Diagnostics study on Environmental, Social and Governance (ESG) Sustainable Investments - Infrastructure Investments: Energy and Ceramics

United Nations Development Programme - Ethiopia

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Introduction
1. Introduction

1.1 About Ethiopia

Ethiopia has succeeded in becoming one of the world’s fastest-growing economies. The country recorded a real gross domestic product (GDP) growth rate of 9% in 2019 (IMF, 2020) and has averaged 9.9% real GDP growth between 2008 and 2018, compared to a regional average growth of 5.4% (The World Bank, 2019). This makes Ethiopia the fastest growing economy in sub-Saharan Africa (SSA) and the world. Despite the country’s rapid economic expansion, it remains one of Africa’s low-income countries, with a GDP per capita of US$ 857.5 (The World Bank). As Africa’s second most populous country, the agricultural sector employs over 65% of the population. The country aims to become a low middle-income country by 2025 and has implemented the Growth Transformation Plan II (GTP II) – its national plan for economic and structural transformation towards realising it’s 2025 vision through a sustainable average real GDP growth of 11% (National Planning Commission, 2016).

1.1.1 Economy

Although mainly known as an agriculturally dominated economy (and as a result vulnerable to weather conditions), agriculture has been eclipsed by Ethiopia’s services sector. The services sector accounts for 42% of GDP, followed by agriculture and industry at 32% and 26%, respectively (UNDP, 2018). The industrial sector has been growing, and by 2025, Ethiopia is expected to become an industrial-based economy (Deloitte, 2019).

The industry sector has been the fastest-growing sector over the past few years, owing to infrastructure developments. The industry is forecasted to continue with this growth trajectory, accounting for 47% of GDP by 2025. These projections are expected to make the industries sector the largest GDP contributor, making Ethiopia an industrial-based economy. The services and agricultural sectors are forecasted to account for 32% and 21%, respectively.

Ethiopia’s employment structure, however, remains dominated by the agricultural sector. The sector leads in rural areas where over 70% of the country’s population resides. Nationally, 66.2% of the population is employed in agriculture, 21.8% in services, and 12% in the industrial sector (ILO, 2018).

The national poverty rate has declined substantially from 45.5% in 2000 to 23.5% in 2016 (UNDP Ethiopia, 2018). However, inequality showed a modest increase, though it is lower compared to other African countries (Deloitte, 2019).

The second five-year plan, GTP II, approved in December 2015, increased emphasis on the transformation of the current primarily agricultural based economy to a modern industrialized economy. Hence, it includes strategic pillars associated with manufacturing sector development, infrastructure development, and capacitation of the local private sector, etc. GTP II envisions investments of $150 billion over the next 5 years. In order to reach the target of achieving middle-income status, similar investment requirements are expected to continue, even after the GTP II planning horizon. While much of this investment is expected to come from domestic sources, GTP II also seeks to leverage increasing foreign direct investment (“FDI”) in addition to borrowing expectations.
1.1.2 Foreign Investment in Ethiopia

Ethiopia has maintained strong investor interest as one of the top investor destinations in Africa. The country’s Foreign Direct Investment (FDI) inflows have increased substantially throughout the years: from US$288m in 2010 to a record high of US$3.6bn in 2017. This has made Ethiopia the second largest FDI recipient in Africa, with China being the largest investor.

Since 2013, FDI inflows have doubled, primarily boosted by investments in manufacturing, industrial parks and large infrastructural projects such as the Grand Renaissance Dam and the Modjo-Hawassa highway. Investments can be expected to increase considering the country’s infrastructural plans and the creation of multiple special economic zones (SEZs). Another factor which is expected to fuel investments is the recent launch of the African Continental Free Trade Area (AfCFTA) which aims to boost economic integration and intra-Africa trade by 60% within three years (Deloitte, 2019).

With public sector investment in infrastructure as the backbone, the Ethiopian government aims to increase private sector investment as a driving force of large economic transformation and to achieve the national vision of creating two million jobs and becoming a low middle-income country by 2025 (Deloitte, 2019).

