



***THE AFRICAN DEVELOPMENT BANK GROUP***

**PROJECT: EQUITY INVESTMENT IN EVOLUTION FUND III**

**SAP CODE: P-Z1-F00-141**

**COUNTRY: MULTINATIONAL**

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**ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS) ASSESSMENT  
REPORT**

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## Contents

<b>1. Project Description .....</b>	<b>3</b>
<b>2. Presentation of Inspired Evolution.....</b>	<b>4</b>
<b>3. AfDB E&amp;S Risk Categorization and Disclosure Requirements .....</b>	<b>4</b>
<b>4. Scope of the Assessment.....</b>	<b>4</b>
<b>5. Findings of the ESMS Assessment.....</b>	<b>5</b>
<b>6. Environmental and Social Action Plan (ESAP) .....</b>	<b>6</b>
<b>7. Conclusion .....</b>	<b>7</b>

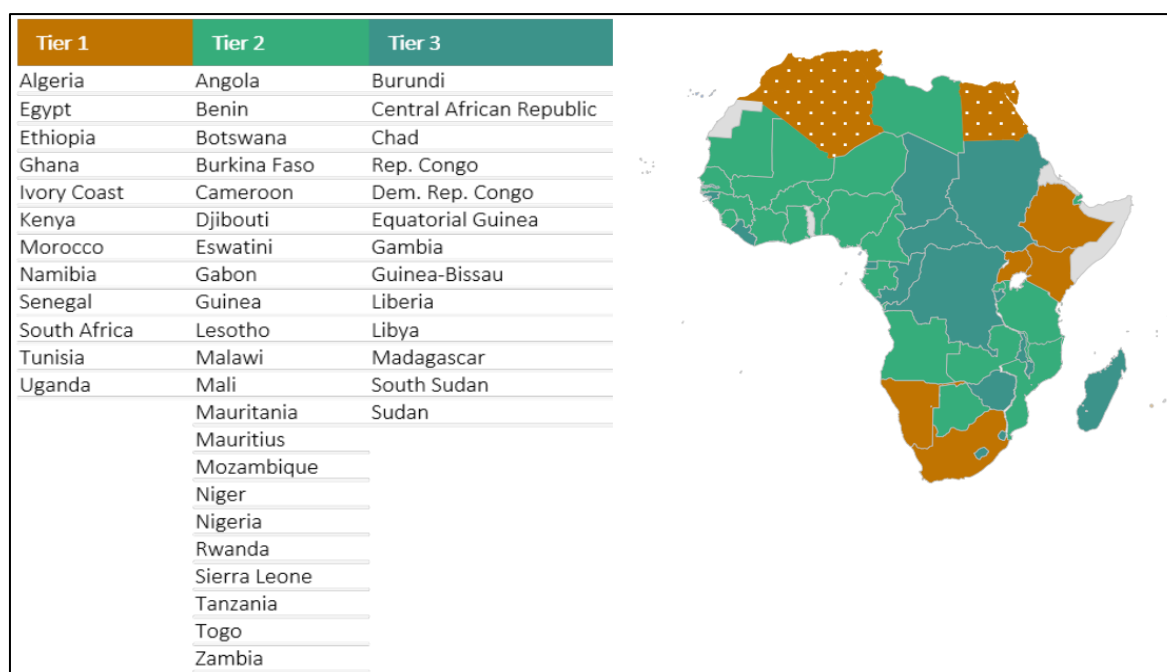


## 1. Project Description

In 2009, the Board of Directors of African Development Bank (“AfDB” or “the Bank”) approved a USD 14 million equity investment in the Evolution Fund I (“EVI”), Africa’s first dedicated clean energy infrastructure and environment sector fund which focused on clean energy and resource efficiency. With a fund size of USD 60 million, EVI funded 12,918MW renewable energy generation assets; 85% being in South Africa and 15% in the broader Southern African Development Community (“SADC”) region. Building on its solid track record in South Africa and SADC, Inspired Evolution launched the Evolution Fund II (“EVII”) in 2017 with a fund size of USD 216 million, with the similar sector focus with EVI but expanded its geographic coverage from South Africa and SADC to the market in Sub-Saharan Africa (“SSA”). In December 2017, the Board of Directors of the Bank approved a USD 20million equity investment in the EVII.

Building on the success of EVI and EVII, Inspired Evolution approached the Bank to raise equity for the third generation of the fund, Evolution Fund III (“EVIII”). While still dedicating to clean energy infrastructure and energy and resource efficiency growth, EVIII will take a value chain approach and offer wider range of sector coverage, e.g. Agriculture, Aquaculture, Forestry and Land Use, Waste and Wastewater, Transport (energy efficiency and CO2 reduction activities). Geographically, EVIII will predominantly focus on SSA with selected four North African countries, driven by investable opportunities. With evolution of the market opportunities and best practices/lessons drawn from EVII, EVIII will continue providing infrastructure equity (>65%) and growth capital (<35%); increase ticket size to USD 20-40million from USD 10-25million; and reduce the holding period of the underlying portfolio investments and non-investment costs such as management fees and establishment costs. EVIII has a selective pan-African focus and focuses by order of priority on 12 tier-1 countries, 22 tier-2 countries and 13 tier-4 countries (Figure 1). It will expand its geographic scope to include selected tier-1 North African countries, such as Algeria, Egypt, Morocco, and Tunisia.

