Hardest-to-Reach

Environmental and Social Management System

June 2025

Contents

Glossary

AE: "AE" means Accredited Entities. AEs are designated by GCF to submit proposals and implement programs using GCF funding. Accredited Entities conduct a range of activities that usually include the development of funding proposals and the management and monitoring of programs.

Acumen: Acumen Fund, Inc. is a not for profit corporation formed under the laws of the State of New York and public charity under 501 c 3 of the Internal Revenue Code with, among other activities, 20 years' experience investing in small and medium-sized enterprises (SMEs) that serve low-income communities in developing countries across the globe.

ACP: "ACP" means Acumen Capital Partners LLC. ACP is a subsidiary of Acumen that manages funds investing in social enterprises that can deliver social and financial returns to transform the lives of low-income people everywhere.

APR: "APR" means Annual Performance Reviews. APRs are mandated by the Green Climate Fund (GCF) for GCF-funded programs. APRs include reporting on the activities of the GCF-Funded program and KPIs.

Borrower: "Borrower" refers to borrowers who receive debt from either the Hardest to Reach (H2R) Development Facility or the H2R Expansion Fund.

Child: A child or children are defined as persons who have not attained 18 years of age.

Child abuse, exploitation, or neglect: Constitutes any form of physical abuse; emotional ill-treatment; sexual abuse; neglect or insufficient supervision; trafficking; or commercial, transactional, labor, or other exploitation resulting in actual or potential harm to the child's health, well-being, survival, development, or dignity. It includes but is not limited to any act or failure to act which results in death, serious physical or emotional harm to a child, or an act or failure to act which presents an imminent risk of serious harm to a child.

Code of Ethics: "Code of Ethics" refers to the policy Acumen developed for Acumen and its affiliated group of entities' staff as a mandate for how they work ethically and report concerns.

Due Diligence: "Due Diligence" refers to the environmental and social audit conducted on all potential investees (new or existing facilities. Due diligence includes questionnaires, site visits, interviews, reviewing business policies and procedures, and potentially other activities. See Section 6 and Annex 2, 3, 4, and 5 for more details.

EE: "EE" means Executing Entity. EE is the entity that implements GCF-funded programs.

Emotional abuse or ill treatment: Constitutes injury to the psychological capacity or emotional stability of the child caused by acts, threats of acts, or coercive tactics. Emotional abuse may include, but is not limited to humiliation, control, isolation, withholding of information, acting in a way or using language that is physically or sexually provocative and inappropriate, or any other deliberate activity that makes the child feel diminished or embarrassed.

Environmental and social risk: "Environmental and social risk" is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence; is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence;

ESGAP: "ESGAP" means the Environmental, Social, and Governance Action Plan. ESGAPs are tools used to mitigate environmental and social risks of Investees found in the due diligence stage. See Annex 6 for details.

ESG: "ESG" means environmental, social, and governance.

ESIA: "ESIA" means the Environmental and Social Impact Assessment. The ESIA is a process for identifying the environmental and social risks and impacts of the GCF-Funded program. It may also refer to the investment-level ESIA required for some Category B investments as defined in Annex 13.

ESMS: "ESMS" means the Environmental and Social Management System. The ESMS is a dynamic and continuous process initiated and supported by management, and involves engagement between the client, its workers, local communities directly affected by the program (the Affected Communities) and, where appropriate, other stakeholders.

E&S: "E&S" means Environmental and Social. E&S connects policy, management, risks, impacts, mitigants, and reporting.

ESS: "Environmental and social safeguards (ESS)" refers to a set of standards that specifies the desired outcomes and the specific requirements to achieve these outcomes through means that are appropriate to the nature and scale of the activity and commensurate with the level of environmental and social risks and/or impacts. For the purposes of this policy, "ESS standards" refers to the environmental and social safeguards standards, which are currently the interim ESS standards adopted by GCF until GCF develops its own standards. When used in the long form, "environmental and social safeguards standards," it refers to the accredited entities' own standards;

Exploitation: Constitutes the abuse of a child where some form of remuneration is involved or whereby the perpetrators benefit in some manner. Exploitation represents a form of coercion and violence that is detrimental to the child's physical or mental health, development, education, or well-being.

FPIC: "FPIC" means Free, prior and informed consent. FPIC is aimed to establish bottom-up participation and consultation of an indigenous population prior to the beginning of development on ancestral land or using resources in an indigenous population's territory.

GAP: "GAP" means Gender action plans. GAPs contain metrics for collection and action plans to achieve the goals of this ESMS and GCF-funded program requirements. H2R businesses are expected to either have or develop Gender Action Plans that align with the H2R gender strategy.

Gender Sensitivity Policy for GCF-Funded programs: Refers to Acumen's Gender Policy for GCF-funded programs.

GCF: "GCF" means the Green Climate Fund. GCF is a fund established within the framework of the UNFCCC as an operating entity of the Financial Mechanism to assist developing countries in adaptation and mitigation practices to counter climate change.

GOGLA: "GOGLA" means the Global Off-Grid Lighting Association. GOGLA is the global association for the off-grid solar energy industry, and Acumen, and KawiSafi are members.

Grievance Mechanism: The Grievance Mechanism is the Executing Entities' policy for managing grievances.

GRM: "GRM" means the "Grievance Redress Mechanism." GRM is Acumen's grievance policy. See Annex 12 for the program-level APR. See Annex 12a for the investment-level guidance.

IFC: "IFC" means the International Finance Corporation. IFC is an international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in less developed countries. The IFC is a member of the World Bank Group.

IFC PS: "IFC PS" means the IFC's Environmental and Social Performance Standards. The IFC PS defines responsibilities for managing their environmental and social risks.

Investee: is a social enterprise who receives investment capital from the H2R program for which Acumen is an Accredited Entity and which uses GCF funding. Investees are new or existing facilities. The new facilities are joint ventures that are formed with existing facilities to create a new sub-business.

Investor: Investor refers to other investors in Hardest-To-Reach.

Involuntary resettlement: "Involuntary resettlement" means physical displacement (relocation, loss of residential land or loss of shelter), economic displacement (loss of land, assets or access to assets, including those that lead to loss of income sources or other means of livelihood), or both, caused by program-related land acquisition or restrictions on land use. Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in displacement;

KPI: "KPI" means key performance indicators. Acumen uses KPIs to track impact, gender, climate, and E&S indicators that are most important to the H2R initiative and our partners. program.

Land acquisition: "Land acquisition" refers to all methods of obtaining land for program purposes, which may include outright purchase, expropriation of property and acquisition of access rights, such as easements or rights of way;

H2R Development Facility: "H2R Development Facility" refers to the $50 million facility that is expected to support businesses with the flexibility to set up operations through grants, equity and debt, and the technical assistance to enter and navigate unfamiliar territory of high-risk countries.

H2R Expansion Fund: "H2R Expansion Fund" refers to the blended finance-backed $200 million debt fund that aims to provide impact-linked concessionary loans to scale up businesses' operations and settle in H2R countries.

Mitigation hierarchy: "Mitigation hierarchy" as described in the ESS standards that set prioritized steps for limiting adverse impacts through avoidance, minimization, restoration and compensation as well as opportunities for culturally appropriate and sustainable development benefits;

NDAs: "NDAs" mean National Designated Authorities. NDAs are government institutions that serve as the interface between each country and the program. They provide broad strategic oversight of the GCF's activities in the country and communicate the country's priorities for financing low-emission and climate-resilient development.

SEAH: "SEAH" means Sexual Exploitation, Sexual Abuse and Sexual Harassment.

Stakeholders: "Stakeholders" refers to individuals or groups, communities, governments who: (a) are affected or likely to be affected by the activities; and (b) may have an interest in the activities (other interested parties). The stakeholders of an activity will vary depending on the details of the activity and may include local communities, national and local authorities, including from neighboring governments, neighboring programs, and nongovernmental organizations.

TAC: "TAC" means Technical Assistance Committees. TACs are committees that provide oversight on the implementation of technical assistance facilities (TAF). TACs convene to review the activities and disbursements of the TAFs to ensure their alignment and compliance with investor expectations.

TAF: "TAF" means technical assistance facilities. TAFs are grant funded pools of capital funded by donors including the GCF intended for support of initiatives, in this case, gender initiatives, of Investees and the ecosystems in which they operate.

1. Environmental, Social, and Governance Policy

1.1. Context

1.1.1. Hardest-to-Reach (H2R) is an energy access initiative dedicated to reaching over 54 million people who are at risk of being left behind by business-as-usual market approaches to electrification. This team aims to generate first-time energy access for these communities. These are challenging markets with electrification rates at or below 45% where investors have not been willing to enter to serve low-income segments.

1.1.2. H2R will use a diversified approach to inject capital and accompaniment to match the needs of off-grid energy businesses at each stage of development and capacity. To build an off-grid solar market in these Hardest-to-Reach markets, "start-up to scale-up" or "whole-of-life cycle" financing is needed to support entrepreneurs to set up in these markets and then scale up their operations and thereby achieve their impact. Therefore, H2R is structuring two independent financing mechanisms, tailored to the different stages of operators' evolution and the different risk appetites of investors.

1.1.3. H2R will reach new markets and first-time energy-users with two facilities: the H2R Development Facility and the H2R Expansion Fund. The H2R Development Facility will support the development of local players and regional businesses' expansion into these new challenging markets. The H2R Development Facility will support businesses with the flexibility to set up operations through grants, equity and debt, and technical assistance to enter and navigate unfamiliar territory. Overall, as part of this strategy, this facility will improve the capacity of local distributors to become reliable partners to suppliers expanding in the region. The H2R Expansion Fund will provide impact-linked concessionary loans and accounts receivable financing to scale up businesses' operations in Hardest-To-Reach markets.

1.1.4. H2R is committed to being a responsible and sustainable steward of our philanthropic and investment capital as the program builds off-grid energy markets and brings customers first-time energy access. To that end, Hardest-to-Reach seeks to enhance positive impacts and mitigate environmental and social risks with an Environmental, Social, and Governance (ESG) Policy.

1.1.5. This ESG Policy outlines the scope, principles, commitments, approach, risk assessment, institutional and implementation capabilities and responsibilities, and disclosures of the program. All program level activity, investment activity, technical assistance, procurements and contracts, and Investee (new or existing facilities) activity are required to adhere to the ESG Policy and Environmental and Social Management System (ESMS).

1.2. Scope

1.2.1. The H2R ESG Policy applies to both the H2R Development Facility, the H2R Expansion Fund, and Technical Assistance activities. The policy covers Acumen, the H2R management team, H2R Development Facility advisor with local lending expertise, the H2R Development Facility advisor with local equity expertise, consultants, evaluation specialists, contractors, H2R Development Facility Investees or grant recipients, and H2R Expansion Fund Investees (new or existing facilities).

1.2.2. The H2R ESG Policy applies to all program activities including program development, pilot projects, H2R Development Facility activity, H2R Expansion Fund activity, initial research, due diligence (auditing), investment, loan, and grant closing, monitoring, reporting and exit.

1.3. Environmental and Social Risk Categorization and Principles

1.3.1. H2R uses a holistic and integrated ESG strategy to ensure environmental, social, and governance risks are identified, managed, and mitigated. This entails H2R using globally accepted benchmarks, innovative ESG tools, and stakeholder engagement as pillars of H2R program design and implementation.

1.3.2. The program uses globally accepted benchmarks including the Green Climate Fund (GCF) Environmental and Social Safeguards (ESS), the International Finance Corporation Performance Standards (IFC PS),[1] the GIIN Operating Principles,[2] and the UN-supported Principles for Responsible Investment (PRI).[3] The fund also aligns with the UN Sustainable Development Goals (SDGs)[4] with a particular focus on:

1.3.2.1. **SDG 7:** Ensure access to affordable, reliable, sustainable and modern energy for all
1.3.2.2. **SDG 1:** No Poverty
1.3.2.3. **SDG 5:** Achieve gender equality and empower all women and girls
1.3.2.4. **SDG 8:** Decent work and economic growth
1.3.2.5. **SDG 13:** Climate Action

1.3.3. H2R follows investor and donor guidance including the GCF Revised Environmental and Social Policy for environmental and social risk categorization. Acumen, fund and facility manager and the accredited entity for H2R, is accredited to make Category B or lower risk investments.[5] H2R also uses similar IFC Environmental and Social Categorization for portfolio and investment decisions. **H2R is a Category I-2** program because the program's investment portfolio is expected to comprise business activities that have potential limited adverse environmental or social risks or impacts that are few, generally site-specific, largely reversible, and readily addressed through mitigation measures.[6]

1.3.4. H2R will screen and diligence (audit) all investments and activity to ensure that risks are identified and appropriately categorized, that they are Category B or lower, and that they are minimized. H2R will not engage in investments or activities that fit Category A business activities. The risk categorizations are as follows:

1.3.4.1. **Category A.** Activities with potential significant adverse environmental and/or social risks and impacts are those that, individually or cumulatively, are diverse, irreversible, or unprecedented. This category also includes business activity that may create: (i) involuntary resettlement (including physical and economic displacement); (ii) risk of adverse impacts on Indigenous People; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, or cultural heritage; (iv) risk of significant retrenchment; or (v) significant occupational health and safety risks to employees.
1.3.4.2. **Category B.** Activities with potential limited adverse environmental and/or social risks and impacts that individually or cumulatively, are few, generally site-specific, largely reversible, and readily addressed through mitigation measures;
1.3.4.3. **Category C.** Activities with minimal or no adverse environmental and/or social risks and/or impacts.

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[1] IFC, Performance Standards, 2012, https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

[2] GIIN, Impact Principles, 2023, https://www.impactprinciples.org/

[3] UNPRI, 2023, https://www.unpri.org/

[4] UN SDGs, 2023, https://sdgs.un.org/goals

[5] Green Climate Fund, 2021, https://www.greenclimate.fund/sites/default/files/document/revised-environmental-and-social-policy.pdf

[6] IFC, Performance Standards, 2012, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization

1.3.4.4. **Category FI:** Business activities involving investments in financial institutions (FIs) or through delivery mechanisms involving financial intermediation. This category is further divided into:
1.3.4.5. **FI–1:** when an FI's existing or proposed portfolio includes or is expected to include substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
1.3.4.6. **FI–2:** when an FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
1.3.4.7. **FI–3:** when an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

1.3.5. Investees (new or existing facilities) will be ESS Category B or lower and engaged in energy access – primarily solar home systems (<1kw), to lesser extent biodigesters, clean cooking, mini-grids, or micro-grids. These various applicants will be assessed according to the following E&S factors: impact on key biodiversity areas; human rights; labor; health & safety; potentially irreversible impacts; land use; extent of environmental/social issue. The context of inherent sector risks, scale, continued operations and locations will also be considered.

<table>
<tr><th colspan="2">General Characteristics of new or existing Investees (facilities) as determined on a case-by-case basis</th></tr>
<tr><th>Category B</th><th>Category C</th></tr>
<tr><td>• OGS investment
• Mini grids and Micro grids
• Operates a manufacturing facility
• Due diligence (audit) finding any of the following outcomes:
○ Funds used for land acquisition outside of commercial zones
○ Significant record of OHS incidents
○ Pattern of gender or SEAH incidents
○ Pattern of harmful environmental and social impacts</td><td>• OGS investment
• Largely distributors or vertically integrated businesses that do not directly manufacture products
• Due diligence (audit) finds the following:
○ Funds used for working capital, accounts receivable, operational expenditures
○ Minimal environmental and social impacts
○ May not have sufficient policies and procedures</td></tr>
</table>

1.3.6. H2R will also not invest or participate in any activity outlined in the IFC Exclusion List. The H2R Exclusion List is listed in Annex 1. All activities and investments will be screened to ensure that they do not participate in any excluded activities.

1.3.7. H2R commits to mitigation hierarchy as a guiding principle, and seeks to avoid, and, when not possible, to minimize adverse consequences and improve positive impacts on the environment and affected stakeholders using abatement measures. H2R will act on a mitigation hierarchy approach by integrating ESG throughout the investment lifecycle, stakeholder engagement, and a strong, accessible, and transparent grievance mechanism.

1.3.8. H2R seeks to reduce the emissions of greenhouse gases (GHG) through building renewable energy markets and electrifying first-time energy users with clean energy. The program promotes efficiently using natural resources, adopting environmental and social safeguards, and reducing GHG.

1.3.9. H2R also aims to empower first-time energy users and other beneficiaries with solar home systems and access to renewable energy thereby providing climate resilient and adaptative tools to climate vulnerable populations.

1.3.10. H2R aligns our program design and investment activities with international and national climate goals including the Paris Agreement and the Nationally Determined Contributions (NDCs). Acumen's objectives through H2R are directly aligned to National climate priorities, including National Adaptation Plans, and National Climate Change Action Plans.

1.3.11. H2R commits to non-discrimination, equal opportunity and fair treatment for employees, contractors, consultants, and investors on the program and Investee (new or existing facilities) level. We intend for H2R program activities and investments to comply with the International Labor Organization Fundamental Conventions[7]. H2R also seeks to minimize potential Sexual Exploitation, Abuse, and Harassment (SEAH) with strong protections for program staff, Investee staff, and program stakeholders.

1.3.12. H2R intends to ensure that all activities and investments respect human rights and abide by international human rights laws. We seek to ensure that no H2R activity engages in child or forced labor.

1.3.13. H2R seeks to invest and lend to Investees (new or existing facilities) that offer safe, hospitable, and dignified work for employees, contractors, and other relevant parties. Employee engagement is an important part of the H2R understanding of ESG risks and stakeholder engagement.

1.3.14. Consumer and beneficiary protection are a key pillar of H2R. H2R Investees (facilities) are expected to align their practices with the GOGLA Consumer Protection Principles.

1.3.15. H2R intends to support the development of renewable energy markets across Africa and first-time energy access for millions of people. It is critical for our program to engage stakeholders fairly and transparently across the lifecycle of H2R including in program design, implementation, exits, closing, monitoring, the grievance redress mechanism, and disclosure. Special attention is paid to marginalized communities including women and Indigenous people.

1.4. Commitments

1.4.1. H2R will only finance activities and Investees (new or existing facilities) that comply with the H2R ESG Policy.

1.4.2. H2R will not invest in any Investee (facilities) or participate in any activity that is on the Exclusion List.

1.4.3. H2R, H2R management team, Investees (new or existing facilities), contractors, consultants, and other relevant stakeholders must comply with all pertinent local, national, and international laws, conventions, agreements, and other relevant rules ratified by H2R countries.

[7] ILO, (2022), https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm

1.4.4. H2R will engage in ESG due diligence (E&S audit) for any potential investee (new or existing facility). Due diligence/audit will include questions based on the IFC PS, GCF ESS, and other relevant benchmarks and ESG metrics.

1.4.5. H2R Investees (facilities) are expected to have or develop an ESMS and demonstrate organizational capacity to identify and mitigate risks, monitor ESG risks and activity, commit to stakeholder engagement, and enact a grievance mechanism within their engagement with the program. H2R will seek to ensure that each portfolio business (new or existing facilities) will adhere to the H2R ESG Policy and ESMS.

1.4.6. If deficiencies are identified in due diligence, Investees (facilities) are required, as documented in the investment side letter, to enact a time-bound ESG Action Plan (ESGAP; Annex 6). The H2R management team, the advisor with local lending expertise, and the H2R Development Facility advisor with local equity expertise will monitor ESGAP to verify sufficient activity and completion.

1.4.7. If an Investee (new or existing facility) receives H2R Development Facility funding and subsequently applies for H2R Expansion Fund funding, the Investee (new or existing facility) must have completed the H2R Development Facility ESGAP (Annex 6) to receive the H2R Expansion Fund funding.

1.4.8. H2R will engage all stakeholders throughout the program lifecycle. Stakeholders, including Nationally Designated Authorities, relevant donors, and investors, will receive annual ESG and impact updates from H2R. Stakeholders will help H2R understand the local context, identify community-level environmental and social risks, and participate in H2R evaluation and iteration. H2R commits to an open dialogue with program-affected communities.

1.4.9. H2R will have a transparent, accountable, and actionable Grievance Redress Mechanism (GRM) aligned with international best practices including the Ruggie Principles.

1.4.10. H2R will adhere to the following policies:

Green Climate Fund Revised Environmental and Social Policy
Green Climate Fund Gender Policy and Action Plan (2018) [8]
Green Climate Fund Indigenous Peoples Policy[9]
IFC Policy on Environmental and Social Sustainability
BII's Policy on Responsible Investing
Acumen Ethics and Anti-Corruption Policy
Acumen Gender Sensitivity Policy for GCF-Funded Projects[10]

[8] GCF's gender-responsive approach is captured in the GCF Gender Policy and Action Plan, which was adopted by the Fund's governing body in 2015. Through the Gender Policy and Action Plan, GCF commits to:

1. Gender equality and equity;
2. Inclusiveness in all activities;
3. Accountability for gender and climate change results and impacts;
4. Country ownership—through alignment with national policies and priorities, and broad stakeholder engagement, including women's organizations;
5. Gender-sensitive competencies throughout GCF's institutional framework—skills, knowledge and behaviors acquired from training and experience that enable GCF Secretariat staff members to apply a gender-lens throughout their work; and
6. Equitable resource allocation—so that women and men benefit equitably from GCF's adaptation and mitigation activities.

[9] The GCF Indigenous Peoples Policy recognizes that indigenous peoples often have identities and aspirations that are distinct from mainstream groups in national societies and are disadvantaged by traditional models of mitigation, adaptation and development. The Policy allows GCF to anticipate and avoid any adverse impacts its activities may have on indigenous peoples' rights, interests and well-being, and when avoidance is not possible to minimize, mitigate and/or compensate appropriately and equitably for such impacts, in a consistent way and to improve outcomes over time.

[10] http://acumencapitalpartners.com/wp-content/uploads/2021/12/Acumen-Gender-Sensitivity-Policy-for-GCF-Funded-Projects.pdf

Acumen Environmental and Social Policy for GCF-Funded Projects[11]

1.5. Approach

1.5.1. H2R will be a leader in ESG risk management, achieving positive social and environmental impacts for beneficiaries. The program seeks to "do no harm" both to minimize risks to investors, donors and H2R beneficiaries and stakeholders. The program team understands the responsibility is to program investors, beneficiaries, and a broad range of stakeholders who experience environmental and social risks differently.

1.5.2. By engaging in a holistic understanding of ESG risk management, the H2R team assesses the financial and impact materiality of investments and program activity to ensure our responsibility to all relevant parties. H2R adopts a double materiality focus on environmental and social management. Double materiality means that the program focuses on risks that are both financial, environmentally and socially material. Regarding financial materiality, the team assesses environmental and social risks that could impact the program's financial performance. By assessing impact materiality, the team identifies and mitigates ESG risks that can adversely affect the communities and planet the program seeks to positively impact.

1.5.3. The ESG Policy is supported by the ESMS, which defines the investing process for H2R. We will identify, avoid, minimize, and mitigate potentially harmful ESG risks and impacts of the investments. H2R will seek to ensure that the risk management is appropriate to the size, scale, and nature of the investment, and the management team will collaborate with stakeholders to improve ESG performance of the program and Investees over time.

1.6. Risk Assessment

1.6.1. H2R seeks to invest in activity that will not have potential significant adverse environmental and/or social risks and impacts that are diverse, irreversible, or unprecedented. H2R seeks to identify ESG risks with screening and due diligence (audit) and to mitigate identified risks using international good practices.

1.6.2. Consideration will be given to ESG risks throughout the investment cycle, from initial engagement with the business to final exit.

- 1.6.2.1. At each stage of the investment cycle, the overall level of risk will be categorized as A, B, C by the H2R management team based on:
- 1.6.2.2. Availability of information about the business and its activities;
- 1.6.2.3. Location, sensitivity, and scale of the business's activities;
- 1.6.2.4. Significance and likelihood of any risks identified in terms of the context or operations of the business;
- 1.6.2.5. The commitment and capacity of the business management to manage the risks; and
- 1.6.2.6. The nature of H2R investment and influence over the business.

1.6.3. H2R geographies and populations are disproportionately impacted by climate change. Businesses and customers face climate risks and vulnerabilities that impact operations, payments, and ability to live. H2R intends to conduct climate risk and vulnerability analysis using bespoke climate risks

[11] http://acumencapitalpartners.com/wp-content/uploads/2021/12/Acumen-Environmental-and-Social-Policy-for-GCF-Funded-Projects.pdf

tools for investments across the program to ensure fulsome risk analysis and appropriately capturing resilience benefits.

1.6.4. H2R also intends to include country contextual analysis as part of the ESG diligence for the H2R Expansion Fund investments. For H2R Development Facility investments, there will be periodic country contextual analysis, alongside continuous country contextual analysis at the market level at least annually. H2R may also conduct further analysis if a major event occurs in an H2R market. H2R markets offer opportunities to significantly OGS and access to electricity, and strong contextual knowledge enhances risk management, investment strategy, and program implementation.

1.6.5. Given the elevated risk context of the geographies and the solar sector in which H2R seeks to invest, exacerbated by the remote nature of investees, H2R shall conduct human rights due diligence (HRDD) in line with the United Nations Guiding Principles (UNGPs) during the inception phase of its investments.

1.6.6. In the case of investments proposed in fragile or conflict-affected situations (FCAS) as defined by the World Bank in its annual List of Fragile or Conflict-Affected Situations, H2R shall conduct heightened, conflict-sensitive human rights due diligence on the potential investment.

1.7. Institutional and Implementation Capabilities and Responsibilities

1.7.1. The H2R management team and the GP, Acumen, will have the organizational capacity to enact the ESG Policy and ESMS. The H2R management teams will ensure at least one person per H2R Development Facility and H2R Expansion Fund and adequate staff resources are available to oversee ESG due diligence, monitor ESGAP activity, and report on program-level ESG activity to relevant donors, investors, and stakeholders. Acumen intends to lead the implementation of the ESMS and ESG investing activities.

1.7.2. H2R also seeks to ensure that the Grievance Redress Mechanism is overseen by an independent actor within H2R to ensure that conflict of interest or bias does not impact any grievance investigation.

1.7.3. H2R will continue to build the program capacity for ESG activity by training staff, monitoring ESG trends, and engaging businesses, stakeholders, and program beneficiaries.

1.8. Disclosure

1.8.1. This ESG Policy may be amended or updated, subject to approval of the Investment Committee. In addition, this Policy will be subject to review by the Investment Committee at least every 5 years.

1.8.2. H2R will make this Policy public and disclose any relevant related documents or information.

2. Operational Guidelines

2.1. H2R is committed to investing the right kind of capital in the right kind of way to tackle the right kind of problems. A cornerstone of investing the right kind of way for H2R is the program's holistic ESG approach. The commitments and principles in the ESG policy outline the activities and values that will drive our ESMS. Stakeholders, including investors and beneficiaries, also guide the strategy and implementation of the ESMS. Shared below is a brief overview of each of the sections of the ESMS.

ESMS Section	**Summary**
Glossary	Defines terms used in the ESMS
Section 1: ESG Policy	The policy goes over the requirements of the H2R program's: ● Risk category ● Commitments ● Principles ● Responsibilities.
Section 2: Operational Guidelines	This section summarizes the twenty-four components of the H2R ESMS.
Section 3: Environmental and Social Impact Assessment (ESIA)	The ESIA summarizes the following topics: ● Off-grid energy and electrification in H2R markets ● Environmental and social risks in off grid energy ● Country-specific environmental and social risks for H2R markets ● H2R program-specific environmental risks and mitigants using the IFC Performance Standards ● H2R program specific mitigants
Section 4: Allocation of Resources, Organizational Capacity, and Responsibilities	This section explains the allocation of resources, organizational capacity, and the program team and stakeholder responsibilities. Content covered in this section includes: ● H2R environmental and social budget ● H2R organization chart ● H2R Development Facility team responsibilities ● H2R Expansion Fund team responsibilities ● H2R Development Facility advisor responsibilities ● Acumen responsibilities ● TA administration responsibilities ● Training and resources for H2R team and Investees (new or existing facilities) ● Investee (new or existing facilities) capacity
Section 5: Environmental, Social, and Governance Investing Strategy	This section summarizes the investment strategy and process for each of the investments (subprojects) for H2R. It includes the following: ● ESG considerations prior to investment including: ○ Screening (Exclusion List, Annex 1) ○ ESG Due Diligence, Environmental and Social Audit (Annex 2) ○ Term Sheets ○ ESG checklist and report (audit checklist and findings) ○ ESG Action Plan ● ESG considerations post-investment ○ Resources ○ Reporting

	○ Follow On Investments ● ESG considerations during divestment
Section 6: Environmental, Social, and Governance Safeguard Standards	This section details the environmental and social safeguards required for an investment in an Investee (new or existing facility. The section includes: ● General Integrity and Good Governance requirements for Investees (new or existing facilities) ● ESMS/ESMP/ESG Policy for businesses (Performance Standard 1 Safeguard) ● Environmental and Social Safeguards for Investees (new or existing facilities) – IFC Performance Standards 2-8
Section 7: Monitoring and Reporting	This section details the following monitoring and reporting requirements: ● Investee (new or existing facilities) reporting to H2R ● ESG incident reporting (further details in Annex 7) ● H2R reporting to investors and stakeholders
Section 8: Disclosure of Information	This section summarizes the disclosure requirements mandated by H2R
Annex 1: Exclusion List	This section details the list of activities that H2R will not invest in and will screen against for any potential investment (new or existing facility).
Annex 2: ESG Due Diligence Questionnaire (Environmental and Social audit)	This questionnaire aligns with the IFC guidance on audits for new and existing projects. It acts as the primary due diligence and environmental and social auditing tool for potential Investees (new or existing facilities).
Annex 3: ESG Due Diligence Supplementary Module	This Annex provides supplemental diligence/audit questions for OGS manufacturers, mini-grids, and accounts receivable financing.
Annex 4: ESG Checklist (Environmental and Social audit checklist)	This Annex provides a checklist to ensure the diligence/audit materials are complete, including screening, diligence responses, and business (new or existing facilities) policies and procedures.
Annex 5: ESG Report (Environmental and Social audit findings)	This Annex is the template of the report/audit findings shared with either the H2R Development Facility or H2R Expansion Fund investment committee and details the H2R team's findings and analysis of potential Investees (new or existing facilities)
Annex 6: ESG Action Plan (ESGAP) Template	This Annex provides a template of the H2R Environmental, Social, and Governance Action Plans for Investees (new or existing facilities). Companies will be bound to complete and report on ESGAP by the term sheet.
Annex 7: ESG Incident Report Template	The ESG incident report template is intended for the H2R team to use when there is an environmental or social incident as defined in Section 8: monitoring and reporting.
Annex 8: ESG Monitoring Report Template	The ESG monitoring report template is the annual report template sent to Investees (new or existing facilities) to fill out to ensure compliance with the H2R ESMS and the Investee ESGAP.
Annex 9: Land Acquisition and Resettlement Policy	The Land Acquisition and Resettlement Policy provides the structure for H2R's response to land acquisition that results in involuntary resettlement and/or economic and/or physical displacement. It also provides guidance on Land Acquisition and Resettlement Plans for Investees (facilities).
Annex 10: Guidance on Indigenous Peoples	The Guidance on Indigenous Peoples provides H2R and Investees (new or existing facilities) with context and procedures for engaging with Indigenous communities.
Annex 11: Stakeholder Engagement Plan	This Annex shares the H2R commitments to stakeholders including reporting and communication tools. It also defines the stakeholder engagement necessary for Investees (new or existing facilities).
Annex 12: Grievance Redress Mechanism	This Annex is the program-level grievance redress mechanism. It is aligned with the Ruggie Principles and GCF's Independent Redress Mechanism. The GRM includes communication methods, process, and other important information.

Annex 12a: Guidance on Investee Grievance Mechanism	The guidance on Investee grievance mechanism Annex details the expectations for Investees (new or existing facilities).
Anne 13: Guidance on Environmental and Social Impact Assessment	This Annex provides guidance on Environmental and Social Impact Assessments for Category B investments. This section defines the difference between Category B and C investments and defines the components of an ESIA for Category B investment.
Annex 14: Chance Find Procedures	This Annex provides guidance for businesses when chance find procedures are needed due to excavation using H2R funding.
Annex 15: Mini-grid Strategy	This Annex describes the H2R mini-grid ESG strategy including diligence processes, transaction requirements, monitoring and reporting.
Annex 16: Accounts Receivable ESG Strategy	This Annex describes the accounts receivable ESG strategy: a bifurcated approach depending on the transaction. It covers diligence, transaction expectations, monitoring, and reporting.
Annex 17: Occupational Health and Safety Management Plan	This Annex describes the Occupational Health and Safety procedures across H2R's investing activities.
Annex 18: Country Contextual Analysis	This Annex describes the country contextual analysis H2R intends to perform for transactions and portfolio monitoring.

2.2. The ESMS applies to three functions: H2R program Level, Investees (new or existing facilities), and contractors/consultants.

2.2.1. Investees (new or existing facilities): Investees (new or existing facilities) will be mandated to follow the ESG requirements of both the H2R Development Facility and the H2R Expansion Fund. Companies must complete all ESG requirements from the H2R Development Facility to qualify for the H2R Expansion Fund funding. Each Investee (facility) must have an ESMS to assess, address, and monitor ESG risks and impacts of the business operations.

2.2.2. H2R program Level: The H2R Development Facility and H2R Expansion Fund teams will develop and implement the program ESMS to identify and mitigate fund level ESG risks, identify, diligence (E&S audit), mitigate, manage, report, and disclose ESG risks and incidents across Investees, and to set standards and operating requirements of consultants and contractors.

2.2.3. Contractors and consultants: Third-party consultants and contractors must abide by the principles, commitments, and guidelines of the ESMS.

3. Environmental and Social Impact Assessment (ESIA)

3.1. Executive Summary

3.1.1. H2R aspires to unlock first-time energy access to beneficiaries across sub-Saharan African countries with electrification rates of 45% or below and high poverty rates (above 50%).

3.1.2. The H2R team engaged in a comprehensive environmental and social impact assessment. We viewed risk through several different lenses: fund-level, Pan-African risks, country-specific risks, business model risks, and the IFC Performance Standards and GCF Environmental and Social Safeguards.

3.1.3. The H2R program team also utilized extensive desktop research to understand specific risks for the program, Investees (new or existing facilities), the country context, and relevant mitigants. Desktop research provided insights into challenges with e-waste, consumer protection, and other topics. The H2R team deepened its knowledge of the OGS landscape, market trends, and the environmental and social impacts of off grid solar.

3.1.4. H2R also comprehensively engaged with stakeholders to get their input into program design, market research, program management and implementation, climate, gender, and poverty strategies, assessing the viability of the initiative, and interest in continued engagement. H2R engaged with potential investors and donors, pipeline businesses, potential partners, industry leaders and experts, industry associations, government entities, regulators, expert consultants, and beneficiaries in designing and developing the program. The team has held one on one meetings, group discussions, town halls, webinars, and surveys. H2R intends to continue this engagement with stakeholders through program development and implementation.

3.1.5. Due to our extensive engagement with stakeholders, prior investing experience in OGS, knowledge of the industry, market, and OGS businesses, and our extensive and thorough risk and mitigation assessment, we consider H2R to be an Environmental and Social risk category I-2 program.

3.1.6. In this section, H2R will review trends in OGS, risks to OGS, country-specific risks and mitigants, and project-specific risks and mitigants.

3.2. Electrification, Off Grid Solar, and Climate Context and Impact

3.2.1. 789M people worldwide do not have access to (affordable and clean) energy, more than three quarters of whom are low-income people in Sub-Saharan Africa. Approximately 215M could pay but live in areas deemed too remote or too risky to be served by traditional grid extensions and business as usual approaches in these markets. H2R will target 16 Sub-Saharan African countries with electrification rates of 45% or below and high poverty rates (above 50%). The program intends to unlock energy access for millions of people in the H2R markets by investing in OGS businesses who have the capacity but need the incentives to expand and scale within H2R markets.

3.2.2. Forecasting models for achieving universal energy access program that traditional grid extension and market-based solutions could reach 524 million people currently without access, which account for approximately 66% of the 789 million unelectrified globally. Roughly 215 million people (27%) who could afford energy access but live in countries deemed too risky or too remote for market-rate returnable investments. They will be left behind in a business-as-usual investment environment. Given sector growth trends, 624 million people are programed to be connected to

Tier 1 and above electricity access by 2030 via OGS solutions – this is 516 million fewer than the SDG7 scenario.[12]

3.2.3. The investment deficit is at the root of both the energy access gap and the lack of adaptive capacity faced by countries in Sub-Saharan Africa. Significant financial commitments are required to close this gap, and governments are unable to carry the fiscal burden alone. One estimate suggests that $35 billion a year is required to reach SDG 7 by 2030. At the same time, the NDCs of 40 African countries cumulatively show a need for an estimated $331 billion in investment for adaptation through 2030, with only 20% of this figure coming from public budgets.[13] However, barriers exist, including political instability, macroeconomic uncertainty (because of inflation and exchange rates), policy and regulatory issues, institutional weaknesses, and lack of transparency. Underinvested geographies need capital that is willing to bear the risk of proving and scaling off-grid business models in untested conditions.

3.2.4. The OGS market is currently valued at $2.8 billion annually.[14] The OGS market provides energy services to 493 million people. OGS has been identified as the least-cost solution to electrify 464 million more people, including a portion of the 733 million people currently without access as of 2020, and accounting for population growth between now and 2030.

3.2.5. The OGS market has also been impactful towards carbon emissions reduction. To date, the sector has contributed to avoiding 190 million metric tonnes of CO2e emissions (SDG13) and saved fuel costs of $26 billion by switching from dirty fuels to OGS products (SDG1).[15]

3.2.6. Countries in H2R markets will be experiencing temperature increase, heat waves, cyclones, tropical storms, droughts, floods, and sea level rise. Countries and people alike will need increased electrification to withstand the new challenges presented by climate change. Grid systems cannot expand quickly enough or reach broadly enough to electrify the most vulnerable populations. Moreover, grid systems throughout H2R markets are too fragile to withstand increasing customer demand and vulnerabilities created by climate change. Durable, reliable, repairable, mobile, and resilient solar home system solutions will be both important to create climate adaptation capacity for customers experiencing first time electrification and not strain the capacity of weak grid systems.

3.2.7. H2R is designed to create strong impacts for the markets and beneficiaries the program serves. The team seeks to make several adaptation and mitigation impacts.

Hardest-to-Reach Impact KPIs
Increase energy access through investment in decentralized renewable energy for residential use (Mitigation and Adaptation)
Increase adaptation capacity of beneficiaries with OGS products
Increase business productivity of micro enterprises with SHS operating in H2R markets
Increased capacity of last mile distributors
Increased green jobs in H2R markets
Increased business commitment to gender equity with employees and customers

[12] World Bank, 2022, https://documents1.worldbank.org/curated/en/099355110142233755/pdf/P17515005a7f550f1090130cf1b9f2b671e.pdf
[13] GCA, 2021, https://gca.org/wp-content/uploads/2021/10/GCA_STA21_Sect1_Finance.pdf
[14] World Bank, 2022 https://documents1.worldbank.org/curated/en/099235110062231022/pdf/P175150063801e0860928f00e7131b132de.pdf
[15] Ibid, pg. 19

3.3. Program Off Grid Solar Risks

Risk Category	Associated Risks
Environmental and E-Waste Risks	• Solar e-waste from millions of off-grid products sold to first-time users in H2R markets. • Weak and nascent waste management sectors in target markets. • Weak regulatory frameworks for e-waste in many African countries. • Immature or lacking e-waste policies among last-mile distributors. • Nascent e-waste markets with limited players and coverage.
Consumer Protection, Data Privacy, and Social Risks	• PAYGo models can lead to over-indebtedness, poor credit, and defunct products for customers unable to keep up with payments. • Economic impact of COVID-19 reduced consumer ability to make recurring payments. • Increased credit risk across the PAYGo solar industry due to missed payments. • Need for strong scrutiny of PAYGo and credit risk management by the program (e.g., consumer protection policies, incentive structures, grievance mechanisms). • Risk of customer data being compromised, stolen, or sold to malicious third parties. • Potential for identity theft and fraud due to poor data protection practices. • Inadequate implementation of consumer protection despite GOGLA signatory status. • Diligence may include analysis of business consumer protection assessments, consumer protection policies, sales agent contracts and incentive structures, external grievance mechanism, safeguarding policy and the code of conduct. More details are provided in Section 6, ESG Safeguarding Standards.
ESG Readiness Risks	• Variability in ESG policy maturity across businesses. • Larger businesses expected to have strong ESMSs and safeguards. • Early-stage and last-mile distributors may lack robust ESG policies and organizational capacity. • Smaller business ESG risks are considered marginal but still noted.

3.4. Solar Mini and Micro Grid Risks

Risk Category	Associated Risks
Environmental Risks	• Construction in remote sites with undisturbed biodiversity. • High dependence on natural water sources such as rivers or streams. • Need for strong environmental and social management systems throughout the project lifecycle.
Social Risks	• Inadequate stakeholder engagement practices. • Fair labor and working condition concerns. • Labor issues within the supply chain. • Involuntary land acquisition potentially causing physical or economic displacement. • Security challenges and risks of vandalism and theft. • Potential impacts on cultural heritage and Indigenous Peoples.

ESG Readiness and Regulatory Risks	• Mini-grid operators face more complex ESG risks than other models. • Stricter local regulatory requirements demand higher levels of E&S management. • Projects typically classified as Category B under IFC and GCF frameworks. • Requirements for Environmental and Social Impact Assessments (ESIA) and Environmental and Social Due Diligence (ESDD). • Need for demonstrated ESG maturity for effective E&S risk management.

3.5. Country Risks

3.5.1. H2R markets represent great opportunities to scale clean, renewable energy and build access to energy for millions of first-time customers. These markets have also experienced political and economic instability, dramatic changes to the environment due to businesses and climate change, evolving demographic changes, and impacts to Indigenous communities. As such, H2R expects to conduct country contextual analysis across all H2R Expansion Fund investments. For H2R Development Facility investments, there will be periodic country contextual analysis, alongside continuous market-level contextual analysis performed at least annually. H2R may also conduct further analysis if a major event occurs in an H2R market.

3.5.2. The Program team intends to coordinate with Acumen's Associate Director of Risk and Compliance and ESG team to ensure that each investment opportunity considered by the Expansion Fund is reviewed for both the Country-level risk (including regional or sub-regional contexts as appropriate) associated with a potential portfolio business and the context and environment in which it operates and will be documented as part of the ESG report, and some high-level component will be included in the investment memo. Alternatively, the Program team and Acumen's Associate Director of Risk and Compliance expect to analyze investment opportunities for the Development Facility on a country-by-country basis. Further analysis will be conducted if a major event occurs in that particular H2R market, and this country-by-country analysis will be performed annually or as needed, based on event developments. Whether for the Expansion Fund or the Development Facility, risk analysis shall consider the current iteration of the IFC Contextual Risk Framework and include a review of each of the following dimensions and subcategories as necessary and subject to change dependent upon country context and currently available best practices:

H2R Country Contextual Risks	
Security and Conflict	Internal Conflict
	Criminal Violence
	Terrorism
	Coups and Government Instability
	Security Forces
	Regional and Neighboring Instability
Political Risk, Governance, and Civil Liberties	Representative Politics
	Governance Structures
	Access to Formal Justice Systems and Conflict Resolution Mechanisms
	Access to Basic Services and Infrastructure
	Human Trafficking and Illicit Trade
	Civil Liberties
	Market Integrity and Transparency

Macro-Economic and Financial Sector	Inflation
	Exchange-Rate Volatility
	Access to Financing
	Financial Regulation and Supervision
	Default History
Health and Population	Food Security and Health Epidemics
	Natural Disasters
	Rural-Urban Disparities (i.e., Population, Sanitation, and Water)
	Forced Population Movement
Labor and Workforce	Labor – Supply Chain Risks
	Labor Policies
Biodiversity, Ecosystems, and Climate Change	Deforestation and Other Threats to Natural Resources
	Government Capacity in Natural Resource and Protected Area Management
	Climate Change Vulnerability and Resilience
	Illegal Bushmeat Hunting and Wildlife Trade
Land and Access to Natural Resources	Availability of Water
	Land Access and Competition
	Indigenous Land
	Resettlement: Protection of Land and Property Rights
Social Cohesion	Group-based Grievance
	Workplace Exclusion and Discrimination
	Community Protest and Unrest
Gender	Gender Representation in the Workforce
	Gender-Based Violence and Protections
Reprisals	Reprisal Risk

3.5.3. H2R markets, like many other countries, have contextual risks including regional and sub-regional risks that may impact investments, portfolio company operations, and portfolio company customers.

3.5.4. Several H2R markets have had issues with gender-based violence and harassment, political instability, poor labor and working conditions, internal conflict that could be project induced creating competing use of resources, exacerbating exiting inequalities and other impactful issues for businesses and communities. As H2R aims to have positive environmental and social impacts through investing, it is important to note the negative externalities associated with these markets.

3.6. Environmental and Social Risks using the IFC Performance Standards

3.6.1. **IFC Performance Standard 1: Risks across Environmental and Social Management**	
Indicator	**Risk and Mitigant Description**
Emergency Preparedness	Risk: Last mile distributors may have weak or insufficient emergency preparedness policies and procedures due to their early stage or resourcing constraints. They may not have proper emergency equipment, placards, alarms, drills, and training. Weak and insufficient emergency preparedness may result in business or customer injury or death in the event of an emergency. Additionally, businesses that are ill-equipped to respond to emergencies could face business continuity issues.

