

Are You Ready?



For DFI ESG and Impact Diligence
AUHF Masterclass October 18, 2024

Big Picture

Why you need ESG policies

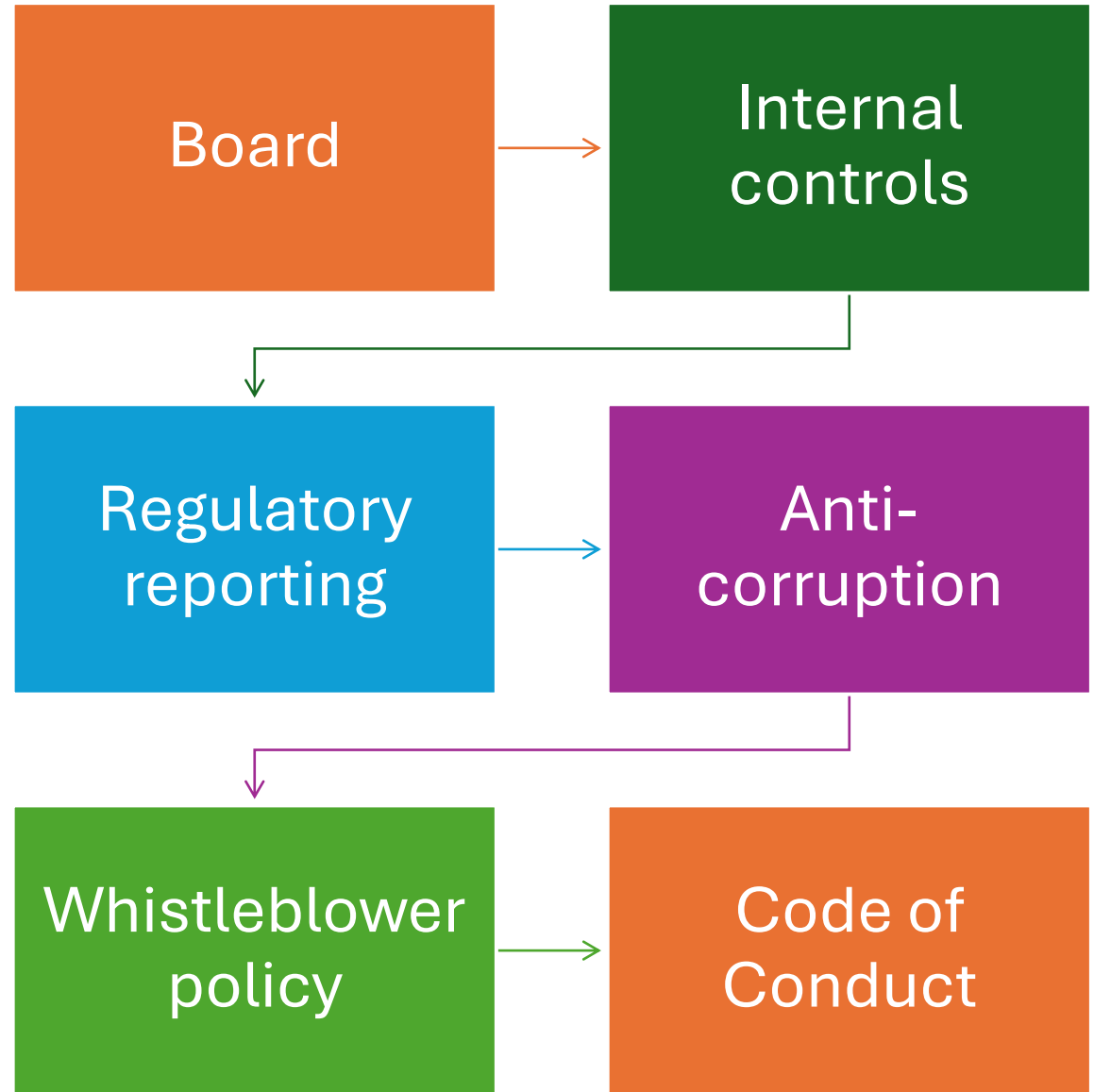
ESG applies at the corporate level as well as project level

Development of an ESG framework requires assessment of risk profile of the company/project

Typical Housing Activities

| | GOVERNANCE | ENVIRONMENT | SOCIAL |
|------------------------------|-------------------|------------------------------|---------------|
| Construction/ development | Medium | High | High |
| Consumer financing/rental | High(regulatory) | Low | High |
| Capital Markets | High(fiduciary) | Depends on assets backing | Low |