1.1.3 Requirement of Sustainable Investment

The experience of fast-growing countries in Asia and other parts of the world showed conclusive evidence that manufacturing is the engine of structural transformation and sustained growth. Recognizing this fact, Ethiopia aims to integrate the economy into global trade and production networks, through strong interaction between industrial structure and linkage dynamics. The strategic direction of the country’s growth model is to encourage strategic investments in infrastructure and production activities, especially in priority light manufacturing activities that link agriculture, labour, export, and strategic support industries such as renewable energy. (WTO)

In the recent past, investors have started emphasizing sustainability requirements while making investment decisions. Further, the regulatory development across the globe is now setting supply chain sustainability requirements, such as the Modern Slavery Act in the UK. Therefore, to achieve an export-oriented, globally competitive industrial economy and to be able to secure investments, the country will need to ensure that businesses are integrating Sustainability measures.

1.1.4 Belt and Road Initiative (BRI) and Sustainable Investment Promotion (SIP)

The China-led Belt and Road Initiative (BRI) envisions enhanced economic cooperation by pursuing five major goals: **policy coordination, infrastructure connectivity, unimpeded trade, financial integration, and people-to-people bonds.** China aims to align the BRI with the United Nation’s 2030 agenda for sustainable development (Agenda 2030) at the global level, with the African Union agenda 2063 at the continental level, and with Ethiopia’s Growth and Transformation Plan at the national level. Ethiopia has been receiving Chinese investment under this initiative. In 2019, China was the largest investor in Ethiopia accounting for 60% of newly approved FDI projects, with majority of the investment in manufacturing and services sector.

The Belt and Road Initiative (BRI or B&R) has the potential to accelerate the implementation of Sustainable Development Goals (SDGs). The key challenge is to ensure that the initiatives support the host country in achieving its objectives on sustainable social and environmental development and the provision of regional and global public goods.
Ethiopia is pursuing export-oriented light manufacturing-led industrialization through promotion and development of industrial parks that meet international environmental standards. In that light, it is desirable that the Sustainable Investment Promotion (SIP) interventions are also targeted to support the textile and garment, leather and leather products, agro-processing, sugar-related industries, ICT and mobile technology as well as renewable energy. These investments are expected to remain socially, economically, and environmentally sustainable in line with the 2030 agenda by ensuring a win-win benefit of host and investing countries. Ensuring sustainability throughout the entire product life cycle, addressing environmental, social, and economic aspects, has become one of the main challenges of our time (UNDP, 2020).

1.1.5 Need for this Assignment

UNDP has a state-level and strategic partnership on the Belt and Road Initiative (BRI) to achieve positive outcomes for developing countries and global public goods. BRI can significantly contribute towards the achievement of the Sustainable Development Goals (SDGs) by unlocking important resources and promoting sustainable human development in partner countries (UNDP, 2020). Aligning the BRI with the United Nation’s 2030 Agenda for sustainable development (Agenda 2030) at the global level, with the African Union Agenda 2063 at the continental level, and with Ethiopia’s Growth and Transformation Plan at the national level. In this regard, UNDP as a partner aims to promote sustainable investments through BRI by strengthening partner countries’ capabilities, by establishing a network of Sustainable Investment Promotions (SIP) facilities, with Ethiopia as the pilot country to support in enhancing environmental and social sustainability.

The objective of the project was to assess the current policy framework / standards / institutional setups / implementation practices with respect to Environmental, Social, and Governance (ESG) aspects thereby ensuring sustainable investments across multiple sectors. In addition to the review of the existing ESG management system, a country-specific ESG assessment framework has been proposed based on international frameworks and standards; Ethiopian regulations and guidelines; and best practices implemented in other countries with similar economic and geopolitical conditions.

As part of project, four pilot assessments were undertaken in the energy and ceramics sector companies to assess their performance against ESG parameters and to understand where the investments stand from a sustainability perspective. The pilot assessments provided insights on the prevailing ESG related challenges in the sector. Based on these assessments and case studies on four companies, recommendations have been formulated to integrate environmental, social and governance (ESG) factors into policy formation, regulatory framework development and institutional strengthening that leads to more sustainable investments in Ethiopia.

