

Business Development Fund
Environmental and Social Policy

Document History

Rev.	Approved by	Date
V.1	Ministry of Finance	December 05,2024
V.2	Supervisory Board	, 2025

Background

Business Development Fund (BDF) is a state-owned institution, that operates as a non-profit legal entity formed under a charter approved by the Ministry of Finance (MoF) of Ukraine focused on improving access to finance for Micro, Small, and Medium-sized Enterprises (MSMEs) as well as other types of enterprises (altogether referred to as “**enterprises**”).

BDF’s business model is comprised of two main wholesale banking activities: (a) making wholesale loans and giving credit guarantees to commercial banks in Ukraine on-lending to Ukrainian business enterprises; and (b) acting as an agent for the MoF, other Government ministers, and regional authorities for the payment of interest subsidies on MSME and corporate loans, mainly the 5-7-9 affordable credit program.

BDF supports financing of enterprises through Participating Financial Institutions (PFIs) within the framework of state programs and projects as well as through the finance received from International Financial institutions (IFIs) including the World Bank and KfW. This **Environmental and Social (E&S¹) Policy** is a key element of the **Environmental and Social Management System (ESMS)** of BDF to address and manage the E&S risks and impacts associated with financing of enterprises through the PFIs.

ESMS Scope

The BDF ESMS, encompassing this E&S Policy, will be applicable to all BDF beneficiary enterprises business activities are deemed eligible for finance with support received from the World Bank, KfW and/ or as applicable other IFIs from the date of effectiveness of the BDF ESMS.

BDF’s ESMS is designed to be avoid or mitigate the E&S risks associated with business activities of beneficiary enterprises.

BDF E&S Policy Statement

Committed to fostering resilience and inclusive growth within Ukraine's business sector for enterprises, BDF acknowledges its pivotal role in ensuring that beneficiary enterprises have equitable and sustained access to affordable financial resources that are essential to overcoming the unique challenges affecting businesses in Ukraine's sector.

BDF seeks to promote the long-term viability and global competitiveness of the national enterprises operating within the agricultural and other business sectors, amongst others, while concurrently contributing to global Food and Nutrition Security. In this context, BDF positions itself as a catalyst, striving to strategically transform risks and challenges in Ukraine's business sector into opportunities for enterprises by promoting sustainable practices and leveraging climate-smart technological advancements through improved access to vital financial resources. The overarching goal is to propel Ukraine's economy towards an environment characterized by inclusive growth, responding not only to immediate challenges and risks at the national scale but also laying the foundation for a prosperous and sustainable future for all.

¹ The acronym E&S refers to all aspects of “sustainability” as encompassed by the International Finance Corporation (IFC) Performance Standards, i.e., environment, social, health and safety, human rights, and labour aspects.

In pursuit of this vision, BDF is committed to ensuring that PFIs systematically incorporate E&S risk management considerations, identified through robust E&S appraisal procedures, into their credit decision-making, and transaction approval processes. This will promote the principle of responsible financing through BDF PFIs and will also allow Ukrainian enterprises to safeguard the social, environmental, and economic sustainability of their business activities.

Through this Policy, BDF commits to incorporating E&S risk management considerations into its financing to ensure beneficiary activities do no harm to people and the environment. This is achieved by:

- (i) implementing well-established **E&S appraisal procedures** consisting of transaction screening against the **BDF Exclusion List**, **E&S risk classification**, and **E&S due diligence assessment for beneficiary enterprises risks and impacts**. The appraisal is undertaken by BDF or PFIs **prior to** finance decision-making for proposed credit lines to Ukrainian business enterprises² by BDF or PFIs, respectively.
- (ii) integrating E&S risk management considerations and requirements based on the outcomes of E&S appraisal into the **finance decision-making and transaction approval processes** of BDF and its PFIs. This is achieved through structured, decision-making events; and
- (iii) ensuring satisfactory E&S performance of BDF beneficiary enterprises by implementing **E&S supervision, monitoring, and reporting** procedures throughout the financing life cycle through its PFIs.

To achieve the commitments set out in this E&S Policy, BDF requires and causes each PFI it collaborates with BDF to adopt and implement in-house ESMS compliant with the World Bank ESS9³ and consistent with BDF ESMS⁴. The commitments shall be articulated in relevant agreements with PFIs.

