



AGRICULTURAL FINANCE CORPORATION

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM POLICY

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Preface

From the Chairman, Board of Directors

I am honored to introduce the Agricultural Finance Corporation's Environmental and Social Management System (ESMS) Policy. This policy underscores AFC's unwavering commitment to proactively identifying, assessing, and managing environmental and social risks in alignment with both national and international best practices. The ESMS is a comprehensive framework designed to ensure that all AFC-financed projects, including those co-financed with other institutions, adhere to robust environmental and social standards throughout their lifecycle. By integrating sustainability into our financial operations, we aim to foster responsible agricultural development while upholding the highest standards of environmental and social stewardship. Through this system, AFC seeks to enhance accountability, safeguard the integrity of the projects we support, and contribute to a greener, more socially responsible future. The Board remains dedicated to ensuring the effective implementation of this policy, reinforcing AFC's leadership in sustainable agricultural finance and its role as a catalyst for positive change in the sector.



HON. ENG. JOHN MRUTTU
CHAIRMAN, BOARD OF DIRECTORS

From the Managing Director

The Agricultural Finance Corporation's Environmental and Social Management System (ESMS) Policy represents the Corporation's steadfast commitment to embedding environmental and social sustainability at the heart of its operations. It reflects our dedication to responsibly supporting agricultural development while minimizing environmental impacts, promoting social equity, and fostering inclusive growth. Central to our mission, the ESMS ensures that all our financing activities contribute to the sustainable development of Kenya's agricultural sector, driving long-term positive outcomes for both the environment and the communities we serve. Through this policy, AFC aims to be a leader in responsible finance, enhancing resilience, sustainability, and social responsibility across the industry.



GEORGE KUBAI
MANAGING DIRECTOR

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1. Introduction

The Agricultural Finance Corporation (AFC) operates under the supervision of the Ministry of Agriculture and Livestock Development, in collaboration with the National Treasury and Economic Planning. Established under the AFC Act Cap 323 of the Laws of Kenya, AFC's mandate is to promote agricultural development through tailored financial solutions for farmers, cooperatives, and other agricultural stakeholders.

Aligned with AFC's strategic vision, the Environmental and Social Management System (ESMS) Policy ensures that AFC upholds its commitment to sustainability by integrating comprehensive environmental and social considerations into every stage of its operations. This policy outlines a systematic approach for managing environmental and social risks and enhancing the sustainability of the projects AFC finances.

By embedding international environmental and social standards into its practices, AFC strengthens its risk management framework, ensuring responsible agricultural finance while fostering long-term sustainable development.

1.1. Vision

To be the Leading Agricultural Development Financier in Kenya.

1.2. Mission Statement

To drive sustainable Agri-food systems through participative and collaborative financial and non-financial interventions, innovations, technology, and products.

1.3. Purpose Statement

Ensuring food security.

1.4. High-Impact Goal

Driving sustainable agri-food systems.

1.5. Strategic Goals

- (i) Drive sustainable agri-food systems.
- (ii) Enhance access to agricultural credit.
- (iii) Expand funding base.
- (iv) Enhance operational efficiency.
- (v) Strengthen institutional capacity.
- (vi) Mitigate and adapt to climate change.
- (vii) Align the institutional governance framework with existing legal, policy, and governance standards.

1.6. Core Values

The Corporation is guided by the following values:

- (i) Customer Focus
- (ii) Integrity
- (iii) Professionalism
- (iv) Innovation
- (v) Teamwork and Partnerships
- (vi) Social Responsibility

2. Definitions

Table 1: Glossary of Terms

Term	Definition
Environmental and Social Management System (ESMS)	A structured framework that helps AFC identify, assess, manage, and monitor environmental and social risks and impacts throughout its financing activities.
Environmental and Social Impact Assessment (ESIA)	A process to evaluate the potential environmental and social impacts of a project, including proposed mitigation strategies for adverse effects.
Environmental and Social Due Diligence (ESDD)	The review and analysis conducted by AFC to assess the environmental and social risks of a project before approval.
Environmental and Social Action Plan (ESAP)	A document outlining the steps that must be taken by the client to mitigate environmental and social risks identified during due diligence.
Grievance Mechanism	A formal process that allows stakeholders to raise concerns or complaints regarding the environmental or social impacts of a project and receive timely responses.
Financial Intermediary (FI)	Any institution, such as a SACCO or MFI, that partners with AFC to finance agricultural projects, ensuring compliance with AFC's ESMS.
Category A Projects	Projects with significant adverse environmental and social impacts that are irreversible or widespread and require a comprehensive Environmental and Social Impact Assessment (ESIA).
Category B Projects	Projects with limited environmental and social impacts that can be effectively mitigated through good practices and monitoring.
Category C Projects	Projects with minimal or no adverse environmental and social impacts, not requiring an environmental and social assessment.