The scope of work was summarized in four key activities as depicted below:

Figure 3: The scope of work.
1.2 Introduction to Environment Social and Governance

Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. This criteria helps to better determine the future financial performance of companies (return and risk). The ESG issues can be material, may combine risks across an organisation’s entire value chain including supply chain, labour disputes to large-scale industrial accidents, environmental contamination, and product safety concerns. Today more than ever, stakeholders are scrutinizing a company’s ESG performance for clues about the company’s future performance, and they are becoming increasingly sensitive to ESG risks.

ESG issues can impact the company’s financial performance tied directly to its operations or products, or indirectly through stakeholder actions along the entire value chain.

Figure 4: Direct and indirect ESG risks

The concerns over ESG risks are growing among stakeholders. The transformational shifts in economic, environmental, geopolitical, societal, and technological systems offer unparalleled opportunities, but the interconnections among them also imply enhanced systemic risks. According to the World Economic Forum’s Global Risk Report 2020 (Forum, 2020), all the top five risks in terms of likelihood are related to the environment. Extreme weather events, failure of climate-change mitigation, natural disasters biodiversity loss, and man-made natural disasters are the top five threats most likely to occur in the next 10 years.

Figure 5: Risks highlighted in the Global Risk Report 2020

With the increasing impact of ESG-related risks on the business, and stakeholders taking a wider view on their dependence on people and natural resources for sustenance and growth, have made ESG management a high priority board-level agenda. A robust ESG management system has the potential to create a long-term value by assisting organisations to identify potential risks and impacts, implement necessary safeguards, improve transparency on ESG topics, and to consider the avenues for disclosure to effectively meet the information needs of investors and other
stakeholders (Deloitte, 2019). Today, some of the world’s largest organisations are seeking to proactively manage and report on their ESG risks and to partner with or invest in “ESG ready” companies. These fundamental factors are required to attain higher returns, organisational resilience, and stakeholder trust. Therefore, it is necessary to integrate ESG factors into business strategy and operations.

1.3 ESG to achieve SDG targets

In 2015, all 193 member countries of the United Nations adopted the resolution "Agenda 2030". The aim of this agenda is sustainable development by 2030; i.e. the achievement of human development needs across the globe, taking into account the constraints of natural ecosystems. The achievement of the Agenda 2030 is guided by 17 Sustainable Development Goals (SDGs) or “Global Goals”, which are accompanied by a total of 169 targets and 231 indicators.

In order to fulfil the highly interdependent SDGs, all members of the global community, covering civil societies, intergovernmental bodies, academia, and the private sector, are called upon to maximise their respective contributions. Goal 17 recognises that this endeavour must be underpinned by the global and cross-sector collaboration to bring together the requisite knowledge, technologies, financial capital, and political prowess (Deloitte, 2020). The 17 sustainable goals are depicted in the below figure:

Figure 6: United Nations Sustainable Development Goals (SDGs)

The United Nations Conference on Trade and Development (UNCTAD) estimates that the financing gap to achieve the SDGs amounts to US$2.5 trillion annually in developing countries alone (UNCTAD, 2014). In view of this challenge, financial institutions and businesses have a tremendous role to play in the attainment of the world’s sustainable development needs. The SDGs allow organisations to rethink and reset their sustainability strategy. Organisations can demonstrate how their actions and strategy are aligned with these global standards for sustainable development and how they can support nations in achieving their goals.

In todays business scenario, organisations are integrating ESG aspects into strategy and operations to make their contribution towards achieving the SDGs. Aligning ESG aspects provides an opportunity to drive sustainability-related priorities in their entire value chain that helps in managing risks and achieving responsible growth. The SDGs are interrelated to each other, therefore organisations can directly contribute towards the achievement of certain goals that have material impact on them, while the positive initiatives will indirectly support adherence with other goals.

The robust implementation of the ESG framework in the Energy and Ceramic sector will directly support in achieving nine SDG targets, while it will have an indirect positive impact on eight SDGs.
The integration of ESG framework will have a direct positive impact on the following SDGs targets:

**SDG 3: Ensure healthy lives and promote well-being for all at all ages**
- Reduce the number of deaths and illnesses from hazardous chemicals and air, water, and soil pollution and contamination.

