower has completed such a rigorous training program, Aceli will consider loans made to the borrower as meeting the higher standard for C&E and eligible for the additional bonus in the financial incentive.

Youth Inclusion

Aceli has created a new impact area to promote youth inclusion. In the absence of a recognized international standard for youth inclusion such as the 2X Challenge that exists for gender inclusion, Aceli has adapted the 2X approach for youth.

The 2X Challenge defines a business as gender inclusive if it meets minimum thresholds for women's participation in ownership, management, board membership or as employees, suppliers, or customers. Under Aceli's pilot standard, a loan is considered youth inclusive if it meets at least one of the following criteria:

Inclusion Criteria	Key Indicators
Ownership	<ul style="list-style-type: none"> ● Shareholding of at least 30% by youth who are African nationals age 15-35 years
Leadership	<ul style="list-style-type: none"> ● Youth who are African nationals in senior leadership positions (30%) OR ● Youth who are African nationals serving on the board (<i>must have full voting rights and be active participants in board decision making</i>) (30%)

Employment	<ul style="list-style-type: none"> • 5- 35 full-time employees out of which 40% are youth⁵ (age 15-29) OR • More than 35 full-time employees out of which 30% are youth (aged between 15-29)
Suppliers	<ul style="list-style-type: none"> • 25 - 50 farmers supplying the enterprise out of which 40% are youth (age 15-29) OR • More than 50 suppliers supplying to the business out of which 30% are youth (age 15-29)

Assessment of Enterprise Eligibility of Impact Bonus

Aceli's ESG and Impact approach begins with reviewing and accrediting each lender's ESG due diligence practices. Once this threshold has been met, the approach emphasizes self-reporting at the lender and loan level with appropriate oversight from Aceli to ensure compliance. Aceli also engages a network of auditors trained in ESG practices and compliance to conduct targeted⁶ checks on lenders' ESG due diligence practices as well as on a subset of enterprises submitted by each lender.

⁵ Youth constitute 45% of the population in East Africa and therefore setting the employment criteria at 40% is representative enough to the population considering that not all youth in the region are engaged in the agriculture sector.

⁶ Targeted checks could include lenders with low capacity on ESG due diligence and their borrowers

Appendix 1: List of exclusions

Lenders accredited by Aceli Africa are required to maintain an exclusion list for their agricultural lending that covers all of the items listed below. Lenders must conduct due diligence to verify that their borrowers are not involved in any of these practices and lenders must then report to Aceli Africa, as part of the information required for submitting a loan for financial incentive, that the borrower is not in violation of any of these practices.

- i. Production or activities involving harmful or exploitative forms of forced labour⁷ or child labour⁸ as defined in the [ILO core labour](#) standards.
- ii. Change the total land use of an area (e.g. from residential to industrial land) and/or infringement on the rights of indigenous peoples or local communities, including activities that impinge on lands owned or claimed by indigenous peoples without their full documented consent.
- iii. Production or activities that are not in compliance with national regulation on minimum wage and working conditions.
- iv. Production or trade in tobacco.
- v. Production or trade in alcoholic beverages, other than beer and wine.
- vi. Agricultural activities within the boundaries of national parks and other protected areas.
- vii. Activities that lead to deforestation or degradation of protected areas due to agricultural production, road construction or maintenance, construction of dams or other water control structures.
- viii. Production, use of or trade in pesticides/herbicides or other hazardous substances that are deemed illegal under host country laws and are subject to international bans.
- ix. Commercial logging operations in primary tropical forests and/or purchase of logging equipment.
- x. Activities which could result in altering stream or river flows (such as construction or improvements of irrigation infrastructure).
- xi. Trade or production of any product or activity deemed illegal under host country laws, international conventions and agreements, including without limitation, wildlife or products regulated under the [Convention on International Trade in Endangered Species](#) (CITES) of Wild Fauna and Flora.
- xii. Production or trade in weapons and munitions.
- xiii. Production or trade in radioactive materials.
- xiv. Production or trade in unbonded asbestos fibres.
- xv. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

⁷ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁸ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development