

FINDEV CANADA TRANSACTION SUMMARY

Eastern and Southern African Trade and Development Bank (TDB)

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.



Transaction Description

Eastern and Southern African Trade and Development Bank (TDB) plays a key role in financing and fostering trade, regional economic integration and sustainable development in Eastern and Southern Africa and beyond. Established in 1985, TDB is a multilateral, treaty-based, investment-grade development finance institution, with a special mandate to benefit its member states, the majority of which are low-income countries and part of the Common Market for Eastern and Southern African States (COMESA).

Transaction Details

COUNTERPARTY	The "Borrower", "TDB"
MEMBER STATES	Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Eswatini, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan, Somalia, Sudan, Tanzania, Uganda, Zimbabwe, Zambia
DOMICILE OF INCORPORATION	Burundi, Mauritius
DOMICILE OF OPERATIONS	Sub-Saharan Africa
TERM OF FINANCING	8 years
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	Category FI-2
FINANCING PRODUCT	Debt
FINDEV CANADA TRANSACTION AMOUNT	USD 20 million
DATE OF TRANSACTION DISCLOSURE	29 June 2021
DATE OF TRANSACTION SIGNING	03 November 2021
DATE OF TRANSACTION SUMMARY PUBLICATION	01 February 2022
2X CHALLENGE QUALIFYING	No

Summary of Anticipated Development Impacts

This transaction is an 8-year loan of US\$ 20 million to TDB to offer financial support to the private sector in several of Africa's lower-income countries. It will help support trade finance and project finance investments, mostly in agribusiness, infrastructure, and energy sectors – in line with the Paris Agreement, the Sustainable Development Goals, and Agenda 2063 of the African Union. The impact theory of change presented below summarizes how TDB's operations directly align with FinDev Canada's long-term development impact goals and the UN's Sustainable Development Goals. Importantly, this loan will help guarantee that developing markets in one of FinDev Canada's target geographies continue to have liquidity, providing important support for their recovery from the COVID-19 pandemic.

Barriers:

- Africa is particularly hard hit by a dual crisis of COVID-19 and climate change
- Trade finance is essential to protecting local jobs and improving livelihoods in the Common Market for Eastern and Southern Africa (COMESA)
- Clean energy sector is underdeveloped in a region with ever-growing demand for electricity
- SMEs, especially women-entrepreneurs, face difficulties to access credit and financing





MARKET DEVELOPMENT

- **Expanding regional trade and project finance:** TDB unlocks capital to companies by extending dedicated lines of credit for project and trade finance, as well as through on-lending via financial intermediaries, and dedicated programs. FinDev Canada's loan will enable TDB to catalyze further impact-driven capital in the COMESA region, especially in agribusiness, infrastructure, and energy sectors. By offering tailored trade financial services to these sectors TDB helps unleash their access to capital and markets and strengthen inter- and intra-regional trade, thus allowing the sectors to realize their potential for the social and economic benefit of local populations.
- **Increasing employment and local market development:** The transaction is expected to contribute to the local economies, especially in low-income countries, through taxes and salary payments. Over the years, TDB has supported the creation of over a million of jobs, including for women.



WOMEN'S ECONOMIC EMPOWERMENT

- **Addressing barriers faced by women entrepreneurs in accessing funding:** In 2018, TDB set up a dedicated US\$2.7M facility (SME Program) to provide loans, mezzanine financing, guarantees, and accompanying grants to financial intermediaries in East Africa, with a focus on women and youth-led businesses. TDB's financing and guarantees are particularly important for the small and medium enterprise (SME) sector, which is underserved by commercial banks or microfinance institutions. With the facility pilot considered a success, a much broader, program with increased funding is envisaged for rollout in the coming years. Separately, the Bank has put intentional efforts into female recruitment and retention within its ranks, with some first promising results, which FinDev Canada will continue monitoring over the lifetime of the investment.



CLIMATE MITIGATION AND ADAPTATION

- **Reducing GHG emissions:** TDB invests into renewable energy infrastructure, including hydro-, geothermal, wind, and solar energy producers, as well as sustainable waste management. Through these transactions, which are mostly projects, the Borrower supports development of sustainable industries in its member states, which, among other objectives, helps operationalize the vision of the African Union Agenda 2063 and Paris Climate Change Agreement. Over the lifetime of its investment, FinDev Canada will be monitoring the growth in the TDB-financed renewable power generation capacity as a key performance indicator on climate change.
- **Enabling climate adaptation and resilience:** TDB intends to become one of the leaders of climate finance on the continent, extending dedicated lines of credit not only for climate mitigation, but also adaptation initiatives. This transaction is expected to support the Borrower on operationalizing this vision for the benefit of private-sector entities operating in its member states, for instance, those focusing on resilient urban management.

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

FinDev Canada's loan will be used to support trade finance and project finance investments, mostly in infrastructure, agribusiness and energy sectors, which are expected to have potentially limited adverse environmental and social (E&S) risks and impacts that are generally site-specific, largely reversible and readily addressed through mitigation measures.

Based on the sectoral focus of the Borrower's targeted portfolio (excluding oil & gas), E&S risks are diverse and expected to be related to labor and working conditions, occupational health and safety, use of land and community related issues as well as some environmental impacts (e.g. water use and management, generation of waste and wastewater, agrochemical use and management and air emissions). FinDev Canada recognizes that TDB operates in sectors and countries associated with higher E&S and human rights risks. In this regard, its investment support will exclude sectors, clients, and countries that are on FinDev Canada's exclusions and sanctions list.

The key risk mitigant that TDB has put in place is their E&S Management System ("ESMS"), aligned with the IFC Performance Standards, which applies to all transactions. The Borrower excludes transactions associated with higher risk activities per its exclusion list, assigns categorization and risk ratings and ensures the identification of mitigants and monitoring of asset performance. TDB requires compliance with host country requirements for all transactions as well as the application of the IFC Performance Standards in certain scenarios. TDB's ESMS is reviewed annually by an independent third-party to ensure that it is adequately implemented and continues to be in line with international best practice.

Opportunities to better align TDB's already robust ESMS with international best practices such as the United Nations Guiding Principles on Business and Human Rights were identified and will be implemented by the client. This review completed in accordance with FinDev Canada's Environmental and Social Policy has determined that the potential adverse E&S impacts associated with this transaction are manageable.

An illustrative list of key documents reviewed is outlined below:

- TDB's Environmental and Social Management System, dated January 2020
- TDB's Diversity and Inclusion Policy, dated April 2020
- TDB's Gender and Sensitivity Policy, dated April 2020
- TDB's Health and Safety Policy, dated April 2020
- TDB's Internal Policy on Sexual Harassment, dated July 2019

The following International Finance Corporation (IFC) Performance Standards were applied in FinDev Canada's assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC Performance Standard 2: Labor and Working Conditions