**Potential business actions for achieving the goal:**
- Ensure the best possible health outcomes for employees and surrounding communities across the company and supply chain operations.

**SDG 5: Achieve gender equality and empower all women and girls**
- End all forms of discrimination against all women and girls everywhere.
- Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking, sexual and other types of exploitation.
- Ensure women’s full and effective participation and equal opportunities for leadership.

**Potential business actions for achieving the goal:**
- Implement policies and practices that are free from and prevent gender-based discrimination across the workplace, marketplace, and community.
- Support women’s employment and strive for gender balance at all levels across the business and supply chain.
- Develop products and services and implement marketing practices that empower women.
- Promote gender equality through investment, community initiatives, and advocacy.

**SDG 6: Ensure availability and sustainable management of water and sanitation for all**
- Improve water quality by reducing pollution, eliminating dumping, and minimising the release of hazardous chemicals and materials.
- Substantially increase water-use efficiency across and ensure sustainable withdrawal and supply of freshwater to address water scarcity.

**Potential business actions for achieving the goal:**
- Develop and implement holistic water strategies that are socially equitable, environmentally sustainable, and economically beneficial in watersheds around company and supply chain operations.
- Protect and/or restore water-based ecosystems around company operations and supply chain.

**SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all**
- Ensure universal access to affordable, reliable and modern energy services.
- Increase substantially the share of renewable energy in the global energy mix.
- Double the global rate of improvement in energy efficiency.

**Potential business actions for achieving the goal:**
- Increase energy efficiency, source energy needs from renewable sources, and promote the same actions across the supply chain through supplier selection and support.

**SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**
- Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation.
- Achieve full and productive employment and decent work for all women and men and equal pay for work of equal value.
- Eradicate forced labour, modern slavery, child labour, and human trafficking.
- Protect labour rights and promote safe and secure working environments for all workers.

**Potential business actions for achieving the goal:**
- Support decent working conditions for all employees across the business and supply chain, with partnerships to build suppliers’ capacity to do the same.
- Educate and train the labour force, focusing on vulnerable and economically disadvantaged groups.

**SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation**
- Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry’s share of employment and gross domestic product in line with national circumstances, and double its share in the least developed countries.
- Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.

**Potential business actions for achieving the goal:**
- Upgrade and retrofit infrastructure and industry assets across company and supply chain operations to make them sustainable and resilient.

**SDG 10: Reduce inequality within and among countries**
- Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
- Ensure equal opportunity and reduce inequalities of outcome.
- Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.

**Potential business actions for achieving the goal:**
- Implement policies and practices to support equal opportunity, treatment and outcome for all across companies and supply chain operations.

**SDG 12: Ensure sustainable consumption and production patterns**
- Achieve sustainable management and efficient use of natural resources.
- Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle and significantly reduce their release to air, water and soil.
- Substantially reduce waste generation through prevention, reduction, recycling and reuse.
Potential business actions for achieving the goal:

- Design and adopt a responsible and circular business model.
- Shift to a portfolio of goods and services that require and promote negligible use of resources and produce negligible waste.

SDG 13: Take urgent action to combat climate change and its impacts

- Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

Potential business actions for achieving the goal:

- Ensure climate resilience of the company and supply chain operations, and the communities surrounding them.
- Substantially reduce emissions associated with the company and supply chain operations, in alignment with climate science.
- Shift to a portfolio of goods and services that have, and promote, negligible emissions from the use.

Therefore, integrating ESG aspects in the decision-making and operations of the priority sector will provide an impetus for achieving the SDGs at the national level.
Overview of the ESG Framework
2. Overview of ESG framework

2.1 Methodology used in the development of ESG framework

To assess the current policy framework, standards, institutional setups, and implementation practices with respect to Environmental, Social, and Governance (ESG) aspects for ensuring sustainable investments in the Energy and Ceramic sector companies, we developed a comprehensive ESG framework in line with the best industry practices. The methodology followed in the development of ESG framework is provided in the figure below.