3. Scope and Applicability

The Environmental and Social Management System (ESMS) outlines AFC's approach to managing environmental and social risks throughout the loan cycle. It applies to all AFC-financed projects, including those co-financed by other institutions, and extends to projects handled by financial intermediaries such as SACCOs, MFIs, and cooperatives. The ESMS is structured into operational and reference sections, featuring checklists and templates for conducting Environmental and Social Due Diligence (ESDD) and monitoring loan performance, ensuring comprehensive risk management across all activities.

4. Responsibility

4.1. Board of Directors

The Board of Directors oversees the implementation of the Environmental and Social Management System (ESMS) and ensures compliance with its standards across AFC operations. They provide strategic direction and review the effectiveness of the ESMS framework periodically.

4.2. Managing Director

The Managing Director provides leadership in the execution of the ESMS. They ensure that the necessary resources, both financial and human, are allocated for the effective implementation of the system and that all departments align with its objectives.

4.3. Chief Strategy, Business Development & Planning Officer

The Chief Strategy, Business Development & Planning Officer ensures that all projects financed by AFC are aligned with the Corporation's strategic goals and contribute to sustainable agricultural development. They assess how projects fit within AFC's long-term business plan and ensure alignment with environmental and social objectives.

4.4. Chief Risk & Compliance Officer

The Chief Risk & Compliance Officer manages the environmental and social risks throughout the loan cycle. This includes conducting risk assessments and coordinating efforts to ensure all AFC-financed projects comply with the ESMS standards. They are also responsible for reporting on the effectiveness of the system.

4.5. Chief Credit Officer

The Chief Credit Officer ensures that environmental and social risk considerations are integrated into credit evaluations, overseeing compliance with ESMS standards throughout the loan cycle. They collaborate with risk and compliance teams to conduct due diligence, monitor loan portfolios, and implement risk mitigation measures for high-risk projects.

4.6. Chief Finance & Investments Officer

The Chief Finance & Investments Officer ensures that AFC's financial and investment decisions align with the Environmental and Social Management System (ESMS). They oversee funding allocation for sustainable projects, integrate environmental and social risk considerations into investment strategies, and ensure financial sustainability while supporting responsible lending practices.

4.7. Chief Human Capital & Administration Officer

The Chief Human Capital & Administration Officer ensures that AFC's workforce is trained and equipped to implement the ESMS. They oversee capacity-building programs, integrate ESMS principles into HR policies, and ensure a safe and compliant working environment. Additionally, they manage administrative functions to support effective ESMS implementation across the Corporation.

4.8. Chief Legal Services Officer

The Chief Legal Services Officer ensures AFC's compliance with environmental and social laws, regulations, and ESMS standards. They provide legal guidance on contracts, financing agreements, and risk mitigation measures related to ESMS implementation. Additionally, they oversee dispute resolution, regulatory compliance, and legal due diligence for AFC-financed projects.

4.9. Chief Information Communication & Technology (ICT) Officer

The **Chief ICT Officer** ensures that AFC's technology infrastructure supports the effective implementation of the ESMS. They oversee the development and maintenance of digital tools for monitoring and reporting environmental and social risks, ensure data security and compliance, and enhance automation for efficient ESMS processes across all AFC-financed projects.

4.10. Head of Corporate Communications

The Head of Corporate Communications ensures effective communication and stakeholder engagement regarding AFC's Environmental and Social Management System (ESMS). They develop and implement communication strategies to promote AFC's commitment to environmental and social responsibility, manage public relations, and ensure transparency in reporting ESMS initiatives. Additionally, they handle internal and external communications to enhance awareness and compliance with ESMS standards.