	Risk: Vertically integrated businesses may not have emergency preparedness policies or procedures covering the new markets they are entering. Moreover, they may not be aware of potential environmental or social emergencies that could impact their operations. This may mean that their operations in H2R markets do not have proper emergency equipment, placards, alarms, drills, and training. Weak and insufficient emergency preparedness may result in business or customer injury or death in the event of an emergency.
	Risk: Manufacturers with factories could injure, harm, or cause death of employees when they do not have appropriate emergency preparedness procedures.
	Risk: A Mini-Grid or Micro-Grid developer may lack a comprehensive emergency preparedness plan covering construction, operations, equipment transport, and community support in remote H2R market locations. This includes inadequate fire or medical emergency measures, missing signage with contact details and response instructions, absence of essential equipment like alarms and extinguishers, and a lack of trained personnel to respond until external help arrives.
	Mitigant: Companies will be asked about emergency preparedness in due diligence/audit. When appropriate, for larger transactions, the team will conduct site visits for potential Investees. Site visit ESG procedures include observing emergency and safety materials. H2R will require businesses with insufficient emergency preparedness policies and procedures, to improve policies and procedures as part of the ESG Action Plan.
E&S capacity commensurate with sector risk	Risk: Last mile distributors may have limited environmental and social capacity within their operations. This is particularly true of smaller loan recipients. Some businesses may not have any person on their team with E&S risk management in their job descriptions.
	Risk: Vertically integrated SHS businesses expanding into new territories may not have staff in those territories that will be actively managing environmental and social risks.
	Mitigant: Companies will be due diligenced/audited for ESG capacity. Companies with insufficient capacity will be trained in E&S risk identification, mitigation, and capacity as part of technical assistance.
	Risk: Mini-Grid or Micro-Grid developers often have limited capacity for environmental and social management due to lean teams executing such projects. This creates a gap in effectively overseeing and managing environmental and social issues within their operations.
	Mitigant: Companies will undergo diligence or audits on their environmental and social management capacity. Those with capacity constraints or gaps will receive recommendations on the E&S action plan based on the scale and nature of operations. High-risk projects may require hiring an E&S/EHS specialist or engaging a consultant.
	Risk: Warehouse facility managers have small organizational footprints but are expected to manage significant funding and environmental and social safeguarding considerations across several beneficiary businesses.
	Mitigants: Warehouse facility investments will be diligenced on E&S internal and external resourcing to ensure appropriate safeguarding of their beneficiary businesses.
Identification of E&S risks and impacts	Risk: Last mile distributors may not have the expertise or experience to identify environmental and social risks within their operations. Without knowledge of E&S risks, businesses are less capable of mitigating these risks and are more likely to have ESG incidents.

	Risk: Vertically integrated SHS businesses may not be aware of the environmental and social risks in the markets they are expanding their operations into. This could lead them to not properly identify or mitigate impactful environmental and social risks.
	Mitigant: Companies will be due diligenced/audited for ESG risks and impacts. Companies with insufficient capacity will be trained in E&S risk identification, mitigation, and capacity as part of technical assistance.
	Risk: A Mini-Grid or Micro-Grid developer may lack technical expertise or face regulatory requirements for identifying project-specific environmental and social risks. Without this, they may struggle to understand and mitigate risks effectively, increasing exposure to avoidable ESG incidents.
	Mitigants: Companies will undergo due diligence or audits to assess their ability to identify and manage project-specific risks and impacts. Depending on the project's scale, nature, and regulatory requirements, they may be required to conduct an ESIA or develop an Environmental and Social Management Plan (ESMP). Companies with insufficient capacity will be required to improve their practices based on recommendations in the ESAP items and may also receive capacity-building training as part of technical assistance.
	Risk: Warehouse facility managers may not have environmental and social policies, procedures, and expertise to identify environmental and social risks across beneficiary businesses.
	Mitigants: H2R intends to diligence warehouse managers for their E&S policies and procedures and ensure appropriate environmental and social oversight and risk identification of their businesses. H2R also expects warehouse facility managers to include downstream H2R expectations in their environmental and social action plans with beneficiaries.
Affected community knowledge of impacts and opportunities	Risk: Last mile distributors may not appropriately engage with the communities that they serve. Communities may not know what resources a business can provide because businesses do not engage them. Stakeholders may not know consumer protection opportunities, digital privacy rights, e-waste collection opportunities, or other important components of community engagement. This discrepancy could increase the likelihood of E&S risks.
	Mitigants: Companies will be due diligenced on stakeholder engagement. Those with insufficient practices may be required to improve them as part of the ESG Action Plan. Companies will be trained in stakeholder engagement as part of technical assistance.
	Risk: A Mini-Grid or Micro-Grid developer may have limited community engagement, often interacting with only a few individuals who do not represent the broader community's interests. This lack of inclusive consultation can hinder project buy-in and create limited awareness of risks related to safety, land use, biodiversity, ecosystem impacts, and consumer protection. If unaddressed, these issues could lead to significant environmental and social issues.
	Mitigant: Mini-grid businesses will undergo diligence or audits on their stakeholder engagement approach by providing consent letters from community leaders, youth, women, and socio-economic groups, along with evidence of robust stakeholder meetings. Companies failing to meet this standard are expected to be required to improve their approach and practices as part of the ESAP items. Additionally, they may receive training in developing and implementing a stakeholder engagement plan as part of technical assistance.

Affected community feedback and recourse	Risk: Last mile distributors may not have a proper grievance redress mechanism in place leaving the community without voice. This can exacerbate negative impacts of the program because the last mile distributor may not be aware of negative practices in its operations. Additionally, this could harm business operations because disenfranchised or negatively impacted beneficiaries could be more likely to sue or damage the reputation of the business.
	Risk: Vertically integrated businesses may have functioning grievance redress mechanisms but have not shared that information with the new markets and customers they are reaching in H2R. Without GRM information, customers and communities may be more likely to go to government officials or sue them when unsatisfied with the business.
	Mitigant: Companies will receive due diligence (E&S audit) on grievance mechanisms. Those that have weak, insufficient, non-existent grievance mechanisms will be expected to improve or develop GRMs over the course of the loan or investment. There will be technical assistance to train and support businesses in GRMs.
	Risks: A Mini-Grid or Micro-Grid developer may have a grievance redress mechanism, but its implementation may lack adequate awareness, accessibility, and timely response. Issues such as unclear contact information, language barriers, and slow grievance handling can lead to community distrust and unresolved dissatisfaction. This, in turn, may result in conflicts, legal challenges, or reputational damage for the business.
	Mitigants: Companies will undergo diligence or audits on their grievance mechanism and implementation approach. This will include reviewing grievance logs and conducting site visits to understand the community's perspective on the redress process. Companies without a grievance system or with poor implementation will be required to improve as part of the ESAP items and will receive technical assistance to enhance their practices to align with the structure developed for investee's grievance mechanism in Annex 12.A.
SEAH Risks	Risk: Companies may not be aware of the SEAH risks for their staff and customers. They may not have a strong understanding of gender-based violence in their local or newly local context. Some GRMs may not have SEAH provisions in GRM.
	Mitigants: Companies will be due diligenced (audited) on SEAH and GBVH capacity, awareness, policies, and procedures. H2R wants to see internal buy-in from businesses. For businesses with deficiencies, we will provide third party gender expertise to help them build capacity. GRMs should have SEAH and GBVH components as a part of any improvements.

3.6.2. **IFC Performance Standard 2: Labor and Working Conditions Risks**	
Indicator	**Risk and Mitigant Description**
Protection of contract workers	Risk: Contract workers for last-mile distributors may have informal agreements with business. They may not be protected by business worker policies. Additionally, their contracts may create harmful incentives that create credit risks for the business. These informal contracts could leave contract workers without pay or protection, leaving them more vulnerable to physical harm or poverty.
	Risk: Vertically integrated businesses may have limited understanding of local context for labor laws, regulations, and customs when entering new markets. Contract workers may have insufficient protection because of this knowledge gap.

	Mitigant: Companies will be due diligenced/audit on worker protections, contracts, and legal obligations. Companies with insufficient or unclear contracts will be asked to make improvements via the ESG action plans.
Worker health and safety	Risk: Last mile distributors may have insufficient occupational health and safety (OHS) policies, procedures, training, or Personal Protective Equipment (PPE). This could result in physical harm, injury, or fatalities of workers. There is a particular concern about driver safety for sales agents who are traveling to distribute SHSs. Improper PPE could result in the transfer of airborne illnesses like “COVID-19”.
	Risk: Vertically integrated businesses entering new markets may have insufficient PPE for new employees in the new markets. This could result in physical harm, injury, or fatalities of workers. Improper PPE could result in the transfer of airborne illnesses like “COVID-19”.
	Risk: Manufacturers will likely have strong OHS policies, procedures, and protections. Even with strong OHS protections, working in SHS factories may result in physical harm, injury, or fatalities. Improper PPE could result in the transfer of airborne illnesses like “COVID-19”.
	Mitigants. Companies will be diligenced for OHS policies, procedures, incidents, and proper PPE. Companies with material OHS risks will be expected to make improvements via the ESG action plan and technical assistance.
	Risk: A Mini-Grid or Micro-Grid developer may have an inadequate OHS management system covering logistics, construction, operations, and oversight of contractor workers. This can expose workers to physical and chemical hazards, road accidents, inadequate PPE, and health risks, especially for those deployed to remote areas with limited knowledge of local health conditions.
	Mitigants: Companies will undergo diligence or audits on their OHS practices, including identifying risks and existing mitigation measures such as work process adjustments and proper PPE usage. Those with insufficient OHS systems will be required to improve them as part of the ESAP items and will receive technical assistance on training in alignment with the stated approach in Appendix 17 of this ESMS.
Gender equality	Risk: SHS businesses may have informal commitments to gender equality. Companies may not have gender action plans. Informal gender equality commitment may result in missing opportunities, policies, procedures, and accountability towards gender equality.
	Mitigant: Companies will be diligenced on gender practices. Insufficient gender practices will be captured and monitored in the business-level Gender Action Plan (GAP). H2R seeks to provide businesses with gender-related weaknesses technical assistance to support their growth.
Non-discrimination & equal opportunity	Risk: SHS businesses may not have proper policies and procedures demonstrating commitment to non-discrimination and equal opportunities. This could result in workers from marginalized communities feeling unsafe in the workplace. There may be insufficient protection for women or other marginalized communities. This may result in turnover and/or issues with worker morale.
	Mitigant: Companies will have due diligence (E&S audit) on their non-discrimination and equal opportunity policies and procedures. If the risks are material, then these will be included in the GAP.
Compliance with national labor and employment law	Risk: Vertically integrated businesses may need to learn local labor laws of new H2R markets. Companies out of compliance with national labor and employment laws may face legal actions involving working conditions (associations, collective agreements, labor laws, discrimination, equal remuneration, lack of equal

	opportunity, harassment). This could stop or harm business operations, which would impact the H2R mission and reputation.
	Mitigant: Companies will be due diligence (E&S audit) on compliance with local labor laws. If deficiencies are found, H2R will either not invest or create conditions precedent that the businesses are expected to meet to disburse funds. The businesses will be monitored for legal compliance annually. Companies may receive technical assistance on labor issues.
Workers' organization	Risk: SHS businesses' practices may restrict, obstruct, or not expressly permit workers' rights to join workers' organizations and mechanisms to express their grievances on working conditions and terms of employment. Early-stage last mile distributors are more likely to have informal labor and human resources practices and are less likely to have explicit protections for workers' organization.
	Mitigants: When feasible, and if workers are calling for organization, H2R may share resources for businesses on how to enable organizing. This will not be a condition for investment or part of the ESG Action Plan.
Formal provisions to avoid sexual harassment at work (SEAH)	Risk: Early stage SHS businesses, especially last mile distributors, may not have formal arrangements to avoid sexual harassment at work, including a sexual harassment policy with, at a minimum, a mechanism to file complaints anonymously and confidentially and trained HR staff to review sexual harassment cases. Gaps in sexual harassment protections may cause significant challenges for workers who experience sexual harassment regarding reporting, safety, and resolution. The business also faces significant reputational and legal risks without formal sexual harassment provisions. This could impact the investors' reputations, including H2R.
	Mitigants: Companies will be due diligenced/audited on SEAH policies, procedures, and incidents. They are also expected to report on SEAH on an annual basis. Companies with SEAH risks will have improvement expectations that should be captured in the GAP.
Worker feedback and recourse	Risk: Early stage SHS businesses, especially last mile distributors, may not have formal whistleblower, complaints, or grievance policies for workers. Informal complaints mechanisms may not protect workers with proper grievances. Companies are more susceptible to litigation and bad press without internal grievance mechanisms. This could also harm the reputation of H2R.
	Mitigant: Companies will be asked to provide whistleblower and complaints policy in due diligence/audit. If businesses have material risks, they will be asked to address these risks in the ESG Action Plan. They are expected to report on these risks on an annual basis.
Forced and child labor in the primary supply chain	Risk: SHS businesses may purchase SHSs from suppliers that face credible accusations of child or forced labor. This will be an issue for H2R as investors require no labor issues in the supply chain. Labor issues could result in embargoes or bans on certain relationships, tariffs, or other trade issues. Labor related issues reputational risks could disrupt the global supply chain resulting in higher cost products or delayed trade.
	Mitigant: Child and forced labor is on the exclusion list (Annex 1). Any businesses with labor issues in their supply chain cannot receive H2R funds.
Safe worker accommodation	Risk: Manufacturers may face issues involving accommodation (camps, dorms, etc.) such as health and safety (e.g., fire, water, sanitation, overcrowding). This will be harmful to the H2R reputation and supply chain of last mile distributors.
	Mitigants: Companies will receive due diligence/audit on safe worker accommodation. There is expected to be limited exposure to this risk so there is no additional support around this issue.

	Risk: Mini-grid developers often bring in the technical expertise required for their projects from outside the project location due to the unavailability of such resources locally. Introducing workers from outside into a new community requires the business to provide safe accommodation during their time on-site. However, businesses that do not have procedures in place to assess and mitigate the risks associated with ensuring safe worker accommodation may expose workers to hazards, potentially impacting both their well-being and the project timeline.
	Mitigant: Companies will undergo due diligence or audits to assess the procedures in place for managing the introduction of workers into new communities and ensuring the provision of safe worker accommodation. Companies that have not developed such procedures and have encountered related issues during project construction are expected to be required to establish measures to mitigate these risks as part of the recommendations in the ESAP items in alignment with international best practices such as IFC and EBRD guidance note on workers' accommodation, and Technical support may be provided as necessary.

3.6.3. **IFC Performance Standard 3: Resource Efficiency and Pollution Prevention**

Indicator	**Risk and Mitigant Description**
Impacts on water used by others	Risk: H2R expects to have minimal water usage in the program. The main risk is water usage in the production of solar home systems. Excessive water usage can create water stress. However, the scale of this operation will likely mean negligible water stress. E-waste may also harm water resources.
	Mitigant: H2R will diligence/audit businesses for e-waste and water usage. Companies with inefficient operations may undergo further diligence. Companies are expected to have or develop e-waste policies by the end of their activity with H2R.
	Risk: Mini-Grid and Micro-Grid projects do not require significant water use for setting up solar systems. However, if project sites are near water bodies, runoff from concrete used for battery storage houses, metallic storage pavements, and other construction activities could affect local water quality of such water bodies, impacting community use.
	Mitigant: Mini-grid businesses will undergo diligence or audits to assess the proximity of project sites to water bodies and the potential for runoff. Those exposed to such risks may be required to implement solutions to manage runoff as part of the ESAP items and may receive technical assistance. Additionally, the ESIA and its ESMP or standalone ESMP will assess and emphasize these issues and create appropriate mitigation measures for the business to implement.
Pollution prevention and risks	Risk: Mining for raw minerals used to create solar home systems generates pollution. Additionally, transporting supplies from manufacturers to local distribution networks to customers. This could be detrimental to the mitigation goals of the fund.
	Mitigant: Companies are expected to efficiently use natural materials. H2R will do desktop research on businesses to uncover any public material on mining or excessive resourcing. The program will not invest in any mining activities.
	Risk: Mini-Grid or Micro-Grid developers may, in some cases, use herbicides to control vegetation on their solar farms. Improper use or excessive application can lead to soil and water contamination, harming local biodiversity, affecting nearby water sources, and posing health risks to workers and surrounding communities.

	Mitigation: Companies will undergo diligence or audits to assess their approach to weeding solar farms. Those identified with risks may be required to adopt safer weeding methods as part of the ESAP items and will receive technical assistance.
GHG emissions	Risk: Companies will have limited capacity to measure their emissions. Some will need additional support in calculating emissions reductions because of selling solar home systems.
	Mitigant: Companies will have the opportunity to learn about GHG emissions and operational reduction strategies via ESG webinars.
Resource efficiency	Risk: Last mile distributors may sell low efficiency or highly irreparable SHSs to save on costs. Low efficiency products or highly irreparable products can contribute to e-waste, poor customer retention, low repayment rates for PAYGo solar, and increased SHS production, which increases emissions and reduces mitigation opportunities.
	Mitigant: H2R will do desktop research on the business to learn of any resource efficiency newsworthy issues. H2R will also ask businesses about resource efficiency in DD. Resource efficiency could be included in ESGAPs. Companies will have opportunities to learn about resource efficiency in the ESG webinars.

3.6.4. **IFC Performance Standard 4: Community Health, Safety, and Security**	
Indicator	**Risk and Mitigant Description**
Security force impacts to communities	Risk: In politically volatile and risky H2R regions, some businesses may hire security to protect SHS inventory. Security forces could create agitation, mistrust, or result in armed confrontation. Armed confrontation could result in community or staff injury or death. This would create major repercussions for the H2R Investee (new or existing facilities) and would be harmful to the H2R mission.
	Risk: Mini-grid projects are often located in remote areas where access to government security forces or well-established private security providers is limited. As a result, most project developers rely on local vigilante groups within the host communities. However, engaging local vigilantes poses risks, as these individuals may not have undergone formal background checks or be affiliated with any reputable security firms. This lack of vetting increases the potential for security-related issues such as theft, abuse of power, and violations of human rights, which are sometimes associated with informal community-based security arrangements.
	Mitigant: Companies must ensure that the security force is compliant with local laws and regulations. If armed businesses must prove that security personnel are trained in de-escalation and proper use and storage of weapons.
	Mitigant: Mini-grid developers will be subject to due diligence or audits regarding their approach to providing security for their facilities. This includes evaluating processes such as the hiring of security personnel, oversight mechanisms, training on human rights and appropriate conduct, and procedures for reporting and monitoring the performance of security staff in the discharge of their duties. Companies that have not established measures to identify and mitigate risks related to security will be required to do so as part of the Environmental and Social Action Plan (ESAP). Technical support and capacity-building, including training, will be provided as necessary to support effective implementation.
	Risk: Depending upon the type of conflict and the geographic peculiarities (size, bordering countries or regions), some businesses may experience operational and supply chain disruptions.

	Mitigant: The H2R team will apply a conflict sensitive approach in their post-investment accompaniment. The guidance will employ a do no harm approach that emphasizes redundancies when planning operational logistics, distribution, and supply chains.
Contribution to health impacts upon a community	Risk: H2R Investees (facilities) will have minimal negative impacts on community health. SHS transportation could cause traffic fatalities.
	Mitigant: Companies with frequent injurious or deadly driving accidents will be asked to develop and implement road safety policies and trainings.
Worker impacts on a community	Risk: Workers for H2R Investees (facilities) could negatively impact a community with violence, harassment, stalking, or other negatively impactful behavior while they are working. Unprofessional worker behavior, actions, or violence can be detrimental to business operations and result in criminal inquiry, legal liability, and poor publicity. If activity harms business operations, it could affect their ability to repay H2R loans. Additionally, if worker behavior activity is tied to H2R, it could impact the fund reputation.
	Risk: Sales agents and customer/community-facing staff could attempt to exploit customers or sell to customers who cannot afford OGS products. Sales agents could have the wrong sales incentives.
	Mitigant; H2R will diligence/audit businesses on consumer protection, code of conduct, and sales contracts. Consumer protection gaps will be addressed in the consumer protection plan, community engagement deficiencies will be addressed in the ESGAP, and businesses will have ESG and consumer protection support as a component of technical assistance.
Sexual abuse, exploitation, or harassment (SEAH), Gender-based Violence and Harassment (GBVH)	Risk: H2R Investees (new or existing facilities) may have staff that commits sexual harassment, abuse, or exploitation in the communities they serve. This would cause significant harm to the community members the program seeks to serve. It would also open the business up to legal scrutiny and potential lawsuits. It would be impactful to the gender equity work the team seeks to do. Moreover, the incident would tarnish the reputation of the H2R program if it were connected to the fund.
	Risk: Some H2R markets may have concentrated risks of gender-based violence and harassment that can impact how companies operate in certain regions. Employees and customers may face threats of gender-based violence and harassment.
	Mitigant: H2R will do extensive DD on gender aspects of Investees (facilities). H2R also expects to complete country contextual and human rights analysis to understand risks of GBVH. Companies with risks or deficiencies will be expected to address them in GAP. Companies will receive support on GAP development and completion from third party gender experts. Companies are expected to have anti-sexual harassment and anti-gender-based violence and harassment policies and protections for employees and customers.
Fires or structural damage that have harmed the public	Manufacturers are at risk of fire hazards in their factories. Fire damage could spread and harm communities. This would negatively impact business operations and community trust. Additionally, it could make supply chains more expensive or slow trade down.
	Mitigant: When applicable, site visits will look for fire hazards and adequate mitigants. Material insufficiencies are expected to be addressed post-investment in the ESGAP.
	Risk: Mini-grid or micro-grid infrastructure may pose fire hazards to nearby communities. Additionally, distribution lines could collapse, potentially causing fires that impact surrounding areas and the community at large. If the investee has not identified this as a risk and lacks preventive and response measures, such incidents could disrupt operations and result in major reputational damage.

	Mitigant: Companies will undergo due diligence or audits to assess the safety of the infrastructure and equipment design to be deployed, as well as the competency of the technical personnel to install the facilities, ensuring that no safety issues are recorded. However, businesses that have not designed their infrastructure or equipment with safety requirements or engage unqualified personnel to install their products will be required to meet these requirements as part of the ESAP items.
Consumer credit risk	Some H2R Investees (facilities) may sell their SHS products using PAYGo financing. Essentially, they will allow consumers to buy their products on credit. If businesses do not appropriately assess credit risk and capacity to pay. If businesses do not properly assess consumer capacity to pay, they may cause consumers to miss payments, increase their debt, lower their credit score, and have their products remotely shut off. Companies who do not appropriately manage their credit risk can face ballooning accounts receivable and limited cash on hand. This could negatively impact businesses' ability to repay their H2R loans.
	Mitigant: Companies will undergo thorough consumer protection and credit risk management due diligence/audit. Companies will be expected to share their credit risk strategy. Experts may support larger investments with consumer protection due diligence/audit. Companies may have consumer protection plans to address areas of improvement. Companies will also have access to experts to improve credit risk management.
Consumer data privacy risk	Risk: H2R Investees (facilities) will collect sensitive personal data from consumers for payment and credit risk assessment purposes. Data could be used for fraud, identity theft, sales to data purchasers, or other purposes. Investees (facilities) could have weak data management controls and could have their systems hacked or obtained by malicious actors. This could harm the reputation of H2R if improper data activity is tied to the program.
	Mitigant: Companies will be asked about consumer data privacy, and if the answer is insufficient then they will be expected to improve their data privacy policy and procedure over time.

3.6.5. **IFC Performance Standard 5: Land Acquisition and Involuntary Resettlement**	
Indicator	**Risk and Mitigant Description**
Policy and process for social impact assessment and land acquisition	Risk: Last mile distributors and vertically integrated businesses moving operations into Hardest-to-Reach markets may not have land resettlement policies and procedures. This could open businesses improperly managing a lawsuit or conflict over land acquisition. H2R businesses are not likely to acquire much land because of the nature of their operations so this is a minimal risk.
	Mitigant: Businesses moving businesses into the market or purchasing land may have to utilize the land resettlement and displacement framework. Companies will be diligenced/audited on land acquisition if any H2R funds would go to land purchasing.
	Risk: Mini-Grid or Micro-Grid developers may have limited policies and procedures on land acquisition and resettlement, despite requiring land for project development. This gap exposes them to risks of physical or economic displacement.
	Mitigant: Companies will undergo due diligence or audits on their approach to land acquisition for their projects. If the land was not acquired through a willing-buyer, willing-seller approach, H2R expects to ensure that the business follows due

	process to properly plan for and mitigate potential physical or economic displacement impacts in line with international best practices. These measures may be recommended in the ESAP items, and technical support may be provided, as necessary.
People/communities affected by land acquisition	Risk: Investees (new or existing facilities) could potentially harm people or communities when acquiring land for their operations. Investees (facilities) will require minimal land needs, so it is not a high-risk issue.
	Mitigant: Investees (facilities) will be diligenced/audited on land acquisition when necessary. Companies will be required to have a land resettlement plan. Companies may need to compensate people for the negative impact of land resettlement. See Annex 9 for further details.
	Risk: Mini-Grid or Micro-Grid projects may require land acquisition, potentially leading to physical displacement, especially when land is obtained through government-led processes under public-private partnerships. Without a clear mitigation plan to transparently address the impact on affected communities, businesses risk major land conflicts and unresolved grievances, which could pose security threats to the project.
	Mitigant: Companies will undergo due diligence or audits to assess their approach to land acquisition, ensuring that land is obtained through a willing-buyer-willing-seller approach rather than involuntary acquisition. If a transaction would result in involuntary land acquisition, H2R would not make that investment. However, for transactions that include voluntary land acquisition and resettlement, H2R seeks to ensure that the business provides adequate mitigation for those physically displaced, by conducting resettlement planning in line with international best practices such as the IFC PS 5. This requirement will be included as part of the recommendations in the ESAP items.
Impacts involving economic displacement	Risk: Some people could face job loss due to SHS products replacing kerosene or other forms of energy. However, it is more likely that the H2R program will be responsible for job creation.
	Mitigant: If a project or investment displaces communities then the business will have to produce a displacement plan based on Annex 9.
	Risk: Mini-Grid or Micro-Grid projects may require significant land acquisition, potentially leading to economic displacement, especially when land is obtained through government-led processes under public-private partnerships. Without a clear mitigation plan to transparently address the impact on affected communities, businesses risk major land conflicts and unresolved grievances, which could pose security threats to the project.
	Mitigant: Companies will undergo due diligence or audits to assess their approach to land acquisition, ensuring that land is obtained through a willing-buyer-willing-seller approach rather than involuntary acquisition. If land acquisition occurs involuntarily, H2R will ensure that the business provides adequate mitigation for those economically displaced, by conducting livelihood resettlement planning in line with international best practices such as the IFC PS 5. This requirement will be included as part of the recommendations in the ESAP items.

3.6.6. IFC Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

Indicator	**Risk and Mitigant Description**

Impact on ecosystem services	Risk: Manufacturers could harm the environment with the production of solar home systems. Some manufacturers may rely on coal or fossil fuels as energy sources for their manufacturing. The production of solar home systems could release toxic or harmful pollutants that could have some impact on local ecosystems. We expect the investment in on-lending manufacturing to have minimal environmental impacts and the impact to be within the scope of the program.
	Risk: Distributing SHS could result in e-waste at the end of the product's life cycle. Improper disposal of batteries or other solar materials may have negative impacts on the environment.
	Mitigant: Companies will engage with due diligence/audit on biodiversity, environmental impact, and e-waste. Companies with deficiencies are expected to make improvements in the ESGAP. H2R will have little influence on manufacturing energy but businesses are expected to have a small footprint. Companies will have access to e-waste training, support, and consulting.
	Risk: Mini-Grid and Micro-Grid operations have minimal direct environmental impact; however, their supply chain, including equipment manufacturing and transportation, can significantly affect ecosystem services.
	Mitigant: Companies will undergo diligence or audits on sustainable supply chain and procurement practices, including policy commitments, OEM sourcing, OEM due diligence and risk mitigation. Those with weak practices must improve them as part of the ESAP items and will receive technical assistance to guide them during OEM selection and sourcing.
Impacts to legally protected/ Internationally recognized areas	Risk: Manufacturers could impact protected or internationally recognized areas if they operate near those areas. Their pollution could damage protected habitat or wildlife. This risk is minimal as most solar manufacturing does not occur near legally protected or internationally recognized areas.
	Risk: SHS beneficiaries may dispose of e-waste in legally protected or internally recognized areas, which may damage protected or legally recognized areas, the habitat, or wildlife. This is especially important in the Democratic Republic of the Congo, home to the Congo rainforest. The Congo rainforest is one of the most important habitats in the world.
	Mitigant: The H2R team also pays special attention to where operations are located and expects to have specific cautions and expectations for businesses operating in vulnerable locations. E-waste collection will be monitored for businesses operating near critical ecosystems. Companies will not be allowed to purchase land using H2R funds on critical habitats. H2R will not make investments that would harm internationally recognized and legally protected habitats. Companies operating near these areas and capable of having a measurable impact on these species or habitats may require an ESIA (Annex 13).
	Risk: Mini-Grid and Micro-Grid projects may impact protected or internationally recognized areas due to their remote locations. Without proper impact assessments, land acquisition could unintentionally occur within these sensitive areas, leading to environmental and regulatory risks.
	Mitigation: Companies will undergo diligence or audits to assess project site and potential impacts on protected or internationally recognized areas. Those identified with risks must avoid these areas and secure alternative sites as part of the ESAP items, with technical assistance provided.

Impacts to International Union for the Conservation of Nature (IUCN) Vulnerable, Endangered and Critically Endangered species and habitats	Risk: SHS e-waste could be harmful to the International Union for the Conservation of Nature Vulnerable, Endangered, and Critically Endangered species and habitats. Lithium from batteries and other toxic components could have a small but harmful impact on IUCN endangered species and habitats. Companies may not have sufficient e-waste or environmental policies. They may not have e-waste contracts to appropriately handle e-waste.
	Risk: Companies with weak or immature environmental policies could be unaware of their proximity to IUCN Vulnerable, Endangered, and Critically Endangered species and habitats. They may not know the extent of their impact on these species or habitats.
	Mitigant: The H2R team also pays special attention to where operations are located and expects to have specific cautions and expectations for businesses operating in vulnerable locations. E-waste collection will be monitored for businesses operating near critical ecosystems. Companies will not be allowed to purchase land using H2R funds on critical habitats. Companies operating in these areas and capable of having a measurable impact on these species or habitats may require an ESIA (Annex 13).
	Risk: A Mini-Grid or Micro-Grid developer may directly impact IUCN Vulnerable, Endangered, and Critically Endangered species and habitats due to project development and land use changes for Mini-Grid farms. These projects are often located in hardest-to-reach remote areas with undisturbed biodiversity. Additionally, indirect impacts may arise from improper disposal of e-waste during equipment repairs or decommissioning, leading to indiscriminate dumping in sensitive ecosystems. The risk is heightened when there are no policies or procedures in place to identify and mitigate potential biodiversity impacts.
	Mitigant: Companies will undergo diligence or audits to assess the impact of project development, land use changes, and e-waste disposal on IUCN-listed species and habitats. Those without proper biodiversity policies and waste management procedures will be required to implement such practices as part of the ESAP items, which include Critical Habitat Assessment if located within critical habitat and mitigation hierarchy will be followed in alignment with IFC PS 6. Technical assistance will be provided to ensure responsible waste disposal and conservation of vulnerable ecosystems.
Impacts on natural habitats	Risk: SHS e-waste could have minimal harmful impacts on natural habitats. H2R Investees could have weak or minimal e-waste policies, contracts, or procedures. Companies with weak policies and procedures could exacerbate potential harms to natural habitats.
	Mitigant: The H2R team also pays special attention to where operations are located and expects to have specific cautions and expectations for businesses operating in vulnerable locations. E-waste collection will be monitored for businesses operating near critical ecosystems.
	Risk: A Mini-Grid or Micro-Grid developer may directly impact natural habitats due to project development and land use changes for Mini-Grid farms. These projects are often located in hard-to-reach remote areas with undisturbed biodiversity. Additionally, indirect impacts may arise from improper disposal of e-waste during equipment repairs or decommissioning, leading to indiscriminate dumping in natural forests. The risk is heightened when there are no policies or procedures in place to identify and mitigate potential biodiversity impacts.
	Mitigant: Companies will undergo diligence or audits to assess the impact of project development, land use changes, and e-waste disposal on natural habitats. Those without proper biodiversity policies and waste management procedures will

	be required to implement such practices as part of the ESAP items. Technical assistance will be provided to ensure responsible waste disposal and habitat conservation.
Protection of habitats and biodiversity management	Risk: SHS e-waste could be harmful to efforts to protect habitats and biodiversity management. Used or broken batteries can spill toxic acid in conservation areas.
	Risk: Manufacturing businesses could be harmful to efforts to protect habitats and biodiversity. Inefficient manufacturing could be harmful to habitats and biodiversity by releasing pollutants and harmful greenhouse gases.
	Risk: Last mile distributors may have limited environmental policies protecting habitats and biodiversity management. A last-mile distributor or a vertically integrated business operating in a new territory may not understand the environmental impact of operating in these geographies. Some businesses may be unaware of the local habitats or biodiversity. They could be unaware of the harmful impacts their operations could have on habitats and biodiversity. Without environmental policies, businesses with larger footprints may not have procedures in place to identify or mitigate some of these damages.
	Risk: Mini-Grid or Micro-Grid developers may have limited policies and procedures to protect habitats and biodiversity across their operations. Due to these gaps, their activities could indiscriminately impact sensitive ecosystems and biodiversity.
	Mitigant: Companies are expected to have sufficient environmental and e-waste policies. Companies found to have insufficient material environmental impacts will be expected to make improvements post-investment. The H2R team also pays special attention to where operations are located and expects to have specific cautions and expectations for businesses operating in vulnerable locations. E-waste collection will be monitored for businesses operating near critical ecosystems.

3.6.7. **IFC Performance Standard 7: Indigenous Peoples**	
Indicator	**Risk and Mitigant Description**
Impacts on Indigenous Peoples	Risk: H2R could lend to Investees (new or existing facilities) operating in Indigenous territory or with Indigenous populations. They may not have free, informed, or prior consent (FPIC) of Indigenous populations to work in their territory. Selling SHS products could go against local norms and expectations, leading to harming the Indigenous community and lessening the impact.
	Risk: H2R Investees (facilities) may not have Indigenous peoples' policies and may not have procedures for interacting with Indigenous communities. Investees not having policies and procedures tied to best practices could result in harming Indigenous populations and hurting the program's impact.
	Mitigant: H2R has an Indigenous People's Policy that informs our work with Indigenous people. We also have a stakeholder engagement plan that incorporates indigenous voice and consent. We due diligence/audit businesses on their engagement and policies around Indigenous peoples. If businesses engage with Indigenous populations, we expect them to have proper policies and procedures. We also have consultants who can support this engagement.
Proactive engagement with Indigenous Peoples	Risk: Companies can have positive impacts on Indigenous populations if they proactively engage with these communities and seek free, informed, and prior consent. However, businesses can receive backlash for not properly consulting Indigenous populations about operating within their communities.

	Mitigant: Companies who engage with Indigenous communities are expected to have free, informed, and prior consent of the Indigenous community with evidence of that engagement.

3.6.8. **IFC Performance Standard 8: Cultural Heritage**	
Indicator	**Risk and Mitigant Description**
Impact upon critical cultural heritage	Risk: H2R could lend to Investees (new or existing facilities) who utilize cultural or historical imagery in their marketing materials without consent from relevant communities and stakeholders. This could result in the program funding businesses improperly benefiting from cultural materials. This could harm community trust, stakeholder engagement, and program impact. Company level chance find procedures might be missing, which would be relevant for businesses with a larger footprint.
	Mitigant: Companies may be asked about marketing materials and chance find procedures if they are expanding their footprint. We expect there to be minimal risks given the type of program.
	Risk: Mini-Grid and Micro-Grid developers may risk impacting cultural heritage due to their business model, which requires project development in remote areas with intact cultural sites. While impact assessments and stakeholder engagement typically identify such risks, failure to conduct these assessments or the absence of a chance-find procedure could lead to unintended damage to artifacts, sacred sites, shrines, and other culturally significant areas.
	Mitigant: Companies will undergo diligence or audits to assess their cultural heritage risk identification process and the presence of a chance-find procedure. Those lacking proper measures will be required to conduct a cultural heritage impact assessment and implement a chance-find procedure as part of the ESAP items, with technical assistance provided.

3.7. Mitigants

3.7.1. The H2R ESIA informed the development of the mitigation strategy in the ESMS. The mitigation strategy contains several components: ESG organizational capacity and resources, an extensive ESG investing process, portfolio-level, and business-level ESG standards and requirements, thorough monitoring and reporting, and stakeholder engagement.

3.7.2. In the H2R Environmental and Social Policy, the program team committed to not investing in E&S risk category A businesses and to not engage or invest in any operation in the Exclusion List as found in Annex 1. Avoiding these investments and activities will protect the program from engaging in any dangerous or largely harmful activities.

3.7.3. H2R has developed internal capacity to identify, mitigate, and report on environmental and social impacts and risks. During the program development stage, the team created an ESIA to identify risks and mitigants for the program. The team created an ESMS to build team and program capacity to mitigate environmental and social risks. With a strong understanding of program and Investee (new or existing facilities) level risks, the team expects to minimize environmental and social risks across the program and maximize E&S co-benefits.

3.7.4. As shared in Section 5, H2R built organizational capacity for the program and assigned ESG responsibilities, oversight, and capacity building across the program. The program commits to program staff and managers having environmental and social responsibilities and roles. The program also developed guidelines for Investee (facility) ESG organizational capacity and commitment. The program also created opportunities for Investees (facilities) to build internal ESG capacity via technical assistance from ESG experts. The program commitment to organizational capacity, capacity building and training, clearly defined E&S roles and responsibilities, and Investee (facility) guidance minimizes the chances of H2R missing or being incapable of mitigating risks.

3.7.5. As shared in Section 6, H2R created an ESG investing process that incorporates a strong diligence/audit cycle with a variety of tools, ESG term sheet requirements, post-investment ESG activities, technical assistance, and ESG monitoring and reporting. The team intends to implement extensive investigations into business operations, giving the team the ability to identify ESG weaknesses or opportunities for growth. Moreover, the process ensures that the team generates broad awareness of these risks across both the managers and the investment committee and requires that Investees (new or existing facilities) manage these risks via the legal agreement. Finally, ESG activities and technical assistance are tools to ensure the Investees (facilities), and the management team can mitigate risks after disbursement.

3.7.6. As shared in section 7, the Management team developed strong standards, KPIs, and requirements for the program and Investees (facilities) aligned with industry best practices, investor expectations, and community voice. H2R established strong standards on consumer protection, e-waste, labor and working conditions, the protection of biodiversity and the other larger risks for the program. The program standards will safeguard the program and the Investees (facilities) from actualizing the more significant risks.

3.7.7. H2R requires meaningful and significant reporting both at the program and Investee (facility) level. The program team will monitor ESG trends across the portfolio, developing ESG risks, incidents, and successful mitigation strategies. Monitoring and reporting will help the H2R team adjust the ESMS and ESG strategies to fit the evolving needs and challenges across the program.

3.7.8. As shared in Annex 11, the H2R team engages a diverse array of stakeholders to learn from government entities, businesses, experts, and affected communities about the environmental and social impacts and risks of the program. Their voice and depth of contextual understanding make the team significantly more aware of risks and mitigants

3.7.9. Finally, the Grievance Redress Mechanism (Annex 12) is a tool for the program to be held accountable to the affected communities. The GRM is aligned with the Ruggie Principles and will be an important tool for community voice.

3.7.10. The H2R program will continue to seek strong environmental and social mitigants and to ensure that communities impact the ESG strategy across the lifespan of the program.

4. Allocation of Resources, Organizational Capacity, and Responsibilities

4.1. Executive Summary

4.1.1. H2R seeks to have executive roles overseeing the H2R Development Facility and the H2R Expansion Fund. Within these roles, the executive will be responsible for overseeing the implementation of the ESMS. Acumen's ESG team is responsible for implementing the ESG strategy with H2R oversight.

4.1.2. The H2R team will be made up of facility-specific roles, two investment committees, consulting groups, and Acumen. Each group will have separate ESG responsibilities that are detailed in this section.

4.1.3. The H2R facility teams are responsible for investor and donor investment and reporting requirements, and to beneficiaries who can benefit and experience environmental and social impacts from program activities.

4.1.4. In this section, H2R will share our responsibilities, working practices, training, and conflict of interest engagement.

4.2. Responsibility Charts

H2R Development Facility ESG Responsibility Chart			
H2R Development Facility Investment Type	**Debt**	**Equity and Quasi-Equity Investment**	**Grants**
Instrument Specifications	Catalytic debt that can include local currency, concessional rate, or impact-indexed loans	Patient capital providing businesses with the runway to grow and mobilize additional capital on top. May include joint ventures.	Grant funding for interventions such as new market entry and building out operating platforms
Business Type	Solar Home System Distributors Vertically Integrated Solar Home System Companies Off-Grid Solar businesses with solar productive use, mini or micro grid components		
Screening	H2R Development Facility Relationship Managers H2R Development Facility Impact Lead and Acumen ESG team		
Diligence Collecting	H2R Development Facility Relationship Managers		
Diligence Analysis	H2R Development Facility Impact Lead and Acumen ESG team		
Investment Decision	H2R Development Facility Investment Committee		
Term Sheet, Side Letter and ESG Action Plan	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Legal		
Post-Investment Support and Technical Assistance	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Service providers		
Monitoring	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team		

Reporting	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team

H2R Expansion Fund ESG Responsibility Chart		
H2R Expansion Fund Investment Type	**Impact Indexed Loans**	**Accounts Receivable Financing**
Screening	H2R Expansion Fund Relationship Manager and Acumen ESG team	
Diligence Collecting	H2R Expansion Fund Relationship Manager	
Diligence Analysis	H2R Development Facility Impact Lead and Acumen ESG team	
Investment Decision	H2R Expansion Fund Investment Committee	
Term Sheet, Loan Agreement Side Letter, and ESG Action Plan	H2R Expansion Fund Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Legal	
Post-Investment Support and Technical Assistance	H2R Expansion Fund Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Service Providers	
Monitoring	H2R Expansion Fund Relationship Manager	
Reporting	H2R Development Facility Impact Lead and Acumen ESG team	

4.3. H2R Development Facility team responsibilities

4.3.1. The H2R Development Facility team is responsible for acquiring ESG diligence (E&S audit), performing site visits, developing term sheets, and monitoring ESG action plans from the H2R Investees (new or existing facilities). The H2R Development Facility team may work with advisors with local lending or equity expertise, Acumen's ESG team, and the H2R Development Facility Impact Lead to ensure the ESMS is being properly implemented. The H2R Development Facility intends to have Acumen's ESG team and the H2R Impact Lead be responsible for ensuring the H2R Development Facility ESG activities are fully executed in the investing and post-investment process. The Impact Lead expects to collaborate with Acumen's ESG team and external consultants on ESG activities across both facilities.

4.3.2. In preliminary diligence, the H2R Development Facility team, along with Acumen's ESG team, will be responsible for ensuring that H2R Development Facility pipeline businesses do not engage in any of the program Excluded Activities as described in Annex 1. The relationship manager, H2R impact lead, and Acumen ESG team will screen applicants using the Excluded Activities screening questionnaire. They will also be responsible for ensuring that H2R Development Facility advisors utilize the ESMS guidance including the Exclusion List in supporting investment work.

4.3.3. The H2R Development Facility team and Acumen's ESG team are responsible for sharing and ensuring completeness of the ESG due diligence questionnaire (Annex 2) for H2R Development Facility investments. They will also be responsible for ensuring businesses complete the gender assessment, and the consumer protection questionnaire. Once questionnaires are complete and all materials are finalized, they are responsible for sharing the materials, information, and insights with the H2R Impact Lead and Acumen's ESG team.

4.3.4. If the H2R Development Facility team conducts a site visit, they will complete the ESG site visit checklist. They will interview business staff and walk around the business site to learn about their ESG risks and mitigants, observe emergency and security operations, and investigate occupational health and safety issues. The team will write their site visit notes and share them with the Acumen ESG team and H2R Development Facility Impact Lead.

4.3.5. After ensuring a complete ESG diligence/audit, the H2R Development Facility team works with the H2R Development Facility Impact Lead and Acumen's ESG team to complete the ESG due diligence report/audit findings (Annex 5). This will inform the ESG section of the investment memo. The H2R Development Facility team may seek guidance or support from the H2R Development Facility advisors to support diligence across investing instruments. The Investment Committee should expect to receive the Investment Memos, the ESG DD questionnaire, and the ESG due diligence report/audit findings.

