

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

Introduction

Aceli Africa (Aceli) is a market-enabling facility that draws upon groundbreaking data to calibrate how smart subsidy can most efficiently mobilize private capital for development impact. It focuses on accelerating inclusive agricultural growth, initially in East Africa and subsequently across the continent, by addressing constraints to capital supply and addressable demand for small- and medium-enterprises (SMEs) in the agriculture sector. With access to finance and capacity building, these agricultural SMEs can improve livelihoods for smallholder farmers and create employment for low-skill workers, particularly women and youth, transitioning into the formal economy.

Each dollar of donor funding to Aceli will generate an estimated \$10 in private sector lending and at least \$3 in incremental farmer income, with capital leverage of donors' funds doubling as the market becomes more efficient. More than 50% of the loans are made by lenders domiciled in East Africa and 50%+ go to staple food crops for consumption within Africa. By 2030, Aceli aims to mobilize \$ 2 billion in lending to 20,000 agri-SMEs, supporting market access for five million smallholder farmers. Aceli Africa believes that environmental, social, and governance (ESG) standards can have a positive impact on the performance of both lenders and their agricultural SME borrowers and should therefore be integrated into the policies and practices of these actors. We require our partner lending institutions to commit to and practice ESG standards that meet or exceed Aceli Africa's ESG standard outlined in this document.

Scope

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

Aceli Africa ESG Policy

Aceli Africa requires all participating lenders to implement basic ESG standards that are considered best practice in the financial sector. The Aceli policy references the ESG policy established by the [Council on Smallholder Agricultural Finance \(CSAF\)](#) and global standards from the [International Finance Corporation \(IFC\)](#) and [International Labour Organization \(ILO\)](#).

The objectives of the Aceli policy are to:

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

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

ii) Require all lenders to meet this basic standard and support performance towards and beyond the standard

- Institution-level standard – lenders are expected to meet the ESG standard and not participate in any negative exclusions for activities supported by Aceli (see full list of exclusions in appendix 1).
- Loan / enterprise-level standard – loans that lenders submit to Aceli for incentives must also meet the ESG standard by not participating in any negative exclusions as reasonably verified by the lender through its due diligence (*borrowers are expected to sign with lenders committing to not violate any of the exclusions listed in Appendix 3*).

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

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

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

- For lenders: Each lender is responsible for at least meeting Aceli Africa's minimum standard for ESG due diligence and is encouraged to exceed it. With support from Aceli Africa, lenders that do not meet the Aceli ESG standards will identify areas requiring capacity building to improve their staff training and due diligence tools and processes for ESG. Aceli will offer capacity building on ESG for these lenders. The capacity building activities will either be at country level (to multiple lenders in the same country) or individual lender level (tailored to individual lenders) based on lender needs and available resources.
- For borrowers: Aceli Africa will explore opportunities to offer capacity building to SMEs on improved ESG standards.

Aceli Africa's ESG Standards and Eligibility

Aceli has established ESG standards for determining whether lenders are eligible to participate as well as for assessing whether individual loans submitted for financial incentives qualify.

Lender Level

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

- a) Demonstrate capacity to verify borrower compliance with Aceli's ESG policy for each qualifying loan submitted to Aceli for financial incentive
- b) Have an ESG policy that meets Aceli's standards relating to environmentally prohibited activities, upholding country labor laws, avoiding the infringement of indigenous people, and aligning workers' rights with human resources and health & safety policies
- c) Train lending staff to implement the ESG policy

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

Loan Level

Aceli requires lenders to verify that each loan submitted for financial incentive meets the ESG criteria by not participating in any of the activities on the "[IFC Exclusion List](#)" and also meets the criteria in both a) and b) below. In addition to this, enterprises located near or sourcing from protected areas and other environmentally sensitive areas may be subjected to additional screening by Aceli.

a) Positive impact criteria (must meet at least one):

- i. *Borrower sources from at least 25 smallholder farmers*
- ii. *Borrower supplies inputs, including seeds, fertilizer, and allowed crop protection products that are consistent with environmental principles and appropriate for the local agro-ecology, for at least 100 smallholder farmers (per smallholder definition above)*
- iii. *Employ at least 5 full-time workers*

AND

b) Revenue criteria:

Annual revenue in the last financial year of at least \$50k and not more than \$3M (for origination incentives) or \$10M (for portfolio first loss). Borrowers with revenues of \$50k-\$3M are eligible for both origination incentives and portfolio first loss while those with revenues above \$3M and no more than \$10M are eligible for portfolio first loss only.

