AFRICAN DEVELOPMENT BANK GROUP

PROJECT: Energy of Cameroon S.A. (ENEO) Corporate Loan, Cameroon

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COUNTRY: CAMEROON

ENEO Environmental and Social Management System (ESMS) and Safety Management System (SMS) Assessment Report

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AfDB ESMS Assessment Team Members

<table>
<thead>
<tr>
<th>Team Members</th>
<th>Task Managers</th>
<th>E&amp;S Specialist</th>
<th>Controller</th>
</tr>
</thead>
</table>
|              | Matthieu JALARD  
Senior Investment Officer | Bandéknï Pakidame KOLANI  
Senior Environmental and Social Safeguards and Compliance Officer | PESR2  
Principal Environmental Safeguards and Compliance Officer |
|              | Abel BROOK  
Senior Investment Officer |                                |             |
|              | Sylvie MAHIEU  
Principal Investment Officers |                                |             |
|              | Osric Tening FORTON  
Principal Environmental Safeguards and Compliance Officer |                                |             |
# TABLE OF CONTENTS

1. INTRODUCTION TO THE PROJECT ................................................................. 3
2. PRESENTATION OF ENEO ........................................................................... 3
3. SUMMARY OF THE CAPEX PROGRAMME .................................................. 4
4. AFDB E&S RISK CATEGORIZATION AND DISCLOSURE REQUIREMENTS ........................................ 4
5. SCOPE OF THE ESMS ASSESSMENT ......................................................... 5
6. SUMMARY OF THE ASSESSMENT ............................................................... 5
7. SCOPE FOR IMPROVEMENT ....................................................................... 6
8. CONCLUSION ............................................................................................... 7
1 Introduction to the Project

The Bank has been strongly involved in Cameroon’s power sector over the past years. In 2006 the Bank extended the first corporate loan to the national utility, then known as AES-SONEL (now ENEO), through the Bank’s private sector window, which was fully repaid in May 2019. The Bank went on supporting several power projects in the country such as the PRERETD for the reinforcement of the electrical transport and distribution networks, the Chad – Cameroon Interconnection, the Kribi (216 MW) and the Dibamba (86 MW) thermal power plants, the Lom Pangar dam (30 MW), and the Nachtigal hydropower Project (420MW).

On November 1, 2018 ENEO’s concession was extended until July 2031. On November 7, 2018 ENEO submitted an official letter to all Lenders of Nachtigal HPP (including the AfDB) requesting financing for its investment program. A Project Evaluation Note (PEN) was approved by PEVP Operations Management Team (OMT) on February 5, 2019 and a letter confirming the Bank’s interest in supporting ENEO’s CAPEX program was sent to the utility on February 12th, 2019.

The corporate loan will enable ENEO to complete its long-term investment program. The program, which is rolled out over a 12-year period (2020 – 2031), will deliver major generation and distribution improvements, including: extension and upgrade of distribution assets to increase access and improve commercial efficiency, as well as refurbishment and rehabilitation of generation assets to increase their reliability. This will enable ENEO to improve quality of service, expand access to electricity, drive operational performance and significantly contribute to its medium/long-term financial sustainability.

2 Presentation of ENEO

Energy of Cameroon S.A. (ENEO) is Cameroon’s national electricity utility, operating under a 30-year concession running until 2031. ENEO owns and operates 1,000 MW of generating capacity, as well as the country’s distribution networks while the transmission network were transferred to the transmission company, Société Nationale de Transport de l'Électricité (SONATREL) in 2018.

ENEO was privatized in 2001, when 56% of its shares were acquired by AES with the remaining 44% held by the Government of Cameroon. In 2014, AES sold its shares to Actis. In 2017 ENEO underwent a restructure, with the entry of employees into the shareholding structure. Today, 51% of its capital is held by Actis group, 44% by the State of Cameroon and 5% by its employees. Actis Fund (Actis) is a leading emerging markets investment organisation, headquartered in London (UK), with over USD 7 billion committed to 120 private equity investments since 1998. Actis employs about 100 investment professionals located in 13 offices in Europe, Latin America, Africa and Asia. The organisation is articulated around 3 key business area: Private Equity, Energy and Africa Real Estate. Since 2002, Actis Energy has deployed USD 2.1 billion in 31 investments across more than 20 countries, with about 15 GW of generating capacity built worldwide.

ENEO employs around 3,700 people (of which 26% women) spread across five departments as follows: i) Corporate Development, ii) Generation, iii) Distribution & Commercial, iv) Operations, and v) Compliance. The profiles of some members of the top management are given in Annex 2.