4.3.6. The H2R Development Facility team will ensure ESG Action Plans (Annex 6) are legally binding in the side letter with the H2R Development Facility Investee (new or existing facilities). The H2R Development Facility team and Acumen's ESG team are responsible for ensuring relevant conditions are agreed to for any ESG risks need mitigating prior to the disbursement of the loan. The team will be responsible for working with the H2R Development Facility Impact Lead and Acumen's ESG team to develop appropriate and feasible ESG conditions and an ESG action plan for H2R Development Facility Investees (facilities).

4.3.7. The H2R Development Facility team will be responsible for working with the TA administrative staff, consultants, and other parties to ensure that H2R Development Facility Investees (facilities) are receiving TA in accordance with the ESG action plan and any other diagnostics.

4.3.8. The H2R Development Facility team and Acumen's ESG team will be responsible for monitoring post-investment ESG activity, ESG Action Plan (Annex 6) progress, and any other relevant ESG incidents or opportunities across the H2R Development Facility portfolio. The H2R Development Facility team will monitor and report with the Impact Lead and Acumen's ESG team. Acumen's ESG team will lead in writing environmental and social reporting to be shared with partners and stakeholders with the H2R Development Facility team providing oversight.

4.3.9. The H2R Development Facility team and Acumen's ESG team shall engage H2R Development Facility stakeholders through the duration of the H2R program. The H2R Development Facility team will listen, learn from, and report to stakeholders on an annual basis. They will also be responsible for implementing the various policies and procedures that are part of the H2R ESMS: the grievance redress mechanism, the Indigenous Peoples Policy, and the Guidance on Land Resettlement.

4.4. H2R Expansion Fund team responsibilities

4.4.1. The H2R Expansion Fund team is responsible for acquiring ESG diligence, performing site visits, developing term sheets, and monitoring ESG action plans for H2R Expansion Fund Investees (facilities). The H2R Expansion Fund team seeks to ensure the ESMS is being properly implemented. The H2R Expansion Fund team will collaborate with the Acumen ESG team and H2R Impact Lead to ensure Investees (facilities) follow the ESMS. The H2R Expansion Fund Managing Director is responsible for overseeing the Fund's ESMS implementation while Acumen's ESG team is responsible for leading ESG activities.

4.4.2. In preliminary diligence/audit, the H2R Expansion Fund team will be responsible for ensuring that pipeline businesses do not engage in any of the program Excluded Activities as described in Annex 1 or E&S Category A activities. The H2R Expansion Fund relationship manager and ESG team will screen potential H2R Expansion Fund Investees (facilities) using the Excluded Activities screening questionnaire. The H2R Expansion Fund team and ESG team intend to also evaluate the business model for potential E&S Category A activities. The H2R Expansion Fund relationship manager will notify the Impact Lead and Acumen's ESG team that the business is qualified to enter preliminary due diligence/auditing.

4.4.3. The H2R Expansion Fund team is responsible for sharing and ensuring completeness of the ESG due diligence questionnaire (E&S audit) for H2R Expansion Fund loans. They will also be responsible for ensuring businesses complete gender and consumer protection questionnaires. Once questionnaires are complete and all materials are finalized, they are responsible for sharing the materials, information, and insights with the H2R Impact Lead and the fund sponsor's ESG team or third-party consultant. The fund sponsor's ESG team will determine if sufficient evidence and information has been gathered.

4.4.4. If the H2R Expansion Fund team conducts a site visit, they will complete the ESG site visit checklist. They will interview the team and walk around the business site to learn about their ESG risks and mitigants, observe emergency and security operations, and investigate occupational health and safety issues. The team will write their site visit notes and share them with the fund sponsor's ESG team or third-party consultant and the H2R Impact Lead.

4.4.5. After ensuring a complete ESG diligence/audit, the H2R Expansion Fund relationship manager will work with the fund sponsor's ESG team or third-party consultant and the H2R Impact Lead to complete the ESG due diligence report (Annex 5). This will inform the ESG section of the investment memo. The Investment Committee should expect to receive the Investment Memos, the ESG DD questionnaire, and the ESG due diligence report.

4.4.6. The H2R Expansion Fund team will ensure ESG Action Plans (Annex 6) are legally binding in the term sheet with the H2R Expansion Fund Investees (new or existing facilities). The H2R Expansion Fund team is responsible for ensuring relevant conditions precedent are agreed to for any ESG risks need mitigating prior to the disbursement of the loan. The team will be responsible for working with the fund sponsor's ESG team or third-party consultant and H2R Impact Lead to develop an appropriate and feasible ESG action plan for H2R Expansion Fund Investees (facilities). Acumen's ESG team will be responsible for ensuring ESGAPs are aligned with ESMS expectations.

4.4.7. The H2R Expansion Fund team will be responsible for working with the Acumen, the H2R development facility team, consultants, and other parties to ensure that H2R Expansion Fund Investees (facilities) are receiving proper TA in accordance with the ESG action plan and any other diagnostics.

4.4.8. The H2R Expansion Fund team, H2R Impact lead, and the fund sponsor's ESG team or third-party consultant will be responsible for monitoring post-investment ESG activity, ESG action plan (Annex 6) progress, and any other relevant ESG incidents or opportunities across the H2R Expansion Fund portfolio. The H2R Expansion Fund team and the fund sponsor or external consultants will monitor and report on H2R Expansion Fund Investees (facilities).

4.4.9. The H2R Expansion Fund team shall engage H2R Expansion Fund stakeholders (Annex 11) through the duration of the H2R program. The H2R Expansion Fund team intends to work with the fund sponsor to listen, learn from, and report to stakeholders on an annual basis. They will also be responsible for implementing the various policies and procedures that are part of the H2R ESMS: the grievance redress mechanism (Annex 12), the Indigenous Peoples Policy, and the Guidance on Land Resettlement.

4.5. H2R Development Facility Advisor responsibilities

4.5.1. The H2R Development Facility team may seek the guidance and support of advisors with local debt or equity expertise when sourcing and doing due diligence/audit on small loans to last mile distributors. When supporting small H2R Development Facility investments to last mile distributors, the advisors may support implementing the ESG strategy for these select investments.

4.5.2. The advising team may support screening potential loans for Excluded Activity.

4.5.3. On select investments, advisors may support sharing the light touch ESG diligence questionnaire (Annex 2) with the potential Investees (facilities). They may offer guidance on ESG risks and mitigants relevant to the transaction.

4.5.4. On the investments they support, advisors will work with the H2R Development Facility Impact lead and Acumen's ESG team to ensure the ESG action plan is a legally binding part of the term sheet or side letter. The advisor, Acumen, and H2R Development Facility Impact Lead will work together to develop an appropriate action plan based on the ESG diligence and the sequencing of investments and follow-on investments.

4.6. Acumen responsibilities

4.6.1. Acumen, as the General Partner and Accredited Entity for the H2R program, will be responsible for implementing and monitoring the ESMS with the oversight of the H2R team. Acumen's global three-person ESG team intends to lead components of the H2R ESG investing strategy including screening, diligence, transaction support, ESAP development, monitoring, reporting, and post-investment support for both facilities.

4.6.2. Acumen's team intends to lead diligence analysis for transactions across both facilities. The team expects to review questionnaires, company track record, policies, and procedures, site visit documentation, and interviews. Acumen's ESG team will also conduct climate risks assessments for the H2R Expansion Fund, and, when appropriate, for the H2R Market Development Facility. The team also intends to conduct human rights due diligence, country contextual analysis, and company level ESG diligence. Acumen's ESG team will sign off on completeness of the ESG diligence.

4.6.3. Acumen intends to summarize these findings in an ESG diligence report and the investment memo and to provide recommendations to the respective investment committee. Acumen's team will also support the procurement process for third party E&S experts when needing to conduct an Environmental and Social Impact Assessment for a Category B transaction.

4.6.4. Acumen's ESG team will work with the potential investee on an environmental, social, and governance action plan to ensure alignment with H2R E&S expectations. The team will work with the respective H2R teams to draft and approve the E&S conditions and covenants of the investments.

4.6.5. Acumen's ESG team will support the program with implementing the ESMS, supporting the Investees (facilities), and assisting with Technical Assistance. The Acumen ESG team will also support the H2R team capacity building including training, portfolio updates, and risk identification.

4.6.6. Acumen will assist with stakeholder engagement including supporting the Nationally Designated Authority relationship, ensuring effective communication between the H2R management team and constituencies, and sharing H2R reporting with Acumen's ecosystem.

4.6.7. Acumen expects to support investor and partner engagement including reporting and incident reporting for the facilities.

4.6.8. Acumen expects to assist with monitoring, reporting, and evaluation. Acumen's ESG team intends to lead ESG monitoring and reporting from businesses and to investors and partners across both facilities. Acumen will support the writing and reporting of the Annual Performance Reviews for GCF. Acumen expects to lead the development and execution of the interim and final independent evaluations. Acumen will also support the development and execution of longitudinal insights studies.

4.6.9. Acumen has its own Grievance Redress Mechanism that will operate independently of the H2R team. Acumen will investigate any grievances they receive as the AE of this program.

4.7. TA administration and consultants' responsibilities

4.7.1. The H2R development facility team and Acumen are responsible for technical assistance administration. These responsibilities include disbursing the technical assistance funds to the proper consultants, NGOs, grant recipients, and Investees under the supervision of the H2R Development Facility team.

4.7.2. The H2R development facility team and Acumen are also responsible for screening TA fund recipients for engagement in the Excluded Activity list.

4.7.3. The H2R development facility team and Acumen shall monitor technical assistance and report on technical assistance activity for investors, donors, and other relevant stakeholders.

4.8. Training and Resources

4.8.1. The H2R team will receive annual ESG training to ensure their knowledge and understanding of the H2R ESMS and to build their capacity to identify and mitigate environmental and social risks.

4.8.2. The H2R team will be periodically trained on specific environmental and social risks like consumer protection and e-waste by industry experts to build deeper expertise in higher risk activities for the program.

4.8.3. Training, consulting, and resources are also provided by third party experts to H2R businesses on an ongoing basis. Webinar topics include e-waste, OHS, ESMS, community safety, and other relevant ESG topics. There will also be a resource center with tools and templates to help businesses improve their ESG practices. The businesses may also have a helpline that they can utilize for support with ESGAPs and policy and procedure development. Finally, businesses will also have access to consultants that can provide one on one support.

4.9. Investee Capacity

4.9.1. H2R Investees (new or existing facilities) are expected to comply with the guidance of the H2R ESMS. H2R Investees (facilities) will be required to meet certain criteria to receive program funding and technical assistance.

4.9.2. To go through the diligence/audit cycle, H2R businesses are expected to provide evidence that they do not engage in any of the H2R Excluded activities. H2R will assess the business model to determine if the business has E&S Category A risks. If businesses are determined to not engage in

Excluded Activities and E&S Category A activities and subsequently receive H2R funding, they are legally required not to engage in any Excluded Activities or Category A activities.

4.9.3. Companies are expected to fully, honestly, and transparently engage in the ESG due diligence cycle. They will be expected to certify the veracity of their due diligence/audit materials. Companies are required to submit ESG due diligence/audit questionnaires, supplementary ESG questionnaires, evidence of business policies and procedures, and a site visit if required by the H2R team.

4.9.4. If deficiencies are found in due diligence/audit, businesses are contractually required to enact an ESG action plan. The ESG action plan will be developed by the H2R team and Acumen.

4.9.5. By the end of the H2R program, businesses are expected to meet certain obligations:

H2R E&S Policy and Procedure Requirements for Investees
ESMS
E&S Policy
Grievance Mechanism
Indigenous Peoples Policy (if applicable)
Gender Action Plan
Consumer Protection Plan or Policy
E-waste Policy and contract
Stakeholder Engagement Plan
ESIAs (for applicable Category B investments)
LARPs (for applicable Category B investments)
Others in line with H2R ESMS requirements

4.9.6. Companies are expected to report on environmental and social activities across the tenure of their loan or equity investment. Companies shall report on ESG Action Plans at ESGAP milestones and on an annual basis. Companies shall report on environmental and social measures on an annual basis.

4.9.7. H2R businesses are expected to report grievances and ESG incidents to the H2R team within 5 days of knowledge of the incident. ESG incidents are described in further detail in section 6.

5. Environmental, Social, and Governance Investing Strategy

5.1. Executive Summary

5.1.1. H2R incorporates environmental and social risk and impact throughout the investing process. The H2R management team will incorporate environmental and social factors in screening, due diligence (environmental and social audit), term sheets, post-investment support, monitoring, and reporting. The H2R program has two facilities: the H2R Development Facility and the H2R Expansion Fund.

5.1.2. The H2R Development Facility will utilize debt, grants, and equity/quasi-equity to increase energy access in H2R markets. The H2R Development Facility will invest in vertically integrated Solar Home System businesses, Solar Home System manufacturers, Solar Home System last mile distributors, and mini-grid operators.

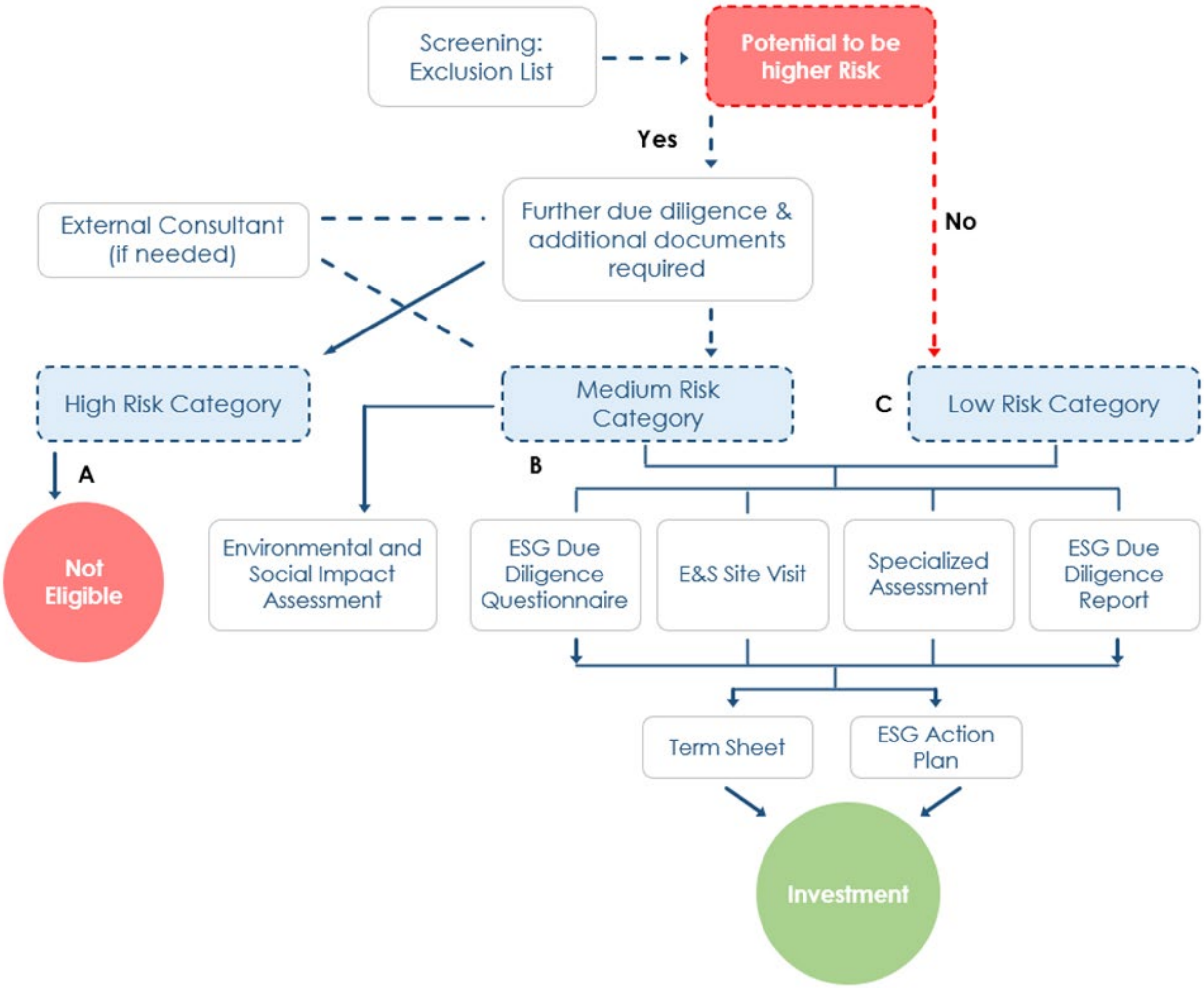
5.1.3. The H2R Expansion Fund will invest using impact indexed loans for two business types. The H2R Expansion Fund will invest in vertically integrated businesses, last mile distributors, mini-grid businesses, and receivables financing.

5.1.4. Both facilities and each investment approach will follow similar ESG processes. Small last mile distributors will have a smaller scale version of the ESG process to appropriately size the process for early-stage businesses with a limited footprint. Manufacturers and vertically integrated businesses will also be asked to fill out supplementary questionnaires.

H2R Development Facility ESG Responsibility Chart			
H2R Development Facility Investment Type	**Debt**	**Equity and Quasi-Equity Investment**	**Grants**
Instrument Specifications	Catalytic debt that can include local currency, concessional rate, or impact-indexed loans	Patient capital providing businesses with the runway to grow and mobilize additional capital on top. May include joint ventures.	Grant funding for interventions such as new market entry and building out operating platforms
Business Type	Solar Home System Distributors Vertically Integrated Solar Home System Companies Off-Grid Solar businesses with solar productive use, mini or micro grid components		
Screening	H2R Development Facility Relationship Managers H2R Development Facility Impact Lead and Acumen ESG team Annex 1		
Diligence Collecting	H2R Development Facility Relationship Managers Annex 2 and 3 H2R Resilience Tool (when appropriate)		
Diligence Analysis	H2R Development Facility Impact Lead and Acumen ESG team Annex 4 and 5		
Investment Decision	H2R Development Facility Investment Committee		
Term Sheet, Side Letter and ESG Action Plan	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Legal Annex 6		

Post-Investment Support and Technical Assistance	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Service providers
Monitoring	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Annex 7 and 8
Reporting	H2R Development Facility Relationship Manager H2R Development Facility Impact Lead and Acumen ESG team Annex 7 and 8

H2R Expansion Fund Investment Types and ESG Process			
	Impact Indexed loans to Vertically Integrated OGS businesses	**Impact Indexed loans to OGS Last Mile Distributors**	**Accounts Receivable Financing**
Company Profile	Vertically Integrated OGS businesses seeking to expand H2R Markets	OGS Last Mile Distributors expanding in H2R markets	Potential fund of funds doing AR for OGS manufacturers and distributors
Investment instrument	Debt	Debt	Debt
Implementation Support	H2R Expansion Fund Team, Fund sponsor and/or external consultants depending on costs, capacity, and other factors		
Screening	Annex 1: H2R Exclusion List		
ESG diligence (Environmental and Social Audit)	Annex 2: ESG Questionnaire Annex 3: Manufacturing Module Site Visits Annex 4: H2R ESG Checklist H2R Resilience Tool	Annex 2: ESG Questionnaire Module Site Visits Annex 4: H2R ESG Checklist H2R Resilience Tool	Annex 2: ESG Questionnaire Annex 3c: Accounts Receivable Module Annex 4: H2R ESG Checklist H2R Resilience Tool
Investment Decision	Annex 5: H2R Due Diligence Report/Audit Findings Term Sheet		
Post-Investment	Annex 6: ESG Action Plan; Consumer Protection. ESG, and Gender Technical Assistance; Annex 7: ESG Incident Report Template		
Monitoring and Reporting	Annex 8: H2R ESG Monitoring Report		



5.2. ESG considerations during the investment process

5.2.1. **Screening**

5.2.1.1. All pipeline businesses considered for investment must confirm that they do not engage in, produce, or trade any H2R Excluded Activity as defined in Annex 1. Companies will be asked to confirm their compliance with the Exclusion List to move on to due diligence/auditing. Companies with activities on the Exclusion List will not be able to move onto due diligence.

5.2.1.2. Acumen's ESG team will conduct a precursory ESG assessment of the pipeline business. This entails background research into public information about the business with the oversight of the H2R Impact Lead, H2R Development Facility team, or H2R Expansion Fund team. H2R will search public information on environmental, social, business integrity, or legal controversy associated with the potential Investee. This could include a cursory search of the internet, reviewing news articles, or speaking with other investors with insights into the business. H2R will also review any initial materials shared by the business like a pitch deck, policies, or reports for any ESG factors.

5.2.1.3. Relationship managers, the Impact Lead, and Acumen's ESG team are expected to start filling in the ESG checklist to support the initial diligence process.

5.2.1.4. If the company's business model is not considered IFC Category A environmental and social risk nor does the business engage in any Excluded Activity, it may move into the diligence/audit stage. If there is evidence from public or confidential business information that the investment may be considered Category B, the team may decide to start an ESIA (Annex 13). The team will make an initial assessment of the investment ESS risk category.

5.2.2. **Due Diligence (environmental and social audit)**

5.2.2.1. H2R commits itself to an open, objective, and thorough ESG due diligence (audit) process for potential Investees (new or existing facilities) prior to investment aligned with best practices, investor expectations, and stakeholder needs. The due diligence process will enable the H2R team to identify and measure an Investee's environmental and social risks, their capacity to mitigate the risks, and commitment to monitoring and reporting on ESG commitments.

5.2.2.2.

ESG Due Diligence (environmental and social audit) for category C and above
ESG Due Diligence (Environmental and Social Audit) Questionnaire (Annex 2)
Investment Modules (Annex 3, when applicable)
Company Policies and Procedures
Country Contextual Analysis (for H2R Expansion Fund investments)
Climate Risk Assessment
Human Rights Assessment (for H2R Expansion Fund investments)
Site Visit (when applicable)
ESG Checklist, Environmental and Social Audit Checklist (Annex 4)
ESG Report, Environmental and Social Audit Findings (Annex 5)
ESG Action Plan (Annex 6)

5.2.2.3. The due diligence/audit process relies on several tools to ensure a comprehensive investigation of an Investee's (new or existing facilities) ESG factors. H2R will use ESG due diligence questionnaires, supplementary questionnaires, business policies and procedures, site visits, interviews, a climate risk assessment and resilience tool, consumer protection questionnaire, and, in some circumstances, employee engagement survey for the ESG due diligence/audit. The Impact Lead and Acumen's ESG team will review all the ESG materials provided to assess the Investee's (facility) ESG risks. The Impact Lead and Acumen's ESG team will evaluate the materials and decide on the ESG performance of the business and potential ESG risks associated with the investment. The H2R team and Acumen's ESG team intend to conduct climate risk analysis, country contextual analysis, and human rights analysis across the H2R Market Expansion Fund investments, and, when appropriate, across the H2R Market Development Facility Investments. If H2R finds major issues or deal breaking matters in the initial assessment, then further ESG DD may be undertaken if H2R needs additional ESG experts in specialized areas.

5.2.2.4. The ESG due diligence (E&S audit) business questionnaire asks businesses to describe their activities relating to the environmental and social risks H2R has identified across the program. Questions are related to business level ESMS, ESG capacity, community health, safety, and security, stakeholder engagement (including Indigenous engagement and grievance mechanism), labor and working conditions, occupational health and safety, resource efficiency, pollution, and e-waste. Companies will be evaluated based on the evidence they provide, the sophistication of their answers, the proactive environmental and social measures a business may take, and the risks or gaps identified in the questionnaire. The light touch ESG diligence (audit) questionnaire is abridged to ask the most pertinent questions to these businesses to match the size, scope, and scale of the environmental and social risks of these investments.

5.2.2.5. Supplementary questionnaires are provided to vertically integrated solar home system businesses, solar home system manufacturers, mini-grid operators, and accounts receivables managers. Companies will be asked to share more information about labor and working conditions, occupational health and safety, resource efficiency, and pollution. Companies will be evaluated using similar criteria as described above.

5.2.2.6. Companies will be asked to provide a comprehensive set of their policies, procedures, and evidence of implementation. H2R will ask for a business level ESMS, ESG policy, Human Resources Policy, Employee Code of Conduct, Grievance Mechanism, Stakeholder Engagement Plan, Consumer Protection Policy, Anti-Sexual Harassment Policy, and others. The businesses will also be asked to share their logs of OHS incidents, grievances, reports of harassment, and other materials. Companies will also be asked to share evidence that staff have been trained in or have an awareness of these policies. Companies will be evaluated on the following topics:

Due Diligence Analysis
Accuracy of their ESG Due Diligence Questionnaire responses
Thoroughness of policies; alignment with best practices
Organizational capacity demonstrated by the policies
Organizational awareness of the policies
Evidence of implementation of the policies
Gaps or risks created by missing or incomplete policies

5.2.2.7. Diligence research includes the following components:

Due Diligence Sources
Public domain research
Document review, including worker demographics, ESG and human rights policies, supplier data, past audits, worker contracts, grievance mechanism policies and registers, etc.
Stakeholder engagement with internal stakeholders at the proposed investee
Rightsholder engagement with representatives of potentially impacted group

5.2.2.8. **Site Visits:** Some due diligence/auditing will require site visits. H2R's investment team may decide on site visits to facilitate getting to know the business staff or customers better. ESG considerations for site visits are only relevant when investments are considered Category B. Relationship managers will have an ESG site visit checklist and an interview sheet. The relationship manager is expected to check sites for emergency preparedness, PPE, safety hazards, security personnel, and proper storage of sensitive equipment. They are expected to interview staff about labor protection and working conditions, customer protection, e-waste, and other relevant ESG topics. The relationship manager will document their findings in the checklist (Annex 4) and the due diligence report (Annex 5).

5.2.2.9. **Climate Risk Assessment:** Our climate risk assessment and resilience tool will evaluate the climate risks in the geographic area of investee (new or existing facility) operations within H2R. Assessing the climate risks will then inform measuring the climate vulnerabilities of the populations the investee (facility) serves. Finally, the tool will measure if the intervention provides climate resilience or adaptation capacity. We will include the results of this tool in the ESG due diligence report/audit findings (Annex 5) and the investment memo.

5.2.2.10. **Country Contextual Analysis:** H2R intends to conduct country contextual analysis for H2R Expansion Fund investments, and, for H2R Development Facility investments, there will be periodic country contextual analysis, alongside continuous country contextual analysis at the market level at least annually. H2R may also conduct further analysis if a major event occurs in an H2R market. Identified risks are prioritized based on estimated likelihood and estimated magnitude of impact of a risk event (on a scale of 1-3). The resulting logic concludes that more resources and focus are dedicated to risks where there is a high- likelihood and high-magnitude (3:3) of an adverse event and less to low-likelihood and low-magnitude (1:1) risks. Risk ratings that reach a likelihood and magnitude score of (2:2) or higher will be re-evaluated for each investment and/or portfolio business during the annual review process during the first quarter. Further details on risk ratings and analysis can be found in Annex 18.

5.2.2.11. Ratings are based on the Program team's understanding and knowledge of each risk, informed by available qualitative and quantitative data, but are ultimately subjective. As such, the Program team understands that many of the risk categories above include factors outside their control. data based on the methodology outlined in Annex 5 and 18. The assessment can also be informed and supported by commissioning external subject matter expertise on a case-by-case basis, particularly in challenging settings where conflict, E&S and human rights subject matter experts may be able to provide contextual insights and methodological expertise (e.g. entering new markets, assessing conflict-affected situations, or assessing an investment in a context with notable information scarcity).

5.2.2.12. If the investment may have any linkage to potential or actual impacts resulting from contextual risk, these should be assessed under the risk assessment methodology outlined below. Mitigation actions should be adopted for any impacts to which H2R may be connected through its activities, adopting the methodology outlined below. This methodology may be used to ensure a proportionate approach, whereby the adoption of any mitigation action and the nature of those actions is proportionate to the severity and likelihood of the impact and H2R's linkage to said impact.

5.2.2.13. In the case of investments proposed in fragile or conflict-affected situations (FCAS) as defined by the World Bank in its annual List of Fragile or Conflict-Affected Situations, Hardest-to-Reach's contextual risk analysis shall include a conflict analysis as shared in section 1.6.3 and outlined in further detail in section below.

5.2.2.14. **Human Rights Due Diligence:** The HRDD exercise will be conducted as part of the ESG due diligence and ensuing recommendations are expected to be incorporated into the investee's ESGAP, both outlined in Annex 5. This HRDD shall:

5.2.2.14.1. Seek to identify actual and potential adverse impacts on rightsholders' human rights (e.g., workers, contractors, communities, suppliers, etc.).

5.2.2.14.2. Focus on identifying actual and potential impacts on people, rather than on the business activity, project, or investment itself.

5.2.2.14.3. Assess and prioritise actual and potential impacts on human rights based on their severity (how serious the impact is), their scale (how many people may be impacted) and their irremediability (how difficult it would be to restore the rights of those impacted).

5.2.2.15. Result in the creation of a human rights action plan for the proposed project or investment, with resources explicitly allocated to preventing potential impacts and mitigating and remediating any identified actual impacts. This may include, for example, actions integrated into the investee's ESAP regarding the adoption of policies on topics including gender-based violence and harassment or labour rights, the planning of further due diligence activities on higher-risk suppliers, or the repayment of recruitment fees to any workers found to have paid fees for their employment.

5.2.2.16. **Conflict-Sensitive Human Rights Due Diligence:** A heightened and conflict-sensitive human rights due diligence aims to understand and inform how businesses can ensure respect for human rights in their operations, avoid exacerbating or generating conflicts, and identify and mitigate actual or potential conflict-related impacts on their rightsholders. Conflict sensitivity is an approach to ensure that business activities do not contribute to conflict, but rather, strengthen opportunities for peace and inclusion. This exercise can be conducted in tandem with the conflict analysis outlined in the IFC Good Practice Note on Contextual Risk Analysis, and shall:

5.2.2.16.1. Follow guidance from the United Nations Development Programme (UNDP) and United Nations Working Group (UNWG) on Business and Human Rights' guidance, "Heightened Human Rights Due Diligence for Business in Conflict-Affected Contexts: A Guide."

5.2.2.16.2. Include a conflict analysis assessing the root causes of tensions, including contextual factors that can affect conflict. This analysis is key to identifying human rights abuses or impacts that may arise due to the conflict and not just from usual business operations.

5.2.2.16.3. Include stakeholder mapping and engagement, identifying different stakeholders involved in the conflict and their motives, capacities, and opportunities to inflict and/or suffer violence. This includes affected stakeholders, parties to the conflict and conflict mobilisers.

5.2.2.16.4. Include an assessment of how business activities impact the conflict, analysing how business operations impact existing tensions and relationships between groups involved in the conflict, and/or fuels new tensions or conflicts.

5.2.2.16.5. Include an assessment of how the conflict impacts business staff and other affected people, understanding the impact of conflict on employees' lives and well-being, as well as other affected people. This must consider the varied impacts faced by people depending on their gender, ethnicity, nationality, potential role in relation to the conflict, and other characteristics that could put them in a situation of further vulnerability.

5.2.2.17. In line with the methodology outlined in the UNGPs, risks to human rights shall be assessed based on their potential and actual adverse impacts on rightsholders' enjoyment of their human rights (as opposed to the magnitude of the risk to the project or business operations). If the investment or project may cause, contribute to or be directly linked to any of the identified risks, the Program team will put in place prevention and mitigation actions proportionate to H2R's level of linkage to the risk. According to the UNGPs, this would entail:

5.2.2.17.1. When the project or investment causes or may cause an adverse impact, take the necessary steps to cease or prevent the impact, and provide for or cooperate in its remediation through legitimate processes.

5.2.2.17.2. When the project or investment contributes to an adverse impact it should take the necessary steps to cease its contribution to the impact, use its leverage to try and cease the impact, and provide for or cooperate in its remediation through legitimate processes.

5.2.2.17.3. When a project or investment is directly linked to the impact it should use its leverage to prevent or mitigate the impact. If its leverage is limited, for instance if the risk is due to the actions of state actors or suppliers several tiers down the supply chain, Hardest-to-Reach should seek to adopt measures to continuously monitor the risk and increase its leverage.

5.2.2.18. Companies may also be required to fill out a consumer protection questionnaire that will be evaluated by a consultant. H2R ESG diligence includes comprehensive questions relating to consumer protection and credit risk management. Companies are expected to demonstrate their consumer protections for products being bought with PAYGo.

5.2.2.19. For larger investments, the team may ask the business to share an employee engagement survey with their employees. The team wants to learn about staff understanding of labor and working conditions. While businesses may have policies with all the right components, some may not be strong on implementation. Additionally, H2R wants to learn about sales agents' incentives and business engagement in sales strategy. The team believes that sales agent survey data could inform H2R about consumer protection. Survey results would be included in the ESG due diligence report (Annex 5).

5.2.2.20. The ESG checklist (audit checklist) (Annex 4) would ensure that the H2R management team has received or developed all the relevant materials to make an informed assessment of the Investee's (new or existing facility) ESG risks, maturity, capacity, and mitigants. If the concerns surface via the ESG checklist (Annex 4), H2R may require extra diligence/auditing or expert opinions to complete the diligence/audit process. Once the ESG checklist is complete and all the materials are received, Acumen's ESG team can develop an ESG due diligence report/audit finding (Annex 5). Acumen's ESG team will either confirm or revise the ESS risk category depending upon the ESG due diligence (E&S audit). After further due diligence, if businesses are considered Category B, the team may consider undergoing an ESIA (Annex 13).

5.2.2.21. The ESG due diligence report/audit findings (Annex 5) encapsulate all the ESG information received during diligence. The Acumen ESG team will complete the report with the support of the relationship manager and any experts needed for diligence. Acumen's ESG team will use the materials, evidence, and contextual analysis (climate, country, and human rights) to decide the ESG risk category. The H2R team, including the Impact Lead, intend to approve the risk category recommendation or ask for further evidence if there are any areas of further consideration or dispute. The ESG risk categories are as follows:[16]

5.2.2.21.1. **Category A:** Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented. This

[16]Ibid.

includes business activity that may create (i) involuntary resettlement (including physical and economic displacement); (ii) risk of adverse impacts on Indigenous People; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, or cultural heritage; (iv) risk of significant retrenchment; or (v) significant occupational health and safety risks to employees.

5.2.2.21.2. **Category B:** Business activities with potential limited adverse environmental or social risks and/or impacts that are few, generally site-specific, largely reversible, and readily addressed through mitigation measures.

5.2.2.21.3. **Category C:** Business activities with minimal or no adverse environmental or social risks and/or impacts.

5.2.2.22. H2R will only invest in Category B and C businesses as that aligns with our environmental and social capabilities and the expectations of our investors.

5.2.2.23. The assessment will also include compiled analysis that aligns with the IFC Performance Standards and the GCF Environmental and Social Safeguards. The ESG due diligence report (Annex 5) will provide a detailed summary of the environmental and social risks and opportunities of the investment as well as the business capacity to mitigate these risks themselves or with outside consultation. The ESG Due Diligence (Environmental and Social audit) findings will provide all the information needed to understand environmental and social risks to take an investment decision, and to identify ESG reforms considered necessary to comply with the program requirements. Acumen's ESG team will write the report with the oversight of the H2R teams, and will provide the risk analysis, recommendations, and opinion on alignment with the H2R ESG criteria to the H2R team and investment committee.

5.2.2.24. The ESG due diligence report/audit findings (Annex 5) will be attached to the investment memo. The investment memo will also include a brief description of the ESG risks, mitigants, and conditions for the investment. The Investment Committee is expected to review the ESG diligence report and investment memo as part of the decision-making criteria.

5.2.3. **Binding commitment to ESGAP and Legal Agreement**

5.2.3.1. If the H2R team and the Investment Committee decide to invest in an Investee (new or existing facility), the business must make a binding commitment to implementing an ESG Action Plan (ESGAP) within their relationship with H2R. The ESGAP will be developed in negotiation with the Investee's (facility) senior management and will be based on the findings in the ESG due diligence report/audit findings (Annex 5). The ESGAP will include mitigants to the strongest risks and baseline needs in accordance with the program and investor expectations. The Acumen ESG team will write up the ESG components of the legal agreement and ESGAP. The Acumen ESG team will sign off on the ESG components of the legal agreement and the H2R team is expected to ensure the legal agreement is finalized.

5.2.3.2. The investment side letter or other legal agreement between the program and the Investee (facility) will include the explicit commitment of the Investee (facility) to implement the ESGAP, meet reporting requirements, incident reporting requirements, and assume ESG related costs, as well as the implications of a breach of ESG requirements. The ESGAP (Annex 6) will be also included in the side letter as a legally binding commitment to ESG improvements and will detail the ramifications of breaching the commitments. The program team will meet with the Investee (facility) senior management to ensure their understanding of their accountability towards the defined ESG commitments in the ESGAP.

5.2.3.3. The **ESG Action Plan,** as found in Annex 6, will automatically include several activities if businesses demonstrate deficiencies through due diligence (E&S audit). Companies will be required to have a strong ESMS or ESG Policy, a grievance redress mechanism, consumer protection policy and plan, stakeholder engagement plan, and an e-waste policy. Companies are expected to comply with local regulations and laws and must show evidence of their compliance with laws and regulations. By the end of the Company's legal obligation to the program, the Company is expected to have strong consumer protection policies and procedures. Finally, businesses are expected to have good labor and working condition policies, environmental protections and policies, anti-harassment, non-discrimination, equal employment opportunity policies, and community health and safety procedures. Manufacturers are expected to have strong occupational health and safety policies and procedures and demonstration of proper PPE for their employees. All ESGAP are time bound, and businesses must have internal accountabilities to ensure that the activities are completed.

5.2.3.4. The H2R Development Facility LMD loans will have shorter ESGAPs that reflect the nature of these investments. These are earlier stage investments where businesses will be less mature but also have less capacity to implement robust changes to ESG policies and procedures. These last mile distributor loans will stagger ESG activity across initial loans and follow on investments.

5.3. ESG considerations post-investment

5.3.1. After legal obligations have been determined, the ESG Action Plan has been developed, the investment agreement has been signed, and the funding has been disbursed, the Investee (new or existing facility) must begin engaging on its legal obligations to the program. The Investee (facility) is expected to fully comply with the reforms that have been deemed necessary to ensure complete adherence to the H2R ESMS in an appropriate manner as detailed in the ESGAP.

5.3.2. Companies are expected to have a wide range of ESG maturity and capacity across the program. To that end, the program team developed a variety of diagnostic and support tools in the H2R Development Facility and H2R Expansion Fund Technical Assistance Facility. Companies will have the opportunity to receive technical assistance to support their ESG development, policies and procedures, and reporting. ESG services are tiered based on need, maturity, and capacity.

5.3.3. **Webinars:** Companies will have the opportunity to attend several webinars a year where ESG experts will do a deep dive into ESG topics relevant to the off-grid solar sector. Webinar topics will include developing an ESMS, grievance mechanisms, e-waste and e-waste policies, recycling, refurbishment, and repair, consumer protection policy, sales agent management, labor and working conditions, and occupational health and safety. Companies that have ESMS, e-waste, or consumer protection deficiencies are required to attend these webinars. These webinars will serve as prerequisites for consultation with businesses.

5.3.4. **Consultations:** Investees (facility) will have the opportunity to receive one-on-one consultations with ESG experts and consultants to support completing their ESG Action Plans. Investees (facilities) will be tiered by their ESG maturity. Companies with the weakest ESG maturity will be required to receive ESG consultations to meet baseline requirements as part of their ESGAP. Companies will receive specific support on ESMS, consumer protection, grievance mechanism, and e-waste development.

5.3.5. **Resources:** H2R will have an ESG resource library to support Investees (facilities) with policy templates, guides, case studies, and other resources to support their ESG capacity building.

5.3.6. Investees (facilities) are expected to not engage in Exclusion List activities, to align their practices with H2R ESMS guidelines, and to maintain the business practices as evidenced during due diligence (audit). They are also expected to make efforts towards completing the ESGAP.

5.3.7. Investees (facilities) that make significant changes to their business utilizing H2R funds will be required to undergo further due diligence (audits) and may be required to undergo an Environmental and Social Impact Assessment.

5.3.8. H2R Development Facility small last mile distributor investments will be required to have an ESGAP as part of receiving H2R funding. They will be expected to make efforts towards completing two activities outlined in the ESGAP. To receive follow-on loans, they are expected to improve the other ESG functions of their enterprise. More details on follow on expectations are shared in Annex 6.

5.3.9. **Reporting:** Companies are expected to report on ESG performance at ESGAP milestones and on an annual basis. Companies will share KPIs when they fill out the annual ESG report. Investees (facilities) are also required to update the ESGAP on an annual basis. If businesses fill answers partially or the relationship manager has difficulty interpreting business answers, the relationship manager, the H2R Impact Lead, and Acumen's ESG team will conduct a survey of the business. The RM will also conduct a short interview with the business quarterly to get updates on their ESG activity.

5.3.10. Companies are also expected to report ESG incidents within five (5) days of the incident. See Section 8 for more information about reporting and ESG incident requirements.

5.3.11. Companies are expected to work with the H2R team if they are found to be below expectations or behind on progress on their ESGAP. Companies may be required to report on a more frequent basis and seek additional resources if they are found to be in breach of their ESG requirements. As normal monitoring is conducted on a quarterly basis, enhanced monitoring may include monthly check-ins with businesses and monitoring plans to ensure compliance with environmental and social investment conditions.

5.3.12. **Follow On Investments:** To receive follow on investments, businesses must demonstrate compliance with baseline ESG requirements of the program. Companies are expected to have an ESMS, a grievance mechanism, consumer protection policy, and an e-waste policy. Companies are also expected to comply with other expectations of H2R including labor and working conditions, environmental policies, occupational health and safety amongst others. Some businesses may not complete the ESGAP with the loan tenor, especially if it is a yearlong loan. To receive a follow-on investment, businesses must complete the baseline ESG requirements, complete a follow-on diligence form, and revise their ESG Action Plan with more detailed commitments. Companies may be denied follow on investments if they do not sufficiently meet the environmental and social conditions of the prior investment. Companies who do not report environmental and social incidents are also liable for not receiving future investments.

5.3.13. Small H2R Development Facility last mile distributor loan recipients must demonstrate progress on two ESGAP activities to qualify for a follow-on loan. For the first follow on, small loan recipients must create or improve their e-waste policy and their consumer protection policy. For their second follow on, the Investee (facility) must improve other ESG related policies. By the third follow on, Investees (facilities) are expected to have an ESMS created with the support of an ESG expert.

5.4. ESG considerations during divestment

5.4.1. H2R will seek to sell equity shares of joint ventures or other businesses to responsible and sustainable investors with similar ESG, social impact, and environmental impact goals. The management team will always share the importance of strong ESG commitments and standards with potential new investors in the Investees (facilities).

6. Environmental, Social, and Governance Safeguard Standards

6.1. Executive Summary

6.1.1. The H2R ESMS aligns our ESG and investment strategy with industry leading environmental and social standards, best practices, and investor policy requirements. In this section, the team shares the commitments and practices around general integrity and good governance, and environmental and social standards. These are commitments for H2R program activities and for Investees to ensure strong environmental and social practices at all levels of H2R.

6.2. General Integrity and Good Governance

6.2.1. Company Ownership Structure

6.2.1.1. H2R expects businesses to share clear and detailed evidence of the business ownership structure. If the business cannot provide sufficient evidence of investors and owners of the business, nor their debt obligations, then H2R may not proceed with the investment. Additionally, H2R will further diligence investors and business owners that are facing criminal allegations or are suspected of violating H2R ESG commitments. Companies may not be investable if the ownership structure remains opaque or there are integrity questions about the owners of the business.

6.2.2. Integrity Clearance, AML/KYC/CFT, Criminal Offenses

6.2.2.1. H2R has developed a comprehensive integrity search that is documented in the program Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT) AML/CFT (KYC) Policy. H2R will use LexisNexis's Bridger Searches platform that searches multiple databases for any flags. Shared below is a short sample of the searches automatically conducted when using the Bridger Search platform:[17]

LexiNexis Bridger Search Platform
Excluded Parties List System (EPLS)
Financial Action Task Force (FATF)
FBI Most Wanted
Interpol Most Wanted
The Office of Foreign Assets Control (OFAC)
The Terrorist Exclusion List
Sanctions lists
United Nations Security Council Sanctions Lists – fourteen (14) lists in total
European Union Consolidated list of sanctions – twelve (12) lists in total
World Bank Listing of Ineligible Firms & Individuals:
World Bank Corporate Procurement Listing of Non-Responsible Vendors
World Bank List of Debarred Firms
Enforcement sources: Civil or criminal offenses, filed charges, indictments, convictions and sentencing for crimes
Financial history (i.e., foreclosures, historical and current held assets, bankruptcies)
Personal data (i.e., addresses, driver's license, etc.)

[17]LexisNexis, https://bridger.lexisnexis.com/XgAuth/?returnUrl=/xgapp/home/start

6.2.2.2. H2R will use the LexisNexis platform to search for businesses and key people in the organization. Key persons include founders, senior leadership, the board, and large investors. The program screens the identification information of the individual and/or entity against international sanctions lists, enforcement sources (i.e., civil, or criminal offenses, indictments, and convictions), and financial history (i.e., foreclosures, bankruptcies, etc.).