For SMEs where that meet the Aceli C&E criteria, invest in C&E tech, are owned by women (at least 51% shareholding); youth owned (at least 51% shareholding); or are domiciled in underserved Geographies¹; the minimum annual revenue in the last financial year has been lowered to \$20k.

SACCOs and Special categories

Aceli applies special minimum impact requirements to loans registered by SACCOs and to loans in designated special categories, including women-owned, youth-owned, climate-tech enterprises, and businesses operating in underserved geographies. For these loans, the minimum ticket size is \$10K and the minimum annual revenue threshold is \$20K, both of which are lower than the standard eligibility criteria.

Impact Bonus focus areas & definitions

In addition to the baseline incentives offered by Aceli for portfolio first-loss (2-6%) and origination incentives (up to \$10k), Aceli will offer an "Impact Bonus" for loans to enterprises that have significant positive impact across one or more of the following four areas:

- Women's Economic Opportunity
- Food security & Nutrition
- Climate and Environment
- Youth Economic Opportunity

Tiered approach: To incentivize and reward lenders for serving SMEs that have the highest impact, in 2022 Aceli divided the three initial impact areas into two sub-categories each. Loans that meet one sub-category will receive the standard impact bonus while loans that meet both sub-categories will earn a higher bonus.

The sub-categories are as follows:

Women's Economic Opportunity

¹ Underserved Geographies: Aceli has lowered ticket size and annual revenue requirements for loans from selected regions that are either ASAL, have high poverty incidences or limited access to finance in Kenya, Uganda and Tanzania.

- Women – Leadership
- Women – Opportunity

Food security and Nutrition

- Food security
- Nutrition

Climate and Environment

- Climate & Environment – Regenerative
- Climate & Environment – Circular
- Climate Tech²

Youth Economic Opportunity

- Youth Inclusion and Youth-Owned Businesses

The Impact Bonus will be calculated based on the level of contributions that loans make to the seven impact and sub-impact areas. As the Impact Bonus is intended to get lending flowing to particularly high-impact agricultural SMEs with limited access to finance, loans to returning borrowers are only eligible for up to 50% of the Impact Bonus for new borrowers. For the special bonuses, all loans that qualify will earn a standard \$1k on Origination Incentives regardless of their borrower status (i.e., new or returning).

NOTE: While Aceli Africa strongly encourages all lenders to gather information on these higher impact areas through their standard due diligence process and will support lenders so they have the capacity to do so, lenders are not required to report on the higher impact areas. Rather, gathering and reporting this information is voluntary on the part of lenders.

Women’s Economic Opportunity

Development institutions have designed impact frameworks aimed at addressing this challenge of gender exclusion globally. One such framework is the [2X Challenge](#), which the G-7 Development Financial Institutions developed to assess gender inclusion in investments across five dimensions: entrepreneurship, leadership, quality employment, consumption and investment through financial intermediaries.

Aceli Africa has adopted the [2X Challenge](#), as our higher impact bar for gender inclusion using the indicators specific to the agriculture sector. The 2X criteria assesses gender inclusion in investments across five dimensions: entrepreneurship, leadership, quality employment, consumption and investment through financial intermediaries. Aceli has slightly adapted the 2X criteria to incorporate farmer suppliers, which is a significant impact dimension for loans in the agriculture sector. Loans will be eligible for a double bonus if they meet gender inclusion both at leadership and participation level as outlined below:

Women - Leadership

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

- **Majority owned by women:** The women owned criteria will target businesses that have majority shareholding by women (51% shares and above)

² *Aceli defines climate technologies as: a) equipment and technologies that promote off-grid productive use (e.g., solar powered poultry incubator, solar powered milk chillers); or b) equipment and technologies that are connected to the grid but that optimize resource use, promote energy efficiency, reduce greenhouse gas emissions, and enhance overall sustainability in agricultural practices.