ENEO’s generating facilities consist of a total of 37 power stations, including 13 interconnected and 24 remote thermal power plants. ENEO’s energy sources consist of 73.30% hydro, 26.60% thermal and 0.04% solar. ENEO is also the off-taker of IPPs, including Kribi (216 MW) and Dibamba (86MW), which were financed by...
the Bank. As per the latest concession amendment, ENEO is due to create in 2021 a subsidiary (“Eneo Genco”) dedicated to generation. ENEO’s distribution network consists of 11,450 kilometers of lines from 5.5 to 33 kilovolts, and 11,158 kilometers of lines from 220 to 380 volts. As of December 31, 2020, ENEO had more than 1,483,940 customers, of which approximately 45% were located in the cities of Douala and Yaoundé.

3 Summary of the CAPEX Programme

The ENEO CAPEX program (2020 – 2031) aims at improving ENEO’s efficiency and performance and increasing access to the network. Key aspects under the capex program include investments to extend and rehabilitate distribution networks to increase access and reduce losses (53%), refurbishment and upgrade of generation assets (33%), investment to increase commercial performance (11%) and information systems and support functions (3%). The corporate loan will assist ENEO, Cameroon’s electricity company, to complete its long-term investment program. The program, which is rolled out over a 11-year period (2020 – 2031), will deliver major generation and distribution improvements, including extension and upgrade of distribution assets to increase access and improve commercial efficiency, refurbishment and rehabilitation of generation assets to increase their reliability. This will enable ENEO to improve quality of service, expand access to electricity, drive operational (including safety and environmental) performance and significantly contribute to its medium/long-term financial sustainability.

4 AfDB E&S risk categorization and disclosure requirements

The Eneo capex program includes a number of activities such as activities such as concrete pole production, poles replacement, rehabilitations of agencies, rehabilitation of the fire detection and protection system of the Lagdo hydro plant, installation of fire detectors at the Edéa plant and spillways, civil engineering work for the compliance of effluent treatment systems in certain thermal power stations, construction of security fences, refurbishment of the shaping and storage site for rough wood poles in Bafounda and construction of boreholes in Northern & Southern Power plants. It is expected that the activities associated with these projects will result in some environmental impacts including dust emissions, air pollution, oil spills with potential to affect surface water and waste management. Social impacts associated with these activities include accidents, temporary or permanent displacement and loss of economic activities (e.g. during the replacement of poles) and community level grievances.

In accordance with the requirements of the Bank’s Integrated Safeguards System (ISS), the program has been classified as a Category FI-A (high risk) project with the project category validated on 21 July 2021 and duly archived in the Integrated Safeguards Tracking System (ISTS) and SAP on 21 July 2021.

As a corporate investment programme, the Environmental and Social Due Diligence (ESDD) of the Bank is linked to an assessment of the ENEO Environmental and Social Management System (ESMS) including reviews, clearance, and disclosure on both ENEO’s website and the Bank’s website after authorization by ENEO. All publications of the E&S instruments (i.e., the ESMS) must be made before the start of the project appraisal mission during which the implementation modalities will be discussed and finalized.
5  Scope of the ESMS Assessment

The Environmental and Social Safeguards and Compliance Department (SNSC) of the African Development Bank (AfDB) has assessed the ENEO ESMS in relation to compliance with country systems and the requirements of the Bank’s Integrated Safeguards System (ISS). The evaluation focused on the key pillars of a robust ESMS which is being operationalized in the identification and management of E&S risks and impacts, including monitoring and reporting. These key pillars include:

1. Presence of a high-level policy approved by the company’s Senior Management
2. Existing E&S management procedures for handling each of the E&S aspects of the company as well as its corporate social responsibility.
3. Institutional capacity (existence of clear E&S unit/function) in the company’s organogram, including skilled and appropriate staffing commensurate to the E&S challenges; and an adequate sustainable financing (permanent budget line) for the operation of the E&S unit/function.
4. Environmental and social governance (ESG) in the organization, including the level of independence of the E&S Unit/Function, E&S and safety performance as well as the preparation and publication of E&S performance reports.

6  Summary of the Assessment

ENEO first developed its Environmental Management System (EMS) aligned to ISO14001:2004 requirements in 2011. More recently the system has been updated to align with the requirements of ISO14001:2015 as well as international best practice including the requirements of the AfDB Integrated Safeguards System (ISS) and GIPP.

ENEO has a corporate E&S policy signed in December 2020 by the Managing of ENEO Cameroon as is reviewed every 3 years. ENEO has a number of processes and procedures for the management of specific E&S risks and impacts within its operations including emergency response, PCB management, waste management, chemicals handling, gas emissions, field inspections, environmental and social risks and impacts and processes for implementing corrective actions. ENEO has a robust E&S governance structure with the E&S unit led by a QHSE Director responsible for the allocation of human, technical and financial resources for the effective implementation of the ESMS requirements at corporate and regional level. The roles and responsibilities for E&S risk management are clearly defined across all levels of the organization. ENEO collects relevant EHSS data and reports on its E&S performance routinely, even though these reports are not prepared for external audiences.