6.2.2.3. The program will perform background checks ("PATRIOT Act searches") in the following instances:

6.2.2.3.1. **Procurement:** any new vendor, service provider, and related entities and owners prior to signing a contract;

6.2.2.3.2. **Capital Raise:** any fund, entity, organization, and all relevant key persons prior to accepting an investment into the program;

6.2.2.3.3. **Disbursements:** any investee (new or existing facilities) and all other parties to an investment document (including the investee's founders, directors and officers, and major shareholders) prior to approving an investment disbursement; and

6.2.2.3.4. **Exits**: any purchaser and all other parties to the purchase agreement prior to the sale of shares.

6.2.2.4. If the program's screening process results in a match, it may perform additional due diligence to determine whether the match is accurate. If the match is accurate, the program staff must contact the AE's Risk and Compliance Manager who will escalate the matter to the AE's General Counsel, as necessary.

6.2.2.5. General Counsel will then convene with the program's Director to discuss next steps which may include (i) the rejection of the transaction and/or blocking the applicable person's assets; and (ii) filing of a Report of Blocked Transactions and/or a Report of Rejected Transactions with OFAC within ten (10) days of the requested transaction. The program's Adviser must file a comprehensive report of all blocked assets with OFAC annually.

6.2.3. **Exclusion List**

6.2.3.1. The program team has created a list of Excluded investment activities that the program will use to guide their investment process. This Exclusion List is shared in Annex 1. The H2R team will not invest in a business or will accept investments from investors with business activity that is included in the List. The H2R team will use the Exclusion List as a screening tool for investments. Potential Investees (facilities) will be asked to verify that none of their business activities are included in the Exclusion List.

6.3. Environmental and Social Standards

6.3.1. **ESG Key Performance Indicators**

6.3.1.1. Through two facilities investing blended finance and targeted accompaniment in OGS businesses, H2R seeks to build OGS markets in low electrification and high poverty countries to generate energy access for tens of millions of first-time users and create a wide array of environmental and social impacts.

6.3.1.2. The program seeks to measure, monitor, and evaluate the performance of its ESG activities using Key Performance Indicators (KPIs). The program defined these KPIs that align with program activities and intended outcomes of the operations and investments of the program.

6.3.1.3. KPIs include both environmental and social activities and impacts on the market, portfolio, business, and beneficiary level. The KPIs include:

H2R ESG KPIs	
# of Category C/FI-3 transactions	# of Gender Action Plans developed and completed
# of Category B/FI-2 transactions	# of E&S Actions completed by Investees
# of Environmental, Social, and Governance Action Plans developed and completed	# of ESG reports delivered to investors and partners
# of Environmental and Social Impact Assessments completed	# of ESG trainings for the H2R team
# of ESG Incidents Investigated and Resolved	# of ESG TA grants disbursed
# of Grievances Investigated and Resolved	# of stakeholders and governments engaged

6.3.2. **International Environmental and Social Standards**

6.3.2.1. Environmental and social assessments, ESGAPs, and monitoring and reporting processes shared throughout the ESMS use the 2012 IFC Performance Standards and the GCF Environmental and Social Safeguards. These two sets of standards guided the Environmental and Social Impact Assessment, and the policies, procedures, tools, and guidance described in the ESMS Annexes. These standards are aligned with Investor requirements and apply at the program level and the Investee (facility) level. As such, the IFC Performance Standards will act as a framework to guide the summary of the H2R E&S standards and requirements of the program and Investees (facilities) as described in this section.

6.3.2.2. The IFC Performance Standards 2012 as at the time of the formulation of this document are listed in the following table.

IFC Environmental and Social Performance Standards 20212
PS 1: Assessment and Management of Environmental and Social Risks and Impacts
PS 2: Labor and Working Conditions
PS 3: Resource Efficiency and Pollution Prevention
PS 4: Community Health, Safety, and Security
PS 5: Land Acquisition and Involuntary Resettlement
PS 6: Biodiversity Conservation and Sustainable
PS Management of Living Natural Resources
PS 7: Indigenous Peoples
PS 8: Cultural Heritage

6.3.3. **Assessment and Management of Environmental and Social Risks and Impacts**

6.3.3.1. H2R Investees (new or existing facilities) will be required to develop and implement an environmental and social management system in accordance with IFC Performance Standard 1 – Assessment and Management of Environmental and Social Risks and Impacts by the end of their engagement with H2R. While the ESGAP is the primary tool for ensuring compliance with the Hardest-to-Reach environmental and social requirements, the Company-level ESMS will be a complementary tool that businesses may use to manage environmental and social concerns and opportunities throughout and beyond the program lifecycle. Program level investing expectations and procedures are described in Section 6.

6.3.3.2. Investees (facilities) are expected to develop an ESMS/ESMP that establishes the following components: procedures and tools identifying and mitigating environmental and social risks, necessary resourcing and organizational capacity to manage an ESMS, the right monitoring and reporting tools to meet investor and funding requirements and have the appropriate stakeholder communication tools to ensure effective and holistic engagement.

6.3.3.3. **Each Investee (new or existing facilities) ESMS/ESMP shall contain the following elements:**

ESMS/ESMP/ESG Policy or similar Policy or procedure
Environmental and Social risk identification and mitigation strategy
Organizational capacity and environmental and social champion
Stakeholder Engagement plan and procedures
Grievance Mechanism aligned with best practices (Annex 12a)
Emergency Preparedness Procedures

6.3.3.4. **Environmental and Social/ESG/Responsible Investing Policy:** Investees (facilities) must develop an E&S Policy aligned with the H2R ESG Policy that includes measurable goals with social safeguard and biodiversity and environmental protection components. The E&S Policy is both a commitment to environmental and social protection, and a framework for the business-level ESMS. As such, the E&S Policy should be endorsed by senior management and shared with internal and external stakeholders. If a business already has an E&S Policy, it should meet the criteria described in the H2R ESMS or the ESGAP will mandate remedies to make the E&S Policy sufficient.

6.3.3.5. **Identification of Risks and Impacts:** H2R Investees (new or existing facilities) will be on a spectrum of ESG readiness. Some businesses will have E&S Policies and ESMSs while others may begin their ESG work with H2R. H2R will conduct approximately scaled and holistic ESG diligence (E&S audit) on potential Investees (facilities) that will be captured in the ESG Due Diligence report/Audit Findings (Annex 5), the Investment Memo, and the ESG Action Plan (Annex 6). If an Investee (facility) has not carried out an E&S risk assessment, these documents may act as the foundation for an assessment. Newly developed risk assessments should be aligned with the H2R ESMS and the IFC Performance Standards and need to be incorporated into the business-level ESMS. If Category B investments present particularly strong environmental and social risks, the H2R team may consider third-party ESIAs to ensure appropriate risk identification and mitigation (Annex 13). They may also consider doing an ESIA (Annex 13) in due diligence that the business will use for their policies and procedures moving forward. Mini-grid investments will have their own diligence criteria as outlined in Annex 15. Direct investments in mini-grid projects are expected to require ESIAs. Risk assessment and mitigation strategies should incorporate the nature, likelihood, magnitude, and materiality of identified risks and impacts. Identified risks and impacts must align with the concerns and feedback received from communities through stakeholder engagement. ESIAs will also incorporate local laws and regulations around environmental and social risks including labor, occupational health and safety, and pollution laws and regulations. If the risk assessment does not align with the IFC Performance Standards, it misses important risks, or seems insufficient, the Investee (facility) or our team may be asked to revise the document. If a business has difficulty developing the ESIA based on the documents they receive from due diligence (audit) and internal capacity, H2R may offer additional support for the Investee (facility). The relationship manager and the H2R Impact Lead and Acumen ESG team will review the risk assessment or ESIA to determine if it is sufficient.

6.3.3.6. **Management program:** The management program should follow the outline shared in the business E&S Policy and guidance from the H2R ESMS. The management program needs a mitigation and performance improvement strategy that mitigates the risks and impacts identified in the risk assessment or ESIA. Investees (facilities) need to include the tools that will protect workers, communities, Indigenous people, beneficiaries, and the environment. The management plan should align with and refer to relevant business policies like the HR policy, code of conduct, and occupational health and safety policy. This also applies to warehouse facility managers for accounts receivable financing. The management plan must demonstrate how it will be operationalized by the Investee (facility) including who is responsible for the implementation, how it will be socialized, and how it will be monitored.

6.3.3.7. **Organizational Capacity:** The Investee (facility) ESMS/ESMP should be overseen by senior leadership and have staff assigned to implement it. The ESMS should include an organizational structure that defines roles, responsibilities, and authority to implement the ESMS. The Investee (facility) shall allocate the right resources, training, and responsibilities to ensure that the ESMS can be fully implemented, the ESGAP can be completed, and that environmental and social risks can be appropriately mitigated. This entails assigning responsibilities to relevant business staff like the HR manager leading the labor and working conditions risks. The business should be committed to continuous learning and should seek to train staff on best practices and relevant risks. H2R also intends to include these expectations for accounts receivable warehousing facility managers and their beneficiary businesses. H2R seeks to support businesses in their capacity and expertise building with ESG webinars on relevant topics.

6.3.3.8. **Stakeholder Engagement:** Investees (new or existing facilities) need to listen to, learn from, and share with stakeholders to effectively manage environmental and social risks and create positive impact. Investees (facilities) are expected to incorporate stakeholder engagement into their ESMS and business operations on an iterative and ongoing basis. The stakeholder engagement strategy should be suitable for the operational activities and level of risks of the business. The level and type of engagement will change depending on the business, their capacity, and the level of risks of the operations. For example, mini-grid businesses are expected to have stronger stakeholder engagement strategies as demonstrated in ESIAs. Investees (facilities) need to follow the best practices including GCF's Environmental and Social Safeguards, IFC Performance Standard 1, and the IFC Stakeholder Consultations Good Practices Handbook. Stakeholder engagement should include the following activities:

Stakeholder engagement strategy development and planning and beneficiary identification
Consultation on new business activities and program development
Disclosure and dissemination of relevant information about operations
Public consultations and stakeholder participation
Effective grievance mechanism
Continuous reporting to affected communities
Inclusion of gender lens, Indigenous communities, and marginalized communities

6.3.3.9. **Grievance Mechanism:** The Investee (facility) Grievance Mechanism is an essential tool to identify, investigate, and mitigate risks and incidents. Investees (facilities) are expected to either have or develop grievance mechanisms aligned with best practices including H2R grievance guidelines, the Ruggie Principles, and the GCF Grievance Policy. Companies must make their grievance mechanism publicly available, culturally appropriate, and accessible.

The investigation process must be transparent, timebound, and responsive to community needs. If an investigation finds that the business is at fault for harm to a community, the business should make its best efforts to include community input in developing an appropriate and feasible resolution. The Investee (facility) is expected to include a summary of monitoring and reporting their grievances. Investees (facilities) are expected to share their grievances with the H2R management team within one quarter of receiving the grievance. Investees include accounts receivable financing by warehousing facility managers.

6.3.3.10. **Monitoring and Review:** Investees (facilities) are expected to have strong environmental and social monitoring requirements for H2R. To effectively manage H2R's monitoring and reporting requirements, H2R requires that Investees (facilities) incorporate monitoring and reporting objectives, metrics, and procedures into the business ESMS. The Company will have ESGAP indicators it is expected to report on during ESGAP milestones and on an annual basis. The Investee (facility) is also expected to report on ESG KPIs to H2R on an annual basis. The Investee (facility) may use the ESGAP and the annual ESG report to create the business level ESG KPIs. The Investee (facility) should use these KPIs to monitor the ESG performance of the business on an ongoing basis. The H2R team, via the relationship manager and the Impact Lead and Acumen's ESG team, will monitor the ESG KPIs and seek evidence from the business to ensure the veracity of the business's ESG activities.

6.3.3.11. H2R will seek to ensure that businesses have **emergency preparedness** procedures and signage in their business buildings. H2R will diligence (E&S audit) businesses on their emergency preparedness. If businesses answer the ESG diligence questionnaire insufficiently, do not provide evidence of their emergency preparedness plan, or have accessible emergency signs and equipment during the site visit, then improving emergency preparedness procedures, policies, and resources will be a binding requirement of the ESGAP. Companies will be expected to report on any emergencies that take place at their facilities.

6.3.3.12. **H2R Development Facility Last Mile Distributor (LMD) Borrowers:** H2R Development Facility LMD investees are expected to have an ESMS by the second follow-on investment from H2R. They will have an ESG Action Plan that will guide the businesses to demonstrate a willingness and ability to mitigate several risks during the first investment. H2R Development Facility LMD borrowers will then build policies to mitigate the two largest environmental and social risks for the program: consumer protection and e-waste risks. By the second follow-on investment, the business must have demonstrated a willingness to identify and mitigate ESG risks, and the ability to mitigate substantial ESG risks. H2R may then provide technical assistance resources to support these borrowers with developing and implementing an ESMS. H2R Development Facility LMD borrowers have an extended timeline to build their ESMS because of their small footprint, limited capacity, and limited materiality to the H2R risks.

6.3.3.13. **ESMSs for small Last Mile Distributors:** Last mile distributors may not be required to have an ESMS for the first investment. The distributor, instead, should develop or have an Environmental and Social Policy. For small distributors that may be required to have an ESMS, H2R has the following expectations. The ESMS should have a point of oversight and a point of accountability. They do not need to be E&S experts. The ESMS should identify at least five risks and existing mitigants. It does not need to develop new mitigants in the policy. The Company should identify relevant stakeholders and how they engage them. This is the extent needed for a small distributor. H2R expects small distributors to develop or have a grievance mechanism that is public facing, includes investigation, and allows provisions for SEAH victims. Finally, the business should identify any emergency procedures relevant to business operations and have emergency security plans. These elements are expected to be incorporated in an ESMS by a time determined in the ESAP and side letter. The timing could be as long as the length of the investment. If not required in the first investment or first tranche of an investment, it may be required as part of a second tranche or follow on.

6.3.4. **Labor and Working Conditions**

6.3.4.1. H2R Investees (new or existing facilities) are expected to have or to develop labor and working conditions policies and procedures that comply at a minimum with (i) national labor, employment, social security and occupational health and safety laws; (ii) the fundamental principles and standards embodied in the ILO core conventions, (iii) IFC Performance Standard 2, and (iv) ESS 2. Companies will be evaluated in due diligence (audit) on their capacity to mitigate labor and working conditions risks via questions in the ESG due diligence (audit) questionnaire, evidence from labor and working conditions policies and procedures, interviews during site visits, and desktop research on the business. Companies are expected to answer questions on working conditions and management of worker relationships, working conditions and terms of employment, workers' organization, non-discrimination and equal opportunities, collective dismissal, internal grievance mechanisms, child and forced labor, occupational health and safety, worker's accommodation process and supply chain issues. Warehousing facility managers are expected to have sufficient HR policies for their firm and to diligence businesses on their labor and working conditions management.

6.3.4.2. Investees (facilities) are expected to have or develop a human resources policy, code of conduct, non-discrimination and equal opportunity policy, workplace harassment policy, occupational health and safety (OHS) policy, internal whistleblower plan, and contracts with employees and sales agents. In addition, policies should address worker training, and the extension of the labor policies, to the extent relevant and possible, to workers engaged by third parties, labor contractors, recruiting agencies and other third parties, and as generally, as applicable, in the Investees (facilities) supply chain. Mini-grid businesses are expected to demonstrate sufficient OHS policies and procedures relevant to construction, maintenance, and repair and worker's accommodation standard in alignment with IFC and EBRD guidance notes on workers' accommodation. Companies are expected to maintain records of SEAH, HR, and OHS training and incidents.

6.3.4.3. The program will pay special attention to labor issues in the supply chain. H2R will ask potential Investees (facilities) to share their suppliers and their region of operation. Companies will either not receive investment or will be required to switch suppliers if they are exposed significant labor issues.

6.3.4.4. If H2R finds that businesses have insufficient labor, workplace protections, or working conditions in policy, procedures, plans, or practice, the management team will require binding activities to improve identified deficiencies in the ESGAP.

6.3.4.5. Investees (new or existing facilities) may receive technical assistance to improve labor and working conditions in their operations. Consultants may seek to improve the sales agent contracts, or to build HR capacity. Investees (facilities) will be able to access a resource library that can help them build or improve their labor and working conditions policies and procedures. Additionally, investee businesses will be provided with information on how to use the AE's GRM and the GCF IRM. We will also ensure that this information is clearly communicated to all employees of the investee businesses, including third-party service providers.

6.3.4.6. Companies shall track, log, investigate, monitor, and report ESGAP labor activities or improvements, trainings, and improvements to organizational capacity, and any major labor incident as defined in Section 9 of the ESMS.

6.3.4.7.

Summary of Labor and Working Conditions Safeguards for Investees (new or existing facilities)
• Evidence of compliance with local labor laws • Human Resources Policy and Procedures • Evidence of non-discrimination and equal opportunity (Policies or other evidence) • Evidence of retrenchment policies or guidance • Workplace Harassment Policy • Occupational Health and Safety Policy • Evidence of workers' accommodation process and standards as applicable

6.3.5. **Resource Efficiency and Pollution Prevention**

6.3.5.1. The principles and techniques applied during the H2R life-cycle will be tailored to the hazards and risks associated with the nature of the program and consistent with good international industry practice (GIIP), as reflected in various internationally recognized sources, including IFC Performance Standard 5, ESS 5, and the (EHS Guidelines).[18] It is important to note that this program will have minimal risk of harmful water consumption or usage and will not be engaging in the use of pesticides or fertilizers.

6.3.5.2. Companies will be evaluated in due diligence (E&S audit) on their capacity to mitigate resource efficiency and pollution risks via questions in the ESG due diligence (audit) questionnaire, evidence from environmental health and safety policies and procedures, interviews during site visits, and desktop research on the business. Companies are expected to answer questions on e-waste, environmental policies and regulatory compliance, recycling and refurbishment, Verasol product quality, and pollution in manufacturing.

6.3.5.3. Investees (facilities) are expected to have or develop an e-waste policy, e-waste contracts, and, when needed, an environmental health and safety policy. Companies are required to produce and sell Verasol[19] verified products, and to have product refurbishment and recycling strategies. Manufacturers are expected to share evidence of policies and procedures they have for pollution prevention. Investees (new or existing facilities) will avoid the production of hazardous and non-hazardous waste materials. Investees (facilities) will be expected to properly dispose of any hazardous waste that will have a minimal impact on the environment. Such measures will be guided by GOGLA guidelines and integrate the principles of cleaner production into product design and production processes with the objective of conserving raw materials, energy, and water.

6.3.5.4. If H2R finds that businesses have insufficient e-waste policies or contracts, environmental health and safety plans, recycling or refurbishment strategies, or product quality, the management team will require binding activities to improve identified deficiencies in the ESGAP.

6.3.5.5. Investees (facilities) may receive technical assistance support on opportunities to improve e-waste policies and procedures, recycling, and refurbishment. Consultants may seek to

[18] IFC, (2012), https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines

[19] CLASP, (2022) https://data.verasol.org/

improve the e-waste policies, procedures, recycling, and refurbishment plans. Investees (facilities) will be able to access a resource library that can help them build or improve their e-waste policies and procedures.

6.3.5.6. Companies shall track, log, investigate, monitor, and report ESGAP environmental activities or improvements, trainings and improvements to organizational capacity, and any major environmental incident as defined in Section 9 of the ESMS.

6.3.5.7.

Summary of Resource Efficiency and Pollution Prevention Safeguards for Investees (new or existing facilities)
● Evidence of compliance with local environmental laws ● Environmental health and safety policy (when applicable) ● E-waste Policy ● E-waste contract ● Evidence of pollution prevention at manufacturing sites ● VeraSol verification

6.3.6. **Community Health and Safety**

6.3.6.1. Investees (new or existing facilities) are expected to have or develop community health and safety systems that anticipate and avoid adverse impacts on the health and safety of any affected communities. These practices should be aligned with international best practices such as IFC Performance Standard 4 and GCF ESS 4. The program will adhere to the GOGLA Consumer Protection Code.[20]

6.3.6.2. Companies will be evaluated in due diligence (E&S audit) on their capacity to mitigate community health and safety risks via questions in the ESG due diligence (E&S audit) questionnaire, evidence from community health and safety policies and procedures, interviews during site visits, and desktop research on the business. H2R Development Facility and H2R Expansion Fund Investees (facilities) with larger loans will be required to complete a longer due diligence/audit survey. Other H2R Expansion Fund Investees (facilities) will be required to fill out the GOGLA Consumer Protection assessment. Companies are expected to answer questions on product safety, gender-based violence and SEAH, emergency preparedness and response, security personnel, and consumer protection.

6.3.6.3. For consumer protection, the program has collaborated with consumer protection experts to develop questionnaires and mitigation strategies to minimize risks of consumer indebtedness, lowering credit scores, and impacting the use of products. Moreover, diligence/audit will also examine customer contracts and data privacy.

6.3.6.4. Investees (new or existing facilities) are expected to have or develop consumer protection policies, credit risk management plans, and procedures for security personnel. Consumer protection policies must be transparent, committed to responsible sales and pricing, data privacy, good consumer service, good product quality, and fair and respectful treatment. Companies selling their products using PAYGo will have to ensure their systems are secure, safe, easy to use and transparent for consumers. In addition, Investees (facilities) shall ensure that, if relevant, safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to affected

[20] GOGLA, Consumer Protection Framework, (2023) https://www.gogla.org/consumer-protection/assessment-framework

communities. Investees (facilities) are expected to have proper security policies and procedures. Investee (facility) policies shall also address, based on the area of operation, equipment design and safety, hazardous materials management and safety and emergency preparedness and response. Investees (facilities) must let consumers know if their products create safety hazards during extreme weather events. As mentioned above, Investees (facilities) are expected to have proper e-waste disposal plans, policies, and contracts.

6.3.6.5. If H2R finds that businesses have insufficient consumer protection, credit risk management, security procedures, or community health, safety strategies, the management team will require binding activities to improve identified deficiencies in the ESGAP. Consumer protection will require an additional plan. Special attention will be paid to businesses who are in the first few years of operating a PAYGo strategy.

6.3.6.6. Investees (facilities) may receive technical assistance support on opportunities to improve consumer protection, PAYGo systems, and credit risk management. H2R is partnering with consumer protection experts to provide these services to Investees (facilities). Early stage PAYGo businesses will be required to work with consultants to ensure that their systems are strong and safe for consumers. Investees (facilities) will be able to access a resource library that can help them build or improve their consumer protection policies and procedures.

6.3.6.7. Companies are expected to demonstrate reasonable control over security services and other health and safety risks to communities. Mini-grid businesses are expected to provide evidence of clear warning signs and communication with relevant constituencies about community safety risks. H2R expects mini-grids to have proper fencing and other relevant safety measures.

6.3.6.8. Companies shall track, log, investigate, monitor, and report ESGAP community health and safety activities or improvements, trainings and improvements to organizational capacity, and any major consumer incident as defined in Section 9 of the ESMS. Additionally, businesses with consumer protection plans will be required to monitor and report activity using the plan.

6.3.6.9.

Summary of Community Health and Safety Safeguards for Investees (new or existing facilities)
● Evidence of security requirements (when applicable) ● Evidence of consumer protection procedures and credit risk management ● Evidence of data privacy protections for consumers ● Evidence that consumer protection practices are aligned with GOGLA consumer protection principles ● Evidence of proper procedures and storage of hazardous materials

6.3.7. Land Resettlement

6.3.7.1. Investees (new or existing facilities) must follow the guidance shared in Annex 9, Guidance for Land Resettlement, and best practices as defined by IFC Performance Standard 5 and GCF ESS 5.

6.3.7.2. H2R Investee (facility) activities have minimal land resettlement risks as SHS businesses use minimal land for operations. SHS businesses land use has predominantly been used for SHS production in factories, storing inventory, and office use. Given the small physical footprint of SHS activity, land resettlement is an unnecessary and uncommon risk. However, H2R seeks to, on occasion, invest in mini-grid businesses and projects. These investments have enhanced land acquisition and resettlement risks that may need to be further diligenced via ESIAs or mini-grid specific diligence. Mini-grid businesses are expected to demonstrate that any land acquisition had reasonable controls, minimal displacement, proper documentation, and ownership (or leasing), and policies and procedures. Land acquisitions, resettlements, and restrictions on land use generated by Investee (facility) activities may have adverse impacts on communities using the land. Displacing communities, whether it be physical or economic in nature, can have adverse environmental and social impacts that may lead to the impoverishment of affected communities.

6.3.7.3. While land resettlement risk is minimal, the program is committed to avoiding involuntary resettlement, and to minimize and mitigate adverse impacts when voluntary resettlement is unavoidable. Any involuntary resettlement is considered a Category A risk and H2R will not invest in projects that create involuntary resettlement.

6.3.7.4. Investees (facilities) or the team may be expected to conduct an ESIA (see Annex 13) if they seek to use H2R proceeds to purchase land outside of office space or inventory storage.

6.3.7.5. If an H2R Investee (facility) must use H2R proceeds to purchase land and it results in unavoidable resettlement, they will develop a Land Acquisition and Resettlement or Livelihood Restoration Action Plan (LARP) that will be guided by the overall objectives: avoid forced eviction, avoid or minimize adverse impacts on displaced persons, compensate for losses and improve livelihoods of displaced persons. As shared earlier, businesses cannot use H2R proceeds to purchase land or create involuntary resettlement. The process will be guided by the framework described in Annex 9. The Investee (facility) needs to disclose pertinent information, consult with affected communities while paying attention to vulnerable populations. If Investees (facilities) know that their program will result in displacement but do not know the extent of displacement, they shall develop a Land Acquisition and Resettlement or Livelihood Restoration Framework (LARF) that will guide the process. Both LARF and LARP will be guided by the framework in Annex 10, IFC PS 5, and GCF ESS 5.

6.3.7.6.

Summary of Land Resettlement Safeguards for Investees (new or existing facilities)
● Land Resettlement Plan ● Proof of ownership, title, or acquisition (mini-grid specific) ● Proof of leasing (mini-grid specific) ● Proof of regulatory compliance (mini-grid specific)

6.3.8. **Biodiversity and Natural Resources**

6.3.8.1. H2R Investees (new or existing facilities) are expected to have or develop policies, procedures, and activities that protect and do not harm biodiversity and natural resources in alignment with IFC Performance Standard 6 and the GCF Environmental and Social Safeguards.

6.3.8.2. The program expects to have minimal negative impacts on the biodiversity in Hardest-to-Reach markets. The program's most significant risk to protecting biodiversity is e-waste for SHS products. H2R may invest, on occasion, in mini-grid businesses or mini-grid projects that may cause harm to biodiversity. H2R will not invest in mini-grid businesses or mini-grid projects that may cause harm to biodiversity, if mini-grid sites are located within critical habitats, vital ecosystems, or protected areas. The mini-grids are expected to be positioned close to or connected with a community, town, village, or peri-urban area. Additionally, the development of these mini-grids should minimize the impact to biodiversity.

6.3.8.3. Companies will be evaluated in due diligence (E&S audit) on their capacity to mitigate the proliferation of e-waste, environmental policies and procedures, and compliance with local regulations via questions in the ESG due diligence (E&S audit) questionnaire, evidence from environmental health and safety policies and procedures, interviews during site visits, and desktop research on the business. Mini-grid businesses are assessed during due diligence or through an ESIA to ensure their sites are not located in biodiversity-sensitive areas. The evaluation also considers potential impacts on biodiversity and the presence of policy. Mini-grid businesses are also evaluated on site locations, deforestation impacts, and other mini-grid specific biodiversity risks and mitigation hierarchy being implemented such as avoidance, minimization and restoration.

6.3.8.4. Investees (facilities) are expected to be aware of protected biodiversity, habitats, and animals within the sphere of business operations. Companies are expected to protect and conserve biodiversity and ensure that business operations benefit ecosystems via clean energy. Companies are expected to have limited to no operations or no negative impact in critical or endangered habitats. Investees (facilities) must avoid endangering or engaging in activity harmful to critical and endangered habitats and ecosystems. Moreover, by the end of the business's engagement with H2R, they are expected to have and maintain environmental health and safety policies. Investees (facilities) are expected to not engage in any activities on the Exclusion List oriented towards harming biodiversity. Additionally, Investees (facility) may be required to develop an ESIA if they plan to use H2R proceeds towards programs that could be harmful to biodiversity that is not located in critical or protected habitats.

6.3.8.5. Companies shall track, log, investigate, monitor, and report ESGAP environmental health and safety activities or improvements, trainings and improvements to organizational capacity, and any major environmental incident as defined in Section 9 of the ESMS. Additionally, businesses with consumer protection plans will be required to monitor and report activity using the plan.

6.3.8.6.

Summary of Biodiversity and Natural Resources Safeguards for Investees (new or existing facilities)
● Evidence of project sites are not located within any biodiversity sensitive areas. ● Evidence of not endangering critical or endangered habitats or species ● Evidence of environmental policies ● Evidence of e-waste policy

6.3.9. **Indigenous Peoples, Cultural Heritage**

6.3.9.1. Investees (facilities) will be required to develop and adhere to Indigenous Peoples and Cultural Heritage processes and protections in compliance with IFC Performance Standard 7 and 8 and GCF Environmental and Social Safeguards 7 and 8.

6.3.9.2. Investees (facilities) may operate in areas where communities of Indigenous people live and work. Investees (facilities) may seek to hire or sell their products to Indigenous peoples. Since Indigenous people can be especially harmed by adverse impacts, Investees (new or existing facilities) must be able to identify if their operations intersect with Indigenous communities.

6.3.9.3. H2R expects to have positive impacts on Indigenous people by providing cheap and renewable electricity to first time energy users in Indigenous communities. To avoid adverse impact on Indigenous people, Investees (facilities) must seek Free, Prior, and Informed consent when seeking to operate in Indigenous communities. Additionally, the program seeks the Informed Consultation and Participation of Indigenous people during program development and throughout the lifespan of the program. H2R seeks to avoid adverse impacts to Indigenous people. H2R intends to take an active mitigation approach to normal environmental and social risks to Indigenous communities. Guidance on Indigenous peoples is included in Annex 10. We also expect to share our learnings from Indigenous communities with H2R Investees (facilities).

6.3.9.4. Investees (facilities) will be asked during due diligence/audit to identify any Indigenous peoples that are present in areas of operation. They will also be asked how their business respects the culture, knowledge, and practices of Indigenous communities. The Investee (facility) will be asked about consultations with Indigenous people, current practices to minimize harms to this population, and efforts to monitor Investee activity. The Investee (facility) will be asked if their Grievance Mechanism protects Indigenous peoples. If the Investee (facility) is a mini-grid operator, they may be asked additional questions about land rights and ownership and potential engagement with Indigenous communities including nomadic people.

6.3.9.5. Additionally, the Investee (facility) will be asked about respecting the cultural heritage of local communities. The program team will also do desktop research to ensure that Investee (facility) artwork, logos, and advertising does not inappropriately use cultural heritage or landmarks. Mini-grid businesses with greenfield projects may be asked about excavation practices and internal chance find procedures. Companies must comply with the H2R chance find procedures. If H2R Investees (facility) find cultural artifacts using H2R funds that may be harmed during the regular course of business operations, they must cease operations on that site. They must seek cultural and anthropological experts and community leaders to determine how to move forward with the safekeeping of the artifact. Only when the cultural landmark or artifact is safely removed or protected may the project continue at that site.

6.3.9.6. If the Investee (facility) could detrimentally harm Indigenous people through the regular course of operations, the Investee (facility) will be required to develop and implement an Indigenous Peoples Plan.

6.3.9.7.

Summary of Indigenous Peoples and Cultural Heritage Safeguards for Investees (new or existing facilities)
● If engaging with Indigenous community, evidence of Indigenous Peoples policy ● If engaging in construction, evidence of chance find procedures ● Evidence that cultural artifacts and heritage are not improperly used or used without consent of relevant cultural stakeholders

6.4. Summary of Environmental and Social Safeguards for Investees (new or existing facilities)

Expectations for Hardest-to-Reach businesses	
Environmental and Social Risk Category B	**Environmental and Social Risk Category C**
• Depending on initial DD: an ESIA (Annex 13) • ESGAP • GAP • Consumer Protection Plan • ESMS or ESMP • Grievance Mechanism • HR Policy • Code of Conduct • Environment Policy (when applicable) • Land Resettlement and Acquisition Plan or Displacement Plan (when applicable) • OHS Policy • Indigenous Policy (when applicable) • E-waste policy • GOGLA Consumer Protection Principle	• ESGAP • GAP • Consumer Protection Plan • Light touch ESMS or ESMP • Grievance Mechanism • HR Policy • Code of Conduct • Environment Policy (when applicable) • OHS Policy • Indigenous Policy (when applicable) • E-waste policy

7. Monitoring and Reporting

7.1. Executive Summary

7.1.1. H2R monitoring and reporting are implemented at two levels. H2R Investees (new or existing facilities) will monitor their environmental and social activities on an ongoing basis and will report to the H2R management team on a recurring basis. The H2R management team will report to investors, donors, and other relevant stakeholders on an ongoing basis.

7.2. Investee (New and Existing Facility) Level

7.2.1. H2R businesses are expected to continuously monitor ESG performance and activities of their operations. Investees (facilities) are expected to report to H2R at regular intervals with metrics and indicators defined in the H2R ESMS, term sheet, and ESG Action Plan.

7.2.2. The Investee (facility) is expected to use the ESGAP to fill in activities relating to binding agreements from the term sheet. ESGAP requirements are primarily focused on ESG improvements, ESMS building, ESG capacity building, and adopting the proper policies and procedures. Companies are expected to report on ESGAP activity at ESGAP milestones and on an annual basis.

7.2.3. Companies are expected to meet with the H2R team on a quarterly basis. They will provide a brief update on environmental and social issues. They will also provide an update on any progress with the ESGAP.

7.2.4. Companies are expected to report to H2R on an annual basis. The annual reports include detailed information on the ESG performance and activities of the Investee (facility). The annual report template is in Annex 9.

7.2.5. Investee (facility) level ESG reporting will be shared with the Advisory Committee to ensure its visibility on ESG matters. The Advisory Committee shall advise on what activities must be changed, evaluate flaws, and set goals for the next year. The H2R management team shall support the Investees (facilities) to improve their monitoring and reporting capabilities. If businesses demonstrate weaknesses or challenges fulfilling the ESGAP, they may be required to provide more frequent reporting to H2R.

7.3. ESG Incidents

7.3.1. H2R businesses are expected to report ESG incidents within five days of knowing the ESG incident. A serious ESG incident is an unplanned or uncontrolled event that negatively impacts H2R personnel, Investee (facility) personnel, community members, any program affected people, or the environment within the investment's sphere of influence. A serious ESG incident may also materially affect an investment or the reputation of an investment, the program, or Acumen. The following are considered serious incidents:

7.3.1.1. **Fatalities, serious injuries, and accidents at work**. This includes any fatalities, serious injuries, and other occurrences affecting: (1) fund employees or contractors, (2) Investee (facility) employees or contractors, or (3) community workers employed by or voluntarily working for the program. Reporting includes death and injuries from workplace accidents, accidents related to workplace transport or equipment, murder, kidnapping, or workplace violence.

7.3.1.2. **Fatalities, serious injuries, and accidents impacting local communities and others**. Fatalities, serious injuries, or accidents where program staff, Investee (new or existing facilities) staff, or program-related person is at fault or may be at fault are considered serious incidents.

7.3.1.3. **Conflicts, disputes, and disturbances leading to loss of life, violence or the risk of violenc**e. This would include inter-community or inter-ethnic violence caused or exacerbated by investment activities, and conflicts that have the potential for violence towards program/Investee (facility) personnel and/or local communities.

7.3.1.4. **SEAH and GBVH Incidents**: This covers incidents where H2R investee (facility) staff commit sexual exploitation, abuse, or harassment of either other staff or customers on business time. This also covers gender-based violence and harassment incidents.

7.3.1.5. **Human rights violation**s. This would cover human rights violations or public accusations of human rights violations attributed to program workers, contractors, or community workers or volunteers. It would cover deaths and injuries to suspects arrested in the conduct of law enforcement activities, torture or other forms of unlawful use of force, or unlawful damage to or confiscation of community or private property. It would include violations of human rights that have occurred as a direct consequence of a program activity and with involvement of program workers, and violations that have taken place using equipment provided by the program, including occurrences that have taken place outside the boundary of the program, where a program partner was implicated (including members of state security agents). It would also cover sexual and gender-based violence attributed to program workers, including rape, sexual exploitation, abuse, harassment, and physical violence against women. It would also cover the use of, and public accusations of the use of, harmful child labor by the program, contractors or community workers and volunteers.

7.3.1.6. **Forced eviction**s. This would cover the forcible eviction of people from Investee (facility) owned or operated upon land.

7.3.1.7. **Theft, fraud, corruption, or other major financial crime**s. This would cover any fraud, theft, or other major financial crimes worth above $100,000 and would cover both program level and Investee (facility) staff.

7.3.1.8. **Large, irreversible, and financially impactful property damag**e. This would cover any Investee level activities or program level activities that resulted in over $100,000 of property damage.

7.3.1.9. **Environmental impacts** or public accusation of significant environmental impacts attributed to investing activities that have led to or could lead to serious contamination, destruction or degradation of natural habitats or areas of high biodiversity value.

7.3.2. **ESG Incident Reporting Requirements**

Status	Incidents	Response
Mandatory	• Fatalities, serious injuries, and accidents at work • Fatalities, serious injuries, and accidents impacting local communities and others	Follow the serious reporting procedure including investigating, reporting, and applying lessons learned. Some agreements may not require ESG incident reporting. Be aware of what investors require serious ESG incident reports.

	• Conflicts, disputes and disturbances leading to loss of life, violence or the risk of violence • Human rights violations • Forced evictions • Theft, fraud, corruption, or other major financial crimes • Large, irreversible, and financially impactful property damage • Environmental impacts	
Annual	• Minor injuries, HR violations, accidents, and other incidents • Minor or petty theft	If deemed in the interest of relevant stakeholders, shareholders or other parties, incident could be disclosed in annual ESG reporting

7.3.3. Mandatory ESG Incident Procedure: After receiving a report of an incident, these are the H2R team's steps when investigating and reporting a serious incident.

7.3.3.1. Receive notice of incident. Investees (new or existing facilities) should be aware of what qualifies as a serious ESG incident and how to report incidents to H2R. H2R has multiple methods of communication available to Investees (facilities), stakeholders, and other affected parties. Anonymity and whistleblowing privileges should be afforded to those who seek protection from retaliation in reporting ESG incidents. Investees are required to report serious incidents within three days of the incident.

7.3.3.2. The incident recipient notifies the relationship manager and fund team. If the incident is ongoing and the business is not responsive to critical issues like violence, death, severe environmental impact (forest fires, extreme flooding), and human rights violations, please contact the proper authorities.

7.3.3.3. Within the first three days of notice, H2R needs to investigate the ESG incident and establish a description of the incident. Description includes date and time, location of accident/incident, type of incident, name of person(s) involved/injured/deceased, if applicable, narrative and contextual information, state if incident is work or non-work related, cause of incident, and a listing of parties involved in the initial investigation (witnesses, staff, police, or other authorities). Use the incident reporting template also shared with the toolkit.

7.3.3.4. Disclose incident with findings from initial investigation to any entity requiring incident reporting which may include Limited Partners, Acumen, and other stakeholders with contractual requirements for incident disclosure. Initial disclosure to investors is required within three days.

7.3.3.5. The incident is assessed by relevant parties, and a fulsome investigation is continued. This may involve interviewing additional parties to collect more information or bringing in third parties to support the investigation and assessment.

7.3.3.6. If an incident is ongoing, seek weekly reminders from Investees (new or existing facilities). If additional events or serious incidents happen in relationship to the original incident, update the report and any tracking mechanism you may have. Please keep Acumen informed of updates regarding the incident.

7.3.3.7. If legal procedures or formal inquiry are involved, the incident will be considered ongoing, and the team should cooperate with the relevant authorities.

7.3.3.8. The team should, when possible and appropriate, help the Investee (facility) resolve the incident.

7.3.3.9. Any lessons are applied internally as appropriate (e.g., updating policies or processes). The program could seek to improve ESMS, Investee (facility) engagement, or stakeholder outreach. H2R investees are required to include root cause analysis and lessons learnt. The investee should also commit to tracking incidents and near misses.

7.3.3.10. When the incident is resolved and the investigation is complete, a full report should be developed for relevant stakeholders and investors. Incident reports should include lessons learned, corrective steps, and resolution of incidents.

7.3.4. **Resolutions**

7.3.4.1. Acumen adheres to the mitigation hierarchy as an overall principle to managing environmental and social risks and impacts, suitable for all instances of GCF- financed activities. The mitigation hierarchy aims to:

7.3.4.1.1. Anticipate and avoid adverse risks and impacts on people and the environment;
7.3.4.1.2. Where avoidance is not possible, adverse risks and impacts are minimized through abatement measures;
7.3.4.1.3. Mitigate any residual risks and impacts; and
7.3.4.1.4. Where avoidance, minimization or mitigation measures are not available or sufficient, and where there is sufficient evidence to justify and support viability, design and implement measures that provide remedy and restoration before adequate and equitable compensation of any residual risks and impacts;

7.3.5. **Reporting and Closure**

7.3.5.1. Every ESG incident must be closed, and H2R should issue a final report that will mark the closure of the incident. Incidents may be ongoing for long periods of time if there is a criminal investigation or litigation.

7.3.5.2. ESG incidents should be closed when the investigation is complete, a resolution is implemented, and the program has no further actions that they can take.

7.4. Program Level Reporting

7.4.1. The H2R management team will consistently, transparently, and deeply report ESG activities, technical assistance programs, metrics, impacts, results, incidents, and challenges as aligned with investor expectations and the program's mission and vision. The ESG strategy, ESMS implementation, and ESG activities will be reported to H2R Development Facility and H2R Expansion Fund donors and investors on an annual basis. H2R will provide an annual Environmental, Social, and Governance report for investors and a community update for relevant stakeholders.

7.4.2. The Annual ESG report will provide H2R context, ESG risk trends, and standardized reporting metrics across businesses so that investors, donors, and stakeholders can evaluate the management team's effectiveness, assess trends across the portfolio, and learn about the technical assistance provided to the businesses.

7.4.3. Acumen's ESG team intends to lead reporting that will gather fund level and portfolio company level data. This report will be shared with relevant investors, partners, and stakeholders on an annual basis. Fund level reporting is captured in Annex 8b.

7.4.4. Any H2R Development Facility advisors or third-party consultants are expected to also provide annual updates on Investee (new or existing facility) level ESG performance and program level performance. The H2R Development Facility advisors are responsible for acquiring ESG performance updates from the deals they support.

7.4.5. We also expect to report to stakeholders on an ongoing basis. Stakeholder reporting is outlined in the Stakeholder Engagement Plan. Stakeholders will receive annual community reports with broad, anonymized, and aggregated portfolio level ESG updates. Stakeholders may also participate in annual H2R webinars that will provide stakeholders with an opportunity to engage with the management team.

7.4.6. H2R also expects to monitor the program level Grievance Redress Mechanism (GRM). The GRM will act as an important tool to monitor any ESG incidents or weaknesses in the program ESMS. The H2R management team shall report on the GRM results to investors on an annual basis.

8. Disclosure of Information

8.1. H2R will engage with investors, donors, stakeholders, and Investees with transparency, integrity, and clarity. With these guiding values, the H2R management team commits to sharing and facilitating access to relevant information about its operations with stakeholders.

8.2. H2R will have program level activities ensuring proper disclosure of information including the ESMS, the Grievance Redress Mechanism, and the Stakeholder Engagement Plan. These activities outline publicly disclosable information about program activities. H2R will also include the Indigenous Peoples Policy, the guidance on Land Resettlement and Livelihood Restoration, and any other relevant ESG materials. The program will also disclose annual community reports on the program website. Moreover, each of these documents will be publicly shared when proper online communications channels are developed.

8.3. The H2R program will also require businesses to publicly disclose relevant policies and procedures. This may include their ESMS and their Grievance Redress Mechanism. The program does not intend to have extensive subprograms. In the rare and limited case of Category B investments, the ESIA and an ESMP will be disclosed at least 30 days in advance of the approving authority's decision. The safeguard reports will be available in both English and the local language (if not English). The reports will be submitted to GCF and made available to GCF via electronic links in both the AE and the GCF's website as well as in locations convenient to affected peoples in consonance with requirements of GCF Information Disclosure Policy and Section 7.1 of (Information Disclosure) of GCF Environmental and Social Policy].

Annex 1: Exclusion List

Context: All Hardest-to-Reach activities will be evaluated using the Exclusion List as defined below. The Accredited Entity shall ensure that the program does not fund or participate in any activity or investments where the project has concrete evidence of direct investment in, production of, or use of products tied to the Exclusion List.

The Accredited Entity shall ensure that the Executing Entities investigate any potential excluded activity found during due diligence. If the relevant Executing Entity does not have sufficient expertise in the subject, it may hire outside investigators to support the investigation or choose not to proceed with the activity or investment.

