National development institution
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Environmental and Social Policy

National Development Institution

Document History

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V1	Ministry of Finance	December 05,2024
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Interrelated documents

Risk Management Policy

Investment Policy

NDI Program Impact Assessment Policy

Whistleblowing policy

Code of Conduct

Complaints Handling Procedure

Detailed Manual on the Environmental and Social Management System

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Background

The National Development Institution (hereinafter referred to as the "Institution" or "NDI") is a state institution operating as a non-profit legal entity established in accordance with the Charter approved by the Ministry of Finance of Ukraine. The NDI is aimed at improving access to finance for micro, small and medium-sized enterprises (MSMEs), as well as households, municipalities, and other entities identified by the Government and donors (e.g. large companies, educational institutions, etc.).

The Institution's business model consists of two main areas of financial activity: (a) provision of portfolio loans and credit guarantees to partner institutions in Ukraine for further lending to Ukrainian enterprises; (b) acting as an agent for the Ministry of Finance of Ukraine, other ministries, and regional authorities in administering interest rate subsidy payments on loans to enterprises and other beneficiaries. In addition, the NDI implements grant assistance programs financed by international donors for eligible enterprises and households.

The Institution supports the financing of enterprises and other program beneficiaries through partner institutions (PIs) under state programs and projects, as well as through financing received from international financial institutions (IFIs), including the World Bank and the German development institution KfW. This Environmental and Social Policy of the Institution[1] (hereinafter referred to as the "E&S Policy") is a key element of the Institution's Environmental and Social Management System (ESMS) for managing environmental and social risks and impacts associated with financing enterprises and other beneficiaries through PIs.

[1] The E&S acronym refers to all aspects of sustainability as defined by the IFC Performance Standards on Environmental and Social Sustainability, including environmental, social, health and safety, human rights, and labour aspects. – https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-performance-standards.pdf

Scope of the E&S Policy

The E&S Policy shall apply to all types of economic activities of enterprises and other final beneficiaries of the Institution that are considered eligible for financing supported by the World Bank, KfW and/or other international financial institutions, where applicable, from the effective date of the Institution's ESMS.

The Institution ensures that all financing provided to beneficiaries and all commercial activities carried out by the Institution through the implementation of projects and programs financed by IFIs are assessed in accordance with the Applicable Environmental and Social Requirements set forth below.

The Institution's E&S Policy has been developed to ensure the identification and management of risks, as well as the avoidance or mitigation of adverse environmental, health, safety and social impacts associated with the activities of beneficiaries.

International Standarts

International standards, conventions, and agreements on best practices in environmental protection, health, safety, and labor to which the investee and the respective countries are parties:

- Environmental and Social Framework, ESF World Bank;
- The World Bank's Environmental, Health and Safety Guidelines), including applicable General and Industry-Specific Guidelines.
- 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), namely Sections 42, 49, 52, 54 and 60, as well as the guidance provided in the World Bank Guidance Note on Resettlement Action Plan Guidelines the 2002 World Bank Guidance Note and the World Bank Involuntary Resettlement Sourcebook the 2004.

Declaration of the Institution's E&S Policy

Committed to promoting resilience and inclusive growth in Ukraine's economy, the Institution acknowledges its key role in providing enterprises and other beneficiaries with steady, equal access to the financial resources needed to navigate the unique challenges of the Ukrainian business environment.

The Institution seeks to foster the long-term viability and global competitiveness of Ukrainian enterprises operating across all economic sectors, while simultaneously contributing to global food and nutrition security. In this context, the Institution positions itself as a catalyst, aiming to strategically transform the risks and challenges of the Ukrainian business environment into opportunities for enterprises and other beneficiaries by promoting sustainable practices and leveraging technological advancements that support climate protection through improved access to vital financial resources. The primary objective is to propel Ukraine's economy toward an environment characterized by inclusive growth, responding not only to immediate challenges and risks on a national scale but also laying the foundation for a prosperous and sustainable future for all stakeholders, ensuring alignment with the Sustainable Development Goals, as adapted to the specific developmental context of Ukraine.

In pursuit of this vision, the Institution strives to ensure that Partner Institutions (PIs) systematically integrate E&S risk management approaches – defined through robust environmental, health, and safety assessment procedures – into their lending decisions and transaction approval processes. This will foster adherence to the principle of responsible finance across the partner institutions of the National Development Institution's programs, while enabling Ukrainian enterprises and other beneficiaries to ensure the social, environmental, and economic sustainability of their business operations.

Through this E&S Policy, the Institution commits to integrating E&S risk management approaches into the financing of PIs and end-beneficiaries to ensure that the activities of beneficiary enterprises cause no harm to people or the environment. This is achieved by:

(i) the implementation of established E&S assessment procedures, which consist of screening transactions against the Institution's Exclusion List, E&S risk categorization, and E&S due diligence regarding the risks and impacts on beneficiary enterprises. The assessment is conducted by the Institution or the PIs for projects[2] of Ukrainian enterprises or the PIs, as applicable;

(ii) integrating E&S risk management requirements, based on the results of E&S assessments, into the financial (credit) decision-making and transaction approval processes of the NDI and its PIs. This is achieved through decision-making mechanisms; and

(iii) ensuring compliance with the E&S performance of beneficiary enterprises under the Institution's programs by implementing E&S monitoring and reporting procedures throughout the entire financing lifecycle via its PIs.

