Environmental, Social and Corporate Governance Policy

Content: Environmental, social and corporate governance risk management approach to OPEC Fund's operations.

Applicable to: Public Sector, Private Sector, Trade Finance (both funded and unfunded) and Grant Operations

Sponsor: GCLSD

Cleared by and date: Director-General

Approved by and date: Governing Board

Next Review: Two years after approval or as needed

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Environmental, Social and Corporate Governance Policy

SECTION I: PURPOSE

The purpose of the Environmental Social and Corporate Governance (ESG) Policy ("Policy") is to define (i) the OPEC Fund's principles and standards for ESG risk management and the requirements in connection thereto for both the OPEC Fund and its counterparts\(^1\), internal processes, and (ii) the process under which the OPEC Fund ensures corporate governance in its Private Sector and Trade Finance Operations.

SECTION II: SCOPE

1. This Policy covers all operations carried out by the OPEC Fund: Public Sector, Private Sector, Trade Finance (both funded and unfunded) and Grant operations.

2. In case the OPEC Fund's sphere of influence is limited, either by the nature of a financial instrument, the national legal framework in a project's country of operation, or the size of its participation in a given project or program, the OPEC Fund will apply this Policy to the fullest extent possible.

\(^1\) Counterparts are primarily sovereign states, private entities and NGOs that directly receive financing from the OPEC Fund, either in the form of debt, private equity, project finance, grants or any other type of financing.
Words and phrases used in this Policy shall have the meanings ascribed to them below:

| **Action Plan** | A plan that specifies the measures that a counterpart needs to take in order to meet OPEC Fund’s requirements |
| **ESG Framework** | OPEC Fund’s set of policies, standards, procedures, processes and requirements to manage and mitigate environmental, social and corporate governance risk in its operations |
| **ESMS** | Environmental and Social Management System which includes the organization, processes and procedures for identifying, estimating and managing ESG risks |
| **IFC Performance Standards (IFC PS)** | IFC’s standards and procedures to identify, mitigate and minimize the adverse environmental and social impacts of its private sector projects |
| **Interpretation Note on Financial Intermediaries** | A document that clarifies how IFC’s Policy on Environmental and Social (ESG) Sustainability (Sustainability Policy) applies to financial institutions |
| **United Nations Sustainable Development Goals** | The 2030 Agenda for Sustainable Development consisting of 17 goals, adopted by all United Nations Member States in 2015 and which provides a shared blueprint for peace and prosperity for people and the planet, now and into the future |
| **WB Environmental & Social Standards** | The World Bank’s standards and procedures to identify, mitigate and minimize adverse environmental and social impacts of its projects |
SECTION IV: INTRODUCTION

1. The OPEC Fund for International Development ("OPEC Fund") is an International Financial Institution established by Agreement among its member countries. The OPEC Fund continuously strives to build on its founding principle of South-South cooperation, together with the international development community, to stimulate economic growth and social progress in low- and middle-income countries around the world.

2. In its efforts to contribute to a world where sustainable development is a reality for all, and considering its alignment with the United Nations Sustainable Development Goals, the OPEC Fund aims to support projects and programs that maximize economic growth for developing countries, while also creating a positive impact on all stakeholders including local communities and their environment.

3. To adequately address the environmental, social and corporate governance risks ("ESG risks") of its transactions, the OPEC Fund has an ESG Framework to ensure effective integration of ESG risk management into operations. This Policy lays the foundation for that integrated ESG risk management approach. An overview of the ESG Framework is provided in Annex A.

4. The OPEC Fund will actively disseminate and communicate this Policy to stakeholders. The institution's senior management will actively promote the Policy and the document should be widely available and used in internal and external training. All employees of the institution and those involved in Public Sector, Private Sector, Trade Finance and Grants operations are expected to know this Policy and to implement it accordingly.

SECTION V: STANDARDS

1. International Framework

The OPEC Fund requires its counterparts to comply with the legal and regulatory, environmental, social and corporate governance requirements that are applicable in the jurisdictions where they operate.

In addition to the national laws and regulations of partner countries, the OPEC Fund will apply a set of "best practice" standards. For Public Sector operations and Grant operations, the OPEC Fund will apply the World Bank Environmental and Social Standards and requires its counterparts to adhere to the same standards. For Private and Trade Finance operations, the OPEC
Fund will apply IFC Performance Standards and requires counterparts to adhere to these standards. As a signatory to the DFI Corporate Governance Development Framework, the OPEC Fund will integrate corporate governance in its operations by making corporate governance assessments in its Private Sector Operations, applying procedures and tools in line with the Framework, and developing action plans where necessary.

In case of discrepancy between the national legal framework and these international standards, the institution will apply the stricter of the two standards.