- **Position:** Number of women in senior leadership position (40%) for other business types, excluding sole proprietors; OR
- **Board composition:** The board is comprised of women (at least 40%).for other business types excluding sole proprietors

Women - Opportunity

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

- **Employment** (*Business has large share of women employees and actively improves women's employment access*)
 - At least 45% of employees are women with employment conditions in compliance with national laws; (*SMEs with less than five women employees will not be eligible for this bonus, even if women comprise 45% or more of the workforce*).
 - Quality indicator beyond compliance with local law - Evidence of policies that address barriers to women employment (examples include childcare, transportation, wage equity, non-discrimination policies). *Note: reporting on this indicator is optional and lender must be able to demonstrate that a borrower meets the 45% employment threshold above to qualify under the Employment category.*
- **Suppliers** (*Business procures 45% of produce directly from women suppliers*)
 - Proportion of engaged women suppliers (45%). As this indicator is not included in the 2X Challenge for agriculture, Aceli Africa has added it given the significant impact of smallholder farmers supplying to agricultural SMEs and set the percentage threshold based on the employment indicator.
 - Quality indicator beyond local law compliance – addressing barriers to women participation through access to markets³ (examples include prices above market price, facilitation of transport, provision of services such as agronomic extension). *Note: reporting on this indicator is optional and lender must be able to demonstrate that a borrower meets the 45% supplier threshold above to qualify under the Supplier category.*

Aceli initially aimed for **at least 30% of the loans** (totaling \$200M+) receiving financial incentive to meet the 2X Challenge standard. The 2X Challenge considers any investor or investment portfolio where at least 30% of the investments meet its standard as a Gender-Inclusive Investor. In 2022, Aceli raised the target to 50% of loans meeting the 2X criteria.

Food security and nutrition (FSN)

Aceli Africa's FSN impact bonus rewards SMEs that promote increased productivity, adoption of climate resilience practices, diversification of food production, enhancement of the nutritional value of food, and reduction of food loss. All these activities should be implemented using environmentally sustainable methods (e.g., the bonus will not be awarded for a business that boosts farm productivity but exceeds Aceli's threshold for fertilizer use). Activities such as producing food more efficiently and reducing food loss will contribute to the reduction of GHG. We aim for at least **50% of the loans** supported by Aceli Africa to qualify for an Impact Bonus for food security and nutrition.

A loan qualifies for the bonus if the borrower does at least one of the following as reported by the lender and subject to external audits for sampled SMEs:

³ These services should not necessarily target women only but offered to all producers

Food security

- a. **Inputs:** Promote adoption of inputs and associated practices **that improve productivity** in ways that are environmentally sustainable, adapted to climate change, and suitable for specific agro-ecological conditions e.g. high yielding inputs – only allow where there is evidence e.g. seed multiplication
 - 30%+ of revenues focused on inputs such as early maturing or drought-tolerant seeds and/or extension services (agronomic training) to support farmers in producing more crops (food crops and cash crops) in an environmentally sustainable manner.
- b. **Climate resilience:** Promote adaptation to climate change through adoption of climate services and financial or tech innovations for both domestic and export value chains
 - Examples include crop insurance, livestock insurance (must be accompanied with evidence), weather information services.
- c. **Diversification: Increase and diversify** production of food crops for **African** consumers
 - 50%+ of its crop or end product sold for food consumption within Sub-Saharan Africa. **OR**
 - 50%+ of its crop or end product consists of non-staple crops (not for export).
- d. **Reduce losses:** Implement post-harvest technologies to reduce food loss
 - Hermetic bags⁴
 - Metal silos⁵
 - Refrigerated trucks, solar powered cold storage
 - Sorting and packaging of perishable produce