Obligors will be prohibited from engaging in any activity listed on the Exclusion List as part of the term sheet agreement. If an Executing Entity finds that an Obligor engaged in an excluded activity post-investment, that Obligor will be found to be in default on their loan or other financing agreement and forced to return their investment. The Accredited Entity shall ensure that the Executing Entities monitor investees and ongoing activity to ensure that the program does not participate in, or fund excluded activities:

a. Production or activities involving harmful or exploitative forms of forced labor[21]/harmful child labor.[22]
b. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans (Rotterdam Convention, Stockholm Convention), such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs), wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
c. Production or trade in weapons and munitions.[23]
d. Production or trade in alcoholic beverages (excluding beer and wine).[24]
e. Production or trade in tobacco.[1]
f. Gambling, casinos and equivalent enterprises.[25]
g. Hazardous materials
h. Wastes
i. Nuclear products designated for military purposes
j. Prostitution
k. Pornography, sex work, and related infrastructure and services;
l. Coal mining
m. Coal-fired power plants, including dual-power plants, connected to the grid and fossil fuel exclusions as referenced in BII's Fossil Fuel Policy.
n. Production or trade in radioactive and hazardous materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, or any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
o. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
p. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
q. Displacement or resettlement of individuals or communities at the Category A risk level as defined by the IFC Environmental and Social Performance Standards.
r. Transboundary movement of waste prohibited under international law (Basel Convention) except for non-hazardous waste destined for recycling;

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

[22] 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.

[23] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.

[24] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.

[25] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.

s. Shipment of oil or other hazardous substances in tankers, which do not comply with IMO requirements.
t. Investments into search, extraction, production, distribution, processing and promotion of fossil fuels (coal, oil, natural gas and peat).
u. Activities that increase use of fossil fuels and/or prolong the technical or economic lifetime of heat and power production using fossil fuels, except for back-up in power generation plants, for household cooking purposes and for processes where feasible alternatives do not exist.
v. Biofuel projects if they are:
    i. Based on feedstock grown on land with high carbon content or biodiversity value, such as rainforests, wetlands, peat lands and grasslands, in reserves or on protected lands, or on lands with a high conservation value;
    ii. Using a feedstock for production of liquid biofuels, where the overall climate and development benefits would be higher by using the same feedstock unprocessed for, e.g., direct combustion in a co-generation plant.
    iii. Using solid biomass fuels from forests, planted or natural, having a carbon cycle incompatible with the Paris Agreement.
    iv. First generation biofuel projects with production area over 75ha.
w. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests.
x. Production or trade in wood or other forestry products other than from sustainably managed forests
y. Production or trade in products containing PCBs.[26]
z. Production or trade in ozone depleting substances subject to international phase out.[27]

[26] Polychlorinated biphenyls - a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.
[27] Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the Environment Division.

Annex 2: ESG Due Diligence Questionnaires (Environmental and Social Audits)

Hardest-To-Reach ESG Due Diligence/ Questionnaire

Context: This questionnaire (audit) is the ESG diligence questionnaire for all potential H2R Development Facility and H2R Expansion Fund Investees (new or existing facilities) besides the small last mile distributors. The H2R Development Facility and H2R Expansion Fund relationship managers will send this questionnaire to Investees (facilities). All businesses are expected to fully complete the questionnaire.

Acumen seeks to have a holistic understanding of our potential Investees (facilities). If any of these questions (or any part of this process) are confusing or require clarification, please reach out to the Associate Director of ESG Insights, Sam Jewett, at sjewett@acumen.org for more information.

Please confirm that you do not partake in any activity, distribution, use, trade, purchase, or investment involving:

a. Production or activities involving harmful or exploitative forms of forced labor[28]/harmful child labor.[29]
b. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs), wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
c. Production or trade in weapons and munitions.[30]
d. Production or trade in alcoholic beverages (excluding beer and wine).[31]
e. Production or trade in tobacco.[1]
f. Gambling, casinos and equivalent enterprises.[32]
g. Hazardous materials
h. Wastes
i. Nuclear products designated for military purposes
j. Prostitution
k. Pornography, sex work, and related infrastructure and services;
l. Coal mining
m. Coal-fired power plants, including dual-power plants, connected to the grid and fossil fuel exclusions as referenced in BII's Fossil Fuel Policy.
n. Production or trade in radioactive and hazardous materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, or any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
o. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
p. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
q. Displacement or resettlement of individuals or communities at the Category A risk level as defined by the IFC Environmental and Social Performance Standards.

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

[29] 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.

[30] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.

[31] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.

[32] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.

r. Transboundary movement of waste prohibited under international law (Basel Convention) except for non-hazardous waste destined for recycling;
s. Shipment of oil or other hazardous substances in tankers, which do not comply with IMO requirements.
t. Investments into search, extraction, production, distribution, processing and promotion of fossil fuels (coal, oil, natural gas and peat).
u. Activities that increase use of fossil fuels and/or prolong the technical or economic lifetime of heat and power production using fossil fuels, except for back-up in power generation plants, for household cooking purposes and for processes where feasible alternatives do not exist.
v. Biofuel projects if they are:
    i. Based on feedstock grown on land with high carbon content or biodiversity value, such as rainforests, wetlands, peat lands and grasslands, in reserves or on protected lands, or on lands with a high conservation value;
    ii. Using a feedstock for production of liquid biofuels, where the overall climate and development benefits would be higher by using the same feedstock unprocessed for, e.g., direct combustion in a co-generation plant.
    iii. Using solid biomass fuels from forests, planted or natural, having a carbon cycle incompatible with the Paris Agreement.
    iv. First generation biofuel projects with production area over 75ha.
w. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests.
x. Production or trade in wood or other forestry products other than from sustainably managed forests
y. Production or trade in products containing PCBs.[33]
z. Production or trade in ozone depleting substances subject to international phase out.[34]

E&S Policy and ESMS

a) Do you have a formal Environmental, Social and Governance (ESG) Policy or an Environmental and Social Management System (ESMS)? If yes, please provide the policy or ESMS.

b) How are staff and stakeholders made aware of the ESMS or ESG policy?

c) Who is responsible for implementing the ESMS or ESG policy? Who is responsible for oversight of the policy?

d) How do you ensure organizational capacity for mitigating environmental and social risks?

e) How do you identify environmental and social risks across the business? How do you mitigate the identified risks?

f) How do you monitor the environmental and social risks and mitigants across the business?

g) What business activities are exposed to climate or nature-related risks?

[33] Polychlorinated biphenyls - a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.
[34] Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the Environment Division.

h) What is the organization's governance structure and process around climate-related risks and opportunities?

i) Do you have an emergency preparedness plan? How is that communicated to different stakeholders, locations, teams?

Stakeholder Engagement

a) How does your business engage stakeholders, including local communities and community leaders?

b) How does the business ensure an appropriate assessment of the communities that you sell your products within?

c) Does your business have a grievance mechanism? If so, please share the mechanism.

d) Is there a defined process to screen, assess and resolve the issues raised and to determine how to respond? If yes, please briefly describe the process.

e) How have you ensured the affected community and other stakeholders are aware of the grievance mechanism?

f) Is there a log or register to track incoming queries and responses?

g) Does your business engage or interact with Indigenous communities? If so, what is your engagement strategy?

h) Do you seek free, informed, and prior consent from Indigenous communities prior to operating in indigenous territories?

i) If you do engage with indigenous communities, do you have an Indigenous Peoples' Policy?

j) Do you use cultural heritage artwork or historical iconography in your logos, marketing materials, or other promotional media? If yes, did you receive consent to use these materials?

k) If you are purchasing or building on land in non-commercial zones for operating activities, do you employ chance find procedures if artifacts or cultural heritage items are found?

Community Health, Safety, and Security

a) Do you have security personnel to protect property or staff? If so, have you had any incidents with the community? How do you ensure human rights are protected in engaging with the community?

b) Do you inform customers about potential hazards of your product?

c) How do you monitor the potential hazards of your product, especially during extreme weather events?

d) What are your priority community health and safety concerns regarding your operations? How do you mitigate them?

Consumer Protection and Credit Risk

a) What is your customer credit risk management strategy? And what is your business's culture towards risk-taking?

b) What are your criteria for acquiring a customer? Specifically, how do you assess the ability to pay?

c) What, if any, policies/procedures do you have around credit and risk management?

d) What portfolio quality metrics do you track? What are your approaches to provisioning and write-offs?

e) How are your sales agents / loan officers compensated? (Please include details of incentive structure for commissions or bonuses)

f) How do you protect customer data?

g) How do you ensure sufficient product quality? Are the products you distribute or manufacture VeraSol verified?

h) Does your business align to the GOGLA consumer protection code?

Labor and Working Conditions

a) Who is responsible for ensuring a safe, equitable, and fair work environment?

b) Does your business ensure the legal, fair, and ethical treatment of employees and contractors? If so, how?

c) How do employees, contractors, and supervisors know their roles, requirements, and protections?

d) Does your business commit to non-discrimination and equal opportunities for employees? If so, how?

e) Does your organization forbid or disallow organizing or union development?

f) How does your business handle retrenchment? What are the policies and procedures you have to ensure fair and lawful termination of employees? Please describe any large retrenchment activities in the past five years.

g) Does your labor, human resources, and other policies include the following:

HR Policy Contents	Yes/No	Copy is attached (Yes/No)
Terms and conditions of employment		
Employees/worker rights related to hours of work, wages, overtime, compensation, benefits		
Employee code of conduct		
Recruitment policy		
Progression policy		
Employee grievance mechanism		
Anti-harassment policies, including Sexual Exploitation, Abuse, and Harassment policy		
Non-discrimination Policy		
Policy prohibiting child labor and forced labor		
Retrenchment Policy or procedures		
Whistleblower Policy		

h) Do you verify that your suppliers do not use forced or child labor and are compliant with international human rights standards? If so, how? Please share a modern slavery policy or statement.

i) Please list your suppliers and the location of operation including city, region and country.

Name of supplier	Product	Location (City, Region, Country)

Gender

a) Please share sex-disaggregated data of your business staff (e.g., average salary, turnover, absenteeism, retention, and promotion). How is the data analyzed and to what extent is data used for decision-making on gender-related efforts?

b) What proportion of sales and distribution agents are women? Does the business collect gender-disaggregated performance of agents? How is the data analyzed and to what extent is data used for decision-making?

c) How does your business ensure an equitable work environment?

d) How does your business protect workers and customers from sexual abuse, exploitation, and harassment?

e) How does your business ensure that women are engaged at all levels of the business from customers to executives?

f) Does the business specifically target female customers, or design products or services tailored to women's needs, preferences, and behaviors?

g) Does your business have a Gender Action Plan?

h) What staff are responsible for ensuring your business is committed to gender equity with respect to staff and customers?

Occupational Health and Safety

a) Does your business have an occupational health and safety (OHS) policy?

b) Does your business train employees on OHS?

c) Do employees have access to personal protective equipment as needed?

d) Do you maintain records of OHS incidents? If so, please share a copy of your records?

e) Do you monitor workplace noise and air quality?

f) How do you ensure the safe transport of goods and products?

g) Do you have driver safety requirements? Please share any records of driver safety incidents.

E-waste, Pollution, and Biodiversity

a) Do you manage the end of your product lifecycle? If so, how?

b) Do you re-use or recycle products? Are customers aware of e-waste collection, recycling, or refurbishment opportunities? If yes, please explain.

c) Does your business have a waste management plan?

d) If available, please share all current waste disposal contracts.

Source of waste	Quantity generated	Disposal mechanism description
Batteries		
Used equipment collected		
Hazardous waste		

e) Please describe what types of waste your business generates.

f) Do your operations generate air pollution, noise pollution, or water contamination? If so, please describe what measures are taken to manage the pollution.

g) Does your business possess all relevant and up-to-date Health, Safety, and Environment permits and approvals? Please provide copies.

h) Has your business experienced any fines from any HSE violations?

i) Do your environmental policies account for avoiding protected or endangered species, critical or vulnerable habitats, or conservation of biodiversity?

j) Does your business operate in any natural, critical, or vulnerable habitats?

k) Does your business impact any endangered species or habitats?

l) Have your operations ever created habitat loss, degradation and fragmentation and invasive species? How has your business responded?

m) How do you ensure safe management of your operations in these areas?

Policies

If applicable and available, please provide the following policies:

Policies or Procedures	**Mark if available and attached (X)**	**Additional Notes**
ESMS policy or ESG Policy		
Emergency Preparedness Procedures		
Grievance Mechanism		
Record of grievances received over the past year		
Stakeholder Engagement Plan		

Records of consultations with stakeholders		
Credit Policy		
Write Off Policy		
Consumer Protection Policy		
Data Privacy Policy		
Human Resource Policy		
Employee Handbook		
Company Code of Conduct		
Occupational Health and Safety Policy		
Records of occupational health and safety data		
Sample employee contract		
Sample contractor agreement		
Equal employment policy or statement		
Anti-Sexual Harassment Policy		
Gender Action Plan		
E-waste Policy		
E-waste Contract		
Environmental Action Plan		
Environmental licenses or regulatory approvals		
Other regulatory licenses or approvals		
Procurement Policy		
Company website		
Satellite pictures		

Hardest-to-Reach H2R Development Facility ESG Diligence Questionnaire

Context: This is the due diligence questionnaire for the loans to small last mile distributors. This is a lighter touch approach that fits the business's risk profiles and E&S capabilities.

Acumen seeks to have a holistic understanding of our potential Investees (facilities). With this knowledge, we can better support the businesses we invest in with targeted insights and accompaniment. We view this aspect of the diligence process as a way of understanding how Acumen can be additive to potential Investees (facilities). If you find any of the questions (or any part of this process) confusing or requiring clarification, please reach out to the Associate Director of ESG Insights, Sam Jewett, at sjewett@acumen.org for more information.

Name of Company:

Area of Operation:

Founding Date:

Please confirm that you do not partake in any activity, distribution, use, trade, purchase, or investment involving:

a. Production or activities involving harmful or exploitative forms of forced labor[35]/harmful child labor.[36]
b. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs), wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
c. Production or trade in weapons and munitions.[37]
d. Production or trade in alcoholic beverages (excluding beer and wine).[38]
e. Production or trade in tobacco.[1]
f. Gambling, casinos and equivalent enterprises.[39]
g. Hazardous materials
h. Wastes
i. Nuclear products designated for military purposes
j. Prostitution
k. Pornography, sex work, and related infrastructure and services;
l. Coal mining
m. Coal-fired power plants, including dual-power plants, connected to the grid and fossil fuel exclusions as referenced in BII's Fossil Fuel Policy.
n. Production or trade in radioactive and hazardous materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
o. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

[35] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
[36] 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.
[37] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.
[38] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.
[39] This does not apply to Project donors or investors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.

p. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
q. Displacement or resettlement of individuals or communities at the Category A risk level as defined by the IFC Environmental and Social Performance Standards.
r. Transboundary movement of waste prohibited under international law (Basel Convention) except for non-hazardous waste destined for recycling;
s. Shipment of oil or other hazardous substances in tankers, which do not comply with IMO requirements.
t. Investments into search, extraction, production, distribution, processing and promotion of fossil fuels (coal, oil, natural gas and peat).
u. Activities that increase use of fossil fuels and/or prolong the technical or economic lifetime of heat and power production using fossil fuels, except for back-up in power generation plants, for household cooking purposes and for processes where feasible alternatives do not exist.
v. Biofuel projects if they are:
 i. Based on feedstock grown on land with high carbon content or biodiversity value, such as rainforests, wetlands, peat lands and grasslands, in reserves or on protected lands, or on lands with a high conservation value;
 ii. Using a feedstock for production of liquid biofuels, where the overall climate and development benefits would be higher by using the same feedstock unprocessed for, e.g., direct combustion in a co-generation plant.
 iii. Using solid biomass fuels from forests, planted or natural, having a carbon cycle incompatible with the Paris Agreement.
 iv. First generation biofuel projects with production area over 75ha.
w. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests.
x. Production or trade in wood or other forestry products other than from sustainably managed forests
y. Production or trade in products containing PCBs.[40]
z. Production or trade in ozone depleting substances subject to international phase out.[41]

1. E&S Policy and ESMS

a) Do you have a formal Environmental, Social and Governance (ESG) Policy or an Environmental and Social Management System (ESMS)? If yes, please provide the policy or ESMS.

b) How are staff and stakeholders made aware of the ESMS or ESG policy?

c) Who is responsible for implementing the ESMS or ESG policy? Who is responsible for oversight of the policy?

d) How do you monitor the environmental and social risks and mitigants across the business?

[40] Polychlorinated biphenyls - a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.
[41] Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the Environment Division.

e) Do you have an emergency preparedness plan? How is that communicated to different stakeholders, locations, teams?

2. Stakeholder Engagement

a) How does your business engage stakeholders, including local communities and community leaders?

b) How does the business ensure an appropriate assessment of the communities that you sell your products within?

c) Does your business have a grievance mechanism? If so, please share the mechanism. Does it have sexual exploitation, assault, and harassment provisions?

3. Consumer Protection and Credit Risk

a) What is your customer credit risk management strategy? And What is your business's culture towards risk-taking?

b) What are your criteria for acquiring a customer? Specifically, how do you assess the ability to pay?

c) What, if any, policies/procedures do you have around credit and risk management?

d) What portfolio quality metrics do you track? What are your approaches to provisioning and write-offs?

e) How are your sales agents / loan officers compensated?

f) How do you protect customer data?

3. Labor and Working Conditions

a) Who is responsible for ensuring a safe, equitable, and fair work environment?

b) Does your business ensure the legal, fair, and ethical treatment of employees and contractors? If so, how?

c) How do employees, contractors, and supervisors know their roles, requirements, and protections?

d) How do you ensure your operations meet local health and safety requirements? Do you provide workers with proper protective equipment when required?

e) Do you verify that your suppliers do not use forced or child labor and are compliant with international human rights standards? If so, how?

f) Please list the business's suppliers on the table below:

Name of supplier	Product	Location (City, Region, Country)

4. Gender

a) How does your business ensure an equitable work environment?

b) How does your business protect workers and customers from sexual abuse, exploitation, and harassment?

c) How does your business ensure that women are engaged at all levels of the business from customers to executives?

d) Does your business have a Gender Action Plan or any gender-based commitments (e.g., staffing, customer outreach, policies or procedures)

5. E-waste

a) Do you manage the end of your product lifecycle? If so, how? Do you have an e-waste policy or contract?

b) Do you re-use or recycle products? Are customers aware of e-waste recycling? If yes, please explain.

Policies

If applicable and available, please provide the following policies:

Policies or Procedures	Mark if available and attached (X)	Additional Notes
ESMS policy or ESG Policy		
Emergency Preparedness Procedures		
Grievance Mechanism		
Record of grievances received over the past year		
Stakeholder Engagement Plan		

Records of consultations with stakeholders		
Credit Policy		
Write Off Policy		
Consumer Protection Policy		
Data Privacy Policy		
Human Resource Policy		
Employee Handbook		
Company Code of Conduct		
Occupational Health and Safety Policy		
Records of occupational health and safety data		
Sample employee contract		
Sample contractor agreement		
Equal employment policy or statement		
Anti-Sexual Harassment Policy		
Gender Action Plan		
E-waste Policy		
E-waste Contract		
Environmental Action Plan		
Environmental licenses or regulatory approvals		
Other regulatory licenses or approvals		
Procurement Policy		
Company website		
Satellite pictures		

Annex 3a: ESG Due Diligence (Audit) Questionnaire Manufacturing Supplementary Module

Context: This module is intended to be used for H2R Development Facility and H2R Expansion Fund investments that have manufacturing activities in their operations. This will include the H2R Development Facility joint venture investments and the H2R Expansion Fund vertically integrated business loans.

Name of Company:

Area of Operation:

Vertically Integrated Businesses and Manufacturers

a) Does your organization have an Occupational Health and Safety Policy?

b) Who is responsible for the OHS Policy?

c) Do you track occupational health and safety incidents? If so, please share a summary of the incidents and the tracking mechanism.

d) How are staff made aware of the OHS policy and safety procedures in the factory?

e) Does the business train staff in health and safety policies and procedures?

f) What PPE is offered to employees?

g) Describe the health and safety inspections for hazards at manufacturing facilities.

h) Do the business facilities maintain proper ventilation, lighting, and signage?

i) What is your water usage? How do you impact local water quality?

j) What mitigants are put in place for pollution?

k) How do you combat noise pollution?

Annex 3b: ESG Due Diligence (Audit) Questionnaire Mini-Grid Supplementary Module

Context: Mini-grid operators and EPC businesses have specific business model risks that require additional diligence and analysis. Areas of risk may include land acquisition and resettlement risks, environmental impacts including biodiversity loss, occupational health and safety risks, and community health and safety risks. As such, Hardest-to-Reach intends to include diligence questions and analysis specific to mini-grid investments.

H2R has a two-pronged approach to mini-grid investments. If H2R seeks to invest directly in a mini-grid project via special project vehicles or otherwise, H2R will ensure that there is a project-specific environmental and social impact assessment (ESIA). H2R may lead or monitor ESIA development as the business or other investors may lead the ESIA development. H2R will use the mini-grid supplementary questionnaire for mini-grid investments made at the holding business level or transactions that are for working capital or operational expenditures.

All mini-grid businesses with investments at the holding business level or funding is for operational expenditure or working capital are expected to complete the following questionnaire. Questions may be added depending on the specific questions.

Mini-Grid Questions

ESIAs

a) Has your business developed Environmental and Social Impact Assessments for mini-grid sites? If so, please describe the necessary components of the ESIA.

b) How does the business ensure sufficient community engagement in the development of ESIAs? Does the business seek the input of women, representatives of marginalized communities, and indigenous people?

c) Does the business publicly share the results of the ESIA with affected communities? How do you seek to share the relevant materials?

d) How does the business ensure that they meet the regulatory and legal requirements of the municipality and country of the mini-grid site?

e) How does the business inform stakeholders about relevant updates to the ESIA and the specific activities related to community impacts?

Labor and Working Conditions

a) Does the business provide safety training for relevant personnel construction and active site management? Please provide details on frequency, personnel attendance, and topics.

b) What personal protective equipment is provided during construction activities and active site management?

c) What are the worker safety measures in place to mitigate construction related injuries?

d) Please describe the business's worker safety record during active implementation. Please share any worker health and safety incidents.

Resource Efficiency and Pollution

a) What does the business do to reduce pollution, noise pollution, and construction debris and waste during construction?

b) What does the Company do with defunct or irreparable solar panels? How does the business manage e-waste?

c) What is your approach to managing battery storage facilities and minimizing potential impacts on local communities?

Community Health and Safety

a) What are the community safety measures in place to mitigate construction related injuries? Please describe the business's approach to the following activities:

Safety Measures	Activity Description
Clear Signage	
Project Updates/Contact Information	
Fencing and Barriers	
Security Personnel	
Dust or Noise Suppression	

b) Please describe the business's construction community safety record. Please share any community health and safety construction-related incidents.

c) What are the safety standards and procedures put in place to manage electrical safety during construction and during mini-grid implementation for communities?

d) When active, how does the business manage electrical safety including cable management, fencing and barriers, and signage?

e) Please describe the business's community safety record during active implementation. Please share any community health and safety incidents.

Land Acquisition and Resettlement

a) Does the Company have the right to expropriate land?

b) Does the business plan to acquire more property in the near future? How many land plots are expected to be affected?

c) How many landowners are affected by land acquisition?

d) Has compensation been calculated for loss of trees, crops, structures, livelihoods as a result of potential new land acquisition? Please describe.

e) Describe any economic and/or physical displacement associated with future projects and provide any associated planning documentation, e.g., Resettlement Action Plan, Livelihood Restoration Plan, or equivalent.

f) Is any land used, owned or leased by the Company under dispute with owners or other users?

g) Please provide a list and evidence of land titles, rental agreements, for all the assets. If possible, please send .kmz file identifying the land titles. Also, if you own rights of way or have negotiated rights of way, provide copies of contracts.

h) Have you conducted any legal due diligence, including a legal review of land titles?

Biodiversity and Conservation

a) Please describe any environmental impact assessments the business conducts. How does the business assess biodiversity, and conservation impacts as part of these assessments?

b) Do the project operations lie within or near any natural area with protected status? Is the activity allowed as per the area's protected status or management plans?

c) As part of communications with the authorities, have you been requested to apply any restriction to operating activities due to ecological constraints?

d) Do the project activities take place near any body of water?

e) Do the project activities entail the permanent transformation of natural habitat into energy use? Is there any compensation for loss of forest, natural habitat, or biodiversity in general?

f) Has the area where the project sits or will sit been subject to deforestation in the last 10 years?

g) Is there any use of the area by the nearby communities which will not be continued? For example: wood collection, herding, medicinal plant gathering, honey, etc.

h) Have any Biodiversity management plans been developed?

i) Describe if the business has any ecological monitoring program to determine the impact of the project on local ecology.

Indigenous Peoples

a) Is there any group within or near the project area that may be considered as 'indigenous' -as per the ILO definition? (Including pastoralist groups)

b) Do you have any engagement with indigenous groups or groups claiming to be indigenous? What is the nature of this engagement?

c) Is there any pending claim from indigenous groups on any of the properties being used by the Company?

Policies or Procedures	Mark if available and attached (X)	Additional Notes
Site-level Environmental and Social Impact Assessments		
Site level Community Consultation Feedback		

Site level Land Acquisitions and Resettlement Plan, if required		
Site level land purchasing or leasing agreements, title or deeds to land		
Site level environmental licenses or approvals		
Site level Occupational Health and Safety policy		
Site level Occupational Health and Safety incident tracker		
Site level Indigenous Peoples Policy, if required		
Site Level Maps and coordinates		
Site level photographs including photos of: • Fencing • Wiring • Warning signs		

Annex 3c: ESG Due Diligence (Audit) Questionnaire Accounts Receivable Financing Module

Context: Hardest-to-Reach seeks to invest in receivables financing to further scale solar home system distribution in hardest-to-reach markets. H2R may finance receivables facilities for single and multi-business receivables. For single business special project vehicles, the business receiving receivables financing will undergo regular ESG diligence. For multi-business financing, H2R will diligence the receivables manager for their ESG practices. Receivables managers are expected to answer all the questions below. H2R may add additional questions depending on the transaction.

Please describe the fund manager's environmental and social policies? How often are they reviewed and how do you create staff awareness of the policies?

a) Please describe the environmental and social management system. How often is it reviewed and how do you create staff awareness of the policies?

b) Who is responsible for overseeing the ESMS and E&S policies? Who is responsible for implementing the ESMS and E&S policies?

c) Please describe the human resource policies, procedures, and management of the warehouse facility manager. How does the firm ensure compliance with local labor laws, IFC performance standard 2, and the ILO standards?

d) Does the firm have an anti-sexual harassment policy, commit to non-discrimination, and equal employment?

e) How does the manager engage project affected communities?

f) Do you conduct site visits for any industrial facilities you invest in?

g) Do you know whether your clients and their projects are following the relevant environmental, health and safety regulations of the host country?

h) Have you invested in projects that entail the acquisition of land?

i) Please indicate whether you have worked with any International Finance Institution (for instance, ADB, EBRD, IDB, NIB, IFC) and have used their environmental and social guidelines. Please describe the environmental and social safeguarding standards of the firm.

j) Does the manager have a grievance mechanism? How is it communicated to project affected people? Does the manager include provisions for complainants who experienced sexual harassment? Does the manager track grievances? If so, please share tracker.

k) Describe the ESG diligence process for businesses receiving financing? Please share three examples of diligence reports.

l) Describe who conducts the ESG diligence for the firm?

m) Does the manager diligence for grievance mechanisms? Please provide business-level grievance trackers.

n) Does the manager diligence for labor and working conditions policies, procedures, and activities?

o) Does the manager monitor retrenchment, issues with unions, or labor disputes?

p) Does the business diligence for forced or child labor in off-grid solar business supply chains?

q) How does the manager diligence for the businesses' consumer protection policies and procedures?

r) How does the manager diligence e-waste management across businesses? How does the manager monitor e-waste management and risks?

s) Please share three environmental and social action plans required by the manager. Please describe how the manager creates ESAPs and ESG conditions of investment.

t) Do you monitor investee environmental and social performance?

u) Does the manager monitor businesses for environmental and social incidents? Please share examples of environmental and social incident reporting.

v) Please provide examples of ESG reporting provided to investors. Please provide three examples of reporting shared with investors.

w) Please share the manager level Gender Action Plan?

x) Does the manager diligence businesses for policies and procedures ensuring safe and equitable workplaces, anti-sexual harassment, and non-discrimination and equal employment?

y) Does the manager monitor gender-based incidents?

z) Does the manager require Gender Action Plans for warehousing borrowers?

If applicable and available, please provide the following policies:

Policies or Procedures	**Mark if available and attached (X)**	**Additional Notes**
Manager level ESMS policy or ESG Policy		
Manager level Emergency Preparedness Procedures		
Manager level Grievance Mechanism		
Manager level Record of grievances received over the past year		
Manager level Human Resources Policies		
Manager level anti-sexual harassment policies		
Manager Gender Action Plan		
Manager ESAP		
Manager level Stakeholder Engagement Plan		
3 business level ESG reports		
3 business level ESAPs		

3 business level ESMSs or equivalent policies		
3 business level HR policies		
3 business level e-waste policies or plans		
3 business level consumer protection plans, polices or equivalent documents		
3 business level credit risk policies		
3 business level code of conducts		
3 business level grievance mechanisms		
3 business level stakeholder engagement plans		

Annex 4: ESG Checklist (Audit Checklist)

Context: This is a checklist to be used by the H2R investment, impact, and ESG team in due diligence to ensure all materials have been collected for the ESG due diligence report. This will be completed by the H2R Development Facility or H2R Expansion Fund impact and ESG teams. This has been formatted to be completed on excel.

Company Name:	**Location:**	**Date:**

Provisional E&S Category:
Please provide rationale for categorization

Instructions:

- Please ensure the “Comment” sections are completed.
- If a question is marked as Not Applicable, please provide rationale.
- Please include an action plan if required.
- If IFC Performance Standards are applicable for this transaction, please ensure a sufficient E&S DD report is attached to the initial risk assessment.

Applicable Requirements
Please select the relevant applicable requirements and comment on the program’s current compliance status

Does the Company have any activities on H2R’s **Exclusion List**?	Y	N	NA	Please provide a list of excluded activities if any
[Confirm compliance with other H2R’s policies, as applicable]	Y	N	NA	Please provide a list of excluded activities if any
What is the key **applicable E&S laws** relevant for this transaction? Can the Company provide documented evidence showing compliance i.e., permits, licenses, EIAs etc.?	Y	N	NA	Please provide a list of permits or licenses required for this transaction

Does this transaction need to comply with **IFC Performance Standards or other internal standards? (Refer to the H2R's ESMS)**	Y	N	NA	Please state the rationale for PS applicability
E&S Risk (transaction / client) Assessment (IFC Performance Standard 1) Please complete the following section based on the site visits and documents reviewed. Please list all relevant documents as applicable**.**				
Roles and Responsibilities				
Please list the key personnel responsible for environmental, social, health and safety (ESHS) and Human Resources (HR) management.				
Please provide details on the composition of teams responsible for ESHS, SEAH, and HR				
Please provide a summary of the internal and external reporting mechanism on ESHS				
Environmental and Social Policies and Procedures	**Y**	**N**	**NA**	**Comments**
Does the Company have an E&S Policy?				Comment on the E&S Policy (senior management commitment, date, scope, reference framework such as international standards)
Does the Company have an overarching E&S Management System identifying environmental and social risks and impacts associated with its operations?				Comment on the scope and contents of the E&S Management System including key topics covered and respective management plans if any.
Does the Company have a procedure to identify and engage with relevant stakeholders including affected communities? Does this include SEAH activities?				Please list all relevant documents and procedures including by not limited to stakeholder mapping, community grievance mechanism, stakeholder engagement plan etc.
Does the Company have an Emergency Preparedness and Response Plan?				Please comment on what is defined as an emergency i.e., natural hazards, environmental spills etc. and how the plan is communicated to staff including drills and

				training programs. Does the plan also cover emergencies that could potentially affect local communities or any third parties in the vicinity of the program?
Labor and Working Conditions IFC Performance Standard 2	**Y**	**N**	**NA**	**Comments**
Human Resources				
How many employees does the business have?	Please provide the breakdown between direct and contract workers			
Please select whether the Company has the following HR documents;				
HR Policy				Please comment on the contents of the HR Policy e.g., terms of employment, working hours, overtime, payment, leave, freedom of association etc.
Internal Grievance Mechanism				Does the mechanism allow for anonymous complaints? Does it include SEAH provisions? Does the Company record all grievances? Is the grievance mechanism accessible to third party workers, if any?
Code of Conduct				Please include the key requirements under the CoC such as non-discrimination
Do all employees have written contracts?				Please comment on whether terms of employment are clearly included
Have there been any collective dismissals or labor disputes in the past two years?				If yes, please provide details
Does the business have a contractor management plan?				If applicable, please comment on what this plan entails and how business requirements are cascaded to contractors.
Does the business operate in a sector where the primary supply chain can be considered high risk?				Please provide details on how the business monitors its supply chain.
Occupational Health and Safety				

Does the business have a health and safety management plan?				Please comment on the scope and contents including how the H&S requirements are cascaded to contractors.
Does the business have a documented risk assessment?				Please provide a list of high risks areas identified
Does the Company record health and safety incidents?				Please provide the number of serious accidents/incidents including but limited to fatalities in the past year.
Does the business have a mechanism in place to communicate health and safety measures to its employees, e.g., training, toolbox talks, permits to work etc.				Please provide details
Resource Efficiency and Pollution Prevention IFC Performance Standard 3	**Y**	**N**	**NA**	**Comments**
Does the business generate any air emissions?				If yes, please comment on whether and how the business monitors its air emissions.
Does the business generate any wastewater?				If yes, please provide details on how the business monitors its effluent discharge and confirm the relevant permits are in place.
Does the business generate any solid waste?				If yes, please provide details of the type of waste produced and disposal methods
Does the business generate any hazardous waste?				If yes, please provide details of the type of waste produced and disposal methods
Does the business have mechanisms to monitor the use and improve the efficiency of energy, water, raw materials and other inputs?				If yes, please provide details.
Is there a process in place to manage spills or accidental discharges?				Please provide details
Community Health Safety and Security IFC Performance Standard 4	**Y**	**N**	**NA**	
Are there any communities located near the business's facilities?				If yes, please provide details on how the Company identifies and manages community health, safety and security risks.

Are there security personnel on the business's premises?				If yes, please provide details including whether the security staff is armed and the code of conduct expectations. How are these enforced?
In the case of transportation of materials or outputs, does the business have a traffic management plan?				If yes, please provide details.
Other E&S Risks	**Y**	**N**	**NA**	
Is there any land acquisition required for the proposed transaction?				If yes, please provide details
Will there be physical and/or economic displacement because of land acquisition?				If yes, please comment on how the business will manage this process including but not limited to consultation and compensation
Are the business facilities/operations close to an environmentally sensitive or protected area?				If yes, please provide details and how the business minimizes its impacts on biodiversity
Are there any indigenous peoples who are in proximity or impacted by the program?				If yes, please provide details on how the business engages with indigenous people.
Are the business facilities/operations close to an area where there are existing or potential areas of cultural heritage?				If yes, please provide details including how the business protects cultural heritage sites or objects
Has the climate risk assessment been completed?				If yes, please include analysis in ESG report.

Summary of E&S Issues and Final E&S Categorization

Annex 5: ESG Due Diligence Report (Audit Findings)

Context: This is the due diligence report that is to be sent to the H2R Development Facility or H2R Expansion Fund investment committee. This is prepared by the Acumen ESG team with review and support from the H2R Development Facility, and H2R Expansion Fund team and H2R Impact Manager. This report is intended to provide the investment committees with relevant ESG information for their investment decision. It also acts as the basis for the term sheet.

Methodology

The methodology for the due diligence assessments shall include:

- Public domain research on any project partners, as well as the ESG and human rights context in the country and region of the project or investment. This may include consulting reports from international and local human rights organisations (e.g., Human Rights Watch, Amnesty International and Freedom House Country Reports, International Trade Union Confederation Global Rights Index, etc.), government reports (e.g. local government reporting and United States Department of Labour List of Goods Produced by Child Labor or Forced Labor), legislation databases, international and local press reporting, blogs, company registries, and land registries.
- Document review, including worker demographics, ESG and human rights policies, supplier data, past audits, worker contracts, grievance mechanism policies and registers, etc.
- Stakeholder engagement with internal stakeholders at the proposed investee, intended to support the understanding of the potential investee's understanding of ESG and human rights risks, what ESG and human rights risk mitigation measures are currently in place, and how policies are implemented in practice.
- Rightsholder engagement with representatives of potentially impacted groups, for instance labour union representatives or community representatives from local or indigenous communities, when feasible and appropriate.

Whenever possible, the due diligence process should also include:

- Visual observations conducted during site visits to the investee sites.
- Rightsholder engagement with members of potentially affected populations, including workers, contractors, communities; with particular emphasis on vulnerable groups such as women, indigenous communities or ethnic minorities.
- Expert engagement to support Hardest-to-Reach's understanding of contextual risks and local nuances in the location of operations.

Introduction

- Short description of the ESG process: dates and visits, experts involved
- List of reviewed documents (attachment)
- List of interviewed people (attachment)
- Mention any limitations to the due diligence process
- Relevant standards that were assessed or are applicable

Company Name:
Company Location:

Founder:	
Start Date:	

Final Checklist

Standards/requirements	Applicable	Assessed
ESG DD questionnaire response		
Exclusion List		
IFC Performance Standards		
Lender criteria		

IFC Environmental and Social Risk Categorization

Category A: Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented. This includes business activity that may create: (i) involuntary resettlement (including physical and economic displacement); (ii) risk of adverse impacts on Indigenous Peoples; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, or cultural heritage; (iv) risk of significant retrenchment; or (v) significant occupational health and safety risks to employees.

Category B: Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

Category C: Business activities with minimal or no adverse environmental or social risks and/or impacts.

Investment Risk Category
Risk Category Justification *Short summary of the ESG risk profile of the program at hand when considering program type, size, and location.*

Compatible with local laws

This section should be used to map any legislation in the country of operation which may have a bearing on Hardest-to-Reach's investment's ESG and human rights performance and risk profile, including specifically any legislation which may be in contention with Hardest-to-Reach's global ESG and human rights commitments. The recommendations and action plan emerging out of the due diligence should clearly outline how Hardest-to-Reach will navigate such legislative landscapes on a case-by-case basis.

Legislation	Issuing Authority	Approval entitlement (content)	Issuing date	Expiring date	Comments

Given the countries and sector in which it operates, H2R shall ensure in the case of each investment that it checks for any legislation on the following topics, which may have a bearing on the investment's ESG and human rights risk profile:

- Laws and regulations criminalizing homosexuality (e.g., Uganda Anti-Homosexuality Act).
- Land tenure laws and laws related to customary land regimes (e.g., Malawi Customary Land Act).
- Laws regulating the use of private security companies (e.g., Chad Degree no. 637 regulating private security companies).

Contextual Risk Analysis

Across the Hardest-to-Reach Expansion Fund and select Market Development Facility investments, we seek to provide a contextual risk analysis through the following ten categories:

1. Security and Conflict;
2. Political Risk, Governance, and Civil Liberties;
3. Macro-Economic and Financial Sector;
4. Health and Population;
5. Labor and Workforce;
6. Biodiversity, Ecosystems, and Climate Change;
7. Land and Access to Natural Resources;
8. Social Cohesion;
9. Gender; and
10. Reprisals

Identified risks are prioritized based on estimated likelihood and estimated magnitude of impact of a risk event (on a scale of 1-3). Regional and subregional risks will receive a higher or lower estimated likelihood and estimated magnitude of impact score dependent upon the operational footprint of each business. Additional attention and research may occur for transactions where active conflict, or the risk of active conflict exists at the regional and sub-regional level. Each sub-category will be evaluated on the same scale. Each subcategory likelihood and magnitude score will be averaged to provide a risk and magnitude score for each category. Rubric for this section has been detailed in Annex 18. Categories with average risk ratings that reach a likelihood and impact score of (2:2) or higher will be re-evaluated during the annual review process during the first quarter.

	Risk Category	Likelihood	Impact
1.	**Security and Conflict**		
	Internal Conflict		
	Criminal Violence		
	Terrorism		
	Coups and Government Instability		
	Security Forces		
	Regional and Neighboring Instability		
2.	**Political Risk, Governance, and Civil Liberties**		

	Representational Politics		
	Governance Structures		
	Access to Formal Justice Systems and Conflict Resolution Mechanisms		
	Access to Basic Services and Infrastructure		
	Human Trafficking and Illicit Trade		
	Civil Liberties		
	Market Integrity and Transparency		
3.	**Macro-Economic and Financial Sector**		
	Inflation		
	Exchange-Rate Volatility		
	Access to Financing		
	Financial Regulation and Supervision		
	Default History		
4.	**Health and Population**		
	Food Security and Health Epidemics		
	Natural Disasters and Humanitarian Crises		
	Rural-Urban Disparities (i.e., Population, Sanitation, and Water)		
	Forced Population Movement		
5.	**Labor and Workforce**		
	Labor – Supply Chain Risks		
	Labor Policies		
6.	**Biodiversity, Ecosystems, & Climate Change**		
	Deforestation and Other Threats to Natural Resources		
	Government Capacity in Natural Resource and Protected Area Management		
	Climate Change Vulnerability and Resilience		
	Illegal Bushmeat Hunting and Wildlife Trade		
7.	**Land and Access to Natural Resources**		
	Availability of Water		
	Land Access and Competition		
	Indigenous Land		

	Resettlement: Protection of Land and Property Rights		
8.	**Social Cohesion**		
	Group-based Grievance		
	Workplace Exclusion and Discrimination		
	Community Protest and Unrest		
9.	**Gender**		
	Gender Representation in the Workforce, Education, and Politics		
	Gender-Based Violence and Protections		
10.	**Reprisals**		
	Reprisal Risk		

Climate Risk Analysis

Climate Risk Analysis Summary Chart		
Did we conduct Climate Risk analysis for this investment		
Resilience Benefits	Baseline State	Resilience Benefit
Livelihoods of People and Communities		
Health, Food and Water Security		
Miscellaneous		
Climate Change and Weather Risk Summary	Moderate Risks Not Mitigated	Severe Risks Not Mitigated
Temperature		
Storms, Rainfall, and Flooding		
Droughts and Rainfall Variability		
Fire		
Other		
Potential Negative Impacts		
Environmental Negative Impacts		
Policy Negative Impacts		
Social Negative Impacts		

Human Rights Due Diligence

Findings from the initial HRDD exercise outlined in Section 5.2 shall be presented in the table below. An example has been provided in the table. Any ensuing recommendations, if the company can act on them, shall be incorporated into the ESG Action Plan.

Human Rights Due Diligence Chart							
Impact on Human Rights	Actual or Potential Impact?	Rights Impacted?	Scale	Scope	Irremediability	Likelihood	Overall Assessment
E.g., Impact on Project Construction Workers' Right to Health due to a Lack of Awareness around Health and Safety	*Actual*	*Right to Health* *Right to a Safe and Healthy Working Environment*	*High*	*Medium*	*Medium*	*High*	*High*

In the event that any particularly salient risks are identified with high levels of linkage to H2R, H2R may consider conducting further in-depth human rights due diligence with external subject-matter expert support, which may include dedicated human rights impact assessments on a given project site.

Conflict Analysis and Assessment

Is the proposed investment located in a country currently included in the World Bank's register of Fragile and Conflict-Affected Situations (FCAS)? (Y/N)

If the answer to the above question is "Yes" this section should include further conflict analysis as described in section 5.2.2.9. Namely, this analysis should:

8.3.1.1. Include a conflict analysis assessing the root causes of tensions, including contextual factors that can affect conflict. This analysis is key to identifying human rights abuses or impacts that may arise due to the conflict and not just from usual business operations.

8.3.1.2. Include stakeholder mapping and engagement, identifying different stakeholders involved in the conflict and their motives, capacities and opportunities to inflict and/or suffer violence. This includes affected stakeholders, parties to the conflict and conflict mobilisers.

8.3.1.3. Include an assessment of how business activities impact the conflict, analysing how business operations impact existing tensions and relationships between groups involved in the conflict, and/or fuels new tensions or conflicts.

8.3.1.4. Include an assessment of how the conflict impacts business staff and other affected people, understanding the impact of conflict on employees' lives and well-being, as well as other affected people. This must consider the varied impacts faced by people depending on their gender, ethnicity, nationality, potential role in relation to the conflict, and other characteristics that could put them in a situation of further vulnerability.

Compliance with Environmental and Social Requirements

PS1: Assessment and Management of Environmental and Social Risks and Impacts

Main aspects	**Assessment**			**Comments**
	Weak	**Medium**	**Strong**	
ESMS/E&S Policy				
Company identifying E&S Risks				
Demonstration of E&S organizational capacity				
E&S Monitoring Capacity				
Company emergency preparedness				
Company Stakeholder Engagement				
Grievance Mechanism with SEAH provisions				

Describe which environmental and social risk assessment and mitigation mechanisms are already in place and which are in process to be implemented.

Senior and staff roles and responsibilities, with emphasis on the thematic areas of coordination, environmental management, health and safety and community relations.

Describe the system in place to communicate with relevant stakeholders, particularly with affected communities and indigenous peoples.

Describe and assess grievance mechanisms in place. Are there specific provisions for Indigenous peoples?