2. Internal Standards

The OPEC Fund will not finance any counterpart, company or organization involved in any activity mentioned in the OPEC Fund Exclusion List (Annex B). As far as its own operations are concerned, the OPEC Fund and its employees adhere to the institution's Corporate Values, Compliance Policy, and Code of Conduct.

3. Compliance

The OPEC Fund understands that not every counterpart will be in compliance with its ESG and requirements, as soon as an operation is formalized. In such cases, the OPEC Fund and the counterpart will agree on an Action Plan, defining the corrective measures to bring the counterpart in compliance, within an achievable timeframe.

The OPEC Fund will only engage with organizations able to meet the required standards, within a reasonable timeframe. Delays in meeting the requirements of an Action Plan may cause the OPEC Fund to cease its funding or take remedial action.

4. Reliance

In the case of co-financing transactions, the OPEC Fund may rely on the ESG standards of other Development Finance Institutions (DFIs), provided that such institution: (i) is a co-financier or loan administrator in the case of Public Sector and Grants operations, or (ii) is the transaction's lead arranger or the lender leading the ESG negotiations on behalf of the lenders in the case of Private Sector and Trade Finance operations, or (iii) has adopted standards which are in line with the World Bank Environmental and Social Standards or IFC Performance Standards respectively, and (iv) agrees to resolve any dispute in connection with an environmental or social claim or default, on behalf of or in cooperation with the OPEC Fund.
SECTION VI: METHOD

1. Risk Classification

The OPEC Fund will apply a risk-based ESG management approach. This means it will deploy resources to assess and mitigate an operation's ESG risk. To determine the ESG risk level of an operation on an ex-ante basis, the OPEC Fund will follow the internationally recognized classification method of three risk categories going from high risk (A), to medium risk (B) and low risk (C). The risk categories will differ in the case of a direct operation from an indirect operation via financial intermediaries.

2. Direct Operations

For operations in which the OPEC Fund directly finances the beneficiary, the three categories are defined as follows:

a) **Category A**: Operations with potential **significant adverse** environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented;

b) **Category B**: Operations 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;

c) **Category C**: Operations with **minimal or no adverse** environmental or social risks and/or impacts.

3. Financial Intermediary Operations

For operations in which the OPEC Fund finances a beneficiary indirectly through the intermediation of a financial institution including investment funds ("financial intermediary"), the methodology works differently. In such cases the operation's ESG risk level is not determined by the impact of the financial intermediary's activities, but by the impact that is associated with the activities of companies in their portfolio which is considered the sub-borrowers of OPEC Fund financing. In these cases, the classification methodology works as follows:

a) **Category FI-A**: when a financial intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential **significant adverse** environmental and/or social risks or impacts that are diverse, irreversible, or unprecedented;

b) **Category FI-B**: when a financial intermediary's existing or proposed portfolio is composed of, or is expected to be composed of, activities with potential **limited adverse** environmental and/or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or when financial
intermediary’s portfolio includes a very limited number of activities with potential significant adverse environmental and/or social risks or impacts that are diverse, irreversible, or unprecedented;

c) Category FI-C: when a financial intermediary’s existing or proposed portfolio includes, or is expected to include, activities that predominantly have minimal or no adverse environmental and/or social impacts.

4. Co-financing Operations

Subject to Section V (4) above, in case of co-financing transactions in partnership with other DFIs, the OPEC Fund may rely on the ESG due diligence and ESG risk classification made by the transaction’s co-financier or loan administrator in the case of the Public Sector and Grant Operations, or the lead arranger or the lender leading the ESG negotiations on behalf of the lenders, in the case of Private Sector and Trade Finance Operations or carry out these activities in cooperation with the lender’s technical advisor or external consultant.

SECTION VII: APPLICATION

1. Integration in Operations

To ensure a consistent application of this Policy across operations, the OPEC Fund embeds ESG management throughout its processes. In practice, this means that the institution always:

a) Screens a potential operation for eligibility against the OPEC Fund Exclusion List;

b) Classifies a potential operation on the ESG risk level triggered by the counterpart’s activities (in case of direct operations), or by the activities of projects in the portfolio (in case of financial intermediary operations);

c) Assesses and evaluates the negative ESG impacts associated with the operation in a way that is commensurate with the ESG risk category;

d) Defines mitigation measures to avoid or minimize ESG impacts to a risk level acceptable to the OPEC Fund’s standards and risk appetite;

e) Considers the findings and recommendations from the ESG due diligence as a key factor in the Credit Committee, Loan Committee and Governing Board’s investment decision-making;

f) Agrees on an Action Plan with the counterpart describing clear measures to mitigate the negative ESG impacts of its activities;
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g) Monitors the counterpart's compliance with the OPEC Fund's Standards above in general and the activities from the mutually agreed Action Plan in specific;

h) Supports counterparts in their effort to bring their performance into compliance with required ESG standards.