**Figure 1 - Overview of focus countries per tier**





## 2. Presentation of Inspired Evolution

Inspired Evolution, the Fund Manager of EVI and EVII, was established in 2007 as a specialized investment advisory business dedicated to two climate mitigation principal investment themes: clean energy infrastructure-type development and project finance investments; and energy and resource efficiency growth investments – and the value chains that support them. Inspired Evolution offers a broad African advisory platform with headquarters in Cape Town and strategically located international, regional and country offices in London, Nairobi, Abidjan and Grand Bay in Mauritius.

Since 2008, the Inspired Evolution team has sourced over 1,200 investment opportunities across the region of which 214 opportunities were subjected to detailed investment review. Of these, over 80 term sheets were concluded, and 69 investment committee documents submitted and evaluated, resulting in a c. 10% conversion success to achieve 21 portfolio investments under Evolution I and II to date. With currently around USD 310 million of funds under management, Inspired Evolution has committed and invested USD 264 million in 21 portfolio investments over the last 15 years (12 portfolio investments under EVI and nine portfolio investments under EVII), and contributed to developing more than 2 GW of renewable energy generation projects with multiple successes under utility-scale competitive public-private procurement environments as well as financing private-to-private commercial and industrial installations. Inspired Evolution is also actively involved in distributed generation strategies involving mini and micro-grids as well as off-grid energy access fintech platforms. The link to Inspired Evolution’s website is <https://inspiredevolution.co.za/>

## 3. AfDB E&S Risk Categorization and Disclosure Requirements

The proposed classification for the operation is Category FI-A according to the Bank’s Integrated Safeguards System. This is because some of the current investments are Hydropower plants and the future portfolio of the subprojects investments though not defined at the moment may include renewable energy projects that may have high environmental and social risks and impacts. These impacts include clearing of vegetation during construction works, excavation and formation of foundations which may lead to habitat and biodiversity loss; erosion and air and water pollution. Further risks and impacts include public and occupational health and safety impacts; influx of migrant workers during construction that may impact on socio-cultural aspects of local communities and GBV/SEAH risks; and land acquisition with potential for physical displacement of individuals and their livelihoods. These impacts are considered to be significant and adverse because of the size of the financing which suggests large projects or several subprojects. During implementation of Evolution Fund III, there will be a screening process to ensure all investments conform to category FI-A classification and comply with respective national E&S requirements and conform to AfDB’s Environmental and Social Safeguards and disclosure requirements. The Fund will be expected to maintain an Environmental and Social Management System (ESMS) throughout implementation. This will ensure that The Fund is compliant with all applicable requirements.

In regard to disclosure, the Fund has already published the ESMS and related documents on its website. The Bank will also disclose the same together with the ESMS Assessment Report for 60 days before Board presentation in on 16<sup>th</sup> November 2022.

## 4. Scope of the Assessment

The Environmental and Social Safeguards and Compliance Department (SNSC) of the African Development Bank (AfDB) has assessed the Inspired Evolution’s ESMS in relation to compliance with country systems and the requirements of the Bank’s Integrated Safeguards System (ISS). The



assessment 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 four pillars include:

- i. High level E&S policy Statement approved by the company's Senior Management;
- ii. Existing E&S management procedures for handling each of the E&S aspects of the company as well as its corporate social responsibility;
- iii. 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.
- iv. Environmental and social governance (ESG) of the organization: level of independence of the E&S Unit/Function (vis-à-vis the other units and teams that manage activities that generate risks and impacts) in technical decision-making (Reporting line in the organization chart). Publication of annual ESMP implementation and ESG reports; track records in environment-health-safety (EHS) incidents/accidents and performance in their management, etc.

## 5. Findings of the ESMS Assessment

### i. **High level E&S policy Statement approved by the company's Senior Management**

The assessment found that, there is no E & S policy statement which has been signed and approved by the senior management. Rather there is an ESMS in place with Environmental and Social Principles which commits to continue improving management of environmental and social issues in all areas where its capital is invested. There is a need to have a standalone E & S policy signed by senior management, which outlines their commitment to a business approach and principles in relation to managing the environmental and social risks and impacts and aspects of its operations to ensure environmental and social sustainability.

### ii. **Existing E&S management procedures for handling each of the E&S aspects of the company as well as its corporate social responsibility.**

There are existing E & S management procedures for stages of the investment cycle. This is to enable effective management of environmental and social risks throughout the lifecycle of all transactions – from screening to implementation and close out. The ESMS has well developed procedures, tools and checklists used to conduct E&S risk assessments to identify potential negative environmental and social impacts and adopt appropriate strategies to address them. The procedures facilitate screening, and categorisation of transactions and with an Exclusion List in place. Investments are screened and classified as Category A -“high risk” and Category B -“medium risk” however, there is need to take into consideration the national requirements in relation to the final categorisation. The procedure also provides for inclusion of environmental and social clauses in the Investment Agreements. The Fund has in place a Corporate Social Investment (“CSI”) Strategy which was updated in April 2022. Its core mission is ‘to profit with purpose and impact’, and the expenditure for the CSI is set at 1% of net profit after tax. There is a CSI Committee whose role is to ensure that a CSI strategy is achieved.