Details of each activity are provided in subsequent paragraphs

I. Understand existing ESG systems

- Obtained an understanding of the Ethiopian Investment Commission (EIC) investment flow, decision-making process, risk management procedures, investments in the infrastructure sector (Energy and Ceramics), and ongoing sustainable investment programme in Ethiopia.
- Reviewed current policies, systems, and procedures to understand sustainable investment practices in Ethiopia.
- Reviewed key Environment, Social, and Governance (ESG) regulations adopted by the infrastructure sector available at the national level.

II. Desktop Research

- Reviewed sustainable investment practices in other African countries like South Africa, Kenya, Egypt and Nigeria.
- Identified the international and national standards and regulations adopted by these countries in incorporating sustainable investment practices into their business operations.
- Identified the country and sector-specific best practices that shall be included in the recommendation plan.

III. Assessment of Applicable International Frameworks/ESG Regulations

- Reviewed key international frameworks on sustainability and sustainable investing.
- Reviewed the National Environmental and Social regulations.

The list of international ESG Frameworks and regulations referred to while developing the framework are provided below. Refer to Annexure 2 for the complete list of ESG frameworks, guidelines, national regulations, and ILO conventions.

Table 1: List of referred ESG frameworks and regulations

<table>
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<th>Environmental Regulations in Ethiopia</th>
<th>Social Regulations in Ethiopia</th>
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### Draft an Assessment Framework

- Developed a draft ESG framework based on the above international ESG frameworks, guidelines, national regulations, and ILO conventions.
- Based on the secondary research and experience in the ESG domain, 41 key ESG aspects were identified that are essential for a robust ESG management system.
- The ESG framework was categorised into three assessment parameters i.e. Environment, Social and Governance. Each assessment parameter has a set of ESG aspects along with an explanatory note to clarify the essential requirements that must be incorporated in the system.
- Evaluation criteria and scoring methodology were defined to assess the gaps in the existing system and to monitor the progress of ESG framework implementation.
- The scoring methodology adopted was in line with the Principles of Responsible Investment (PRI) assessment methodology and has six broad ranges of the scores to evaluate the ESG performance of an organisation.
- The six broad ranges of scores are A+ (>95%), A (76-94%), B (51-75%), C (26-50%), D (1-25%) and E (0%).

### Finalize the Assessment Framework

- The draft sustainability assessment framework was shared with UNDP and EIC for their review and comments.
- Based on the review and comments received, the sustainability assessment framework was updated and submitted to UNDP for final approval.
2.2 Key ESG aspects covered under the framework

The ESG Framework contains a set of guidelines for assessing and managing the environmental, social, and governance-related risks and impacts associated with the project activities and business operations. These guidelines strengthen the risk management system of organisations and ensures long-term value creation by aligning the operations with the best industry practices. The ESG framework designed for the Energy and Ceramic Sector of Ethiopia is primarily based on the IFC Performance Standards, The World Bank Environmental and Social Framework, The World Bank EHS General Guidelines, ILO Conventions, UNGC Principles, and SASB standards. The ESG Framework has 41 aspects that are categorised under three pillars i.e. Environment, Social, and Governance. The aspects included in this framework are listed below:

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<th>Social Community Wellbeing and Safety</th>
<th>Governance</th>
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<td>Infrastructure and equipment safety</td>
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<td>Ecosystem services</td>
<td>Terms of employment</td>
<td>Safe management of hazardous materials</td>
<td>ESG Risks identification, assessment, and management</td>
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<td>Biodiversity</td>
<td>Non-discrimination and equal opportunities</td>
<td>Spread of disease</td>
<td>Monitoring and Review</td>
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<td>Retrenchment</td>
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<td>Hazardous and non-hazardous waste</td>
<td>Child labour</td>
<td>Community engagement</td>
<td>Business ethics and anti-corruption</td>
</tr>
<tr>
<td>Waste water/Effluents</td>
<td>Young workers</td>
<td>Protection of cultural heritage</td>
<td>Supply chain management</td>
</tr>
<tr>
<td>Noise</td>
<td>Forced labour</td>
<td>Indigenous peoples</td>
<td>Data security</td>
</tr>
<tr>
<td>Ozone depleting substances</td>
<td>Freedom of association and Collective bargaining</td>
<td>Exposure to heat - Ceramic sector</td>
<td>Regulatory compliance</td>
</tr>
<tr>
<td></td>
<td>Employees engaged sub-contractors and supply chain partners</td>
<td>Shadow flicker - Wind energy projects</td>
<td>ESG disclosures and transparency</td>
</tr>
<tr>
<td></td>
<td>Working hours, wages, overtime payment, and leaves</td>
<td>Dam safety - Hydro-power projects</td>
<td>Grievance redressal mechanism</td>
</tr>
<tr>
<td></td>
<td>Occupational, Health, and Safety</td>
<td></td>
<td>Emergency response procedure</td>
</tr>
<tr>
<td></td>
<td>Workers’ accommodation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 7: Key ESG aspects covered under the framework
To systematically integrate the identified ESG aspects into the existing systems, they were further categorised into Essential and Aspirational ESG requirements. The essential requirements are a must have as they are material to the business operations or region in which the organisation is operating, while the aspirational requirements aim to elevate the ESG management system to the next level by integrating the best industry practices in the system. There were 32 essential requirements and 9 aspirational requirements in the framework. The key objective of the ESG aspects are highlighted below:

### 2.2.1 Environment

The Environmental aspects were categorised into two groups i.e. Natural resource conservation and Pollution prevention.

#### E-1 Natural resource conservation

The objective is to promote the sustainable management of natural resources, conserve and protect biodiversity and habitats, recognise the importance of ecosystem services and implement measures for improving resource efficiency throughout the project lifecycle.

##### E-1.1 Biodiversity

*Category – Essential requirement*

The organisation shall recognise the importance of biodiversity and implement effective measures for the protection and conservation of biodiversity and its habitats.

##### E-1.2 Resource efficiency

*Category – Aspirational requirement*

The organisation shall identify and implement technically and financially feasible measures to reduce the consumption of resources such as water, energy, raw material, and other natural resources.

##### E-1.3 Ecosystem services

*Category – Aspirational requirement*

The organisation shall recognise and protect the ecosystem services to prevent any adverse impact on the community and ecology.

#### E-2 Pollution prevention

The objective is to implement adequate measures to avoid, and/or minimise the generation and adverse impact of pollutants on the environment and community, and shall take necessary remedial measures for the historic contamination at the project site.

##### E-2.1 Air emissions

*Category – Essential requirement*

The organisation shall implement adequate measures to avoid or minimise project-related air emissions during the designing, construction, and operational phase of the project.

##### E-2.2 Hazardous and non-hazardous waste

*Category – Essential requirement*

The organisation shall implement adequate measures to avoid or minimise the generation of hazardous and non-hazardous waste from the project related operations; and implement operational control procedures for the safe management of waste in accordance with national regulation and good international industry practices.

##### E-2.3 Wastewater/Effluents

*Category – Essential requirement*

The organisation shall implement adequate measures to avoid or minimise the generation of effluents/wastewater from the project-related operations; and shall implement adequate measures for recycling or treatment before discharging it outside the project boundary.

#### E-2.4 Noise

*Category – Essential requirement*
The organisation shall implement adequate measures to avoid or minimise the generation of noise from project-related operations; and shall define procedures to regularly monitor the noise levels to ensure compliance with applicable regulations.

E-2.5 Ozone-depleting substances
Category – Aspirational requirement
The organisation shall develop a roadmap to phase-out ozone-depleting substances from its operations.

2.2.2 Social
The Social aspects were categorised under two groups i.e. Employee welfare and safety and Community welfare and safety.

S-1 Employee welfare and safety:
The objective is to define policies and procedures for safeguarding the rights of employees and to provide a work environment free from the occupational, health, and safety-related risks.

S-1.1 Human resource policies and procedures
Category – Essential requirement
The organisation shall have defined policies and procedures to safeguard the fundamental rights of employees.

S-1.2 Terms of employment
Category – Essential requirement
The organisation shall communicate and provide documented terms of employment to every employee.