PS2: Labor and Working Conditions

Main aspects	**Assessment**			**Comments**
	Weak	**Medium**	**Strong**	
Human Resources Policies				

Working conditions and terms of employment				
Workers organization/union				
Retrenchment				
Occupational Health and Safety				
Child or forced Labor				

Do workers have legal contracts and benefits according to the law: social security, minimum age, working hours, collective bargain?

In case the law is unclear about this or does not exist, does the business prevent collective bargain or hire workers under the age of 18 in exploitative forms?

In the case of contracted personnel, is there a reasonable control over these aspects?

How are contracted personnel or sales agents compensated?

Characteristics of working conditions in factories: proper PPE, visible safety warnings and signage, emergency signage, proper lighting, cleanliness, and ventilation.

Is there a health and safety plan in place?

What kind of accidents and incidents have been registered and given due follow up?

PS3: Resource Efficiency and Pollution Prevention

Main aspects	**Assessment**			**Comments**
	Weak	**Medium**	**Strong**	
Resource efficiency				
Water usage				
Pollution prevention				
Pollution emissions				
E-waste management				
E-waste policy				
Hazardous materials management				

Environmental impacts

Which potential impacts have been identified and included in the ESMS? Have any potential impacts not been considered?

Is there an appropriate management system in place for waste, water and emissions?

Describe the formalized e-waste policy and management system? Are customers aware of e-waste recycling or repair opportunities? How does the business handle broken or repairable products? Do their products have warranties?

PS4: Community Health, Safety and Security

Main aspects	**Assessment**			**Comments**
	Weak	**Medium**	**Strong**	
Traffic and transportation				
Exposure to hazardous materials				
Exposure to disease				
Emergency preparedness and response				
Site security and security personnel				
SEAH protections				
Consumer protection policy				
Data privacy				
Repair, refurbishment, and warranty				

Community health and safety

Which main health and safety aspects have been identified (accidents, hazardous materials) that could affect communities? Are any aspects not been considered?

Are adequate mitigation measures in place and included in the ESMS?

Are adequate grievance mechanisms in place?

In the event the business hired security personnel, are safeguards in place to minimize potential risk towards people outside the program area?

Does the business comply with the GOGLA Consumer Protection Principles?

Does the business have governance oversight of consumer protection, good customer service, transparency, good product quality, personal data privacy protections, and fair and respectful treatment of customers?

Does the business manage credit risk and customer ability to pay appropriately? What are the customer payment safeguards?

PS 5: Land Acquisition and Involuntary Resettlement

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
program Design				
Compensation and benefits for displaced persons				
Community Engagement				
Grievance mechanism				
Resettlement/livelihood restoration planning				
Physical displacement				
Economic displacement				

Conflicts over land tenure and displacement

Are there any conflicts over land tenure?

Is the program designed to avoid or minimize physical and/or economic displacement?

If displacement is unavoidable, are resettlement or livelihood restoration plans in place? Is the process participative and does the business offer appropriate compensation?

PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Habitat				
Natural habitat				

Critical habitat				
Legally protected and internationally recognized areas				
Identification of risks and impacts on biodiversity				
Application of mitigation hierarchy				

Risk assessment and mitigation hierarchy

Are these risks included in the ESMS according to the scope and scale of the program and the biological value of the area in which it is located?

Are mitigation measures in place according to the mitigation hierarchy principle, particularly regarding impacts on biodiversity and ecosystem services, especially focusing on habitat loss, degradation and fragmentation and invasive species?

Are differing values attached to biodiversity and ecosystem services by affected communities considered?

PS 7: Indigenous Peoples

Main aspects	**Assessment**			**Comments**
	Weak	**Medium**	**Strong**	
Avoidance of adverse impacts				
Impacts on traditional or customary lands				
Relocation from traditional or customary lands				
Impact on natural resources subject to traditional ownership, use, or occupation				
Principles of FPIC				

Indigenous peoples

How were indigenous peoples included in the risk assessment analysis?

What traditional and customary rights were identified in the process? Were cultural sites considered in the assessment?

Are the principles of FPIC met?

PS8: Cultural Heritage

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
program design to avoid impacts on cultural heritage				
Consultation and community access				

Cultural heritage identification

Which cultural heritage sites did the business identify?

Are appropriate mitigation measures related to cultural heritage in place?

Summary of main findings and gap analysis

Summarize the most important and relevant aspects of the assessment, combining main risks with an assessment of the management set in place to respond to these risks. Then describe the main gaps and the current capacity and willingness of the business to address them.

GAP Analysis Summary								
Area	**Current State**	**Target State**	**Difference**	**Compatibility with H2R requirements**	**Compatibility with AE E&S Policy**	**Compatibility with GCF revised E&S Policy**	**Action Plan**	**Priority**

Vote and suggested ESGAP measures

Statement of decision if this program can be supported from an environmental and social point of view. In case deficiencies have been detected, decisions can be linked to actions to be taken.

Define necessary actions to be taken by the business to address risks and gaps identified, including them in an Environmental and Social Action Plan (ESAP). To the extent possible, these should include clear timelines, responsibilities, completion indicators and, to the extent possible, estimated costs.

Annex 6: Sample Environmental, Social, and Governance Action Plan

Context: All businesses (new or existing facilities) will be expected to have and complete an environmental, social, and governance action plan as part of receiving investment from H2R. Shared below is the guidance for the various investment facilities and instruments.

Small H2R Development Facility Investments to Last Mile Distributors

Small H2R Development Facility LMD loan recipients will undergo the light touch ESG diligence (audit) questionnaire during due diligence. Small LMD loan recipients are expected at an earlier stage and have smaller environmental and social impacts than other funded activities. ESG action plans will be mandated by the investment agreement. The lending advisor, Hardest-to-Reach, Acumen, and the Investee will collaborate to establish a size and scale appropriate Environmental, Social, and Governance Action Plan.

For the first disbursement of the small loan, businesses are expected to agree to an ESG action plan, demonstrate commitment to the actions outlined in the action plan, and progress at least two activities outlined in the action plan.

To qualify for a follow-on loan, businesses are expected to agree to a revised ESG action plan. The business is expected to agree to activities improving consumer protection, e-waste, and a grievance redress mechanism.

To qualify for a second follow-on loan, Borrowers are expected to agree to a revised ESG action plan. At this stage, Borrowers are expected to engage with ESG technical assistance to develop an environmental and social management system. Investees are expected to have effective human resources policies, consumer protection policies and procedures, e-waste policies, stakeholder engagement plans, and grievance redress mechanisms.

H2R Development Facility Investments (Equity, Debt)

H2R Development Facility loan recipients are expected to undergo the ESG due diligence questionnaire and supplementary questionnaires depending on their business model. They are required to share policies, procedures, evidence of implementation, and monitoring/tracking tools in due diligence. Some businesses may be subject to site visits. They will be expected to be able to have the organizational capacity to identify and mitigate environmental and social risks. If the program team identifies rectifiable ESG risks or deficiencies that are commensurate with an IFC E&S Risk Category B or below, then the business will be required to have an ESGAP.

If the tenor of the loan is a year and the H2R team expects to have a follow-on loan, they may allow the ESGAP to either be completed by the end of the expected engagement or to split the ESGAP into smaller subcomponents.

The H2R team may decide that technical assistance will be a mandatory requirement of the ESGAP depending on the nature and complexity of the ESG risks identified in due diligence.

H2R Development Facility Convertible Note or Recoverable Grant Investment

H2R Development Facility convertible note or recoverable grant Investees will be expected to undergo the ESG due diligence questionnaire and supplementary questionnaires depending on their business model. They will be required to share policies, procedures, evidence of implementation, and monitoring/tracking tools in due diligence. Some businesses may be subject to site visits. They will be expected to be able to have the organizational capacity to identify and mitigate environmental and social risks. If the program team identifies rectifiable ESG risks or deficiencies that are commensurate with an IFC E&S Rick Category B or below, then the business will be required to have an ESGAP. Some especially large grants directly to businesses for operational activities, working capital, or project implementation may be expected to complete some form of diligence.

The H2R team may decide that technical assistance will be a mandatory requirement of the ESGAP depending on the nature and complexity of the ESG risks identified in due diligence. The business must demonstrate that most ESGAP conditions have been met to qualify for a follow-on investment.

H2R Expansion Fund Loan

H2R Expansion Fund loan recipients are expected to undergo the ESG due diligence questionnaire and supplementary questionnaires depending on their business model. They are expected to have the organizational capacity to identify and mitigate environmental and social risks. If the program team identifies rectifiable ESG risks or deficiencies that are commensurate with an IFC E&S Rick Category B or below, then the business will be required to have an ESGAP.

The H2R team may decide that technical assistance will be a mandatory requirement of the ESGAP depending on the nature and complexity of the ESG risks identified in due diligence.

H2R Expansion Fund Warehousing Facility Loan

H2R Expansion Fund warehousing facility loan recipients will be expected to undergo the Annex 3c due diligence. This is a questionnaire oriented to a fund manager. The manager is expected to demonstrate sufficient environmental and social management capabilities, expertise, and safeguards for beneficiary businesses. If the program team identifies rectifiable ESG risks or deficiencies that are commensurate with an IFC E&S Rick Category B or below, then the manager will be required to have an ESGAP. The manager may be expected to create downstream ESG expectations for the beneficiary businesses to ensure alignment with the H2R ESMS

The H2R team may decide that technical assistance will be a mandatory requirement of the ESGAP depending on the nature and complexity of the ESG risks identified in due diligence.

Summary of risks	Mitigation measures	Risk significance	Responsible party/person	Schedule	Expected results	Cost/Budget
This contains the description of risks and can be derived from the responses to the screening questions in Part B2.	*Options to avoid, reduce, mitigate risks and impacts. This may also indicate additional due diligence and specific management plans*	*This contains a description of the overall level of risk**	*Individual person, unit, or entity tasked to carry out the mitigation measures*	*Timing of implementation of measures including any additional due diligence and management plans and may depend on the stage of implementation*	*Expected outputs of the measures*	*Estimated cost of carrying out the measures*

The business must demonstrate that a majority of the loan ESG conditions are fulfilled to be considered for follow on loans.

**Risk significance. The probability of occurrence is the likelihood for a risk to occur and can be characterized in terms of the degree to which it will happen (for example, the UNDP screening procedure uses "expected, highly likely, moderately likely, not likely, and slight"). The impact or magnitude of risks is the description of how severe the impacts would be if it were to occur (for example, "critical, severe, moderate, minor, and negligible"). A significant value of the risk (for example low, medium, high) can be obtained by combining the probability and impact values. The risk significance indicates the relationship between probability and severity or magnitude of impacts. The entities or organizations that will be implementing the proposed activities are best positioned to define the probability of occurrence and severity or magnitude of impacts.*

There is no single technique to determine the significance of risks, nor will it apply in all situations. The entities and organizations that will be implementing the activities will need to determine which technique will work best for each situation. Determining risk significance would require an understanding of activities and locations, the urgency of situations, and objective judgment.

Annex 7: ESG Incident Report Template

Context: This incident report is intended to be used when any ESG incident occurs as defined by the ESMS. The incident report is supposed to be completed by the H2R Development Facility or H2R Expansion Fund relationship managers and the legal team.

PART A:
SERIOUS INCIDENT REPORT: INVESTEE (NEW OR EXISTING FACILITIES) REPORT

Date of report	
Program and Program Manager	
Contact Person	
Contact Information	
Name of Portfolio Entity Involved	
Date of Invested	
Amount Invested	
Total Portfolio Invested (At Cost)	

1.	**Description of Issue**	
1.1.	Date and time	
1.2.	Location of Accident (e.g., address and describe the site)	
1.3.	Type of incident: (e.g., environmental issues, fatality, alleged fraud or other)	

1.4.	Name of person(s) involved / injured / deceased, if applicable	
1.5.	Narrative and contextual information	
1.6.	Weather and other conditions at the time of incident	
1.7.	State whether the incident was work or non-work related	
1.8.	Causes of incident	
1.9.	Status of investigation	
1.10.	Listing of parties involved in investigation (e.g., witnesses and staff, unions, police, other authorities, and other parties)	1)
2.	**Company Management Follow-Up Actions**	
2.1.	Company manager's view of incident: degree of severity, possible uncertainties, or disputed facts to be investigated	
2.2.	Status of Investigation	
2.3.	Reports received	
2.4.	Immediate actions taken by the fund manager and other parties	
2.5.	Further actions to prevent re-occurrence of incident	
2.6.	Monitoring / reporting arrangements to follow up on efficacy of actions	
2.7.	Results to date of action taken	
3.	**Attachments to the incident report (if any):**	
3.1.		

PART B:
SERIOUS INCIDENT REPORT: FUND TO ADVISORY COMMITTEE

Date of report	
program and program Manager	
Contact Person	
Contact Information	
Name of Portfolio Entity Involved	
Date of Invested	
Amount Invested	
Total Portfolio Invested (At Cost)	

4.	**Description of Issue**	
4.1.	Date and time	
4.2.	Location of Accident (e.g., address and describe the site)	
4.3.	Type of incident: (e.g., environmental issues, fatality, alleged fraud or other)	
4.4.	Name of person(s) involved / injured / deceased, if applicable	
4.5.	Narrative and contextual information	
4.6.	Weather and other conditions at the time of incident	

4.7.	State whether the incident was work or non-work related	
4.8.	Causes of incident	
4.9.	Status of investigation	
4.10.	Listing of parties involved in investigation (e.g., witnesses and staff, unions, police, other authorities, and other parties)	
5.	**Company Management Follow-Up Actions**	
5.1.	Company manager's view of incident: degree of severity, possible uncertainties, or disputed facts to be investigated	
5.2.	Status of Investigation	
5.3.	Reports received	
5.4.	Immediate actions taken by the fund manager and other parties	
5.5.	Further actions to prevent re-occurrence of incident	
5.6.	Monitoring / reporting arrangements to follow up on efficacy of actions	
6.	**Conclusion: Next Steps / Action Plan**	
6.1.	Next steps: whether to close the case, or proceed with investigations, how to do so, and the rationale for	
7.	**. Attachments to the incident report (if any):**	
7.1.	Internal Reports from the Investee Company management External or third-party investigation reports Follow-up action plans by Management, Third Parties or External Advisors Changes to policy or procedures to prevent such incidents	

Annex 8a: Annual ESG Monitoring Report

Context: Companies are expected to share ESG developments on an annual basis. H2R Development Facility and H2R Expansion Fund relationship managers will send the questionnaire to the businesses at the end of the year for them to fill out within 1 month of receipt. The impact and ESG managers will interpret this material for monitoring, reporting, and implementation purposes.

Name of Company:
Name and position of E&S reporter:
Date:

Status and changes to ESGAP over the past year?

Status and changes to ESMS/E&S Policy?

Status of environmental and social conditions of investment?

Summary of progress on environmental and social challenges or difficulties implementing the ESMS.

Details of any material changes in the environment and regulation of the group's operations in any of its jurisdictions. Has the business been found to be in violation of any labor or environmental laws or regulations?

Did you have any environmental or social incidents? Have there been emergencies in areas of operation? If yes, please provide details on the incident, current status, and response.

Did you have any grievances recorded or investigated this year? If yes, please share how many, list the grievances, current status, and response.

Has the business made any changes to the HR policy, employee benefits, rights, or compensation, or had any labor, organizing, or contracting issues? Details of actions taken towards improvements in performance with a clear social benefit (e.g., improvements in labor conditions, certification of relevant management systems such as SA8000).

Details on whether retrenchment of employees has taken place in the reporting period. If yes, please specify the number of employees affected and attach a copy of the retrenchment plan.

Details of any initiatives undertaken to reduce the group's environmental footprint (e.g., energy savings, reduction of (hazardous) waste, reduction of CO2 emissions, reduction of water consumption)?

Details of actions taken towards improvement in performance with clear environmental benefits (e.g., energy savings, reducing (hazardous) waste, certification of relevant management systems such as ISO 14001, OHSAS 18000).

Status and changes to the Gender Action Plan over the past year? Please detail any gender-based conditions of the investment.

Please confirm that your organization has not participated in any of the Excluded Activities.

Please share the following documents:

Company Environmental and Social Management System or equivalent document

Updated Environmental and Social Action Plan. Please indicate the progress made against each line item in the ESAP shared by or updated by Hardest-to-Reach.

Materials on ESG incidents or grievances

All materials evidencing compliance with environmental and social conditions of the investment

Copies of reports on external ESG assessment and audits performed by third parties and government regulatory bodies.

Updated Gender Action Plan with updates

Updated Consumer Protection Plan

Evidence of sex-disaggregated data for customers

Annex 8b: Monitoring and Reporting for the Expansion Fund

Context: H2R intends to deliver ESG reporting to H2R investors on a quarterly and annual basis. As described in H2R's ESMS, the Fund expects to include ESG as a component of all aspects of the investing strategy from screening to exits. As such, we seek to ensure our compliance with investor expectations, appropriately identify, manage, and mitigate ESG risks, and support companies with their ESG growth. To that end, we are collecting actionable ESG data across the investment lifecycle and actively monitoring and

gaging with companies to ensure their environmental and social safeguarding capabilities and compliance with H2R expectations.

H2R expects to provide investors with quarterly ESG reporting and an Annual Impact and ESG report, alongside (or a part of) the H2R Annual Report, which will detail progress against the ESG indicators at the portfolio company and fund level.

Quarterly ESG Reporting Template
Fund Level Indicators

Fund Activity	Source Document	Notes
ESMS modifications or improvements	ESMS	
# of active Category C investments	ESG Diligence Reports/Portfolio Company Monitoring Reports	
# of Category B investments	ESG Diligence Reports/Portfolio Company Monitoring Reports	
# of ESIAs	ESIAs commissioned by H2R	
ESG Technical Assistance Provided	ESG technical assistance grants and Acumen tracking document	
# of incidents in last quarter	Incident reports and monitoring reports	
# of grievances in last quarter	Grievance Tracker	

Portfolio Company Indicators

Company	E&S Risk Category	Current Investment Status	Status of E&S Conditions of Investment	# of Incidents and Grievances

Annual H2R ESG Report
Fund Level Indicators

Fund Activity	Source Document	Notes
ESMS modifications or improvements	ESMS	
Updates to related E&S policies and procedures	Relevant Policies and Procedures	
Team training and capacity building	Acumen's H2R ESG Fund Tracker	
# of active Category C investments	ESG Diligence Reports/Portfolio Company Monitoring Reports	

# of Category B investments	ESG Diligence Reports/Portfolio Company Monitoring Reports	
# of ESAPs	Acumen's H2R ESG Fund Tracker	
# of New Investments	Acumen's H2R ESG Fund Tracker	
# of ESIAs	ESIAs commissioned by H2R	
# of Transaction declined on E&S grounds		
ESG Technical Assistance Provided	ESG technical assistance grants and Acumen tracking document	
Compliance with Exclusion List	Monitoring Report	
Updates on E-Waste across Portfolio	Monitoring Report	
Updates on Consumer Protection across Portfolio	Monitoring Report	
Detailed Incident Reporting	Incident reports and monitoring report	
Detailed Fund Level Grievance Reporting	Grievance tracker	
Planned Fund-Level Activities in 2025	Team Consultation	

Portfolio Company Indicators

Indicator	Source Documents	Notes
E&S Risk Category	ESG Diligence Report/Monitoring document	
Summary of E&S risks and mitigants identified	ESG Diligence Report/Monitoring Document	
Summary of ESAP implementation	ESAP	
Summary of Environmental and Social Conditions of Investment	E&S legal agreement/ Monitoring Report	
Compliance with Exclusion List	Monitoring Report	
Compliance with H2R Safeguarding Expectations and ESMS	Monitoring Report	
Updates to Gender Action Plan	Monitoring Report	
E&S Activities Accomplished in previous years		
Details on Retrenchment Activities*	Monitoring Report	
Details on Land Acquisition and Resettlement Plan*	Monitoring Report	
Details on Environmental and Social Impact Assessment*	ESIA/ Monitoring Report	
Detailed Reporting on Regulatory or Legal Issues	Monitoring Report	
Detailed E&S Incident Reporting	Monitoring Report	
Detailed Grievance Reporting	Monitoring Report	

*Contingent on the business model and/or details of the transaction

Annex 9: Land Acquisition and Resettlement Policy

Context and Rationale: The Land Acquisition and Resettlement Policy (LARP) defines the process for screening, assessing, compensating and managing potential risks and impacts from land acquisition and resettlement due to operations supported by an Investee (new or existing facility). As soon as the specific sites and the beneficiary communities of the operations have been defined clearly and in detail, the LARF should be expanded into a specific Land Acquisition and Resettlement Plan (LARP) in line with applicable safeguard requirements.

The Land Acquisition and Resettlement Policy provides the necessary background to ensure that any operations that might involve land acquisition and/or resettlement and loss of livelihoods of affected people will comply with the national laws and the program ESG requirements. H2R does not allow proceeds to be used for land purchases or activities that result in involuntary resettlement.

For each operation that would have activities likely to generate resettlement impacts, a LARP will be prepared. The LARF describes the design criteria for the resettlement of affected persons during implementation of the project, the legal context, the process for the preparation of a LARP, its contents and the process for its execution, and finally the required institutional organization.

Purpose of a Land Acquisition and Resettlement Policy

Land acquisition and involuntary resettlement involve the displacement of people arising from operations that encroach on their productive assets, cultural sites and income sources such as land, grazing fields, other assets, etc. What distinguishes involuntary from voluntary resettlement is that the former involves people who may be displaced against their wishes, as they are often not the initiators of their movement.

The implementation of the various operations of an Investee (facility) may trigger environmental and social safeguards on involuntary resettlement as the land may be acquired for operations purposes and affected persons will need to be compensated for loss of land, crops, dwellings and other structures, and livelihoods.

The purpose of a LARP is to appropriately deal with matters such as the necessity for land acquisition, compensation and resettlement of people affected by the implementation of the operations of the Investee (facility).

Objectives of the LARP

The overall objective of a Land Acquisition and Resettlement Policy is to provide guidance on how to deal with risks and impacts related to land acquisition, compensation and resettlement during the implementation of the project. Our LARP ensures that displacement is avoided, and if not avoided, the displaced and resettled persons are compensated for their loss at replacement cost, given opportunities to share in project created benefits, and assisted with the move and during the transition period at the resettlement site.

The specific objectives of this Policy are as follows:

1. To minimize, as much as possible, acquisition of land for implementation of project operations, where such acquisition or project related activities will result in adverse social impacts;

2. To ensure that where land acquisition is necessary, this is executed as sustainable programs to enable people to share in the project benefits;

3. To ensure meaningful consultation with people to be affected or displaced;

4. To provide assistance that will mitigate or restore the negative impacts of the project implementation on the livelihoods of people affected in order to improve their livelihoods or at least restore to pre-project levels;

5. Outline roles and responsibilities by various stakeholders in the planning, implementation, monitoring and evaluation of resettlement activities;

6. Allow redress among communities affected by project activities; and

7. Reduce stress on project-affected communities/households.

The operational objective of our Policy is to provide guidance to stakeholders participating in the mitigation of adverse social impacts of the project, including rehabilitation/resettlement operations, to ensure that project affected persons will not be impoverished by the adverse social impacts of the project. The target groups for this Policy are all the stakeholders relevant to the implementation of the project operations. This includes project affected persons, communities and NGOs as applicable.

The legal and administrative framework relating to land acquisition and resettlement risks and issues consist of the various pieces of legislation of the countries where the project operations will be undertaken and the program ESG requirements (which include ESG standards of its investors). It is important that at the operation level and as part of the formulation of a Land Acquisition and Resettlement Plan, a gap assessment is undertaken to determine the alignment of the various legal and policy requirements, with a view to adopting the most stringent requirements applicable to the activities and for addressing risks related to land acquisition and resettlement. Key areas of comparison of the legal and administrative framework include compensation of lost assets, eligibility, level of assistance to affected people for improving standards of living and livelihoods, consultation and grievance redress, census and asset inventory, cut-off dates, the timing of compensation, vulnerable communities, and monitoring and completion.

An important consideration in identifying legal and administrative frameworks at the country level is the specific context related to processes for acquisition and land take, processes for resettlement of affected peoples, land tenure system, customary rights and traditional ownership of lands.

In addition to the national requirements, the subprojects will also need to align with the ESG requirements of the program. In particular, IFC Performance Standard 5 specific to land acquisition and involuntary resettlement recognizes that project-related land acquisition and restrictions on land use can have adverse impacts on communities and persons that use this land. The standard thus has the following objectives:

1. To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs;

2. To avoid forced eviction;

3. To anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use by (i) providing compensation for loss of assets at replacement cost and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation and the informed participation of those affected;

4. To improve, or restore, the livelihoods and standards of living of displaced persons; and

5. To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure at resettlement sites.

Involuntary resettlement in IFC PS 5 refers both to physical displacement (relocation or loss of shelter) and to economic displacement (loss of assets or access to assets that leads to loss of income sources or means of livelihood) because of project-related land acquisition. Resettlement is considered involuntary when affected individuals or communities do not have the right to refuse land acquisition, which results in displacement. Where it is unavoidable, appropriate measures to mitigate adverse impacts on displaced persons and host communities must be carefully planned and implemented. To note, H2R proceeds may not be used for land purchases or any other type of transaction that will result in involuntary resettlement.

Compensation framework

The Land Acquisition and Resettlement Plan that will be prepared for specific Investee (new or existing facility) operations assessed to likely generate land acquisition and resettlement risks and impacts will need to define a compensation framework that would provide the payment for loss of lands or assets including access to land and resources. The compensation framework will be guided by the following principles:

1. Provide transparent, fair and timely compensation (prior to land clearance or taking land) for displacement, including compensation for assets in accordance with national regulations and applicable standards;

2. Compensate for lost assets at replacement value; and

3. Restore the livelihoods and welfare of project affected persons and local communities such that their well-being is at the least equal to their pre-resettlement conditions, or that they are better off.

The LARP will present the types of affected persons (such as landowners, tenants, forest occupants without formal tenure, owners of permanent and non-permanent infrastructures, people potentially losing livelihood and access to resources, etc.) and their compensation entitlements. The LARP will also provide the eligibility of affected people for compensation, for example providing consideration to formal legal rights, with leased rights, without legal rights, those arriving after the cut-off dates, etc.

Entitlement Planning

The LARP will also present the entitlement planning process which would entail determining applicable compensation rates at replacement value and establishing measures to mitigate further impacts of land take including livelihoods restoration initiatives, and vulnerable person assistance measures. In establishing applicable compensation rates, an independent valuation expert may be engaged to advise on the market values of affected land, crops and other economic assets in the subproject area.

Method of Compensation

Individual and household compensation will be made in cash, in kind and/or through assistance in the knowledge and presence of both man and wife and adult children or other relevant stakeholders where applicable. The type of compensation will be an individual choice although every effort will be made to instill the importance and preference of accepting in-kind compensation, especially when the loss amounts to more than 20% of the total loss of productive assets. It should be noted that when land holdings necessary for the livelihood of affected persons are taken away or reduced in size by the project work, the preferred form of compensation is to offer an equivalent parcel of land elsewhere, i.e., land for land. Where such land is not available, cash payment can be an option even though cash compensation is not the preferred form of compensation in such cases. It should be noted that cash compensation is only appropriate where there is a market for land or other lost assets in the area of the impact. It is unacceptable to offer cash compensation to, say, a farmer, when he/she has no possibility of acquiring new land in the same area.

Other key elements of the LARP preparation are the process for notifying affected people, census and documentation of assets, agreements on compensation and integration in contracts, and the mechanism for delivering compensations to affected people.

Livelihood Restoration

The Investee (new or existing facility) operations may also affect access of local communities to resources resulting in losses of livelihoods. The LARF should also include a livelihood restoration strategy to prevent and mitigate the potential adverse impacts on the vulnerable project affected persons as a direct result of the resettlement process.

Key principles guiding livelihood restoration planning

The sustainable approach to livelihood restoration is based on the following principles:

1. Livelihoods are multi-faceted strategies, and a combination of approaches is therefore required to support the restoration of income and the reestablishment of community support networks;

2. Active participation of intended beneficiaries in planning and decision making to ensure proposed support reflects local realities and priorities;

3. Affected people should be provided with choices so that they can self-determine how their household will best benefit from the livelihood restoration options;

4. Transition allowances are necessary, but require clear eligibility and end points;

5. Capacity building should be incorporated into livelihood restoration activities to develop skills, including in agricultural practices. Capacity building acknowledges the different needs of women, men, youth, and vulnerable groups with respect to skills development.

Integration of livelihood restoration in plans

To recognize the potential and magnitude of adverse impacts and develop livelihood restoration options, the following approach may be considered:

1. Livelihood restoration for vulnerable affected peoples should refer to the ecological conditions, livelihoods and socio-cultural characteristics possessed by affected people;

2. Livelihood restoration should be able to support project affected people to gain a similar or even better livelihood, independently. It is important that the land acquisition and resettlement process will not cause dependency on the project, which eventually would make more problems in the future;

3. The livelihood restoration should be focused on the characteristics of the vulnerability and potential sources of livelihood assets owned by each household;

4. Involving representatives of both communities, the project-affected people and host populations, in the consultation process to build familiarity and to resolve disputes that are expected to arise during and after the resettlement process.

Land Acquisition and Resettlement Action Plan

Should the Investee (new or existing facility) operations require a specific LARP, an outline of the contents that a comprehensive LARP should include, based on the IFC Performance Standards Guidance Notes, is provided in the following:

1. Description of the project: General description of the project and identification of the project area.

2. Potential impacts: Identification of

- the project component or activities that give rise to resettlement;
- the zone of impact of such component or activities;
- the alternatives considered to avoid or minimize resettlement; and
- the mechanisms established to minimize resettlement, to the extent possible, during project implementation.

3. Objectives and studies undertaken: The main objectives of the resettlement program and a summary of studies undertaken in support of resettlement planning / implementation, e.g., census surveys, socio-economic studies, meetings, site selection studies, etc.

4. Regulatory framework: Relevant laws of the host country, other policies and procedures, performance standards.

5. Institutional framework: Political structure, NGOs.

6. Stakeholder engagement: Summary of public consultation and disclosure associated with resettlement planning, including engagement with affected households, local and/or national authorities, relevant CBOs and NGOs and other identified stakeholders, including host communities. This should include, at a minimum, a list of key stakeholders identified, the process followed (meetings, focus groups, etc.), issues raised, responses provided, significant grievances (if any) and plan for ongoing engagement throughout the resettlement implementation process.

7. Socioeconomic characteristics: The findings of socioeconomic studies to be conducted in the early stages of project preparation and with the involvement of potentially displaced people, including results of household and census survey, information on vulnerable groups, information on livelihoods and standards of living, land tenure and transfer systems, use of natural resources, patterns of social interaction, social services and public infrastructure.

8. Eligibility: Definition of displaced persons and criteria for determining their eligibility for compensation and other resettlement assistance, including relevant cut-off dates.

9. Valuation of and compensation for losses: The methodology used in valuing losses to determine their replacement cost; and a description of the proposed types and levels of compensation under local law and such supplementary measures as are necessary to achieve replacement cost for lost assets.

10. Magnitude of displacement: Summary of the numbers of persons, households, structures, public buildings, businesses, croplands, churches, etc. to be affected.

11. Entitlement framework: Showing all categories of affected persons and what options they were/are being offered, preferably summarized in tabular form.

12. Livelihood restoration measures: The various measures to be used to improve or restore livelihoods of displaced people.

13. Resettlement sites: Including site selection, site preparation, and relocation, alternative relocation sites considered and explanation of those selected, impacts on host communities.

14. Housing, infrastructure, and social services: Plans to provide (or to finance resettlers' provision of) housing, infrastructure (e.g., water supply, feeder roads), and social services (e.g., schools, health services); plans to ensure comparable services to host populations; any necessary site development, engineering and architectural designs for these facilities.

15. Grievance procedures: Affordable and accessible procedures for third-party settlement of disputes arising from resettlement; such grievance mechanisms should consider the availability of judicial recourse and community and traditional dispute settlement mechanisms.

16. Organizational responsibilities: The organizational framework for implementing resettlement, including identification of agencies responsible for delivery of resettlement measures and provision of services; arrangements to ensure appropriate coordination between agencies and jurisdictions involved in implementation; and any measures (including technical assistance) needed to strengthen the implementing agencies' capacity to design and carry out resettlement activities; provisions for the transfer to local authorities or resettlers themselves of responsibility for managing facilities and services provided under the project and for transferring other such responsibilities from the resettlement implementing agencies, when appropriate.

17. Implementation schedule: An implementation schedule covering all resettlement activities from preparation through implementation, including target dates for the achievement of expected benefits to resettlers and hosts, and implementing the various forms of assistance. The schedule should indicate how the resettlement activities are linked to the implementation of the overall project.

18. Costs and budget: Tables showing itemized cost estimates for all resettlement activities, including allowances for inflation, population growth, and other contingencies; timetables for expenditures; sources of funds; and arrangements for timely flow of funds, and funding for resettlement, if any, in areas outside the jurisdiction of the implementing agencies.

19. Monitoring, evaluation and reporting: Arrangements for monitoring of resettlement activities by the implementing agency, supplemented by independent monitors to ensure complete and objective information; performance monitoring indicators to measure inputs, outputs, and outcomes for resettlement activities; involvement of the displaced persons in the monitoring process; evaluation of the impact of resettlement for a reasonable period after all resettlement and related development activities have been completed; using the results of resettlement monitoring to guide subsequent implementation.

Annex 10: Guidance on Indigenous Peoples

Context: While Hardest-to-Reach's work does not generally present risks to indigenous groups, we want to ensure that our activities comply with the Green Climate Fund's ("GCF") Indigenous Peoples Policy ("IPP") and international best practice for any programs funded by GCF, in an effort to be more effective in our mission and in serving impoverished communities.

Definitions

In this policy, the term Indigenous Peoples is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

(a) Self-identification as members of a distinct indigenous social and cultural group and recognition of this identity by others;

(b) Collective attachment to geographically distinct habitats, ancestral territories, or areas of seasonal use or occupation as well as to the natural resources in these areas;

(c) Customary cultural, economic, social, or political systems that are distinct or separate from those of the mainstream society or culture; and

(d) A distinct language or dialect, often different from the official language or languages of the country or region in which they reside. This includes a language or dialect that has existed but does not exist now due to impacts that have made it difficult for a community or group to maintain a distinct language or dialect.

Commitments

This policy represents H2R's formal approach to issues affecting Indigenous Peoples. For each of the programs funded by the Green Climate Fund, Acumen will create and implement an Indigenous Peoples plan framework ("IPPF") for activities conducted under these programs. While the project has potential risks associated with H2R activities as shared in the ESIA in Section 3 of the H2R ESMS, investments that create adverse impacts specific to indigenous communities are not eligible for financing.

Implementation and Review

We intend to implement this policy by developing IPPFs and working with the program teams to see them integrated within the program. Additional operational guidance, monitoring and review may be provided periodically by the H2R Development Facility and H2R Expansion Fund Impact Lead and Acumen's ESG team.

Indigenous Peoples Plan Framework

1. Types of Subprograms to be financed under Hardest-to-Reach

a. Debt, quasi-equity, and grant investments in businesses bringing off-grid energy access to low-income communities in Hardest-to-Reach markets in Africa.

b. Technical assistance grants to Investees (facilities).

2. Potential impacts to Indigenous Peoples

a. Positive

i. Improved access to affordable off-grid energy and decreased reliance on traditional energy sources, translating into health and financial savings.

b. Adverse

i. Possible displacement if Investees (new or existing facilities) expand operations (factories, warehouses) and acquire land traditionally held by indigenous groups.

ii. Manufacturing waste could pollute Indigenous lands if factories are located nearby.

iii. Potential impacts on natural resources subject to traditional ownership, use, or occupation.

3. Assessment Plan

a. For each investment contemplated by H2R, the investment team will ask certain questions during the diligence phase to assess the level of risk presented to indigenous people, and any action to take, as necessary.

b. Questions may include:

i. Does the business operate in areas with known indigenous populations? If not, no further action.

ii. If yes, ask questions about business model and the community to understand:

1. Any potential adverse impacts, and, if any, how to mitigate them.

2. How to ensure indigenous groups have equal access to the goods or services provided by the business.

iii. During the post-investment period, H2R may work with the business to develop its protections for indigenous groups, as relevant.

c. H2R will also bind its Investees (facilities) by the same or comparable standards as the IPP, as appropriate.

4. Ensuring Meaningful Consultation and Free, Prior and Informed Consent

a. In the event that H2R Investees (facilities) identify adverse impacts on indigenous groups, Investees will construct a plan for engaging in meaningful consultation, pursuant to section 7.1.5. of the IPP.

b. Where activities of an investee (facility) may result in displacement, the investee will obtain free, prior and informed consent, as set forth in section 7.2 of the IPP, before any such action is taken.

5. Monitoring and Reporting

a. Where potential impacts have been identified, H2R will annually ask for updates during their standard review of Investees (facilities).

Annex 11: Stakeholder Engagement Plan

Context: Stakeholder engagement is a pillar of the Hardest-to-Reach Project. It will take a strong, committed, and broad coalition to act together to reach millions of beneficiaries that have never had access to electrification. We need inspired entrepreneurs with SHS businesses, investors and donors passionate about renewable electrification, government entities engaged in their climate goals, and the voices of beneficiaries to guide our Project. To that end, we developed a comprehensive Stakeholder Engagement Plan to ensure that we engage important voices across the Project in the Project development, implementation, monitoring, and reporting stages.

H2R is governed by the ESG Policy, which is implemented by the H2R team, the co-manager, consultants, and Investees (new or existing facilities). The ESG Policy and ESMS commits H2R to ESG and community-based activities, stakeholder engagement, and stakeholder tools. Stakeholders across the Project will have access to multiple methods of communicating with and learning from the H2R Project. The Project developed and now implements a Grievance Redress Mechanism aligned with international best practices and GCF standards.

Project Development

The Project reached out to a diverse group of stakeholders in the development of this Project. Our team canvassed the H2R markets we expect to reach, and learned from government entities, investors, donors, pipeline businesses, industry associations, affiliated nonprofits, civil society organizations, advocacy groups, and prospective beneficiaries.

For example, industry associations and nonprofits helped us engage in critical issues around e-waste and consumer protection. Consultants supported our understanding of local climate risks. Government entities encouraged our engagement with pipeline businesses, beneficiaries, and the local energy ecosystem.

Outreach Methodologies

1. One-on-one meetings: Our team meets with government entities, pipeline businesses, nonprofit organizations, non-governmental organizations, civil society organizations, and other valuable stakeholders on a one-on-one basis to ensure that we learn their needs and feedback on our Project. We ask stakeholder specific questions during one-on-one meetings, build rapport, and create partnerships.
2. Stakeholder engagement town halls: We use stakeholder engagement in-person and virtual town halls to orient a wide variety of stakeholders to our Project. We share our country-specific goals, impacts, and climate policy alignment. We also collect quick feedback on our Project from our town halls.
3. Surveys: We survey stakeholders to get feedback on the Project design, stakeholder interest in the Project, and to improve our communications tools with stakeholders. Their feedback informs our relationship with these groups as the Project progresses.
4. Conferences: Acumen and the H2R team have attended conferences like GOGLA's Global Off-Grid Solar Forum and Expo and COP 27 in Egypt. Conferences give H2R the opportunity to network with businesses, government entities, NGOs, and other potential partners for the Project. Side meetings, panel discussions, and networking informed Project design, opportunities to create impact, and ESG practices.
5. Customer study: We have done household surveys with customers of pilot projects.

Summary of Consultations

H2R has engaged with over 90 different stakeholders across 28 countries representing a number of different stakeholder groups. The team aimed to learn and seek guidance from stakeholders who have informed the project design and early implementation.

Acumen and the H2R team have sought significant input and engagement from and reporting to Nationally Designated Authorities in H2R markets. The team has reached out to all the NDAs in H2R markets and has had significant engagement with each of them.

- 6 NDAs met at the GCF Global programming Conference (09/22)
- 6 NDAs met at COP 27 (11/22)
- 9 NDAs met during in-country visits (2/23)

The team has had meaningful engagement with the following NDAs:

- Ministry of Living Environment and Sustainable Development, Benin
- Prime Ministry, Burkina Faso
- Ministry of Environment, Agriculture, and Livestock, Burundi
- Ministry of Environment, Water, and Fisheries, Chad
- National Coordination of the Green Climate Fund, Democratic Republic of Congo
- The National Directorate of the Environment, Guinea
- Secretariat of State of the Environment / General Direction of the Environment, Guinea Bissau
- Ministry of Energy and Meteorology, Lesotho
- Environmental Protection Agency, Liberia
- Ministry of Environment, Ecology, Sea and Forests, Madagascar
- Environmental Affairs Department, Malawi
- Ministry of Economy and Finance – National Directorate for Monitoring and Evaluation, Mozambique
- National Council of the Environment for Sustainable Development (CNEDD), Niger
- Environment Protection Agency, Sierra Leone
- Ministry of Environment and Climate Change, Somalia
- Vice President's Office, Tanzania
- Directorate of Environment, Ministry of Environment, Togo
- Ministry of Finance, Planning and Economic Development, Uganda
- Ministry of National Development Planning, Zambia

As a result of continued engagement efforts, the team has secured the following 17 No Objection Letters:

- Ministry of Living Environment and Sustainable Development, Benin
- Prime Ministry, Burkina Faso
- Ministry of Environment, Agriculture, and Livestock, Burundi
- Ministry of Environment, Water, and Fisheries, Chad
- National Coordination of the Green Climate Fund, Democratic Republic of Congo
- The National Directorate of the Environment, Guinea
- Secretariat of State of the Environment / General Direction of the Environment, Guinea Bissau
- Ministry of Energy and Meteorology, Lesotho
- Environmental Protection Agency, Liberia
- Environmental Affairs Department, Malawi
- Ministry of Economy and Finance – National Directorate for Monitoring and Evaluation, Mozambique
- National Council of the Environment for Sustainable Development (CNEDD), Niger
- Environment Protection Agency, Sierra Leone
- Ministry of Environment and Climate Change, Somalia
- Directorate of Environment, Ministry of Environment, Togo
- Ministry of Finance, Planning and Economic Development, Uganda
- Ministry of National Development Planning, Zambia

NDAs have asked the team about Land Resettlement issues, grievance mechanisms, and impact. The H2R team was able to directly improve these activities and narratives because of engaging with NDAs. The team has also learned about reporting and communications expectations from the NDAs. The NDAs have also been helpful to the Project's broader stakeholder engagement efforts. NDAs shared valuable guidance on communities, organizations, and other government entities to speak with during the project development process. As a result of these meetings, the team has set up both in-person and virtual town halls with a diverse cross section of stakeholders.

The team held its first in-person town hall in Sierra Leone in November 2022. 10 organizations and 14 people attended the town hall in Freetown. The conference helped the team build a pipeline, deepen the team's understanding of the local context, and engage a variety of local organizations.

The team has also visited Guinea, Guinea Bissau, Liberia, Lesotho, Malawi, Madagascar, Mozambique, Sierra Leone, Togo, and Zambia and met with NDAs, high level government officials, civil society organizations, leaders in the private sectors, and off grid solar consumers. The team has also commissioned Open Capital Advisors (OCA), a consultancy firm focused on Africa, to do several on the ground research studies on consumers in several of the Hardest-to-Reach markets. As shared throughout the ESMS, project-affected people will provide a guiding role in the project design and implementation. Site visits and OCA research have helped H2R better understand the needs and barriers faced by potential consumers in H2R markets.

The team continues to host town halls across the H2R markets. The team hopes to have annual town halls to continue the dialogue with stakeholders. The team has participated in or hosted two virtual town halls for stakeholders in Uganda and Burkina Faso. The team plans to host more town halls to reach a broader range of stakeholders including civil society organizations and organizations representing women and indigenous communities.

Hardest-to-Reach has also engaged industry peers, leaders, and others at conferences over the past year. The team has spoken at and attended a number of important conferences including COP 27 and the GCF Global programming Conference. These conferences have been valuable opportunities to build the H2R network, knowledge share, and develop insights.

The H2R team has had meaningful engagement with over 25 individuals, notably via a Stakeholder Consultation Forum with GCF Gender Monitors. The session had representation from over 11 countries in sub-Saharan Africa, as well as from specialist gender lens off-grid solar organizations. (See the H2R Funding Proposal with GCF, Annex 8a, Section: 'Consultations')

Additionally, the team has worked with a number of organizations to improve the climate and gender lens of the project. The team hired climate and gender experts to support the development of the climate mitigation and adaptation rationale and strategy. They also supported the development of climate mitigation methodology. The project gender experts supported the development of the gender lens investing strategy and the Gender Action Plan.

Acumen also seeks to build an enabling environment with the team's stakeholder engagement work. The team has sought to coalesce a multiparty stakeholder group called the REACH Partnership. Based on Acumen's experience in the OGS sector, the team has learned that these markets become strongest when different stakeholder groups like NGOs, aid organizations, and leading OGS practitioners come together to learn from each other and coordinate strategies to maximize impact. The REACH Partnership is still forming, and members, meeting structure, activities, outputs, and reporting is still being discussed by interested parties.