4.11. Head of Procurement

The Head of Procurement ensures that AFC's procurement processes align with the ESMS. They implement sustainable procurement policies, ensuring suppliers and service providers comply with environmental and social standards.

4.12. Chief Internal Audit & Assurance Officer

The Chief Internal Audit & Assurance Officer ensures independent evaluation of AFC's compliance with the ESMS. They conduct audits to assess the effectiveness of ESMS implementation, identify risks, and recommend improvements. Additionally, they provide assurance to the Board and management on adherence to environmental and social standards, ensuring accountability and continuous enhancement of ESMS practices.

4.13. Environmental and Social Specialists

Environmental and Social Specialists are responsible for conducting due diligence on all projects to ensure compliance with the ESMS. They also oversee the daily implementation of the system and ensure that projects adhere to both internal and international environmental and social standards.

5. Policy Statement

AFC is committed to promoting sustainable agricultural finance by integrating environmental and social considerations into its operations, ensuring all projects adhere to national regulations and international best practices, while minimizing risks and enhancing transparency.

6. Objectives

Table 2: Policy Objectives

Objective	Description	Targets
Integrate Environmental and Social Risk	Incorporate E&S risk management into decision-making processes	100% of projects screened for E&S risks by 2025
Minimize Negative Environmental Impacts	Ensure projects comply with environmental standards and mitigate adverse effects	All financed projects meet national and international E&S standards
Enhance Operational Efficiency	Streamline E&S practices to improve efficiency	Reduction in project approval time by 10% annually
Promote Climate Resilience	Support projects focused on climate change adaptation	30% of AFC's portfolio dedicated to climate-resilient projects by 2025
Foster Social Responsibility	Encourage inclusive and socially responsible projects	Increase funding to women- and youth-led projects by 20% by 2025

7. Implementation Strategy

Table 3: Policy Implementation Strategy

Strategy	Description
Risk Assessment and Screening	Screen all projects for potential environmental and social risks
Capacity Building	Provide training to staff and clients on E&S management practices
Stakeholder Engagement	Involve stakeholders in decision-making processes to address E&S concerns throughout the project lifecycle
Monitoring and Evaluation	Continuously monitor and evaluate the environmental and social impacts of financed projects
Policy Reviews	Conduct periodic reviews of the ESMS to ensure alignment with evolving environmental and social governance

8. ESMS Policy Implementation Process

Table 4: Policy Implementation Process

Step	Description	Responsible Unit
Step 1: Initial Screening	Screen all project proposals to identify potential environmental and social (E&S) risks, including review of the Exclusion List.	Environmental and Social Specialists
Step 2: Due Diligence	Conduct detailed Environmental and Social Due Diligence (ESDD) to evaluate the project's compliance with national regulations and international standards.	Risk & Compliance Department
Step 3: Stakeholder Engagement	Engage relevant stakeholders, including affected communities, to ensure all environmental and social concerns are addressed.	Corporate Communications
Step 4: E&S Risk Categorization	Categorize projects based on their level of environmental and social risks (Low, Medium, High) to determine the required mitigation measures.	Environmental and Social Specialists
Step 5: Strategic Alignment and Approval	Ensure that project proposals align with AFC's strategic objectives and assess how they contribute to business planning and development goals.	Strategy, Business Development & Planning

Step	Description	Responsible Unit
Step 6: Approval and Monitoring	Review and approve projects for financing. Once approved, conduct continuous monitoring of E&S compliance throughout the project lifecycle.	Credit Committee, Environmental and Social Specialists
Step 7: Reporting and Review	Submit periodic reports on project performance, E&S compliance, and conduct annual reviews of the ESMS framework for improvements.	Risk & Compliance Department, Managing Director

9. Reporting and Review

The Corporation will report on environmental and social performance in its annual reports, highlighting compliance and outcomes of the ESMS. Periodic reviews will be conducted to evaluate the system's effectiveness and to align it with emerging environmental and social issues.

Approved:

Managing Director

Sign:.....

Date:.....24/1/2025.....

Mr. George Kubai

Chairman, Board of Directors

Sign:.....

Date:.....24/1/2025.....

Hon. Eng. John Mtuta Mruttu