S-1.3 Non-discrimination and equal opportunities
Category – Essential requirement
The organisation shall not make the employment decisions based on any discriminatory criteria and the employment relationship shall follow the principles of fair treatment and equal opportunities.

S-1.4 Child labour
Category – Essential requirement
The organisation shall ensure the effective abolition of child labour in its entire value chain.

S-1.5 Young workers
Category – Essential requirement
The organisation shall ensure that the employment of young workers takes place in accordance with applicable national regulations and it shall not impact the health, safety, education, and development of the person.

S-1.6 Forced labour
Category – Essential requirement
The organisation shall ensure the elimination of forced and compulsory labour practices in its entire value chain.

S-1.7 Freedom of association and Collective bargaining
Category – Essential requirement
The organisation should respect employees’ right to Freedom of association and Collective bargaining.

S-1.8 Working hours, wages, overtime payment, and leaves
Category – Essential requirement
The organisation shall implement systems in place to prevent excessive overtime work, to ensure on-time payment of wages, and to ensure employees can avail entitled leaves without any salary deduction or penalties.

S-1.9 Occupational, Health, and Safety
Category – Essential requirement
The organisation shall promote safety at the workplace by implementing good international practices at the project site.

S-1.10 Retrenchment

*Category – Aspirational requirement*

The retrenchment plan shall be based on principles of non-discrimination and the organisation shall reduce the adverse impact of retrenchment on employees by providing timely notice of dismissal and supporting them with severance payment as mandated by national regulations and collective agreement.

S-1.11 Employees engaged as sub-contractors and supply chain partners

*Category – Aspirational requirement*

The organisation shall define policies and procedures to promote and safeguard the rights of employees engaged by the sub-contractors and the supply chain partners.

S-1.12 Workers’ accommodation

*Category – Aspirational requirement*

The organisation shall provide safe accommodation facilities with basic amenities to the workers employed at the project site.

S-2 Community welfare and safety

The objective is to recognise and respect the rights of communities affected by projects and implement necessary measures to minimise health, safety, and security-related risks and impacts on communities.

S-2.1 Safe management of hazardous materials

*Category – Essential requirement*

The organisation shall identify, avoid, and minimise the potential exposure of local communities with hazardous materials and substances that may be generated or accidentally released from the project site.

S-2.2 Spread of disease

*Category – Essential requirement*

The organisation shall avoid and minimise the potential for community spread of communicable diseases that may result from project-related activities.

S-2.3 Land acquisition process

*Category – Essential requirement*

The organisation shall develop policies and procedures to avoid, or minimise the displacement of local communities and persons by exploring alternative options, providing support to physically and economically displaced communities and persons in restoring and improving their livelihood and standard of living.

S-2.4 Protection of cultural heritage

*Category – Essential requirement*

The organisation shall define effective procedures to preserve and protect the cultural heritage from adverse impact of project activities; and promote equitable share of benefits from the use of cultural heritage.

S-2.5 Indigenous peoples

*Category – Essential requirement*

The organisation shall recognise and respect the human rights, cultural heritage, and natural resource-based livelihoods of Indigenous peoples'; and implement adequate measures to avoid, if not possible, minimise the adverse impact of project activities on indigenous peoples.

S-2.6 Exposure to heat - Ceramic sector

*Category – Essential requirement*

The organisation shall implement adequate measures to protect employees from exposure to high heat during the operation and maintenance of furnaces and other hot equipment.
S-2.7 Shadow Flicker - Wind Energy projects

*Category – Essential requirement*

The organisation shall implement adequate measures to avoid the shadow flicker effect on the neighbourhood receptors.

S-2.8 Dam safety - Hydro-power projects

*Category – Essential requirement*

The organisation should define and implement systems to identify, avoid, mitigate, and manage EHS risks and impacts in hydropower projects to safeguard the downstream communities from the catastrophic impact of dam/reservoir failure.

S-2.9 Infrastructure and equipment safety

*Category – Aspirational requirement*

The organisation shall design, install, construct, operate, and decommission the structural components of the project and large machinery in accordance with good industrial practices and national regulations to avoid any adverse on the local community or third party.