ENEO also developed its Occupational Health & Safety Management System (OHSMS) in 2011, in compliance with the requirements of OHSAS 18001 :1999 Occupational Health and Safety Management System and OHSAS 18002 :2000 Guidelines for the Implementation of OHSAS 18001. More recently the system has been updated to align with the requirements of ISO 45001 :2018 as well as international best practice including the requirements of the AfDB Integrated Safeguards System (ISS) and GIPP.

ENEO Health & Safety Policy signed in September 2020 by the Managing Director of ENEO Cameroon and is reviewed every 3 years. ENEO has a high-level procedure that define the activities that are to be fulfilled to
ensure that the OHSMS complies with standards within its operations including the 10 life Saving rules, module workflows, operational procedures and work instructions, working at height procedure, electrical safety procedure, accident and incident reporting procedure, OHS field inspections and processes for implementing corrective actions.

For the implementation of the OHSMS, ENEO has put in place a process for consultation and participation of workers. This is carried out through the Health & Safety Committees put in place across the organization as one of ENEO four pillars described in the Safety Policy. This committee takes place once a quarter and is attended by staff delegates and external parties. This governance structure is laded by the Quality, Health & Safety and Environment Director. The roles and responsibilities for E&S risk management are clearly defined across all levels of the organization. The ENEO’s OHSMS provides also monitoring, measurement, analysis and evaluation tools as well as awareness and communication strategy to disseminate and exchange appropriate OSH information to employees, management and all stakeholders.

Overall, ENEO’s ESMS and OHSMS are assessed to be Good and comprehensive, comprising the four pillars of the robust ESMS and OHSMS.

7 Scope for Improvement

Though ENEO’s ESMS is assessed as being GOOD, there is the need for the ENEO ESMS to be updated to reflect some of the key social safeguard challenges in the communities and around its assets and how to manage them, as part of a process of risk identification and mitigation. ENEO needs to continuously improve on and implement its Grievance Redress Mechanism (GRM) for both internal and external grievances. The GRM should be available to all stakeholders should also have an operational budget with monitoring and reporting mechanisms in place.

ENEO needs to strengthen its processes and procedures for E&S due diligence on sub projects or location specific activities that have the potential for environmental and social risks and impacts. These includes processes for screening subprojects, identifying appropriate environmental and social assessments studies (e.g. ESIA, RAP, E&S Audits, etc) where required for its specific interventions and sub projects in accordance with national legislation and international best practice such as AfDB ISS and IFC PS requirements and GIIP. ENEO will need to consider reporting on the E&S performance of its entire operations in Cameroon.

ENEO needs also to consider the Community Health, Safety and Security in order (i) to anticipate and avoid adverse impacts on the health and safety of project-affected communities during the project or operation life cycle from both routine and non-routine circumstances and (ii) to help promote public health and safety across the project’s area of influence by promoting and supporting program, which aim at preventing the spread of major communicable diseases, (iii) to avoid or minimize community exposure to project-related traffic and road safety risks, diseases and hazardous materials.

In addition to the review of the ESMS and the OHSMS undertaken by the Bank, the Lender Group for the transaction have recruited an Independent Environmental and Social Advisor (IESC) to further review the entire CAPEX programme, the institutional arrangements for identifying and managing E&S risks on subprojects as well as the monitoring and reporting mechanisms as well as an assessment of ENEO’s overall E&S safeguards performance on previous investment programmes. The outcome of the ESDD undertaken by the lender’s advisor will be an Environmental and Social Action Plan (ESAP) with time bound
actions for ENEO to implement and report on through the life of CAPEX programme. The agreed ESAP will form part of the financing agreements for the transaction.

8 Conclusion

As part of the processing of the ENEO corporate loan transaction, the Bank’s E&S Safeguards and Compliance (SNSC) Department reviewed ENEO’s ESMS and OHSMS in relation to compliance with the requirements of the Bank’s Integrated Safeguards System (ISS).

Overall, ENEO’s ESMS and OHSMS are assessed to be good with some scope for improvement including enhancing the processes for risk and impact identification and mitigation as part of detailed E&S studies (e.g. ESIA, RAPs, E&S Audits) undertaken at sub project level in the CAPEX programme as well as the Community Health, Safety and Security.

During the Project Appraisal Mission (May 2022) additional due diligence will be undertaken with the support of the lender’s IESC and specific corrective actions will be agreed in the time bound Environmental and Social Action Plan (ESAP) which will be part of the financing agreements for the transaction.