Finally, the team has piloted a project in Benin, and we sought the voice of beneficiaries in the pilot. The team commissioned a consumer study that reached 212 beneficiaries. The team received the results in November and hopes to incorporate the findings into future project development and implementation. End-user voice and input are critically important to the success of this project. Results include:

- 61% of respondents shared that they were living in poverty
- 58% of respondents shared that quality of life "very much improved"
- 77% of respondents shared that this was the first-time accessing service provided
- 67% of respondents reported not having access to a good alternative

Stakeholders helped us deepen our understanding of the country's context. We have a better understanding of the political context, gender issues, and the off-grid energy market because of our consultations with various local government entities, groups, organizations, and businesses.

Assessment

H2R aspires to have a large impact for a relatively small electrification Project. Our activities primarily consist of investment services, technical assistance, and coalition building. H2R activities have a limited operational footprint. Our stakeholders are broadly interested in positive ESG impact.

Across Project development, implementation, and monitoring, stakeholders will provide important insight into environmental, social, and governance risks both to the Project and the communities we are investing in. We outlined our stakeholders and our engagement strategy in the table below.

Activities

Project development activities include in-person and virtual country-level stakeholder town halls to understand the specific local needs of the communities and stakeholders we serve.

Ongoing activities include:

- Consumer studies: Consumer studies will help us understand the community voice in our Project. Consumer studies will measure community voice on access and usage, customer experience, quality of life, poverty, consumer protection, ESG, gender, and climate adaptation and resilience. We are also interested in engaging in several longitudinal studies on climate adaptation and resilience, ESG, and understanding energy use.
- Due diligence on stakeholder engagement: Hardest-to-Reach will ask pipeline businesses about their stakeholder engagement in due diligence. We aspire to invest in businesses who can incorporate community voice in their work. All businesses are expected to have or develop a grievance mechanism.
- Grievance Redress Mechanism: Hardest-to-Reach developed a strong, transparent, and responsive grievance redress mechanism that is available to anybody adversely impacted by Project activities. Hardest-to-Reach seeks to ensure that Investees (new or existing facilities), beneficiaries, and stakeholders can report adverse impacts of the Project, have their report investigated, and seek remedial action.
- Community Reports: Hardest-to-Reach seeks to engage relevant stakeholders with annual updates on Project activity.
- NDA engagement: country report and a liaison to strengthen our ties and ensure appropriate monitoring, reporting, engagement, and alignment with country-level climate goals.
    - In-person NDA meeting with Togo NDA – November 2022
    - In-person NDA meeting with Liberia NDA – November 2022
    - In-person NDA and Stakeholder workshop in Sierra Leone – December 2022
    - In-person NDA meeting with Guinea NDA – December 2022
    - NDA engagement meeting with World Bank – May 2023
    - Acumen hosted a three-day NDA conference in Nairobi in November, 2024, which included 10 H2R NDAs. The H2R team met with each NDA individually as well as hosted panels and group discussions on H2R market opportunities.
    - Ongoing activities include:
    - NDA Engagement Meeting with Acumen – DRC in January 2024
    - NDA Engagement Meeting with Acumen – Zambia in January 2024
    - NDA updates in February 2024
    - NDA Engagement Meeting with Acumen – Zambia in August 2024
    - Virtual NDA update to all H2R NDAs in July 2025
    - Virtual NDA update to all H2R NDAs in February 2025
    - Virtual NDA update to all H2R NDAs in May 2025

- Insights Reporting: H2R is approaching electrification with innovative and powerful ideas. We want to evaluate their success and share our findings with the world. Insights reporting will be an important tool for ecosystem building.
- Conferences: Hardest-to-Reach seeks to share Project activity, insights, and lessons learned with peers in the industry. We hope that our engagement with investing peers and off grid businesses will be catalytic.
- LP engagement: LPs will be briefed on Project activity on a quarterly basis. They will have the opportunity to share their feedback, ensure the Project is complying with investor agreements, and provide guidance to the team.
- Investment Committee: The Investment committee will review potential investments across Hardest-to-Reach and provide expert input on market fit, risks, ESG, gender, climate, and other relevant matters.
- Annual town halls: Hardest-to-Reach seeks to continue engaging relevant stakeholders with annual updates on Project activity with annual virtual town halls. We hope to collect feedback on our activities so we can continue to improve the Project throughout its lifespan.
- Outreach to new NDAs:
  - Liberia: June and July 2024: H2R meets with the World Bank office of Liberia
  - June 2024: Refreshed engagement with Liberia NDA; Acumen shared prospective plans/opportunities for H2R in Liberia
  - August 2024: Meeting with Business Development Consultant to Liberia Rural Electrification Authority
  - August 2024: H2R shares briefing materials with Liberia Environmental Protection Agency
  - September 2024: H2R met with Liberian representatives of ROGEAP, or the Regional Off-Grid Electricity Access Project to address access to finance for off-grid companies in Liberia
  - November 2024: Ongoing engagement with Liberia NDA office via email and other informal communication channels
  - March 2025: Liberia NDA signs NOL
  - Madagascar: Ongoing virtual engagement with the Madagascar NDA about Potential

Nationally Designated Authorities

Acumen and H2R considers the Nationally Designated Authorities to be a valued partner to the program. NDAs provide meaningful on-the-ground knowledge, public sector partnership, valuable guidance, and a meaningful monitoring and reporting role. Our team seeks to support NDAs in accomplishing national climate and electrification goals. We are committed to knowledge sharing, insights development, and strategic investments that will support NDAs with their climate and energy goals. To ensure Acumen and Hardest-to-Reach maintain a strong relationship with NDAs, Acumen commits to the following activities:

1. Quarterly Meetings: Acumen will schedule virtual quarterly meetings with the NDA for Acumen to provide progress reports on GCF programs and to learn from the NDA about opportunities and challenges in H2R countries.

2. Annual Monitoring and Beneficiary Meeting: Acumen will meet annually with the NDA to review monitoring strategy and program impacts on beneficiaries in the country, and seek the NDA's guidance, counsel, and support in implementing this program and optimizing impact on beneficiaries.

3. Annual Report: Acumen will provide an annual report detailing activities and impacts of the programs based in the country. These reports could be disbursed by the NDA to stakeholders and other government officials.

4. Annual Stakeholder Gatherings: Each GCF program will host a virtual or in person stakeholder meeting with different stakeholder groups in the country, which may include government entities, industry associations, local businesses, women's groups, indigenous organizations, civil society organizations, academic institutions, and other relevant parties. We hope that the NDA will provide guidance and support connecting Acumen with valuable stakeholders.

5. Building Direct Access Entity (DAE) Capacity: Acumen seeks to consult with DAEs to improve their capacity to design and implement GCF programs. Current ideas for such support could include consulting on environmental and social management systems, GCF funding proposals, and monitoring and reporting, as appropriate. We

welcome ideas from the NDA as we engage DAEs and update you in our quarterly and annual meetings on the development of these supports.

Stakeholder voice

H2R cares deeply about the impact and risks of our Project. Our investors and donors share a mandate with Hardest-to-Reach to identify and mitigate environmental and social risks both material to the financial viability of the Project and to communities we seek to serve. We listen closely to our investors and donors about ESG risks they want us to identify and mitigate. We have built their ideas, insights, and mandates into the ESG Policy, ESMS, Stakeholder Engagement Plan, Gender Action Plan, and Grievance Redress Mechanism.

With H2R, we want ESG to be a tool to ensure the financial viability and sustainability of the Project, and to ensure that we identify risks, mitigants, and positive impacts on the communities we serve. For example, we care about labor issues both because illegal labor practices could harm investment returns and because it would negatively impact the communities we serve.

H2R is an opportunity to understand the environmental and social risks from the community perspective, to complement our investors and donors' ESG approach. We want to ask what their biggest concerns are when new businesses engage in their community. Do communities care about different concerns than other stakeholders in the Hardest-to-Reach universe? How can our Project incorporate community concerns into the building of H2R markets?

We hope that H2R Development Facility Investees (new and existing facilities) will seek H2R Expansion Fund lending if and when H2R Development Facility Investees repay H2R Development Facility loans and fulfill all conditions and covenants. As a component of H2R Expansion Fund funding, H2R seeks to engage in beneficiary and community level surveys to understand both the impacts and the community-level ESG risks that are relevant to the people we serve. We are engaging in a new way to measure and manage ESG risks. When we hear directly from the communities we serve, we can better orient our ESG action plans, stakeholder engagement, grievance mechanisms, and tools to the needs of H2R beneficiaries. Acumen has always listened to our beneficiaries as a core component of creating impact, and we are expanding with Hardest-to-Reach to create a holistic understanding of this Project.

With the data and information that we will receive from these surveys, we hope to help Investees (facility) prioritize the ESG concerns of the communities they serve, improve the stakeholder engagement in the communities they serve, and give beneficiaries opportunities to improve the Project.

H2R Expansion Fund Investee (facility) ESGAPs will be made with community voice prioritizing both the timing and scale of intervention. Community voice will drive our Project activities, engagement with businesses, impact assessment, and portfolio evaluation throughout the life of the fund.

Monitoring

Stakeholder engagement will be a pillar of H2R Project monitoring and evaluation. Our Project will work with customer voice experts to survey beneficiaries on impact, ESG, consumer protection, and several other topics. Stakeholder voice will help us determine if our investment and interventions are improving their lives and businesses' capacity to generate more and deeper impact.

H2R will continue to engage stakeholders in the process, will monitor investee (new and existing facilities) activity for grievances or ESG incidents. H2R will consult with civil society organizations, people from marginalized communities, or other representatives if we find recurring issues adversely impacting communities or the Project.

Reporting

H2R expects to report on Project activity to a diverse group of stakeholders on an annual basis. The H2R team will share Project activities, outputs, outcomes, and impacts with these groups. We will also share the outcomes of stakeholder engagement activity with select groups including GCF. Moreover, we will seek their feedback and guidance after we share these results.

Community voice will be an important part of the insights that we develop and share more broadly across the industry. We seek to learn from stakeholders what insights and reporting are relevant to them. With that, we hope to influence the various stakeholders, policy makers, and private sector leaders to follow the H2R lead on electrification in these markets.

H2R will expect reporting from businesses on their stakeholder engagement activities. This includes reporting on grievance redress mechanisms, ESG incidents, and community outreach. Companies will also be expected to report on improvements or changes required in their stakeholder strategy that may be required as part of the ESG action plans.

Stakeholder voice, captured in our reporting, will inform Project activities and investing strategy over the course of H2R. We shared our stakeholder engagement approach across stakeholders below.

Category and Key Issue	**Key Stakeholder**	**Level of Interest and Influence**	**Stakeholder Engagement Strategy**
Potential Investees and others	Solar Home System Last Mile Distributor	Last mile distributors operating in H2R markets will be interested in the Project as H2R will provide important financing opportunities. Their needs, capacity, and engagement are especially important to the success of the Project. LMDs will have a high level of influence on our Project.	The H2R team expects to learn from entrepreneurs and businesses about their business models, strategies, and alignment with the Project. We expect to engage with potential H2R LMD in DD to ensure they appropriately engage with communities. Ensure they have grievance mechanisms and other Project-aligned community communication tools. Companies are responsible for sharing data with H2R.

	Solar Home System Vertically Integrated Business	Vertically integrated businesses will be interested in H2R financing as it will help them expand into new markets. VI businesses entering these markets will be important as they will demonstrate their viability to investors, financiers, and other businesses. These businesses will have a high degree of influence on our project.	Similar expectations to LMDs. Vertically integrated businesses should ensure that their communications tools and grievance mechanisms are locally and culturally appropriate.
	Solar Home System Manufacturer	SHS manufacturers will be needed to support LMDs in H2R markets. They will have a high level of influence over the project activities.	H2R will have similar expectations to SHS manufacturers. Manufacturers are expected to comply with local laws and regulations, and to engage beneficiaries and employees with strong regard for human rights.
Regulatory/Government entities	Nationally Designated Authorities	H2R will need No Objection Letters (NOL) written by the Nationally Designated Authorities in the H2R markets. Receiving NOLs means that the Project team has appropriately and responsibly engaged government entities in the project development process. Their input into the project design is especially important as NDAs help the team align project goals and activities with national climate goals. NDA input and support will be valuable for the project implementation, monitoring, and stakeholder engagement. They will have a high level of influence on the project.	Nationally designated authorities are deeply engaged in our Project development and throughout the Project lifecycle. NDAs will ensure that our Project aligns with their country's climate and electrification priorities and give guidance on their expectations of the Project. NDAs will also be informed of Project activity on an annual basis. H2R will ask NDAs to provide feedback on reporting and engagement with relevant stakeholders.
	Energy Ministries and Departments	H2R will have to comply with local energy laws and regulations. Moreover, the Project will want to align with government electrification, energy, and	We will seek guidance from energy ministries to ensure portfolio compliance with local laws and regulations. We will also seek engagement with energy

		renewable energy goals. Energy ministries will be interested in the businesses seeking to operate within their countries. They will have a moderate level of influence over the Project.	ministries on policy alignment with electrification and renewable energy.
	Other relevant regulatory agencies	H2R and Investees (facilities) will have to follow local laws and regulations. These ministries will influence the types of activities that the Project and Investees (facilities) can do. They will have a moderate level of influence over the Project.	H2R also wants to ensure our compliance and portfolio compliance with local labor laws and regulations. We will check regulatory agency websites periodically to ensure we are up to date on local laws and regulations.
Investors and donors	Green Climate Fund, DFIs, other investors	Investors and donors have a high degree of influence over project design and implementation. H2R must abide by the governing documents and investor agreements for H2R. Moreover, H2R must abide by investor and donor policies. Investors will influence the project through the LPAC and other advisory positions. Additionally, H2R will be accountable to investors via the Project's annual reporting.	H2R will engage with GCF, DFIs, and other investors frequently to ensure compliance with investor policies, agreements, and expectations. H2R will seek investor input into the development of the fund, funded activities, investment strategy, stakeholder program and a number of Project management topics. H2R will also report to investors on financial, impact, and environmental and social aspects on a quarterly and annual basis.
	Donors include HNWIs, government aid programs, and other large donors	Donors will have a high level of influence over the H2R Development Facility. The project development and implementation will be guided by their input, policies, procedures, and requirements. The donors will also influence the H2R Development Facility through grant capital that can be used towards equity, debt, technical assistance, and project management.	H2R will seek to engage donors proactively and listen to their input throughout the life of the Project. Donors' expectations for funded activity will influence Project design. They will share expectations for Project activity and reporting. H2R will report to donors annually on Project activity and seek their input when their expertise and influence can enhance Project outcomes.

Broader Industry, industry associations	GOGLA	Industry associations will have a moderate level of influence over the Project. Their expertise, experience, and access to different stakeholders will help the project with sharing insights and learning from peers in the industry.	Hardest-to-Reach expects to learn best practices, recent trends, and investment opportunities from industry associations, organizations, and businesses. We expect to report our findings, impact, and insights to the broader industry so that others can learn from our model and make similar impacts in H2R markets.
Consultants and contractors	E.g., IBIS, Value for Women	Consultants will influence the technical assistance, climate, and gender work. They will have a high level of influence over specific aspects of the Project activities like gender work, ESG, and consumer protection.	H2R will seek to engage consultants and contractors in their areas of expertise. Consultants and contractors will provide technical assistance to H2R Investees (facilities) on gender, ESG, consumer protection, and business development topics. They will provide expertise and guidance across the Project so that businesses can improve business and impact practices.
Academia, universities, and think tanks	Loughborough University	Academics will have a small influence on the project. H2R hopes to include their insights and expertise in the monitoring, evaluation, and reporting of the Project.	H2R aspires to include academic institutions in our learning throughout the Project. The team hopes that they can support our continued learning on the value of electrification in building climate resilience for beneficiaries in H2R markets.
Marginalized communities, advocacy groups, civil society organizations	Women's renewable energy association, Indigenous advocacy group	These groups will have a high level of influence over specific tools and activities in this project. Their voice will inform the design and implementation of these components.	Civil society groups, advocacy groups, and marginalized communities will be important voices to capture throughout the project lifecycle. They will inform the gender lens for H2R investing, activities around SEAH, Indigenous engagement and protections, and other important topics. H2R seeks to meet with

			representatives from these groups to learn about their perspective on the project. Additionally, H2R seeks to share annual community reporting and webinar engagements with these groups.
End-Users and beneficiaries	End-users with first time electrification	End-users and beneficiaries will have a high degree of influence over the project. Their voice will influence engagement with Investees (new or existing facilities) and other stakeholders.	H2R seeks to engage beneficiaries and end-users with their input and voice throughout the Project lifecycle. The management team seeks to engage end-users and beneficiaries using a variety of tools. The team hopes to engage them using the customer surveys. Their voice will guide the Project and the team engagement with Investees (facilities). The Project will also engage them with the Grievance Redress Mechanism. The team wants to hear from beneficiaries who have experienced challenges with the Project.

Annex 12: Grievance Redress Mechanism

I. Context:

The program intends to do no harm with its investing and has developed robust environmental and social risk identification and mitigation policies, procedures, and strategies to reduce harm. The program is aware that its work is especially impactful to marginalized and vulnerable populations, and, as such, has an obligation to listen to the concerns of the communities in which the program operates. Given that, the program will implement a Grievance Redress Mechanism ("*GRM*") as developed between the AE and the Green Climate program ("*GCF*"). The program's GRM is a tool for stakeholders to engage with the program on concerns that affect their communities and livelihoods. The AE and the GCF developed the GRM framework based on the AE's Environmental and Social Policy, the Ruggie Principles, and the GCF's Independent Redress Mechanism.

II. Purpose:

The GRM is meant to ensure that communities with eligible environmental and social complaints have a legitimate, accessible, predictable, equitable, transparent, and rights-compatible grievance process. The program's GRM intends to:

1. Respond to the needs of beneficiaries and program-affected people;
2. Serve as a portal for communities to share their input on the impacts of the program's investments;
3. Collect information on harms that were unintended or not appropriately mitigated to prevent future harms;
4. Share the program's grievance process in a clear and transparent manner;
5. Deter harmful environmental and social impacts through public accountability;

III. Types of Grievances:

The GRM is made available to all parties who have grievances arising from activities related to the program's investments. These grievances can be related but not limited to:

1. Environmental, social, community health, safety, and security;
2. Gender bias and harassment;
3. Labor, compensation, and any issues that may arise due to interactions between Investees (new or existing facilities) and host communities;
4. Resettlement-related grievances, such as valuation of assets, amount of compensation paid, level of consultation, non-fulfilment of contracts, and timing of compensations, etc.

Grievances are non-eligible if:

1. The complaint is submitted two (2) years after the program has been closed;
2. The complaint is submitted two (2) years after the date that the complainant became aware of the negative impacts by the program's Investees (facilities).

IV. Transparency:

The program commits to transparency with its GRM. The program will share its GRM procedures online and with stakeholders when making an investment. The program commits to being both transparent about the process while also maintaining confidentiality when appropriate. The confidentiality of the communities and stakeholders and the program's commitment to Investees (facilities) drive the level of public disclosure. The program will share grievances with the AE and annually report to GCF on the number of grievances, their nature, and a summary of resolutions. The report will be made available to GCF and other relevant stakeholders.

V. Accessibility and Availability:

The program seeks to educate all relevant stakeholders on its GRM. The program will incorporate several outreach efforts to familiarize said stakeholders with this GRM:

1. The GRM process, eligibility criteria, and relevant staff will be shared on the program's website;

2. A summary of the GRM is included in the program's Environmental and Social and Gender Equity policies (featured on the program's website); and
3. The program will share the GRM with all relevant nationally designated authorities for which the program has an NOL.

VI. Lodging Grievances:

The program aims to make any effort to report a grievance easily accessible through a variety of channels. The program believes that any stakeholder who has a legitimate grievance should be able to access the program's GRM via the channel that best fits its needs. The program seeks to ensure that grievances can be shared by any population including youth, women, and marginalized and vulnerable communities (i.e., indigenous populations). The program also seeks to ensure that the lodging of grievances does not harm the populations that may participate (by guaranteeing anonymity per the complainant's request or if the program believes that identification could lead to harm). The following channels are available to lodge a grievance:

1. The program's GRM webpage has a detailed grievance procedure that details eligible grievances and contains a complaint box where grievances can be shared confidentially if they so choose: [https://acumencapitalpartners.com/grievance/];
2. Direct complaints to the program's GRM investigator, the AE's General Counsel;
3. Direct complaints to the program's staff;
4. Calling the program's phone line: [+1 (212) 566-8821];
5. Faxing the program's fax line: [+1 (212) 566-8817];
6. Mailing the program's business address: [40 Worth Street, Suite 303, New York, NY, 10013, USA];
7. Emailing the program's grievance email address: [grievance@acumen.org];

VII. Grievance and Complaints Process:

1. A complaint is received via one of the seven channels above;
2. A complaint is recorded in the program's Grievance Redress Mechanism Tracker;
3. The complainant is notified of receipt of the complaint and informed of next steps;
4. Involved parties are informed. On occasion, an involved party, particularly the complainant, may be informed later in the assessment to best preserve information and review baseline facts for notice;
5. The complaint is assessed by the AE's General Counsel as it is made. This may involve interviewing parties to collect all relevant information or bringing in third parties to support the investigation. The investigation is conducted by an individual independent of the involved Investee's (new or existing facility) management;
6. The complainant is notified when the investigation ends;
7. The response / resolution is decided on by the program Director and the AE's General Counsel;
8. The response / resolution is communicated to the complainant and all involved parties;
9. The resolution is recorded in the Grievance tracking mechanism; and
10. Any lessons are applied internally as appropriate.

In instances where there is a potential conflict-of-interest, the AE's General Counsel will investigate the grievance without the program's Director. AE's General Counsel is an experienced mediator, independent of investment decision making, day-to-day operations, or other interactions with the program's investment team. In instances when the AE's General Counsel has a potential conflict-of-interest, counsel will recuse themselves.

VIII. Grievance Recording, Assessment, and Documentation:

The program maintains a Grievance Redress Mechanism registry (the "*GRM tracker*"). The registry includes the description of the complaint, relevant information about the complainant (when possible), records of the investigative process, and the resolution.

Resolutions are assessed based on the size of the impact, the long-term impacts on the community and the investment, and mitigating strategies to reduce the harm. The resolution will be recorded in the registry.

If the complaint is deemed eligible and there has been redress, the program will follow up with the complainant to ensure that redress (either compensation or Investee related actions) has been delivered in a timely and transparent manner. Once the complaint has been resolved and the complainant has been contacted, the grievance will be considered closed.

The program will document all evidence of the grievance in the tracker and a designated Grievance folder in the program's shared google drive. The AE's General Counsel and their team will be the only individuals with access to the Grievance folder.

IX. Grievance Monitoring and Oversight

The program will assess the GRM on an annual basis to ensure that it is aligned with the program's Environmental and Social Policy, as well as the AE's Gender Sensitivity Policy, and the Ruggie Principles. If the GRM needs to be updated, the program will share any changes with relevant stakeholders for approval.

X. SEAH Provisions

Victims of SEAH who seek to utilize the H2R GRM will have a survivor-centered and gender-sensitive lodging mechanism, investigation, and resolution. SEAH victims will have the option of maintaining anonymity and will receive assurances of absolute confidentiality if so desired in the lodging process.

SEAH victims will have the opportunity to request a thorough investigation if they choose. Victims also have the right to lodge a grievance and not request that it be investigated. Victims will have the right to work accommodations to ensure their privacy and distance from perpetrators. H2R will request that businesses suspend or remove workers that are being investigated for SEAH from interacting with other staff or customers while the investigation is ongoing.

The victim, if H2R is found at fault due to negligent monitoring of Investees (facilities), may provide additional resources to the victim as necessary including legal support, support with community reintegration, and access to mental health services. Data must be secured and only accessible to highly relevant parties like investigators and legal authorities. SEAH victims must be assured of their privacy and security in the GRM process. Recording SEAH data will only be done by a person trained in SEAH investigation best practices. SEAH data is kept separately from other data due to sensitivity of the data. The H2R team will monitor SEAH incidents throughout the course of the H2R program.

XI. Grievance Mechanisms

If businesses cannot satisfy customer complaints with their grievance mechanisms, the business should make the Acumen and GCF grievance mechanisms available.

Green Climate Fund Independent Redress Mechanism: https://irm.greenclimate.fund/

Acumen Grievance Redress Mechanism: https://acumencapitalpartners.com/grievance/

Annex 12a: Guidance on Investee Grievance Mechanism

Context: Hardest-to-Reach Investees (new or existing facilities) are expected to have a grievance redress mechanism or complaints mechanism prior to the end of their investing period with H2R. Complaints Mechanisms and GRMs must be accessible, transparent, and responsive to complainants. Investee (facility) GRM's must align with GCF's IRM, Acumen's GRM, the H2R guidance on GRMs, and international best practices including the Ruggie Principles. Companies are expected to align their mechanisms with the following sections: roles, lodging, investigation, SEAH provisions, recording, monitoring, and communication.

Roles:

- Companies are expected to have a trained and qualified staff member to manage the complaints mechanism;
- Companies are expected to attend grievance trainings through H2R if their grievance mechanism is found insufficient;

Lodging:

- Companies are expected to have multiple modalities for lodging complaints including in person, via phone, mail, and internet;
- Sales agents are expected to be able to receive complaints when engaging with a customer and to know how to record and share those complaints with relevant staff;
- Companies are expected to offer confidentiality and anonymity for those choosing to lodge a grievance;

Investigation:

- Companies should have a clear and transparent process for investigating complaints
- Investigations should be time bound, and complainants should expect to hear from the business at different intervals of the investigation including lodging, fact finding, and resolution;

SEAH Provisions:

- Companies are expected to have gender-sensitive and victim-centered approaches to SEAH incidents;
- Companies are expected to suspend or remove workers being investigated for SEAH from customer or staff facing engagements;
- SEAH victims should have work accommodations to ensure their privacy and well-being during the investigation;

Recording:

- Grievances should be recorded in a grievance tracker that can only be accessed by relevant investigators or grievance managers;

Monitoring:

- Companies are expected to continuously monitor and report on grievances to the H2R team;

Communications:

- Please share the following resources with the complainant;
- Green Climate Fund Independent Redress Mechanism: https://irm.greenclimate.fund/
- Acumen Grievance Redress Mechanism: https://acumencapitalpartners.com/grievance/

Annex 13: Guidance on Environmental and Social Impact Assessment

Context: Hardest-to-Reach intends to primarily invest in ESS Category C activities. There may be some Investees (new or existing facilities) who, given the investment size, due diligence results, and other considerations, could be considered ESS Category B. These businesses will undergo the regular due diligence required of all Hardest-to-Reach investments. They are expected to undergo further due diligence as described below.

Screening: Companies will be screened on the following topics:

- Exclusion List
- Desktop research on the business
- Initial materials shared from the business
- Market and business type context

If evidence demonstrates that a business may be Category B, the team must consider implementing an ESIA.

Regular ESG due diligence (environmental and social audit for category C and above):

- ESG Due Diligence (Environmental and Social Audit) Questionnaire (Annex 2)
- Manufacturing Module (Annex 3, when applicable)
- Company Policies and Procedures
- Site Visit (when applicable)
- ESG Checklist (Annex 4)
- ESG Report (Environmental and Social Audit Findings)
- ESG Action Plan

Regardless of whether businesses are Category C or B, H2R will complete both screening and regular ESG due diligence. If the business has evidence of the following Category B activities, there may be additional ESG due diligence activities to develop an ESIA.

General Characteristics (determined on a case-by-case basis	
Category B	**Category C**

• OGS investment
• Mini-grids and Micro-grids
• Operate a manufacturing facility
• Due diligence finding any of the following outcomes:
    ○ Funds used for land acquisition outside of commercial zones
    ○ Significant track record of OHS incidents
    ○ Pattern of gender or SEAH incidents
    ○ Pattern of harmful environmental and social impacts
	• OGS investment
	• Largely distributors or vertically integrated businesses that do not directly manufacture products
	• Due diligence finds the following:
	    ○ Funds used for working capital, accounts receivable, operational expenditures
	    ○ Minimal environmental and social impacts
	    ○ May not have sufficient policies and procedures

ESIA activities may include but are not limited to:

- Executive Summary
- Scope of the Audit
- Regulatory Setting
- Audit and Site Investigation Procedure
- Findings and Areas of Concern

- Corrective Action Plan, Costs and Schedule (CAP)
- Annexes: These should include references, copies of interview forms, any details regarding the audit protocol not already included, and data obtained during the audit but not included directly above
- Screening Activities (Required)
- Regular ESG DD Activities (Required)
- Environmental and Social Impact Assessment (Required)
- Third Party Auditor
- Third Party ESG expert investigator
- Stakeholder meeting
- Land survey

ESIAs are expected to include:

- In depth identification of environmental and social risks using the IFC environmental and social performance standards
- Analysis of community risks and potential grievances
- Analysis of land resettlement or displacement risks
- Analysis of gender and SEAH concerns
- Analysis of environmental and social management of investment
- Gap analysis of E&S risks and E&S capacity
- Mitigant strategy such as an Environmental and Social Management Plan (ESMP) which will ensure explicit procedure and process for management of all identified E&S risks and impacts.

The ESIA report will be shared with the investment committee. A redacted ESIA may be shared with other entities if needed in cases of regulatory compliance. A summary of the ESIA results may be shared with relevant stakeholders if appropriate and with the approval of the business.

Annex 14: Chance Find Procedures

Context: The Hardest-to-Reach team has a limited operational footprint. The team is mostly based out of London and utilizes office space for regular activities. The team may go on site visits for due diligence and have limited exposure to uncovering or impacting cultural objects. Therefore, this guidance is limited to Category B investments made with the funds explicitly earmarked for new construction or land purchase outside of urban or business park areas.

Chance find procedures may be triggered under the following circumstances:
- Companies will utilize significant amounts of land for operations
- Hardest-to-Reach has directly funded the purchase of land or construction

Companies will be requested to do the following:
1. Stop all works in the vicinity of the find, until a solution is found for the preservation of these artifacts, or advice from the relevant authorities is obtained.
2. Delineate the discovered site or area; secure the site to prevent any damage or loss of removable objects.
3. Preliminary evaluation of the findings by archaeologists. The archaeologist must make a rapid assessment of the site to determine its importance. Based on this assessment the appropriate strategy can be implemented.
4. Contact local ministries responsible for cultural heritage to ensure compliance with local laws.
5. If human remains or minor artifacts are found, determine if excavation can be accomplished.

If sites are of historical importance or must be preserved the project may be requested to consider other locations for their operations.

Annex 15: Mini-Grid ESG Strategy

Context: Mini-grids are generally classified by the IFC (and GCF) as a Category B project, given that they are "*Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures*." This classification depends on their scale, location, technology, and risk.
A business can construct a mini-grid project through different mechanisms, including:

- Engineering, procurement, and construction (EPC) contracts, where the business is contracted by the project developer or owner to construct the mini-grid but does not own the mini-grid itself.
- Mini-grid asset development, where the business invests CAPEX to develop the mini-grid and subsequently owns the developed mini-grid.

A business that owns or constructs mini-grids may have many mini-grid projects in its portfolio. Prior to the construction of each project, the project developer or owner may need to carry out an Environmental and Social Impact Assessment (ESIA). ESIAs are often required by the project's host government in order to get construction approval. Furthermore, ESIAs are often required by mini-grid funders, particularly if they are international organizations or development finance organizations. In some cases, there are differences between the standards required by governments and funders, with funders usually having more stringent requirements.

Mini-grids are generally funded through project finance structures via a special purpose vehicle (SPV). This structure is typically non-recourse, thereby limiting the financial liability of the parent business or sponsor. Financing for a specific mini-grid project will be raised at the SPV level. At the same time, a parent business may raise capital at the corporate level for activities associated with mini-grid construction and development.

Mini-grid Risk Analysis:

Mini-grid Risk Aspect	**Risk**	**Mitigant**
Environmental and Social Management	• Mini-grid operators may have weak or insufficient environmental and social impact assessments with gaps in their risk analysis • Mini-grid operators may have poor communication with the communities they serve preventing appropriate consultation and grievances from being recorded • Mini-grid operators may lack policies that address issues related to local employment, community benefits, and expectations in the low-income areas where mini grid projects operate. • Mini-grid operators may have limited organizational expertise or there may be limited E&S experts in H2R markets to support their work	Companies are expected to have or develop the following safeguards when appropriate: • A comprehensive E&S risk identification process appropriate to their business model and operating context. • An adequate stakeholder engagement plan, including a functional grievance mechanism. • Human resource policy guiding the business on managing community-related issues such as local employment and benefit expectations, particularly in low-income areas where the mini-grid is to be located. • Demonstrated E&S organizational capacity to effectively implement the system in place.
Labor and Working Conditions	• Company may not provide sufficient personal protective equipment to ensure worker safety during construction, maintenance, and repair • Company does not sufficiently train staff in electrical safety	Companies are expected to have or develop the following safeguards when appropriate: • Adequate and appropriate PPE for workers during construction, along with oversight to ensure compliance.

	• Company does not have sufficient safety standards for construction and maintenance • Company does not have appropriate signage or lighting to ensure sufficient working conditions	• Provision of electrical safety training for employees exposed to electrical risks. • Implementation of adequate safety standards for construction and maintenance activities. • Sufficient site safety signage and lighting to ensure safe working conditions.
Resource Efficiency and Pollution	• Runoff from concrete used for battery storage houses, metallic storage pavements, and other construction activities could affect local water quality of such water body, impacting community use. • Mini-Grid or Micro-Grid developers may, in some cases, use herbicides to control vegetation on their solar farms. Improper use or excessive application can lead to soil and water contamination, harming local biodiversity.	Companies are expected to have or develop the following safeguards when appropriate: • Drainage and runoff control systems to prevent contamination of local water bodies from construction activities, including those involving concrete and metallic surfaces. • Implementation of Integrated Vegetation Management (IVM) practices to minimize or eliminate herbicide use on solar farms.
Community Health and Safety	• Company may not have proper signage, fencing, or equipment to keep communities safe from electrical fires or electrocution • Company may have untrained security who escalates conflict	Companies are expected to have or develop the following safeguards when appropriate: • Install adequate safety signage, fencing, and protective barriers around electrical infrastructure to prevent unauthorized access and reduce the risk of electrical fires or electrocution. • Ensure all security personnel are properly trained in human rights, conflict de-escalation, and respectful community engagement in line with international best practices.
Land Acquisition and Resettlement	• Mini-Grid developers may have limited policies and procedures on land acquisition and resettlement, despite requiring land for project development potentially creating risks for physical or economic displacement. • Mini-Grid or Micro-Grid projects may require land acquisition, potentially leading to physical displacement, especially when land is obtained through government-led processes under public-private partnerships. Companies risk land conflicts and unresolved grievances if mitigation strategy is undeveloped.	Companies are expected to have or develop the following safeguards when appropriate: • A policy that encourages land acquisition through a willing-buyer, willing-seller approach. • A functional and adequate grievance mechanism to receive and assess any land acquisition complaints from affected individuals, particularly if the acquisition is carried out through government-led processes under public-private partnerships.
Biodiversity Conservation and Sustainable	• Mini-Grid and Micro-Grid projects will not impact protected or internationally recognized areas due to their remote	Companies are expected to have or develop the following safeguards when appropriate:

Management of Living	locations. Without proper impact assessments, land acquisition could unintentionally occur within these sensitive areas, leading to environmental and regulatory risks. • These projects are often located in hardest-to-reach remote areas with undisturbed biodiversity. • Indirect impacts may arise from improper disposal of e-waste during equipment repairs or decommissioning, leading to indiscriminate dumping in sensitive ecosystems.	• Avoid project sites within biodiversity-sensitive areas such as critical or legally protected habitats. • Ensure e-waste is collected during maintenance or decommissioning and sent to an accredited e-waste collector and treatment business.
Cultural Heritage	• Companies require project development in remote areas that may become intact cultural sites during excavation.	• Companies are expected to have or develop, when appropriate, a Chance Find Procedure to ensure proper mitigation of any impacts on cultural heritage.

H2R Investment in Mini-Grids

H2R may invest in mini-grid-related activities at the project or corporate level. A tailored approach to ESG will be needed in each:

1. For **direct investment in mini-grid projects**, H2R will need to understand the direct environmental and social risks at the project level, and there will be a greater focus on site-specific and physical risks in the ESG due diligence assessment and through the implementation of an ESIA. The post-investment environmental and social action plan (ESAP) and environmental and social management system (ESMS) will similarly be at the project level.
2. For **investment at the corporate level**, the focus shifts to ensuring that the business has strong systems, policies, and governance in place to manage ESG risks and opportunities consistently across its portfolio of mini-grid projects. This will be reflected in the type of ESG due diligence carried out, which will be at the corporate level, as well as in the post-closing requirements for engaging with future mini-grid projects through the ESAP, ESMS and potential conditions subsequent.

The Hardest-to-Reach Mini-Grid ESG Investment Strategy is outlined below:

Option 1: Project Investment

If H2R invests directly in a mini-grid project SPV, the following steps should be taken with regard to ESG:

1. Carry out ESG due diligence assessment at the project level, following a sequence of screening against the exclusion list and categorizing based on E&S risks and impacts.
2. If the proposed investment is determined to be Category B, conduct ESIA / ensure ESIA is conducted prior to investment that meets the GCF/IFC's standards and is compliant with local regulations; further details on ESIA expectations are outlined in Annex 13
3. If the proposed investment is determined to be Category B, disclose investment and ESIA on the GCF website at least thirty days before the investment is assessed by the H2R Investment Committee
4. Implement ESG requirements relating to the project investment, including the ESAP and ESMS (whether the investment is Category B or C)
5. Monitor ESG throughout the life of the investment (whether the investment is Category B or C). The H2R team intends to monitor the performance of the investment but may, on occasion, utilize third party experts to support ongoing environmental and social monitoring.

Option 2: Corporate Investment

If H2R invests in a business that engages in mini-grids, either through EPC contracts, project development, asset ownership or other, the following steps should be taken with regard to ESG:

1. Carry out ESG due diligence assessment at the corporate level; we will also include the ESG diligence with mini-grid specific question as outlined in Annex 3b
2. If the proposed investment is determined to be Category B, ensure that all relevant ESIAs for specific mini-grids projects are in place prior to investment
3. If the proposed investment is determined to be Category B, disclosure of the public version of the Acumen-developed ESG report, ESGAP on relevant websites including Acumen's and GCF's websites at least thirty days before the investment is assessed by the H2R Investment Committee
4. Implement ESG requirements relating to the corporate investment, including the ESAP and ESMS (whether the investment is Category B or C)
6. Monitor ESG throughout the life of the investment (whether the investment is Category B or C)

Mini-grid Safeguards

Mini-grid businesses have project specific risks, as outlined above, that H2R intends to diligence and monitor throughout the course of the investment. To ensure that these risks are appropriately mitigated, H2R intends to diligence businesses on the following items:

1. Site-specific Environmental and Social Impact Assessments (if required by regulatory authorities, other investors, or if H2R is making a project specific investment)
2. Site-specific Land Acquisition and Resettlement Plans (if required due to involuntarily land acquisition or resettlement)
3. Documentation of landownership or leasing agreement
4. Documentation of regulatory and legal compliance with local environmental, land management, construction, and labor laws
5. Documentation of community consultation or stakeholder engagement plan
6. Assessment of the proposed project's impact on biodiversity, while excluding any projects sited in critical habitats, legally protected areas, and important or sensitive biodiversity areas.
7. Indigenous Peoples Policy or Plan if applicable
8. Safeguarding aspects from the general OGS safeguarding expectations outlined in Section 7 of the ESMS

Companies may not have all safeguarding items at the time of investment. If businesses are found to have deficiencies or risks during H2R due diligence, H2R intends to ensure that appropriate safeguards are in place via the ESAP and transaction documents. H2R expects to monitor these investments for environmental and social risks identified in due diligence and ensure compliance with the investment conditions described above.

Annex 16: Accounts Receivable Strategy

Context: Hardest-to-Reach intends to support building the securitization market for the businesses to monetize their assets at fair prices for further growth in H2R markets. Warehousing facilities aggregate the receivables from multiple businesses in target countries and structure and tranche them for different investors. Accounts receivable financing is to monetize their receivables early and use the capital to fund continued growth. The approach requires scale, which is why larger businesses have benefited; an aggregation approach will unlock this type of financing for small and medium-sized distributors.

Acumen seeks to invest in receivables financing through two vehicles. H2R may finance receivables facilities for single and multi-business receivables. For single business special project vehicles, the business engaging in receivables financing will undergo regular ESG diligence. For warehousing facilities (multi business), H2R will diligence the receivables manager for their ESG practices.

Accounts Receivable Financing Risks:
For single business financing facilities, H2R will have a reasonable degree of control over the investment's environmental and social safeguards. H2R will perform diligence, transaction documentation, environmental and social action plans, monitoring and reporting of the business receiving receivables financing. Some investments may include high risk pools of capital that may be associated with weaker governance components, higher environmental and social risks due to manager capabilities, or higher likelihood or more impactful country contextual, human rights, climate, AML, KYC, and CFT risks. In those cases, more extensive diligence of both the manager and the facility participants may be required.

For financing facilities providing receivables financing to multiple businesses, there are different risks associated with the investment. Risks are shared below.

Accounts Receivable Risk Analysis:

Risk Category	Risk	Mitigant
Environmental and Social Policies and Procedures	• Warehouse facility manager may have limited environmental and social management systems • Warehouse manager environmental and social policy may not align with Hardest-to-Reach requirements	Companies are expected to have or develop the following safeguards when appropriate: • Warehouse facility managers are expected to develop an ESMS, E&S Policy, or equivalent frameworks as a condition of the investment
Environmental and Social Organizational Capacity	• Accounts receivable facilities typically have small staffing despite having large facilities. Facility manager may have limited environmental and social safeguarding expertise. They may also not have oversight capabilities with small staffing • AR warehousing facilities may hire E&S consultants who do not have local or industry specific expertise	Companies are expected to have or develop the following safeguards when appropriate: • WFMs are expected to either staff or hire external consultants to implement environmental and social safeguarding activities for the facility • H2R intends to do desktop research on external consultants hired to support facilities. H2R may interview the consultant for more information on the ESG approach • WFMs need to demonstrate sufficient expectations for WF participants regarding their E&S capacity

Environmental and Social Diligence	• Accounts receivables managers may not have sufficient E&S diligence requirements to ensure appropriate risk analysis and mitigation strategies • AR managers and consultants may not have sufficient capacity to diligence multiple businesses at the same time	Companies are expected to have or develop the following safeguards when appropriate: • WFMs are expected to have formalized E&S diligence processes in place to ensure adequate risk identification and mitigant development • WFMs should demonstrate how they intend to scale their E&S safeguarding as more companies enter warehousing facilities
Environmental and Social Activities	• AR manager may not provide strong enough guidance for businesses in warehousing facilities. • Companies in warehousing facility may have insufficient environmental and social safeguards	Companies are expected to have or develop the following safeguards when appropriate: • WFMs are expected to include E&S policies, covenants, conditions of investment, and ESAP for facility beneficiaries • Companies in warehousing facilities usually tend to be larger distributors and are expected to have more mature environmental and social safeguarding capacity • H2R intends to require that WFMs have sufficient safeguarding expectations of WF participants • H2R and Acumen may take a more active approach to ESG management for WFs that are improving their E&S safeguarding
Grievance Mechanism	• AR manager may not have a grievance mechanism or grievance mechanisms may be insufficient. H2R grievance mechanism may be used as the warehouse grievance mechanism • Warehousing facility beneficiaries may not have sufficient grievance mechanisms	Companies are expected to have or develop the following safeguards when appropriate: • AR managers are expected to develop grievance mechanisms aligned with H2R's expectations in annex 12a and diligence for grievance mechanisms with an expectation that facility beneficiaries develop grievance mechanisms • Companies and WFMs may use the H2R, Acumen, or GCF grievance mechanism when helpful or appropriate
Environmental and Social Monitoring	• AR manager may have insufficient monitoring capabilities and cannot track relevant environmental and social conditions of investment.	Companies are expected to have or develop the following safeguards when appropriate: • H2R will make environmental and social monitoring and reporting from companies and across the

		facility a legally binding component of the investment

Accounts Receivable Financing ESG Diligence
As shared earlier, H2R intends to have a bifurcated approach to diligencing accounts receivable financing investments depending on the transaction type. H2R will diligence the business for single-business SPV and will diligence the Warehousing facility manager and audit a selection of businesses for investments in multi-business warehousing facilities.

Single-Company Special Purpose Vehicles Diligence
As shared above, H2R will diligence businesses normally for SPVs providing receivables financing to a single business. If an investment is determined to be a category C due to the business model and other relevant factors, the business will be required to fill out the questionnaire shared in Annex 2. There may be additional questions depending on the business model, country context, and other factors. If the investment in the SPV is category B, H2R intends to conduct an Environmental and Social Impact Assessment.

Warehousing Multi-Company Diligence
H2R also intends to invest in warehouse facilities that provide receivables financing to multiple businesses. H2R seeks to ensure that the warehouse managers meet the required H2R environmental and social standards and mitigate portfolio and investment risks by requiring the warehouse manager to fill out the manager's questionnaire in Annex 3c, provide business-level materials, and share more results during interviews. H2R may also seek to learn more about individual businesses in the facility if diligence materials are deemed insufficient. However, if the manager does not provide adequate information on the individual businesses being financed under their management, H2R intends to not proceed with the investment until all information gaps have been resolved.

