

PROPOSED E&S INHERENT RISKS/IMPACTS CATEGORISATION

CATEGORY

Low inherent E&S risks/adverse impacts:

Business activities with **minimal or no adverse E&S risks or impacts**. E&S risks and impacts are generally limited to common issues such as occupational health and safety, labour standards and, in some cases, energy efficiency in office environments.

HINTS & TIPS

Still require **basic E&S DD**. Fund managers must still carry out basic checks (e.g. labour rights, occupational health and safety) during DD, monitoring and ownership in order to verify the adequacy of the company's E&S management practices and to ensure that the E&S risks and impacts have not significantly changed over time.

EXAMPLE

The following businesses/activities are generally considered low-risk.

- Office-based businesses.
- Professional services (e.g. law firms, management consultants, accountants).
- Small educational facilities.

Note – Where certain service activities have significant indirect impacts (e.g. the project finance services of some banks), the indirect impacts should be taken into account in the overall risk rating.

Medium inherent E&S risks/adverse impacts:

Business activities with the potential for limited adverse E&S risks or impacts that are **few in number, generally site specific, largely reversible, and readily addressed** through well-known mitigation measures.

- It may be helpful to sub-divide the 'Medium' category into **'Medium-High'** and **'Medium-Low'** to avoid a situation where most of the portfolio falls into the same category (i.e. 'Medium'), despite differences in E&S risks and impacts.
- Medium-Low and Medium-High could be divided on the basis of the **scale and diversity of the risks** and impacts identified.
- Consider appointing external specialists to assist with eh DD if the fund staff have limited understanding of the aspects of the sector (particularly in the case of medium-high risk transactions).

Examples of typical Medium E&S risk sectors, but, due to the details of the actual company or project, could be elevated to a higher risk category.

Infrastructure

- Smaller-scale dams, reservoirs, forestry and agriculture.
- Smaller infrastructure or industrial developments (e.g. light industrial parks).
- Moderate construction (usually renovation or expansion within an existing business footprint).
- Small- to medium-scale upgrades to existing infrastructure.
- Telecommunications.
- Tourism and hospitality.
- Hospitals and medical facilities of small to medium scale.
- Smaller-scale power facilities (refer to High-risk threshold).
- Medium-scale, road-based logistics companies for non-hazardous cargo.

Manufacturing

- Food and beverage processing.
- Manufacturing of fast-moving consumer goods (FMCG).
- Injection moulding.
- Textiles.
- Automobile components (small scale).

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High inherent E&S risks/adverse impacts:

Business activities with significant adverse E&S risks/impacts that are **diverse, irreversible or unprecedented**. Impacts cannot be mitigated, or, if they can be mitigated but only at significant cost.

Businesses that trigger extensive application of IFC Performance Standards, typically including IFC Performance Standards 5, 6, 7 and/or 8.

HINTS & TIPS

- These investment opportunities are **not necessarily 'no-go' deals**. The main implication of the 'High-risk' categorisation is that the fund manager will need to deal with significant and potentially complex matters during the investment cycle. Depending on the terms entered into with the fund's investors (especially if they include DFIs such as CDC), high-risk investments may also require information disclosure to some or all LPs prior to investment.
- This investment would typically involve hiring external consultants. Refer to **CDC Guidance: Working with Consultants**.
- Irrespective of the sector, **investments in this category would typically include** some or all of the following:
 - **Major labour and working conditions and/or pollution** prevention concerns (e.g. child labour risks or major air emissions).
 - Significant, potential adverse impacts on the **health, safety, security and/or livelihood of local communities** (e.g. resettlement).
 - Significant, potential adverse impacts on **biodiversity and ecosystem services** (e.g. significant impacts on Critical Habitats).
 - Significant, potential adverse impacts on **Indigenous Peoples** and/or cultural heritage.

EXAMPLE

The following sectors are **usually considered to be High risk. Depending on project specifics**, the E&S risks and impacts of individual projects may be considered to be Medium. See **Hints & Tips** for further advice on investments that may warrant a High risk categorisation (irrespective of the sector).

Infrastructure

- Railways, ports, harbours and terminals, airports, toll roads and long-distance pipelines.
- Large dams, new or existing thermal or run-of-the-river power plants (>50MW) and wind parks (>100 MW).
- Waste management/waste treatment facilities.

Oil & gas

- Offshore/onshore oil and gas development.
- Liquefied natural gas (LNG) facilities.

Large-scale primary production (plants/animals)

- Forestry and plantations.
- Agriculture and aquaculture.

Heavy manufacturing/chemicals

- Cement and lime and glass manufacturing.
- Foundries, steel mills and base metal smelting and refining.
- Pulp and paper mills.
- Coal, natural gas and oleo chemicals processing.
- Pesticides and nitrogenous and phosphate-based fertiliser production.
- Petroleum refining and large-volume, petroleum-based polymers and/or organic chemicals manufacturing.
- Large-volume, inorganic compounds manufacturing.
- Textiles (large scale).

Mining

- Mining, both open-pit and underground. Brownfield expansions may be considered as Medium risk in some circumstances.