Guiding Principles

The E&S Policy of BDF is founded on the following **Guiding Principles** applicable to all enterprise financing and business activities undertaken by BDF through projects and programs financed by IFIs, including World Bank and KfW:

- BDF is committed to ensuring **compliance** of all its financing operations through the PFIs with the requirements of national legislation, international agreements and conventions to which Ukraine is a party of, WBG Environmental and Social Framework (ESF) and as applicable the E&S policies and standards of other IFIs, as well as the good international industry practices (GIIPs⁵).

² “**Proposed project**” terminology refers to subprojects (projects or business activities of enterprises) proposed by PFIs for BDF support through finance (loans and/ or grants) received from the WBG, KfW or as applicable other IFIs.

³ ESS9: Financial Intermediaries. – The World Bank. - <https://pubdocs.worldbank.org/en/484961530217326585/ESF-GN9-June-2018.pdf>

⁴ The BDF reviews each PFI ESMS for consistency with the BDF ESMS and with ESS9 requirements. If a PFI already has a corporate ESMS, it shall be reviewed and as required by the PFI in collaboration with the BDF to ensure consistency with ESS9 and the Bank-approved ESMS.

⁵ The exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. The outcome of such exercise should be that the project employs the most appropriate practices and technologies in the project-specific circumstances. See: The World Bank Environmental and Social

- BDF is committed to ensuring that people's **human rights are fully protected and respected** by all parties, according to Ukrainian legislation. BDF will ensure that, human right risks and abuses are prevented, and immediate actions are taken to effectively remedy any adverse human rights impacts in its enterprise financing activities.
- BDF is committed to contributing to **climate mitigation, adaptation and resilience** efforts of Ukraine and align its operations and lending activities with the goals of the Paris Agreement. BDF will ensure adherence to Best available practices of identifying and monitoring the climate impact of its operations with partner financial institutions.
- In accordance with Ukrainian legislation, BDF promotes gender equality and zero tolerance to **gender-based violence (GBV) and sexual exploitation and abuse/sexual harassment (SEA/SH)** in its enterprise financing operations. BDF will ensure these principles are upheld at all stages or aspects of its financing activities and will ensure beneficiaries have equal access to the benefits, services and opportunities offered by the financed activities.
- BDF is committed to ensuring that appropriate differentiated mitigation measures are incorporated into its financing procedures so that adverse impacts do not fall disproportionately on, **vulnerable or disadvantaged groups/individuals**⁶ and they are not disadvantaged in sharing any development benefits of beneficiary enterprises.
- BDF ensures strict compliance of all its operations and lending activities with the requirements of the national legislation on **equal treatment, equal opportunity and non-discrimination**, child labour, forced labour, worker's organizations, and the International Labour Organization (ILO) conventions ratified by Ukraine, including the eight fundamental conventions⁷.
- BDF is committed to ensuring **safe and healthy working conditions**, including good occupational health and safety culture and practices, compliant with the Ukrainian legislation and in line with the good international industry standards and practice.
- BDF is committed to maintaining an effective **External Communications Mechanism (ECM)** and a **Grievance and Feedback Mechanism** in all its financing activities and programs. The ECM and Grievance Mechanism is designed as an accessible, transparent, gender-inclusive and responsive system allowing both external stakeholders and all direct and contracted workers to relay their concerns, complaints, and expect feedback. BDF will ensure confidentiality is duly maintained in collecting, reviewing, and handling/resolving the concerns, complaints, and feedback received. As necessary, when resolution is not satisfactory, the complainants will use their right to appeal.

Applicable E&S requirements

BDF ensures that all enterprise financing and business activities undertaken by BDF through projects and programs financed by IFIs are evaluated against the following Applicable Environmental and Social Requirements. When BDF programs are financed by external financiers such as IFIs and donors (loans, grants, etc) and such IFIs and donors have applicable exclusion lists, those exclusion lists will prevail over the BDF's exclusion list.

BDF Exclusion List, which defines the types of business activities of beneficiary enterprises that are ineligible for BDF financing through the Participating Financial Institutions (PFIs).

Framework. - <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/383011492423734099/the-world-bank-environmental-and-social-framework>.