Nutrition

Aceli's nutrition impact is defined as production, aggregation, value-added processing and/or marketing of nutrient-dense foods, fortified foods and nutritional supplements, for a diverse and healthy diet for African consumers. **To qualify for nutrition bonus, at least 30% of total output from a business should be from nutritious foods and food products.**

The nutrition impact area comprises two loan subcategories: **Nutrition Transformative**, which includes producers, processors, and aggregators of nutrient-dense foods, fortified foods, and nutritional supplements; and **Nutrition Supportive**, which includes traders, transporters, and service providers such as those offering refrigerated transport technologies supporting the handling and distribution of perishable foods.

These foods are categorized five groups as follows:

- **Inherently nutritious foods:** foods which contain essential elements of a healthy diet (e.g., micro-nutrients, dietary fiber, high quality protein, essential fats), and are minimally or unprocessed. Specific examples include;
 - traditional/indigenous fruits and vegetables, green leafy vegetables (e.g., amaranth, spider plant, Africa night shade, spinach, kales, moringa, pumpkin leaves, baobab fruit, hibiscus, tamarind, coconut, groundnuts),
 - animal-based proteins and other products (e.g. fish and seafood (including canned or dried), insects, dairy, eggs, organ meats and novel proteins) and
 - alternative plant-based proteins for human consumption (e.g., legumes, nuts, soy, rapeseed)

⁴ Hermetic bags are airtight bags that prevent air or water from getting into the cereals stored in them. First developed by Purdue University, they preserve the contents while restricting the existence of cereal pests by depleting oxygen supply levels and producing carbon dioxide

⁵ A metal silo is a cylindrical structure, constructed from a galvanised iron sheet and hermetically sealed, killing any insect pests that may be present. Plastic containers apply the same principle and cost less.

- **Fortified foods:** foods which are made more nutritious through the addition of nutrients or changes to processing procedures according to national standards (e.g Fortified wheat or maize flour, fortified rice, iodized salt; fortified cooking oil; nutrition bars)
- **Bio-fortified food crops:** foods which were bred to have higher nutritional content than traditional varieties (e.g., orange-fleshed sweet potatoes, high iron beans, zinc wheat, zinc rice, vitamin A cassava, vitamin A maize, and iron pearl millet)
- An evidence-based **nutritional supplement** intended for consumption by high-risk or vulnerable populations (e.g. pregnant women, young children) e.g micronutrient powders (MNPs); Lipid- based nutrient supplements (LNS).
- Foods with some inherent nutritional value for which **potentially harmful elements have been minimized** e.g minimally sweetened dairy products; Low- sodium and minimally processed poultry and fish; Nutrient-dense whole grains (e.g., teff, millet, sorghum, fonio)

Climate and Environment (C&E)

The Climate and Environment impact bonus continues to focus on reorienting agri-food systems to be planet positive. SMEs that promote **regenerative agriculture** and **Circular agri-based systems** will qualify for the climate & environment impact bonus. **Regenerative agriculture** practices are activities that support long-term solutions by rebuilding soil health, restoring degraded land, and applying holistic land and ecosystem management practices resulting in both carbon sequestration and improving the water cycle. **Circular agri-food systems** are approaches that optimize the use of biomass and renewable resources on-farm, in value-added processing, and along value chains. The practices reduce resource use and discharges into the environment by recycling by-products back into the system. Aceli aimed for at least **20% of the loans** supported by Aceli Africa to qualify for an Impact Bonus for climate & environment in year 1 and raised this target **to 25% of the loans** in 2022 onwards. Aceli will establish if these practices are applied in a purposeful and holistic manner by a majority of the farmers (farm-level practices) and/or are integral to the SME (enterprise-level activities).