2. Control Mechanism

The OPEC Fund has control mechanisms in place to verify compliance with its own standards and procedures. The institution conducts regular internal reviews of operations, monitors portfolio compliance continuously and conducts a more extensive audit of the portfolio on an annual basis.

Subject to Section V (4) above for co-financing transactions with other DFIs, the institution leaves the monitoring to the lead arranger or loan administrator, which in turn ensures the reporting on the operation's compliance status to the OPEC Fund. Where the lead arranger or loan administrator does not cover ESG monitoring, this will be done independently by the OPEC Fund with the support of the lender's technical advisor.

SECTION VIII: REQUIREMENTS

The OPEC Fund requires its counterparts to mitigate or possibly avoid their ESG impacts in a manner that is commensurate with the operation's ESG risk level and in accordance with the World Bank Environmental and Social Standards (Public Sector and Grant operations) or the IFC Performance Standards (Private Sector and Trade Finance Operations).

1. Requirements for Direct Operations

a) In the case of direct operations –for both the Public Sector and Grants and the Private Sector and Trade Finance–, the OPEC Fund requires counterparts to implement an Environmental & Social Management System ("ESMS") that integrates plans and standards into their core processes so counterparts can anticipate ESG risks posed by their activities and avoid, minimize, and compensate for such impacts as necessary. Such requirements will be part of the operation's legal agreement.

b) For direct Public Sector and Grant operations, the set-up of this ESMS should be in accordance with the elements described in the World Bank Environmental and Social Standard 1 and World Bank Environmental and Social Standard 10 and should address any of the World Bank Environmental and Social Standards 2-8 if triggered by their activities.
c) For direct Private Sector and Trade Finance Operations, the OPEC Fund expects the counterpart to operate an ESMS that is in accordance with the elements described in IFC Performance Standard 1 and address any other of the IFC Performance Standards 2-8 if triggered by its activities. Adaptions to specific circumstances will be applied on a case-by-case basis.

d) For its direct Private Sector Operations, the OPEC Fund integrates corporate governance in alignment with its commitment as a signatory to the DFI Corporate Governance Development Framework. Corporate Governance assessment will be carried out, weaknesses identified and evaluated in the context of what is reasonable in each case, and appropriate actions to be taken will be agreed with the counterpart and monitored to ensure an adequate Corporate Governance structure in each case. The areas to assess include: (i) Commitment to Corporate Governance; (ii) Board structure and function; (iii) Control environment and processes; (iv) Transparency and disclosure; and (v) Rights of Minority Shareholders.

2. Requirements for Financial Intermediaries

a) In the case of indirect operations through financial intermediaries - either public or private entities - the OPEC Fund has requirements for the financial intermediary's own activities and for its portfolio. Regarding its own activities, and irrespective of its portfolio's ESG risk category, the financial intermediary must agree to manage the working conditions of its workforce in accordance with relevant aspects of either World Bank Environmental and Social Standard 2 or IFC Performance Standard 2 as applicable, independent of whether the financial intermediary is a public sector or private sector organization.

b) Regarding its portfolio, a financial intermediary must implement an ESMS that is commensurate with the ESG risk of its portfolio. The ESMS for a financial institution typically consists of the following elements established by World Bank Environmental and Social Standard 9 and/or IFC Performance Standard 1: (i) an Environmental & Social Policy; (ii) internal organizational capacity; (iii) ESG due diligence procedures to identify risks and impacts of borrowers/investees; (iv) monitoring and review mechanisms of portfolio; (v) external communications mechanism; and (vi) emergency preparedness and response systems.

c) With an adequate ESMS in place, financial intermediaries should be able to uphold the applicable standards stipulated in the OPEC Fund ESG Policy in their operations and ensure that their borrowers or investees meet the right standards. On a case-by-case basis, the OPEC Fund may engage with financial intermediaries and guide them in bringing their
ESMS in compliance with the requirements of the institution or engage the services of a consultant to do so at a cost to the financial intermediary.

d) For private sector financial intermediaries, the OPEC Fund requires its counterparts to use the procedures and tools made publicly available by the DFI Corporate Governance Development Framework. Corporate Governance assessment should be carried out, weaknesses should be identified and evaluated in the context of what is reasonable in each case, and appropriate actions should be agreed between the financial intermediary and its counterpart and monitored to ensure an adequate Corporate Governance in each case. The areas to assess include: (i) Commitment to Corporate Governance; (ii) Board structure and function; (iii) Control environment and processes; (iv) Transparency and disclosure; and (v) Rights of Minority Shareholders.

SECTION IX: INTEGRITY

1. As stipulated in its Code of Conduct, the OPEC Fund has a responsibility to maintain a high standard of integrity in its actions and conduct in the countries where it works. Similarly, the institution expects counterparts to uphold an equally high standard of integrity.