Warehousing managers are expected to share track record and deal documentation to ensure the following at the manager level:

- Sufficient E&S policies/ESMS/procedures at the Manager level
- Sufficient E&S oversight, diligencing, and implementation capabilities
- Sufficient E&S monitoring capabilities
- Sufficient E&S reporting capabilities
- Sufficient grievance or complaints mechanisms and grievance log or tracker covering both past or ongoing internal and external grievances, any legal cases related to ESS, regulatory fines or penalty, including the status of resolutions.

For warehousing facilities, we intend to audit the manager's warehouse portfolio to measure business level environmental and social safeguarding:

- Sufficient E&S policies/ESMS/procedures at the business level
- Sufficient E&S capabilities including oversight, staff, and roles and responsibilities
- Sufficient consumer protection policies, procedures, and organizational capabilities
- Sufficient environmental protection including e-waste management

Warehousing managers are expected to supply Hardest-to-Reach with the following business-level information:

- 3+ ESG diligence reports on businesses in warehousing facility
- Company level ESG policies and procedures for 3+ businesses
- Grievance mechanisms/trackers from 3+ businesses in the warehouse or will be in the warehouse
- Consumer protection policies and procedures for 3+ businesses
- E-waste policies, procedures, and management systems for 3+ businesses
- Labor and working conditions policies and procedures for 3+ businesses including supplier lists, retrenchment plans
- ESG incidents and reporting from 3+ businesses

- If the warehouse does not have 3 businesses in the facility, the warehouse manager commits to sharing business materials, analysis, and ESAPs for the first three businesses

Accounts Receivable Financing Safeguards
H2R intends to ensure that single business SPVs and multi-business warehousing facilities have sufficient safeguards aligned with the expectations shared in the H2R ESMS and H2R's stakeholders, including investors and partners.

Single Company SPVs Safeguards
Single business SPVs will have the same safeguarding expectations as H2R's direct investments. Companies will be held to the same safeguarding expectations shared in section 7 of the ESMS: Environmental, Social, and Governance Safeguarding. H2R will require the beneficiary business to comply with ESG conditions outlined in the transaction side letter and the proposed activities on a business-level ESAP.

Multi-Company Warehousing Facility Safeguards
Multi-Company Warehousing Facilities are expected to demonstrate sufficient capacity, policies, and procedures to manage and safeguard environmental and social risks associated with their warehousing facility. The Manager should provide sufficient evidence of management capacity, risk identification and mitigation measures, and monitoring and reporting capacity. H2R analysis of the manager's capabilities derives from the diligence shared above and the questionnaire in annex 3c. Warehousing facilities are expected to have:

- Manager level Environmental and Social Policy
- Warehouse level Environmental and Social Management System or equivalent system
- Warehouse complaints mechanism
- Warehouse management of consumer protection issues
- Warehouse level gender action plan

These environmental and social safeguarding expectations are aligned with our business-level expectations. H2R expects warehouse facilities managers to have downstream safeguarding requirements aligned with the safeguarding expectations outlined in section 7 of the Hardest-to-Reach ESMS. When we audit businesses, we expect businesses to have the following safeguards:

- SPVs have developed or contributed to ESAPs for businesses
- Company-level ESMSs and ESG policies
- Company level complaints/grievance mechanisms aligned with international standards and includes survivor centered provisions
- Consumer protection policies and procedures that are aligned with GOGLA consumer protection principles
- Relevant labor and working conditions policies and procedures including HR policies and procedures, employee contracts
- Relevant environmental policies and procedures including e-waste policies and management systems
- Company-specific Gender Action Plans, commitments to non-discrimination, equal employment, and anti-sexual harassment policies and procedures

H2R intends to create manager-level environmental and social action plans that require environmental and social safeguarding activities at the manager and business level. Transaction documents will also detail the environmental and social conditions of the investment and monitoring and reporting requirements.

Monitoring and Reporting
Accounts receivable investments monitoring and reporting differ based on the receivables instrument. Single-business SPVs will undergo the same monitoring and reporting as other single-business investments. Multi-business warehouses will have different monitoring and reporting requirements.

Multi-business Warehouse Facilities Monitoring and Reporting
Multi-business warehouse facilities are expected to report on manager level and business level activities. The manager is expected to ensure reporting on the following activities:

- Quarterly monitoring of environmental and social risks identified during due diligence
- Manager level environmental and social action plan
- Company level environmental and social action plans and annual reporting:
  - Manager level ESAP will include reporting components, including warehouse facilities managers' business-level environmental and social action plans, business-level reporting templates, reporting requirements for beneficiary businesses, and future reports
- ESG annual reporting questionnaire
- ESG incident reports across businesses
  - If the manager does not have incident reporting template or business-level requirements, H2R will include reporting templates and business-level reports in ESAP
- However, failure to provide adequate information on all businesses under management during monitoring may result in escalation to the board for resolution. If the issue remains unresolved, the exit clause may be triggered.

Annex 17: Occupational Health and Safety Management Plan

Context: The Occupational Health and Safety (OHS) Management Plan[42] is designed to provide oversight of prospective investees (e.g., SHS, Mini-Grids, Micro-Grids) by assessing and managing their specific OHS risks. It ensures continuous monitoring through incident tracking and reporting, promoting a structured approach to workplace safety and regulatory compliance.

OHS Risk Analysis:
The following material OHS risk has been identified in reference to the ESIA in section 4 of this ESMS.

OHS Aspect	SHS Risk	Mini-Grid Risk	Micro-Grid Risk
General Facility Design and Operations	SHS businesses may face various occupational health and safety risks, including: • Integrity of workplace structure • Fire incident • First Aid • Workplace environment temperature • Workspace and Exit	Mini-Grid businesses may face various occupational health and safety risks, including: • Integrity of workplace structure • Fire incident • First Aid • Workplace environment temperature • Confined space • Workspace and Exit • Lavatories and showers • Safe accommodation • Disease and Disease vectors	Micro-Grid businesses may face various occupational health and safety risks, including: • Integrity of workplace structure • Fire incident • First Aid • Workplace environment temperature • Confined space • Workspace and Exit
Communication and Training	• Basic OHS training • Labelling of equipment • Contractor training	• OHS Training • Visitor Orientation • Area signage • Labelling of Equipment • Communicate Hazard Codes	• OHS Training • Visitor Orientation • Area signage • Labelling of Equipment • Communicate Hazard Codes
Physical Hazards	• Ergonomics, Repetitive Motion and Manual Handling • Stress and Fatigue • Working at Height • Electrical hazard • Road Safety, Transportation and logistics Hazard	• Ergonomics, Repetitive Motion and Manual Handling • Stress and Fatigue • Working at Height • Wielding and Hot work • Electrical hazard • Road Safety, Transportation and logistics Hazard • Noise and vibration • Illumination	• Ergonomics, Repetitive Motion and Manual Handling • Stress and Fatigue • Working at Height • Electrical hazard • Road Safety, Transportation and logistics Hazard • Noise and vibration • Wielding and Hot work

[42] For additional guidance on occupational road safety practices, see Document Header

Chemical Hazards	• Asbestos containing materials • Air quality • Fire and explosion • Battery issues	• Hazardous Material • Fire and explosion • Battery Issues	• Hazardous Material • Fire and explosion • Battery issues

OHS Due Diligence and Safeguard:
To ensure that the due diligence process meets the required standards in alignment with international best practices and helps mitigate investment risks from an OHS perspective, the business will be required to respond to specific OHS-related questions as part of the overall ESG due diligence questionnaire. These questions likely include, but are not limited to, the following as it will be tailored to specific businesses in most cases:

a) Does your organization have an occupational health and safety policy and procedure?
b) Does your organization have an OHS risk register?
c) Does your organization have the required capacity and skills to implement OHS policies and procedures effectively?
d) Does your organization track OHS activities and maintain OHS incident records?

To assess the safeguards in place, the following documents will be required:
- Evidence of OHS policies and procedures
- Evidence of an OHS risk register
- Evidence of an OHS activity and incident tracker

OHS Risk Mitigants:
To ensure that all material OHS risks identified in investee business's operations or specific project are properly documented and effectively mitigated, preventing them from escalating into actual impacts, investee businesses will be required to implement the following processes and practices in alignment with the World Bank Group's EHS Guidelines for Occupational Health and Safety:

- Investee businesses are expected to develop and implement comprehensive OHS policies and procedures covering both the construction and operational phases of projects (as applicable). This system should include policies, risk identification, mitigation procedures, awareness and capacity building, incident tracking and record-keeping, as well as continuous monitoring and improvement.
- Mitigation procedure may cover risks such as:
    - Facility / Project Site Management
    - Work at Height Hazards
    - Electrical Wiring Hazards
    - Transportation and Logistics hazards
    - Welding and Hot Work hazard
    - Noise and Vibration Hazard etc.
- Investee businesses are expected to provide adequate and appropriate PPE for all employees on-site and enforce PPE requirements for contractors' workers. Clear warnings and consequences for non-compliance must be established and enforced.
- Investee businesses are expected to ensure that adequate OHS awareness and training are provided to all employees onsite and training records are maintained for review and assessment.
- Investee businesses shall ensure that facilities and sites have clear, easily understandable, and adequate safety and emergency signages.
- Investee businesses shall ensure the availability of medical or first aid kits and equipment, and that at least one trained first aider is present on-site, particularly for mini-grid or micro-grid projects located in remote areas where access to emergency services may be limited.
- The installation of SHS may expose workers of investee businesses to asbestos-containing materials (ACM). Therefore, businesses shall ensure that appropriate plans and procedures are in place to identify

potential ACM, train workers, and implement mitigation measures to prevent exposure during installation activities.

- The OGS operation will generate end-of-life batteries that could pose risks to the health and safety of handlers. Therefore, businesses are expected to implement appropriate guidelines[43] for managing used batteries, including proper storage, handling, and transportation. End-of-life batteries should be sent to accredited treatment facilities in alignment with international best practices.
- H2R intends to conduct road safety risk assessments for OGS businesses exposed to road safety risks through last-mile distribution using bikes, motor vehicles, equipment transportation, and other logistics. As H2R intends to invest in a spectrum of OGS businesses, H2R seeks to apply a scaling approach to road safety based on the maturity of the business. Early-stage businesses are expected to demonstrate awareness of road safety risks while more mature businesses are expected to have integrated elements of road safety in their ESG, OHS, or HR policies and procedures. Companies should seek to establish components of a Road Safety Management System[44] as they scale their enterprise. Components could include:
    - Driver screening and management
    - Vehicle selection and maintenance
    - Journey management
    - Emergency Response planning
    - Accident/incident investigation and management
    - Road safety awareness and training.

OHS Monitoring and Reporting:
To ensure continuous compliance with OHS practices and drive improvement among investee businesses as stipulated in the Environmental and Social Action Plan (ESGAP), H2R will regularly monitor and report on their performance using the following Key Performance Indicators (KPIs):

- Tracking of update on the OHS items in the ESGAP
- New OHS issues identified, via incident reporting and ESGAP
- OHS activities and incident reporting log
    - Leading Indicators, if available
        - Number of OHS training session conducted
        - Number of Toolbox talks conducted
        - Number of inspections conducted (when relevant, particularly mini-grids and manufacturing facilities)
    - Lagging Indicators
        - Number of Injuries recorded
        - Number of road accidents
        - Number of medical cases
        - Number of Fatalities
        - Number of assets or property damaged

Details of any new improvements to the OHS management system and practices based on the review of OHS performance records.

[43] For additional guidance on end-of-life battery management, see Operational-Guidelines_Used-Batteries-in-OGS-sector.pdf
[44] For additional guidance on road safety management, see Managing-Road-Safety-in-Emerging-Markets_CDC-Group.pdf

Annex 18: Country Contextual Analysis

Context: H2R markets have country contextual risks that may impact transactions, investee operations, or investee customers. As such, H2R commits to country contextual analysis as part of the ESG diligence and monitoring. Shared below are the methodologies, roles, rubric, monitoring, and examples of contextual analysis. Analysis is based, in part, on the IFC Contextual Risk Screening for Projects and will continue seeking best practices and strong standards when conducting risk assessments.

Methodology
Project Development: Acumen's ESG team and Risk and Compliance team and the Hardest-to-Reach team conducted market research into the country contextual risks to understand market development, risks, and opportunities.
Transaction Research: Country contextual analysis will be conducted by the transaction to ensure up-to-date analysis is included for each Expansion Fund investment, and, when appropriate, for Development Facility transactions.
Monitoring: Acumen's teams intend to engage in frequent monitoring of country contextual risks including updating risk analysis with key events and researching changes to country context on at least an annual basis.

Roles and Responsibilities
Acumen's Risk and Compliance Team: The team will be responsible for researching and monitoring security and conflict risks, political risk, governance and civil liberties, macro-economic and financial sector, health and population, and labor and workforce. They are also responsible for supporting the AML/KYC workstreams across H2R.
Acumen's ESG Team: The team expects to provide analysis on biodiversity and climate change, land and access to natural resources, social cohesion, gender, and reprisal.
H2R teams: The H2R teams intend to consult with Acumen's Risk and Compliance and ESG teams to

H2R Country Contextual Risks	
Security and Conflict	Internal Conflict
	Criminal Violence
	Terrorism
	Coups and Government Instability
	Security Forces
	Regional and Neighboring Instability
Political Risk, Governance, and Civil Liberties	Representational Politics
	Governance Structures
	Access to Formal Justice Systems and Conflict Resolution Mechanisms
	Access to Basic Services and Infrastructure
	Human Trafficking and Illicit Trade
	Civil Liberties
	Market Integrity and Transparency
Macro-Economic and Financial Sector	Inflation
	Exchange-Rate Volatility
	Access to Financing
	Financial Regulation and Supervision

	Default History
Health and Population	Food Security and Health Epidemics
	Natural Disasters
	Rural-Urban Disparities (i.e., Population, Sanitation, and Water)
	Forced Population Movement
Labor and Workforce	Labor – Supply Chain Risks
	Labor Policies
Biodiversity, Ecosystems, and Climate Change	Deforestation and Other Threats to Natural Resources
	Government Capacity in Natural Resource and Protected Area Management
	Climate Change Vulnerability and Resilience
	Illegal Bushmeat Hunting and Wildlife Trade
Land and Access to Natural Resources	Availability of Water
	Land Access and Competition
	Indigenous Land
	Resettlement: Protection of Land and Property Rights
Social Cohesion	Group-based Grievance
	Workplace Exclusion and Discrimination
	Community Protest and Unrest
Gender	Gender Representation in the Workforce
	Gender-Based Violence and Protections
Reprisals	Reprisal Risk

Likelihood Rubric		
Question	**Response**	**Score**
Are there controls in place in this context to mitigate or prevent the risk?		If Yes, 0 points added, if No, add 1 point
Does the current local context and events make the risk likelier to occur? For instance, conflict situations often exacerbate risks of gender-based violence and harassment.		If Yes, 1 point added, if No, 0 points added
Are there historical occurrences of this risk manifesting? If yes, how recently and how often?		If Yes, 1 point added, if No, 0 points added

Magnitude Rubric		
Question	**Response**	**Score**
Are there controls in place to mitigate impact of risk should it occur?		If Yes, 0 points added, if No, add 1 point
Does the geographic footprint of the company align with the areas of country impacted should the risk occur?		If Yes, 1 point added, if No, 0 points added
Are the clients or customers especially vulnerable to the impacts of the country		If Yes, 1 point added, if No, 0 points added

contextual risks should they occur (i.e., indigenous populations, women and children, ethnic groups)?		

Country Contextual Resources	
Council of Foreign Relations	Country laws and regulations
Economist Intelligence Unit	Food and Agriculture Organization of the United Nations
GOGLA market research	Human Rights Watch
Overseas Security Advisory Council (OSAC)	Oxford Analytics
Peer-reviewed and University Research	World Bank

Shared below are examples of country contextual analysis that Acumen has conducted for Hardest-to-Reach. The Acumen team intends to provide in depth country-based analysis and research on country contextual risks across government and political stability, social and cultural risks including gender-based violence, environmental risks including climate change and biodiversity loss and other risks.

Democratic Republic of Congo:
DRC's rich natural resources include the world's second-largest rainforest, more than 80 million hectares of arable land, and rivers with enough hydropower potential to power half of sub-Saharan Africa. Additionally, the DRC stands as the world's largest producer of cobalt, Africa's biggest producer of copper, and contains deposits of gold, diamonds, coltan, tin, uranium, and oil. Given the country's incredible biodiversity, the risk of environmental degradation remains high. This risk is particularly prominent within the mineral extraction sector given the high incidence of artisanal mining. Sustainalytics estimates that between 15-30% of the DRC's cobalt supply is extracted from artisanal and small-scale mines.[45] That said, environmental degradation is not the only ESG issue associated with small-scale mineral extraction. Child labor remains a systemic issue in the region. In 2014, UNICEF estimated that ~40k children worked in cobalt mines in the DRC.[46] While this remains a systemic issue across the region, child labor reports have declined in recent years due to several international initiatives spearheaded by UNICEF.

Conflict Analysis: Today, Human Rights Watch estimates that there are +120 armed groups active in the eastern Democratic Republic of Congo.[47] Clashes between the Tutsi-led M23 militia and the Congolese military (FARDC) that erupted in 2022 continue to escalate and threaten to mushroom into a larger, regional conflict. Reported cooperation between the Democratic Forces for the Liberation of Rwanda (FLDR) – a Hutu militia reportedly formed by genocidaires who fled Rwanda in 1994, and the FARDC have raised tensions with the Rwandan government. In December 2022, the UN published a report accusing the Rwandan military Defense Force (RDF) of supporting M23 operations in the DRC.[48] To help curb further escalation, the East African Community announced in February 2023 that Uganda, Burundi, South Sudan, and Kenya will deploy troops to North Kivu province to stabilize the region.[49] Despite these efforts, rebels marched into Goma in January 2025 and seized control of city's airport on Tuesday January, 28.[50] Since that time, the UN Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO), has reported on M23's continued progress in the both Noth and South Kivu, taking control of Kavumu airport, Bukavu, and Kamanyola in mid-February.[51] In late March, Tshisekedi met with his

[45] Sustainalytics, "*Cobalt ESG Risks Threaten Electric Vehicle Supply Chain*," July, 15, 2022: https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/cobal-esg-risks-threaten-electric-vehicle-supply-chain.
[46] Ibid.
[47] Human Rights Watch, "*Overview of the Political Crisis in DR Congo and the Human Rights, Security, and Humanitarian Consequences,"* April 9, 2018: https://www.hrw.org/news/2018/04/09/overview-political-crisis-dr-congo-and-human-rights-security-and-humanitarian
[48] Overseas Security Advisory Council, Bureau of Diplomatic Security, U.S. Department of State, "*Armed Group's Advances in Eastern DRC Threaten Critical Supply Routes*," March 3, 2023: https://www.osac.gov/Content/Report/69b278e-0c27-4c04-a483-20d166b6c424
[49] Ibid.
[50] Kombi, Yassin and Sonia Rolley, "Congo's M23 rebels take control of Goma Airport, embassies attacked in capital," *Reuters*, January 28, 2025: https://www.reuters.com/world/africa/rwanda-backed-congo-rebels-face-pockets-resistance-after-entering-goma-2025-01-28/
[51] "As Regional Tensions Rise, M23 Advances Further in Eastern Democratic Republic of Congo, Top UN Officials Briefing Security Council Urge Warring Parties to Restart Talks," *United Nations*, Press Release, February 19, 2025: https://press.un.org/en/2025/sc16000.doc.htm

Rwandan counterpart, Kagame in Qatar. Both presidents reaffirmed their commitment to an immediate and unconditional ceasefire, however neither specified how the ceasefire would be implemented or monitored. The UN reports that since January, more than one million people in the Ituri, North Kivu, and South Kivu provinces have been displaced, including an estimated 400,000 children.[52]

To adequately mitigate against conflict risks, businesses operating in the region should prepare for the disruptions to supply routes. As such, businesses are encouraged to increase the available inventory, prioritizing decentralized distribution of inventory amongst regional depots, given potential road closures and fuel shortages. Additionally, a conflict sensitive approach must consider the possibility for armed enforces to enact tolls along major roadways and distribution channels. Whenever possible, businesses should limit operational decisions that reinforce corrupt or extortionary practices. However, the safety of employees and drivers should always be the priority in any conflict area. While this will have implications for cash flow, it will diminish the impact of potential road closures on sales and delivery to customers. Furthermore, businesses should review all marketing materials, removing any inherent ethnocentricities, ensuring the business and product remain neutral as it relates to heightened Hutu – Tutsi ethnic tensions. H2R encourages businesses to ensure that all decisions made in the day-to-day operations prioritize the integrity and safety of its customers and employees.

Uganda:
Uganda has strong E-Waste legislation, and any business operating in the clean energy or solar power space**,** must be prudent of the 4R's (outlined by the National Environmental Management Authority, NEMA): reduction of e-waste; reusing of electrical equipment; recycling of electrical equipment; and repairs for electrical equipment. Beyond the environmental concerns associated with the disposal of E-Waste, labor laws are an issue throughout the country. The Uganda Bureau of Statistics (UBOS) claims that 45% of children from households living below the poverty line are forced out of school to work and supplement their parents' income. As a result of school closures, child labor rates for children between the ages of 5 and 17 increased from 14 percent prior to the pandemic to 22 percent since the start of the pandemic, to a total of +2.7 million children. [53] Human Rights Watch also reports high incidence of workplace harassment and unequal compensation for female employees. [54]

Conflict Analysis: Given the porous tri-border between Uganda, Rwanda, and the DRC, the risk of conflict within Uganda is inextricably tied to the regional stability and competing foreign interests in Africa's Great Lakes region. Rwanda and Uganda continue to vie for economic superiority in the region, attempting to capitalize on the resource rich province of North Kivu, DRC. Consequently, tensions between Kampala and Kigali have escalated as President Yoweri Museveni and President Paul Kagame launch development projects within the DRC's borders, balancing economic priorities against the region's stability.[55]

Kampala has become an increasingly popular target for Al Shabaab and the Allied Democratic Forces (ADF) – an Islamist rebel group backed by ISIS and based in the DRC – because of the country's willingness to partner with East African neighbors to combat regional terrorism. The most recent ADF attack on Kampala in November 2021, saw the DRC allow for cross-border operations by Ugandan forces. Lastly, the lack of clarity surrounding President Museveni's succession plans could lead to violence given the volatile nature of his son, General Muhoozi Kainerugaba.

Businesses operating in the country are encouraged to continuously monitor the security situation, given existing regional tensions. Companies should also review all marketing materials, removing any inherent ethnocentricities, ensuring the business and product remain neutral as it relates to heightened Hutu – Tutsi ethnic tensions.

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[52] "Security Council urged to support eastern DR Congo peace initiatives," *United Nations*, Press Release, April 16, 2025: https://news.un.org/en/story/2025/04/1162351

[53] Business and Human Rights Resource Center, "*Uganda: More than 2 million children engaged in exploitative labor practices including in agribusiness & retail sectors, says columnist*," March 16, 2019: https://www.business-humanrights.org/en/latest-news/uganda-more-than-2-million-children-engaged-in-exploitative-labour-practices-including-in-agribusinesses-retail-sectors-says-columnist.

[54] Human Rights Watch, "*Uganda Lagging on Protecting Women Workers*," June 25, 2021: https://www.hrw.org/news/2021/06/25/uganda-lagging-protecting-women-workers.

[55] International Crisis Group, *Crisis Group Africa Briefing No. 181*, "Easing the Turmoil in the Eastern DR Congo and Great Lakes," May 25, 2022.

Zambia:
Like those facing the DRC, the majority of Zambia's ESG concerns revolve around the mining industry. In 2011, Human Rights Watch published a report detailing workers' abuses within Chinese-owned copper mines. Copper mining is essential to the Zambian economy, contributing nearly 75% of the country's exports (translating to roughly two-thirds of the government's revenue).[56] The report cites persistent poor health and safety conditions, extremely long hours, and anti-union activities – all of which violated existing Zambian law. These labor issues extend into the informal mining sector as well. The U.S. Department of Labor claims that illegal mining syndicates, called *jerabo gangs*, in the Copperbelt provinces employ children for mining activities, including forcing children to load trucks with stolen copper ore.[57]

Conflict Analysis: During the final years of the previous administration's term, Zambia had defaulted on its debts, inflation was skyrocketing, and the currency was plummeting.[58] As a result of the declining economic situation and despite wide-spread reports of extrajudicial killings and restrictions on free speech, Hakainde Hichilema defeated the incumbent president in August 2021. Since assuming office, inflation has dropped to single digits (down from 24.6% just before the election) and the Kwacha has rebounded from the world's worst performing currency to one of its best. The new administration secured a bailout from the International Monetary Fund; eradicated the death penalty; and hired +40k teachers and healthcare workers.[59] Furthermore, in January 2023, the U.S. Department of State announced a Memorandum of Understanding with Zambia and the DRC to jointly develop a supply chain for electric vehicle batteries.[60]

Despite the strides to strengthen the country's economy, Hakainde has also been accused of abuses of power after arresting opposition members and government critics and stifling the freedom of the press. Among those recently arrested for defaming the new president are a driver (jailed for 1 year for calling Hichilema the "anti-Christ") and a TikTok user (who received two years of hard labor for insulting the president).[61]

Given the new administration's dichotomy between economic development and suppression of his opposition, there are fears that the current Hichilema administration could become the region's newest dictatorship. Businesses operating in the region should continuously monitor the political climate and remain vigilant towards legislation that may limit individual freedoms and the business operating environment.

Sierra Leone:
Sierra Leone has abundant natural resources and has put in place an environmental policy, legislative and institutional framework for environment and natural resources management in the country. The framework is supported by the Environmental Protection Act and the National Commission on Environment and Forestry (NACEF). However, there is a need to harmonize legislation and create a conducive regulatory and policy framework to keep pace with international developments. Water management, land degradation, vulnerability to natural hazards, bioenergy, and the coast and marine environments are the major environmental issues facing Sierra Leone. Water management is a critical issue, with an acute water shortage in most regions, conflicts of interest between different uses, and serious decline in water quality. Land degradation is a serious problem, caused by logging, firewood collection, mining, floods, and droughts. The country is vulnerable to several natural

[56] Human Rights Watch, "Zambia: Workers Detail Abuse in Chinese-Owned Mines," November 3, 2011: https://www.hrw.org/2011/11/03/zambia-workers-detail-abuse-chinese-owned-mines.

[57] U.S. Department of Labor, "*2021 Findings on the Worst Forms of Child Labor: Zambia.*"

[58] Council on Foreign Relations, *"Zambian Opposition Stalwart Hichilema Secures Big Win in Presidential Elections,"* August 17, 2021: https://www.cfr.org/blog/zambian-opposition-stalwart-hichilema-secures-big-win-presidential-elections

[59] New York Times, "*Zambia and its New President Are Still on Their Honeymoon,*" September 28, 2022: https://www.nytimes.com/2022/09/28/world/africa/zambia-hakainde-hichilema.html

[60] U.S. State Department, Media Note, "The United States Releases Signed Memorandum of Understanding with the Democratic Republic of Congo and Zambia to Strengthen Electric Vehicle Battery Value Chain," January 18, 2023: http://www.state.gov/the-united-states-releases-signed-memorandum-of-understanding-with-the-democratic-republic-of-congo-and-zambia-to-strengthen-electric-vehicle-battery-value-chain/

[61] Ibid.

hazards, including droughts, floods, erosion, and tropical storms. Bioenergy is the main source of fuel for the country's population, and deforestation and desertification threaten the long-term prospects for its sustained supply. Signs of environmental degradation and decline in natural biodiversity are becoming obvious in several parts of Sierra Leone's coast and marine environments due to poverty, rapid population growth, and increasing land-based activities and sources of pollution.

Conflict Analysis: Julius Maada Bio (of the Sierra Leone's People's Party) was elected in April 2018 after narrowly defeating the incumbent party's candidate, Samura Kamara. Bio, who ran on a promise to revamp the economy and provide free education to young people, has emphasized investments in advanced technologies to spur Sierra Leone's development.[62] Despite the 2019 passage of the National Energy Strategic Plan and the 2023 passage of the Gender Equality and Women's Empowerment Act, advances in the country's social legislation have been overshadowed by violent clashes between protestors and police. Police fired live rounds into crowds and the national government briefly shut down the internet in response to August 2022 protests demanding the President's resignation for his inability to confront rising food and fuel prices.[63]

Sierra Leone still bears the scars of its decade-long civil war in which more than 50,000 people were killed.[64] Rural and remote locations, central to the Hardest to Reach Theory of Change and projected social impact, are the same remote locations that played host to the bloody altercations and randomized atrocities perpetrated by the civil war's combatants: The Revolutionary United Front (RUF); the Sierra Leone Army; and the Civil Defense Forces (Kajmajors) which sprang up as a protective response to each of the others.[65] As a result, businesses operating in the area must prudently monitor both ongoing tensions and the political response, especially as the country prepares for the 2023 presidential elections.

Togo:

Conflict Analysis: While Togo hosts elections regularly and with established political parties, the country is not a democracy. The Eyadéma family has controlled the presidency and, through that, the government, since 1963. Current President, Faure Gnassingbé is son of the former leader, and has won elections in 2005, 2010, 2015, and most recently in 2020.[66] Togo is made up of numerous different ethnic groups, however the three principal groups include Adja-Ewe/Mina (~42%), Kabye/Tem (~26%), and Para-Gourma/Akan (~17%).[67] Despite representing only a quarter of the population, the Kabye ethnic group makes up most of the security forces and maintains outsized influence on Togo society given that the Eyadéma family is of Kabye descent.[68]

In response to rising inflation and insecurity within the country's Savannah region, the government approved emergency spending in 2022 to provide higher subsidies for fertilizers and fuel, tax exemptions, wage and pension increases in the public sector, and new investment spending for security purposes.[69] While the increasing domestic debt remains a source of vulnerability, the rising incidents of terrorist activity and extra-military violence along the country's northern border with Burkina Faso necessitated a response.[70]

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[62] *Council on Foreign Relations,* "Behind Sierra Leone's Ambitious, Tech-Driven Development Pan," Valavanis, Adam, October 23, 2019: http://www.cfr.org/blog/behind-sierra-leones-ambitious-tech-driven-development-plan

[63] New York Times, "Protests Turn Deadly in Sierra Leone Over Rising Cost of Living," Peltier, Elian and Jamie Yaya Barry, August 15, 2022: http://www.nytimes.com/2022/08/12/world/africa/sierra-leopne-protests.html

[64] *On Call International*, "Country Report: Sierra Leone," May 2022.

[65] Political Economy Research Institute (PERI), University of Massachusetts Amherst, *Modern Conflict*, "Conflict Profile: Sierra Leone (1991-2001).

[66] *On Call International,* "Country Report: Togo," February 2023.

[67] Ibid.

[68] Ibid.

[69] *World Bank*, "Country Overview: Togo," March 31, 2023.

[70] *On Call International.*

The country's limited infrastructure poses distinct challenges for businesses operating in the country. There is only one highway (connecting Lomé to the northern city of Ouagadougou), making logistics vulnerable to protests frequently in the leadup to political elections. Lomé is the only deepwater port in West Africa and is similarly vulnerable to disruption. The Gulf of Guinea has observed an escalation in observed piracy in recent years, targeting both personal and commercial vessels.[71]

Businesses operating in the area must prudently monitor both ongoing tensions and the political response, given the limited infrastructure and the subsequent fragility of the localized supply chains. Similarly, businesses must build in large importation lead times given the increasing risk of piracy within the Gulf of Guinea, directly impacting the port of Lomé. Businesses are also encouraged to seek out insurance on all imported goods to mitigate potential loss of inventory. Lastly, all marketing materials should be reviewed to remove any inherent ethnocentricities, ensuring the business and product remain neutral as it relates to the diverse ethnic breakdown of the country.

[71] Ibid.

Annex 19: Gender-Based Violence and Harassment, Sexual Exploitation, Abuse, and Harassment, and Child Safeguarding Plan

Context: H2R has developed a comprehensive approach to identifying, appraising, and mitigating gender-based violence and harassment (GBVH), sexual exploitation, abuse, and harassment (SEAH), and child safeguarding risks for the initiative. H2R seeks to minimize chances of violence and harassment to women and children in our investing strategy. The objectives of this SEAH commitment by H2R are:

- To articulate our approach to SEAH risk identification, appraisals, investigation, and mitigation
- To commit the H2R staff to strong SEAH protections and ensure that the team minimizes SEAH risks within fund operations.
- To commit to assessing all projects for SEAH-specific risks during the ESIA and ESG process. All portfolio companies are expected to conduct an ESIA or similar E&S risk identification process examining gender and SEAH-related risks.
- To outline a comprehensive approach for monitoring, evaluating, and reporting progress in addressing SEAH at the fund level. At the portfolio level, the AE must ensure that all portfolio companies have appropriate mechanisms to monitor individual company performance in addressing SEAH.

The team has undertaken several proactive approaches to ensure a fulsome approach to SEAH risks across the fund.

- H2R developed robust gender assessments across every H2R market to ensure a comprehensive understanding of SEAH risks in each H2R market.
- H2R has conducted extensive stakeholder engagement with many civil society and non-governmental organizations representing women, youth, and underserved populations. These stakeholder engagement sessions included representation of women at diverse levels of leadership. In these sessions, we learned about challenges of women and girls without access to electricity and shared our approach to protecting and empowering women in our work.
- H2R has developed a Gender Action Plan that articulates our commitment to GBVH, SEAH, and child welfare risk identification and mitigation across the H2R portfolio and the GBVH and SEAH requirements of each portfolio company.
- H2R has developed a Technical Assistance Facility that can support companies improve their gender activities including their approach to GBVH and SEAH
- H2R developed a comprehensive stakeholder engagement plan that identifies ways to inform communities about our engagement, activities, and ability to report GBVH, SEAH, and child safeguarding incidents to the H2R team.
- H2R has developed an incident reporting template to investigate ESG incidents including GVH, SEAH, and child safeguarding incidents.
- H2R has developed a grievance mechanism that includes survivor-centered approaches to investigations and remediation.
- H2R has developed guidance for portfolio companies on grievance mechanisms that include expectations for survivor-centered approaches.

H2R expects to continuously evolve and is committed to continually improving our approach to SEAH.

H2R SEAH Roles and Responsibilities

H2R seeks to ensure stakeholders and our investors of our capacity to responsibly identify, manage, and mitigate SEAH risks and respond appropriately to SEAH incidents. To that end, the team has ensured responsibilities for implementing our SEAH approach across multiple levels of leadership. The team has also ensured that they have the capacity and expertise to address SEAH risks and incidents appropriately. Shared below are the roles of various H2R team members:

- Managing Director and Investment Director: The MEF Managing Director and MDF Investment Director are responsible for overseeing the H2R Environmental and Social Management System and H2R's approach to GBVH, SEAH, and child safeguarding. The MD and ID are also responsible for sharing ESG incidents including SEAH incidents with appropriate investors and stakeholders in a timely manner.
- Acumen's ESG team: Acumen's ESG team is responsible for implementing H2R's GBVH, SEAH, and child safeguarding approach both in the diligence and reporting cycles across the portfolio.
- Technical Assistance Manager: The TA Manager is responsible for providing funds or third-party experts to support portfolio companies with their approach to SEAH and other gender-based activities.
- H2R team: The team has zero tolerance for GBVH, SEAH, and child safeguarding incidents across internal operations and engagement with investors, companies, and communities we seek to serve. H2R team members accused of SEAH will be thoroughly investigated and, if found to have behaved inappropriately, will be subject to penalties up to and including termination. The team is also responsible for supporting SEAH diligence and reporting. The team is committed to continuously learning the best practices around SEAH prevention.

SEAH, GBVH, and Child Safeguarding risks across H2R

H2R has conducted fulsome research into SEAH risks across the H2R markets that were shared in our gender assessments. SEAH risks are also identified in Section 2 of the ESMS. The following are the primary SEAH risks that the project has identified:

- SEAH incidents in Portfolio Company operations
    - Risk Level: Medium
    - Magnitude: Low
    - Risk Probability: Medium
    - Description: Companies may have SEAH incidents impacting internal operations including staff sexually exploiting, abusing, or harassing other staff members. Early-stage companies may also have weak or insufficient SEAH protections for employees. Given H2R's early stage investing strategy, we expect that the impacts to be low.
- SEAH incidents in Portfolio Company engagement with communities
    - Risk Level: Medium
    - Magnitude: Medium
    - Risk Probability: Low
    - Description: Companies are expected to engage with communities including customers, and rural communities. As noted in the ESMS, companies may also engage with Indigenous communities. Portfolio company sales staff, agents, or others may sexually exploit, abuse, or harass community members. This could harm community members, result in litigation against the company, and serve as a reputational risk for the company and H2R.
- Child Safeguarding incidents in SHS Portfolio Company engagement with communities
    - Risk Level: Medium
    - Magnitude: Medium
    - Risk Probability: Low
    - Description: SHS companies may go to family homes to sell, install, or service SHS products. Sales agents may act inappropriately with children under the age of 18 when visiting a customer's home. This could harm community members, result in litigation against the company, and serve as a reputational risk for the company and H2R.
- Child Safeguarding incidents in Mini-Grid or Micro-Grid Portfolio Company engagement with communities
    - Risk Level: Medium
    - Magnitude: Medium

- Risk Probability: Low
- Description: H2R mini-grid companies may cause electrocution of community members if not sufficiently fenced or safeguarded with appropriate signs. Company expectations are outlined in the OHS annex, annex 17 of the H2R ESMS.

SEAH, GBVH, and Child Safeguarding in Environmental and Social Diligence

H2R has developed a comprehensive approach to environmental and social diligence with fulsome investigating of portfolio company approach to sexual exploitation, abuse, and harassment. As H2R may invest in Environmental and Social Risk Category B and C business models, H2R has two approaches to environmental and social diligence. For Category B projects, the team expects to hire third party experts to conduct an Environmental and Social Impact Assessment. For Category C projects, the team will conduct environmental and social due diligence.

ESIAs are expected to include the following GBVH, SEAH, and Child Safeguarding diligence criteria:

- Country contextual analysis, human rights diligence, and, when necessary, conflict-sensitive analysis related to GBVH, SEAH, and child safeguarding incidents.
- Third-party E&S consultants with local SEAH expertise and experience
- Diligence on compliance with local SEAH laws (this may also be conducted during legal diligence)
- Site visits and consultations with local stakeholders. Questions are expected to include SEAH concerns.
- Comprehensive review of relevant policies and procedures including:
  - Anti-Sexual Harassment Policy
  - Gender Action Plan (if they exist)
  - Code of Conduct
  - Human Resources Policy
  - Grievance Mechanism
  - Sexual Harassment Monitoring Mechanisms (whether they are stand alone or part of other incident trackers)
  - Equal Employment policies or provisions
  - Flexible work plans or approach depending on working requirements.
  - Family leave policies
  - Sales agent contracts
- For Mini-grid companies:
  - Appropriate fencing, signage, lighting and warning placards for electrocution
  - Community health and safety incidents
- Write ups or briefs on any GBVH or SEAH incidents in company history

H2R intends to publicly disclose ESIAs prior to investment through multiple communication channels including on the H2R website, with relevant Nationally Designated Authorities, and hard copy versions at the H2R office, and other spaces that may be appropriate.

ESG diligence on potential investments with Category C business models includes:

- Country contextual analysis, human rights diligence, and, when necessary, conflict-sensitive analysis related to GBVH, SEAH, and child safeguarding incidents.
- Questionnaire responses on company-approach to GBVH and SEAH including their alignment with IFC performance standards on Labor and Working Conditions and Community Health and Safety
- Reviewing the following policies:
  - Anti-Sexual Harassment Policy
  - Gender Action Plan (if they exist)
  - Code of Conduct
  - Human Resources Policy
  - Grievance Mechanism
  - Sexual Harassment Monitoring Mechanisms (whether they are stand alone or part of other incident trackers)

- Equal Employment policies or provisions
- Flexible work plans or approach depending on working requirements.
- Family leave policies
- Sales Agent Contracts

- For Mini-grid companies:
  - Appropriate fencing, signage, lighting and warning placards for electrocution
  - Community health and safety incidents
- Write ups or briefs on any SEAH incidents in company history
- The H2R team will analyze company ability to address GBVH, SEAH, and child safeguarding risks; particular attention will be paid to companies operating in conflict-sensitive regions or regions with high-levels of GBVH, SEAH, or child safeguarding incidents.

If H2R deems the company approach to GBVH, SEAH, and child safeguarding to be insufficient or not aligned with H2R's ESMS or H2R investor policies, H2R will bind the portfolio company to improving SEAH activities in a timely manner in the company's mandatory Gender Action Plan.

GBVH, SEAH, and Child Safeguarding Mitigants

H2R expects companies to have sufficient GBVH and SEAH policies. They are also expected to ensure that customers and their families (including children) will experience respectful and safe customer service. This means that HR policies and procedures, GBVH or SEAH (or equivalent policies) policies and procedures appropriately identify risks and mitigate them.

- *GBVH and SEAH:* Companies should have sufficient GBVH, SEAH, or equivalent policies that define, forbid, and mitigate GBVH and SEAH incidents. The company should have training on SEAH/GBVH policies and procedures, reporting mechanisms, and investigation procedures for incidents. Companies should also reference SEAH and GBVH expectations in their Code of Conduct, employee or sales agent contracts, and HR policies.
- *Child welfare:* While companies may not have or need specific child welfare policies, they should explicitly prohibit the harassment, abuse, or exploitation of their customers and families in relevant HR policies, Code of Conduct, sales agent contracts, or employee contracts. Companies are expected to report any child safeguarding incidents to H2R. Companies are also expected to not hire staff under the age of 18.
- *H2R mitigants:* If companies have deficiencies in their policies or there are heightened risks of GBVH or SEAH as found in the country contextual analysis, H2R may require companies to enhance policies, procedures, incident management, or protections for customers. This may be required in the company ESAP or GAP.

Monitoring and Reporting

H2R intends on monitoring and reporting company activities involving GBVH, SEAH, and child safeguarding including:

- Portfolio activities improving GBVH, SEAH, and child safeguarding policies and procedures across portfolio companies (may be required as part of company-level Gender Action Plans)
- SEAH incidents across portfolio companies
- Technical assistance or other support provided to portfolio companies to improve their approach to GBVH, SEAH, and child safeguarding.

At the portfolio level, H2R seeks to ensure that all portfolio companies have appropriate mechanisms to monitor individual company performance in addressing GBVH, SEAH, and child safeguarding.

After making the investment, H2R portfolio companies are required to implement ESAPs and Gender Action Plans that may include GBVH, SEAH, or child safeguarding provisions depending on diligence and compliance with the H2R ESMS. H2R expects to engage with companies on a quarterly basis on E&S and gender matters and, at a minimum, on an annual basis on E&S and gender matters. Companies are expected to report on their Gender

Action Plan on an annual basis. H2R expects to report gender, GBVH, SEAH, or child safeguarding activities including portfolio company GAP work, grievances, and fund-level work to investors with gender-based requirements.

Portfolio Company GBVH, SEAH, and Child Safeguarding Incidents

Portfolio companies are also bound to report ESG incidents including GBVH, SEAH, and child safeguarding incidents in a timely manner to H2R as part of their legal agreements with H2R. H2R will investigate GBVH, SEAH, and child safeguarding incidents and determine remediation efforts required by the company.

New provisions to the Gender Action Plan may be required because of the incident. H2R expects to report on ESG incidents, including SEAH incidents, to investors that require ESG incident reporting.

H2R intends to continuously engage stakeholders and will broadly inform stakeholders about our approach to SEAH and publicly disclosable information about H2R gender activities.

H2R expects to include GBVH, SEAH, and child safeguarding tracking as part of the ESG incident tracking system. The team expects tracking systems to include capacity for anonymous tracking of SEAH-related reports and incidents. The team's SEAH incident tracking activities are expected to include:

- Conducting a thorough analysis of such reports and incidents to identify recurring patterns
- Conducting root cause analyses, documenting lessons learned
- Collaborating with companies to implement necessary improvements to systems or physical spaces based on these insights or root cause analyses.

Grievance Mechanism

The Complaint Policy, H2R's grievance mechanism, has SEAH provision to ensure that it is survivor-centered and gender-responsive. Grievances are highly confidential, reporting can be done anonymously, and the team seeks to ensure that investigations minimize harm to survivors. The team also expects to ensure safe and ethical documentation including anonymizing victims, ensuring data privacy and security, and limiting data availability within the H2R team. If the investigation proves that H2R investment activity may have caused SEAH related harms, the H2R team aims to help the remediation efforts that may include:

- medical care
- psychosocial support
- legal support
- community-driven protection measures
- reintegration

H2R Stakeholder Engagement

The team intends to inform stakeholders of our approach to SEAH with the publication of the ESMS on the H2R website, disclosure on the GCF website, sharing print copies with government entities in H2R markets, sharing print copies with portfolio companies, and informing stakeholders at our virtual stakeholder engagement events.

Commitment to Continuous Improvement

The team will revisit the H2R approach to SEAH on an annual basis to ensure that we are continuously learning and improving our approach.