⁶ Vulnerable or disadvantaged groups/individuals refer to those who may be more likely to be adversely affected by the subproject impacts and/or more limited than others in their ability to take advantage of a subproject's benefits.

⁷ ILO Conventions on Occupational Safety and Health <https://www.ilo.org/uk/publications>

BDF will not finance projects and/or beneficiaries or support PFIs to finance any transactions involving the following:

1. Activities prohibited under the national legislation of Ukraine or international legal instruments ratified by Ukraine.
2. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans or phase-out, such as pharmaceuticals, pesticides, herbicides, and other toxic substances (under the Rotterdam Convention, Stockholm Convention and World Health Organization (WHO) "Pharmaceuticals: Restrictions in Use and Availability"), ozone depleting substances (under Montreal Protocol), PCB's, protected wildlife or products regulated under CITES, prohibited transboundary trade in waste (under the Basel Convention).
3. Production and/or sale of alcoholic beverages (except production (without added alcohol) and/or sale of grape wines, including sparkling, carbonated, fruit and berry wines, honey drinks, beer).
4. Production or trade in tobacco⁸.
5. Gambling, casinos and equivalent enterprises.
6. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control equipment and any equipment where the radioactive source is considered to be trivial and/or adequately shielded.
7. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
8. Destructive fishing methods and drift net fishing in the marine environment using nets in excess of 2.5 km in length.
9. Production or activities involving harmful or exploitative forms of forced labor⁹/ harmful child labor¹⁰.
10. Production or trade in wood or other forestry products other than from sustainably managed forests.
11. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products¹¹.
12. Investments which could be associated with the destruction¹² or significant impairment of areas designated as nature-protection fund and/or Emerald Network site.

⁸ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

⁹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

¹⁰ Harmful child labor means the employment of children that is economically exploitative, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

¹¹ These items will be applied in case of investing in microfinance activities.

¹² "Destruction" means (i) the destruction or severe deterioration of the integrity of an area caused by a major and prolonged change in the use of land or water, or (ii) the alteration of a habitat which leads to the inability of the affected area to perform its function.

13. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
14. Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands
15. In selected sectors, financial commitment for concrete new projects will be tied to the following qualitative conditions:
 - Large dam and hydropower projects use the recommendations of the World Commission on Dams (WCD) as orientation¹³.
 - Projects for non-conventional prospection, exploration and extraction of gas will disclose in accordance with international standards, that no material groundwater drawdown or contamination is to be expected, that measures for resource protection (in particular water) and recycling are taken, that suitable technology is used for safe drilling, which includes integrated bore piping and pressure testing.

A reasonableness¹⁴ test will be applied when the business activities of the enterprises would have a significant development impact, but circumstances of Ukraine require adjustment to the BDF Exclusion List.

International standards, conventions, and agreements on environmental, health, safety, and labour best practices to which the investee and the relevant nations are parties:

- Environmental and Social Framework (ESF) of the World Bank (WB)
- The World Bank's Environmental, Health and Safety Guidelines (including general and industry-specific health and safety guidelines), as applicable.
- KfW Sustainability Guideline Assessment and Management of Environmental, Social, and Climate Aspects: Principles and Procedures
- The United Nations Basic Principles and Guidelines on Development-Based Evictions and Displacement, specifically §§ 42, 49, 52, 54 and 60, as well as the guidance provided in the WB's Resettlement Action Plan Guidelines (2002) and the World Bank's Involuntary Resettlement Sourcebook (2004).

Approach to E&S risk management

The integration of E&S risk management measures in supporting PFIs' credit approval processes will be guided by the following key operational procedures for enterprises supported by BDF:

- **Screen** all proposed business activities against **BDF Exclusion List**¹⁵ and any exclusions in the legal agreements¹⁶.

¹³ Dams with a height of at least 15 meters measured from the foundation or dams with a height between 5 and 15 meters with a reservoir volume of more than 3 million cubic meters

¹⁴ The soundness test is applied, first of all, to exclusion and restriction provisions aiming at restricting or excluding liability for breach of contract, negligence, or other claims. Overall, this provision is related to the requirement that expectations placed on a party be considered reasonable.

¹⁵ BDF Exclusion List for financing of business activities of MSMEs and larger enterprises through PFIs is aligned with those of the IFIs.