From mid-2023, Aceli also introduced a bonus for all loans that may or may not meet the C&E criteria but that will use proceeds of the loan to acquire technology that promotes off-grid productive use of energy (e.g., solar powered poultry incubator, solar powered milk chillers) or technology/equipment that are connected to the grid but that optimize resource use or promote energy efficiency.

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

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

1. Implement or source from farmers who implement agricultural practices that restore **soil health** and apply **holistic land and ecosystem management practices**. *These practices need to be applied in a purposeful manner and affect at least 50% of the farm level activities:*
 - Soil health improvement (crop management, no/low till with increased retention of organic residues, organic fertiliser, rotational grazing, carbon sequestration)
 - Enhancing ecosystem functions (erosion control, Integrated Water Resource Management, natural pollination)
 - Integrated Pest Management
2. Implement activities that increase biodiversity, agroforestry and reforestation of the ecosystem
 - Increasing biodiversity (habitat provision, biological pest control)

- Reforestation or land restoration activities, including establishing commercial forestry, agroforestry, promoting avoided deforestation and conversion of waste land back to productive land.

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

3. **Design out waste and pollution:** reduce waste, use renewable energy, optimise water management; apply sustainable packaging, promote local sourcing/short supply chains, apply smart integration between animal-based and plant-based supply chains
 - *These practices need to be applied in a purposeful manner and affect at least 50% of the farm level activities. OR*
 - *50%+ of sourcing volume originates from farmers who apply these holistic practices*
4. **Apply bio-economy based solutions and re-use by-products** from farming and processing activities at farm and enterprise level. These include food by-products that are transformed into organic fertilisers, biomaterials (e.g., for packaging), medicines, bioenergy that is suited to the agroecological context and uses natural resources efficiently, or waste streams from one supply chain that are used as raw materials for another.
 - This must be relevant for at least 50%+ of the business activities at farmer or enterprise level.

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

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

Climate Tech

Aceli's climate tech initiative, launched in mid-2023, aims to incentivize loans to business that are interested in acquiring climate-friendly equipment and technology. The lender will be expected to provide evidence showing that the loan is for the equipment purchased before Aceli verifies that the loan will earn an additional bonus on the same.

Youth Economic Opportunity

Aceli Africa defines youth as any person in the age bracket of **15 to 35 years**. This definition aligns with the East Africa community definition. Aceli applies 29 as the lower upper age limit for businesses that employ and buy from youth suppliers The reason for lowering the upper limit is to focus more on school leavers newly joining the workforce.

Youth owned businesses

Ownership: Youth owned businesses will be assessed through shareholding of the business and composition of founders. Businesses with at least 51% shareholding by youth who are African nationals aged between 15-35 years will meet this criterion.

Youth inclusive businesses

Leadership: This will consider the number and percentage of youth who are African national aged between 15-35 years in leadership position, specifically:

- Youth in senior leadership position should be 50% and above
- Youth on the board should be 40% and above (the youth must have full voting rights and be active participants in the board decision making)

Employment: This will assess the number and percentage of youth aged between 15 – 29 years employed by the business. Businesses that employ at least 45% youth aged between 15-29 years are considered as youth inclusive

Suppliers: This will assess the level at which the business engages with youth aged between 15 – 29 years as farmer suppliers. Businesses that buy produce from at least 45% smallholder farmers aged between 15-29 years are considered as youth inclusive

Assessment of enterprise eligibility of impact bonus

Aceli's ESG and Impact approach begins with the review and accreditation of each lender's ESG due diligence practices. Once this threshold has been met, the approach emphasizes self-reporting at the lender and loan-level with appropriate oversight from Aceli where needed to ensure compliance. Aceli expects lenders to hold themselves to high data standards and report this information in an accurate and complete manner. Aceli also engages a network of third-party partners trained in ESG practices and compliance to conduct targeted⁶ checks on lenders' ESG due diligence practices as well as on a subset of enterprises submitted by each lender.

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

List of exclusions

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

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

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

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