Elements of Governance Risk



Governance diligence documents

- Constitutional & Compliance Documents
- Memorandum of Incorporation
- Shareholders Agreements and Share Subscription Agreements
- Share Register
- Valid Tax Clearance Certificate (not older than 3 months)
- List of significant Shareholders (more than 5%)
- Details of group structure
- Particulars of any other business in which management are involved in and any
- Significant transactions with related parties
- Detailed organogram of the Company
- Brief profiles of each member of the management team

Business Integrity



Governance docs cont'd

- Any actions, lawsuits, proceedings pending or threatened against the Company
 - or any officers or directors
- Grievance Mechanism Policy
- Anti-Money Laundering Policy (AML)
- Code of Ethics
- Whistleblowing Policy
- Board of Directors
 - Board composition = at least 1/3 independent directors, gender balance, expertise
 - Board selection process and periodic self-evaluation. Expect background checks on all directors and officers. Term limits.
 - Size of the board appropriate for the business
 - Minimum committees – audit, governance
- Separation of authorities for financial decisions, contract execution, cash management. Multiple signatories, etc.
- Record-keeping, board minutes, authorizations



Key elements of Social Risk

- Consumer communication/protection
- Corporate community engagement (CSR)
- Hiring, grievance and whistleblowing practices
- Displacement of persons or livelihoods (projects)
- Safety and security practice and implementation
- Workforce safety especially on construction sites
- Marketing practices

Social Risk Comparison

Construction/Development



Financial Services

- Equal treatment of all customers in credit decisions, contract terms and collection practices.
- Transparent and clear communication of contract terms (mortgage, rental, sale) in appropriate language for all target customers to understand.
- Credit decision processes that do not unreasonably burden the customer's payment capacity.
- Multiple avenues of communication for customers that have questions or complaints.
- Clearly defined collection and enforcement practices –
- Training of collections and credit officers
- Protection of client's personal information

Social diligence documents

- Percentage of Company's employees are permanent (not including temporary, contract, interns, etc.) listed by unskilled, technical, management, executive as well as by gender
- Percentage of staff turnover for past 3 years
- Current and proposed employment based on new funding expected.
- Training provided for employees.
- Policy for employee grievances and disputes and how they are handled. Detailed history of grievances received.
- Hiring policy – equal opportunity, persons with disability, minorities
- Documented and communicated working conditions and terms of employment (signed contracts for all permanent and temporary staff)
- Leave policies, particularly maternity/paternity.
- For lender/landlords, credit decision policy and procedures
- Construction site management, worker safety policies and practice. History of injuries or deaths on project sites. This information is also required for all major contractors.
- Corporate/social/community engagement. To what extent does the company engage with community organizations or contribute to social activities? Monetary value?
- Protecting the Workforce
 - Medical scheme and contribution obligations
 - Pension scheme and other retirement contribution obligations
 - Pay at least minimum wage to full-time staff
 - Forced/child labor policy
 - Fire, Health & Safety Plan
- Client protection principles policy

Environmental Risk Factors

| | Construction | Corporate |
|--------------------------------|-----------------------------------|-------------------------|
| Energy efficiency | In homes and landscape | Company facilities |
| Sewage treatment | For project | NA |
| Water conservation | In homes and landscape | Company facilities |
| Solid Waste | Waste removal incl. | Recycling in facilities |
| Carbon | Emissions, embodied in materials | NA |
| Prior land use | Hazardous waste | NA |
| Body of water nearby | Possible contamination | NA |
| Erosion control | Due to clearing or site elevation | NA |
| Community impact | Noise, traffic, hazards | NA |
| Native vegetation preservation | Tree replacement, green areas | CSR programs |
| Wildlife impact | Relocation | |
| Proximity to transport | Emissions reduction | Public transit subsidy |

Measuring Impact - Construction

Jobs created – permanent and temporary

Skill level of jobs created

Technology innovation or skills transfer– building materials, design

Income level of target buyer/tenant – lower the better

Sustainability factors – energy, water, transit oriented

- EG level of EDGE certification

Community impact – new services, rehabilitation, replanting

Gender – female head of household, single moms etc.

Underserved population (refugees)

Health, education, wealth building – can this be proven?

Measuring Impact - Finance

Income level of target renter/borrower

Access to finance for underserved or informal sector

Affordable pricing

Building credit record

Training in financial management, credit awareness

New tech, innovative products

Green mortgages

Financial sector deepening (capital markets)

Skills transfer and training (employees)

SME support – e.g. home-based businesses

Gender – 2X Certification

- Employee composition
- Female beneficiaries (borrowers, renters, buyers)
- Senior management
- Board
- Shareholders