### iii. **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.**

Inspired Evolution has adequate environmental and social safeguards capacity and organization structure. An E & S subcommittee was established for EVII in 2008 and has had 14 years of ESGMS



application; has learned lesson from the Bank’s investment in Evolution Fund I and Evolution Fund II. The Impact and Environmental, Social and Governance Management System (“ESGMS”) was developed in 2008 by the E & S subcommittee and has been applied throughout the duration of EVI and further refined under EVII. The ESG team communicates with all stakeholders and discloses the relevant ESG compliance and performance information with deal teams, executive committees, investors, E&S sub-committee, portfolio companies, project teams, and interested and affected parties. The Managing Partner and Chief Executive has overall responsibility for E & S aspects of the Fund. An E&S Manager is responsible for ensuring that all investments comply with the E & S requirements. Due to the expanding operations, there is a process to recruit and E&S assistant to support the transactions. The Fund also engages E&S consultants and advisors on a need basis to support due diligence of transactions. During the due diligence mission, it was confirmed that the ESG Unit is adequately funded to enable it discharge the roles.

- iv. **Environmental and social governance (ESG) of the organization: level of independence of the E&S Unit/Function (vis-à-vis the other units and teams that manage activities that generate risks and impacts) in technical decision-making (Reporting line in the organization chart). Publication of annual ESG reports; track records in environment-health-safety (EHS) incidents/accidents and performance in their management, etc.**

Inspired evolution has developed a structured ESG team with representation from top management to run the day-to-day operations. The Managing Partner and Chief Executive has the overall responsibility supported by the E&S Officer. The Fund has ESG and Annual sustainability reports are disclosed on its website. During the due diligence, it also demonstrated that there is a system for tracking incidents and accidents in every transaction and put in place corrective measures and actions.

## 6. Environmental and Social Action Plan (ESAP)

Although Inspired Evolution’s ESMS is rated as **Good**, there are aspects of the system that require improvement for optimal performance. The key recommendations for improvement are highlighted below:

- **Standalone Environmental and Social Policy**

Though the ESMS is elaborate and comprehensive, there is need to develop a standalone Environmental and Social Policy (1 – 2 pages) stating and summarising the Fund’s commitments to E&S issues. The Due Diligence noted that currently, the fund is developing Inspired Evolution Investment Management - Integrated ESG and Impact Investing Strategy. The Standalone E&S Policy would basically outline and summarise this process.

- **E & S Human Resource Capacity**

As the transactions grow and expand, there will be need to enhance the capacity in management of E&S aspects. The Fund will in time need to enhance human resource capacity of the ESG team commensurate with the volume of transactions and level of risk category of the transactions; continuous capacity building of the ESG team, ESG Subcommittee and officers involved in transactions; and training and capacity building for clients. It was noted during the due diligence that there is a process to recruit an assistant to the E&S officer.

- **Grievance Mechanism Policy**

The current policy provides an email address for lodging complaints. There is need to also provide other avenues for those not able to access internet to lodge complaints; and enhance ability to receive anonymous complaints from stakeholders.



- **Monitoring and Reporting**

The Inspired Evolution to enhance its continuous due diligence, monitoring and reporting of transactions and portfolio through:

- Independent E&S audit of high risk transactions
- Publication of ESG and Sustainability reports highlighting the environmental and social risks management in the portfolio and across geographical regions

The table below highlights the Environmental and Social Action Plan (ESAP) and key timelines for improving the ESMS framework.

<b>Actions</b>	<b>Indicators/targets</b>	<b>Deadlines</b>
<b>Standalone Environmental and Social Policy</b>		
Develop a standalone Environmental and Social Policy (1 – 2 pages) stating and summarising the Fund’s commitments to E&S issues	Disclosed Policy	End of Q3
<b>Environmental &amp; Social Human Resource Capacity</b>		
Recruitment of an E&S assistant	Officer in place	End of Q4
Training and Capacity building of the ESG team, ESG Subcommittee and officers involved in transactions on E&S aspects	No. of trainings conducted and officers trained Training modules	Throughout implementation
Training and capacity building for clients	No. of trainings conducted and clients trained Training modules	Throughout implementation
<b>Grievance Mechanism Policy</b>		
Enhance the policy by providing alternative access avenues for those who cannot access the internet or email e.g telephone number Enhance structures for receipt of anonymous complaints	Contacts disclosed	Throughout implementation
<b>Monitoring and Reporting</b>		
Periodic independent E&S audit of high risk transactions.	No. of audits carried out and reports published	Annually, on a need basis
Publication of ESG and Sustainability reports	No of reports published	Annually

## 7. Conclusion

The assessment concludes that Inspired Evolutions ESMS covers the four pillars, is rated **Good** with recommendations made for improvement.