2. As specified in its Compliance Policy, the OPEC Fund also ensures that it follows high industry standards regarding compliance. The institution monitors and enforces compliance obligations that include, but are not limited to, Anti-Money Laundering & Counter Terrorist Financing, Anti-Bribery and Corruption, Conflicts of Interest, Fraud Prevention, and Privacy and Confidentiality.

SECTION X: CONFIDENTIALITY AND DISCLOSURE

1. The OPEC Fund commits to its obligation to protect all confidential information related to its operations, especially when it concerns information or records about its counterparts. In most cases, the institution has a legal obligation to do so. Nonetheless, even concerning information that is not considered strictly confidential, the OPEC Fund treats counterparts’ information with the utmost discretion.

2. At the same time, the OPEC Fund wants to be transparent about its policies and operations as well as the decisions that it makes regarding operations. The institution therefore discloses information about projects on its website to ensure transparency as much as possible, while
respecting counterpart confidentiality, in accordance with its Access to Information Policy and contractual obligations.

SECTION XI: COMPLAINTS

1. The OPEC Fund strives for the maximum net positive development outcome of its projects and as such the institution wants to be informed of possible misconduct. Any individual can file a confidential report of alleged misconduct by the OPEC Fund or any of its business partners. Suspected misconduct may concern breaches of law or activities contrary to OPEC Fund’s policies or the policies of its business partners.

2. For all such cases, the OPEC Fund has a complaints mechanism in place that can be found on its website. Any individual can file a confidential report of alleged misconduct by the OPEC Fund or any of its counterparts. All reports of suspected misconduct will be taken seriously, handled confidentially, and the identity of the person submitting the complaint will be protected. If necessary, an internal investigation will be initiated. All criminal matters may be referred to the police or appropriate authorities.

SECTION XII: COORDINATION

1. The OPEC Fund uses the Three Lines of Defense model to apply this ESG Policy, which ensures that ESG risk management has a firm basis within the institution by dividing risk management responsibilities between different roles. The first line of defense (Operations) is responsible for risk ownership. The second line of defense (Risk Management Department and Compliance Function) is responsible for risk control. Finally, the third line of defense (Internal Audit) of defense verifies risk assurance.

2. The ESG Team, operating under the supervision of the institution’s Strategic, Planning and Economic Services Department, is responsible for implementing the ESG Policy and keeping it up to date with developments in the DFI space in general, or specifically within the OPEC Fund. The ESG Team is also responsible for disseminating the Policy among stakeholders, building necessary policy capacity among employees, and supporting Senior Management in propagating this Policy.

3. The Governing Board is ultimately responsible for this ESG Policy and all decisions resulting from the application of the ESG Framework.
SECTION XIII: PERIODIC REVIEW

This Policy will be reviewed and revised every two years or as necessary to reflect any changes to the institution's policies, standards and operations or any modifications in the international standards referred to in this Policy.

SECTION XV: ENTRY INTO FORCE and AMENDMENT

1. This Policy is approved by the Governing Board of the OPEC Fund and comes into force as of the date of the Governing Board approval.

2. Amendments to this Policy shall follow the procedure set forth in Section V or Section VI of the Policies and Procedures Framework, as applicable.
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ESG Framework

The ESG Policy is part of a larger ESG framework that ensures effective integration of environmental, social and governance risk management into OPEC Fund operations. The core elements of this ESG Framework are shown in the figure below.
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Exclusion List

The OPEC Fund shall not, directly, or indirectly finance activity, production, use, distribution, business or trade involving:

- Activities deemed illegal under host country laws, international conventions and agreements, or subject to international phase-outs or bans, such as, but not limited to:
  - Ozone-depleting substances, PCB’s (Polychlorinated Biphenyls), hazardous pharmaceuticals, pesticides/herbicides;
  - Wildlife or regulated products under CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora);
  - Unsustainable fishing methods (such as blast fishing* and drift net fishing in the marine environment using nets in excess of 2.5 km in length).
- Forced labor², harmful child labor.³
- Weapons and munitions.
- Alcoholic beverages (including beer and wine).
- Tobacco.
- Gambling, casino and equivalent enterprises.
- Destruction⁴ of High Conservation Value areas.⁵
- Wood or other forestry products other than from sustainably managed forests.
- Logging operations for use in primary tropical moist forest.
- Pornography or prostitution.
- Racist and/or anti-democratic media.
- Radioactive materials.⁶
- Un-bonded asbestos fibers.⁷
  - Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.

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² Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.
³ Harmful child labor means the employment of children that is economically exploitative, 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.
⁴ Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area’s ability to maintain its role is lost.
⁵ High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork.org).
⁶ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is understood to be trivial and/or adequately shielded.
⁷ This does not apply to the purchase of bonded asbestos cement sheeting where the asbestos content is less than 20%.