¹⁶ BDF will exclude from financing (through loans and/or grants received from the WBG or as applicable other IFIs) any investment that involve or lead to

- **Undertake E&S risk classification and assessment** of the business activities of all beneficiary enterprises considering the type, location, sensitivity, and scale of the enterprises business activities. The E&S assessment will consider the nature and magnitude of the potential E&S risks and impacts, and the capacity and commitment of the respective enterprises to manage those risks consistent with the applicable E&S requirements as set out in the BDF ESMS.
- Ensure that **E&S risk identification and assessment** is undertaken for proposed business activities of the beneficiaries, and necessary **E&S documentation** is prepared for review as part of E&S Due Diligence processes of BDF and the respective PFIs.
- Ensure that **E&S Due Diligence** of the proposed business activities of the beneficiaries is completed **prior to** finance decision-making by BDF and respective PFIs.
- Where gaps are identified following E&S due diligence and BDF ESMS requirements, ensure that **E&S action plans (ESAPs)** are developed for the proposed business activities of the beneficiaries to achieve compliance with BDF ESMS requirements. BDF will require and cause each PFI to ensure implementation of ESAPs throughout the financing life cycle.
- Ensure that the representatives of the **senior executive management of BDF and respective PFIs are informed** of the E&S risk considerations and key ESDD outcomes (including ESAP) related to the proposed business activities of the enterprises through appropriate mechanisms and/or events **prior to finance-decision making**.
- Ensure that **E&S Covenants** outlining the beneficiary enterprises undertakings based on the ESDD outcomes and the **ESAPs are integrated into the financing agreements** to be executed between PFIs and the respective beneficiary enterprises.
- Ensure that routine¹⁷ and non-routine **E&S supervision, monitoring and reporting procedures** are implemented throughout the financing duration of beneficiary enterprises, that any non-

- Significant conversion or degradation of critical natural habitats or critical cultural heritage sites;
- Air, water, or soil contamination leading to significant adverse impacts on the health or safety of individuals, communities, or ecosystems;
- Workplace conditions that expose workers to significant risks to health and personal safety;
- Land acquisition and/or resettlement of a scale or nature that will have significant adverse impacts on affected people, or the use of forced evictions;
- Large-scale changes in land use or access to land and/or natural resources;
- Adverse E&S impacts covering large geographical areas, including transboundary impacts, or global impacts such as greenhouse gas (GHG) emissions;
- Significant cumulative, induced, or indirect impacts;
- Marginalization of, discrimination against, or conflict within or among, social (including ethnic and racial) groups;
- Activities that would have adverse impacts on land and natural resources subject to traditional ownership or under customary use or occupation.

¹⁷ Frequency of routine E&S supervision, monitoring and reporting throughout the loan duration of the MSME projects is identified within the ESAP of each MSME project.

conformities are identified and managed by the PFIs and responsible enterprises, and that any significant changes are managed in line with the ESMS procedures.

- Ensure, through systematic **capacity building and training procedures**, that adequate E&S capacity and competency (through in-house and/or external qualified staff) for effective implementation of this E&S Policy and the ESMS are maintained within BDF, the PFIs as well as at beneficiary enterprises at all times throughout the financing life cycle of the respective business activities.
- Establish an **External Communications Mechanism (ECM)** at BDF and PFIs and ensure that PFIs undertake and require beneficiary MSMEs to undertake stakeholder engagement, information disclosure and grievance management in line with the principles of BDF's ECM.
- **Regularly report the E&S performance** of the MSME beneficiaries supported by BDF through the PFIs to the senior executive management representatives of BDF and require PFIs to establish similar reporting mechanisms for information of PFI executive management.

Policy Approval and Review

This E&S Policy is approved by the authorised body of BDF and enters into force on the date of approval. It is communicated through BDF's website (<https://bdf.gov.ua/>) to BDF staff members, PFIs, and enterprises benefiting from BDF financing through the PFIs, and other external stakeholders associated with and/or interested in BDF's enterprise financing operations.

This E&S Policy is reviewed by BDF annually and updated as necessary for realignment with substantial changes in the national legislative framework, applicable international E&S standards, risk profile of the portfolio of BDF or PFIs collaborated with, evolving E&S targets and commitments at national and international levels, and the country-specific and regional contextual conditions. Any change to the E&S Policy of BDF is subject to approval by the Supervisory Board of BDF.