[2] The term "proposed project" refers to sub-projects (projects or activities of enterprises) proposed by PIs for support from the National Development Institution through financing (loans and/or grants) received from the World Bank Group, KfW, or other IFIs.

In order to fulfill the commitments defined in this E&S Policy, the NDI shall require and encourage all PIs to cooperate with the NDI in adopting and implementing corporate ESMS that comply with the requirements of World Bank Environmental and Social Standard ESS9[3] and do not contradict the provisions of the NDI ESMS[4]. These commitments shall be stipulated in the relevant agreements (contracts) between the NDI and the PIs.

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

[4] The NDI analyzes the ESMS of each PI for compliance with the NDI's own ESMS and the requirements of the ESS9 standard. If a PI already possesses its own corporate ESMS, it shall be reviewed and aligned through cooperation between the PI and the NDI to ensure full consistency with the NDI ESMS and the ESS9 standard.

Guiding Principles of E&S Policy

The Institution's Policy is founded upon the following guiding principles, which apply to the financing of all enterprises and business activities conducted by the Institution through projects and programs funded by IFIs, including the World Bank and KfW:

- The Institution is committed to ensuring that all its financial operations conducted through PIs comply with the requirements of national legislation, international agreements and conventions to which Ukraine is a party, the World Bank's Environmental and Social Framework (ESF), and, where applicable, the environmental, health, and safety policies and standards of other IFIs, as well as good international industry practice (GIIP[5]).
- The Institution is committed to ensuring the full protection of and respect for human rights by all parties in accordance with Ukrainian legislation. The Institution shall ensure the prevention of human rights risks and violations, and shall take immediate action to effectively remediate any adverse human rights impacts arising during the implementation of the beneficiaries' financed activities.
- The Institution seeks to contribute to Ukraine's climate mitigation efforts in terms of adaptation and resilience, and to align its activities (including lending operations) with the goals of the Paris Agreement. The Institution shall ensure adherence to best available practices for identifying and monitoring the climate impact of its operations with PIs.
- In accordance with Ukrainian legislation, the Institution promotes gender equality and zero tolerance for gender-based violence (GBV), as well as sexual exploitation and abuse / sexual harassment (SEA/SH) in its enterprise financing operations. The Institution shall ensure compliance with these principles at all stages and in all aspects of its financial activities, and shall ensure that beneficiaries have equal access to the benefits, services, and opportunities provided by the financed activities.
- The Institution commits 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 that they are not disadvantaged in the distribution of any development benefits for beneficiaries.
- The Institution 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

[5] The exercise of professional skills, diligence, prudence, and foresight that would be reasonably expected from skilled and experienced professionals engaged in the same type of activity under the same or similar circumstances, globally or regionally. The outcome of such exercise should be the use of the most appropriate practices and technologies within the project under its specific circumstances. – See.: The World Bank Environmental and Social 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.

International Labour Organization (ILO) conventions ratified by Ukraine, including the eight fundamental conventions[7].

- The Institution seeks to ensure safe and healthy working conditions at beneficiary enterprises, including a proper occupational health and safety culture and practices that comply with Ukrainian legislation and good international industry standards and practice.
- NDI 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. NDI 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.

[7] ILO Conventions on Occupational Safety and Health. – https://www.ilo.org/uk/publications

Exclusion list

The NDI Exclusion List defines the types of business activities of beneficiary enterprises that are ineligible for NDI financing through PIs.

The NDI shall not finance projects and/or beneficiaries, nor shall it support PIs in financing any operations that possess the following characteristics:

1. Activities prohibited by the national legislation of Ukraine or international legal acts ratified by Ukraine, including activities of citizens of the Russian Federation, legal entities with ownership interest held by the Russian Federation, or those having an indirect connection.
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 or trade in weapons and ammunition, including controversial weapons or their critical components (nuclear weapons and radioactive ammunition, biological and chemical weapons of mass destruction, cluster bombs, anti-personnel mines, enriched uranium).
4. Production or trade in alcoholic beverages (excluding beer and wine)[8].
5. Production or trade in tobacco[8].
6. Gambling, lotteries, casinos, and equivalent enterprises[8].
7. Production or trade in radioactive materials[9].
8. Production or trade in unbonded asbestos fibers[10].
9. Harmful fishing practices and drift net fishing in the marine environment using nets in excess of 2.5 km in length.
10. Production or activities involving harmful or exploitative forms of forced labor[11] harmful child labor[12].
11. Production or trade in wood or other forestry products other than from sustainably managed forests.

[8]I This provision does not apply to projects that are not related to the core business activity.

[9] This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment where the radioactive source is considered to be trivial and/or adequately shielded.

[10] This does not apply to the purchase and use of bonded asbestos cement sheeting with an asbestos content of less than 20%.

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

[12] Harmful child labor means the employment of children that is economically exploitive, 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.

12. 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 products.

13. Investments which could be associated with the destruction[13] or significant impairment of areas designated as nature-protection fund and/or Emerald Network site.

14. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.

15. Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.

16. In selected sectors, financial commitment for concrete new projects will be tied to the following qualitative conditions.

17. Large dam and hydropower projects use the recommendations of the World Commission on Dams (WCD) as orientation[14].

18. 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 reasonableness test[15] shall be applied when the business activities of enterprises have a significant impact on development, but Ukrainian legislation requires amendments to the NDI Exclusion List.

If the Institution's programs are financed by international financial institutions (IFIs) and donors (through loans, grants, etc.), and such IFIs and donors have their own respective exclusion lists of activities for financing, then these exclusion lists shall prevail over the Institution's exclusion list.

[13] "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.

[14] 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

15 The reasonableness test primarily applies to exclusion and limitation clauses aimed at limiting or excluding liability for breach of contract, negligence, or other claims. Generally, this provision is linked to the requirement that the expectations placed upon a party be considered reasonable.

Approach to E&S Risk Management

Integration of risk management measures related to the environment and life safety into the PI loan approval processes shall be carried out in accordance with the following key operating procedures supported by the NDI:

- Screening of all proposed beneficiary activities for compliance with the NDI Exclusion List[16] and any exceptions in legal agreements.
- Environmental and safety risk classification and assessment of all beneficiary business activities, taking into account the type of activity, location, sensitivity, and scale of the enterprise's operations. The E&S assessment will consider the nature and magnitude of potential E&S risks and impacts, as well as the capacity and commitment of the respective enterprises to manage these risks in accordance with the applicable E&S requirements set out in the Institution's ESMS.
- Confirmation that environmental and life safety risk identification and assessment are being conducted for the proposed business activities of the beneficiaries, and that the necessary E&S risk identification and assessment documentation has been prepared for review as part of the Environmental and Social Due Diligence (ESDD) processes by NDI specialists and relevant PI experts.
- Confirmation that the ESDD of the proposed beneficiary activities has been completed prior to the financing decision by the NDI and the respective PIs.
- In the event that gaps are identified following the E&S due diligence and the requirements of the NDI ESMS, confirmation that Environmental and Social Action Plans (ESAPs) have been developed for the proposed activities of beneficiary enterprises to achieve compliance with the NDI ESMS requirements. The NDI shall require and compel each PI to ensure the implementation of the ESAP throughout the entire financing lifecycle.
- Ensuring that senior management of the NDI and respective PIs are informed of E&S risk considerations and the key findings of the ESDD (including the ESAP) related to the proposed business activities of enterprises through appropriate mechanisms and/or events prior to the financing decision-making.
- Confirmation that E&S covenants, outlining the obligations of beneficiary enterprises based on the results of the ESDD and ESAP, are integrated into the loan agreements to be concluded between the PIs and the respective beneficiary enterprises.
- Ensuring that routine[17] and non-standard E&S risk monitoring and reporting procedures are implemented throughout the financing period of the beneficiary enterprises; that any non-compliances are identified and managed by the PIs and the respective enterprises; and that any significant changes are managed in accordance with the ESMS procedure.

[16] The NDI Exclusion List for financing business activities through PIs is harmonized with the exclusion lists of IFIs. An exclusion list adapted to specific national or international beneficiary financing support programs may be assumed.

[17] The frequency of routine environment and life safety monitoring and reporting throughout the loan term of the enterprises' projects is defined in the ESAP of each enterprise project.

- Systematic professional development and involvement of NDI and PI specialists who possess adequate E&S capacity and competence for the effective implementation of this E&S Policy and the ESMS. Similar requirements apply to beneficiary enterprises throughout the entire financing lifecycle of the respective business activity..
- Implementation of an external communication mechanism within the NDI and PIs, and ensuring that PIs commit to and require beneficiary enterprises to engage stakeholders, disclose information, and address grievances in accordance with the NDI ESMS principles.
- Regularly reporting to the NDI authorized persons on the health and safety performance of beneficiary enterprises supported by the NDI through PIs, and requiring PIs to develop similar reporting mechanisms to inform PI management.

E&S Policy Approval and Review

This E&S Policy is approved by the Supervisory Board of National Development Institution and enters into force on the date of approval**.** It is communicated through NDI's website (www.ndi.gov.ua).

This E&S Policy is reviewed by NDI annually and updated as necessar**y** for realignment with substantial changes in the national legislative framework, applicable international E&S standards, risk profile of the portfolio of NDI or FIs 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 NDI is subject to approval by the Supervisory Board of NDI.