S-2.10 Community engagement

*Category – Aspirational requirement*

The organisation shall undertake consultations with the project affected communities in a manner that provides them an opportunity to express their views and concerns on the project related risks, impact, and mitigation measures.

2.2.3 Governance

The objective is to establish a robust ESG management system for the identification and management of risks and impacts associated with business operations/project activities. The primary aim is to implement adequate safeguards for the mitigation of risks, and if mitigation is not feasible then minimise the environmental and social risks.

G-1 ESG Policy

*Category – Essential requirement*

The organisation shall establish a policy to define its environmental, social, and governance objectives and principles for improving the environmental and social performance of the project/business operations.

G-2 ESG Risks identification, assessment, and management

*Category – Essential requirement*

The organisation should implement a process to identify, assess, and manage ESG related risks and impacts of its operations.

G-3 Monitoring and Review

*Category – Essential requirement*

The organisation should define regular monitoring and review procedures to measure the efficiency of management programs.

G-4 Organisational capacity and competency

*Category – Essential requirement*

The organisation should clearly define roles and responsibilities for the implementation of ESG Management System (ESG MS), and the employees responsible for the implementation of ESG MS should be competent to carry out assigned roles and responsibilities.

G-5 Business ethics and anti-corruption

*Category – Essential requirement*

The organisation shall ensure that trust and transparency is maintained in all business operations and implement systems to prevent corruption in all its forms, including extortion and bribery.

G-6 Data security
Category – Essential requirement
The organisation shall establish adequate measures to ensure data privacy and protection.

G-7a Grievance redressal mechanism (External stakeholders)
Category – Essential requirement
The organisation shall establish an effective grievance redressal mechanism to record and facilitate timely resolution of grievances and concerns raised by project-affected communities.

G-7b Grievance redressal mechanism (Internal stakeholders)
Category – Essential requirement
The organisation shall establish an effective grievance redressal mechanism to record and facilitate timely resolution of grievances and concerns raised by employees.

G-8 Emergency response procedure
Category – Essential requirement
The organisation shall develop emergency preparedness and response procedures to minimise the impact of industrial accident/emergency on the local community.

G-9 Regulatory compliance
Category – Essential requirement
The organisation shall establish procedures for ensuring compliance with applicable national and international regulations.

G-10 Supply chain management
Category – Aspirational requirement
The organisation shall ensure that supply chain partners adhere to ethical business practices, and their operations do not have any adverse impact on the environment, community, and employees.

G-11 ESG disclosures and transparency
Category – Aspirational requirement
The organisation shall establish procedures to communicate its commitment towards ensuring transparency in business operations and disclosure of relevant information to its stakeholders.

2.3 Scoring methodology
The total assessment score was 100 and nearly equal weightage was given to all three aspects i.e. Environment (total score 33), Social (total score 34), and Governance (total score 33). The overall ESG performance of an organisation was assessed based on six broad ranges of the scores, which is in accordance with the scoring criteria mentioned in the Principles of Responsible Investment (PRI) Assessment Methodology. The broad score ranges and performance bands are listed below:

Table 2: ESG score ranges and performance bands

<table>
<thead>
<tr>
<th>ESG Score (%)</th>
<th>Performance Band</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;95%</td>
<td>A+</td>
</tr>
<tr>
<td>76-94%</td>
<td>A</td>
</tr>
<tr>
<td>51-75%</td>
<td>B</td>
</tr>
<tr>
<td>26-50%</td>
<td>C</td>
</tr>
<tr>
<td>1-25%</td>
<td>D</td>
</tr>
<tr>
<td>0%</td>
<td>E</td>
</tr>
</tbody>
</table>
Table 3: Number of ESG criteria and total score

<table>
<thead>
<tr>
<th>Category</th>
<th>Total criteria</th>
<th>Total score (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>8</td>
<td>33</td>
</tr>
<tr>
<td>Social</td>
<td>22</td>
<td>34</td>
</tr>
<tr>
<td>Governance</td>
<td>11</td>
<td>33</td>
</tr>
<tr>
<td>Total criteria</td>
<td>41</td>
<td>100</td>
</tr>
</tbody>
</table>

There were certain evaluating criteria that were not applicable for some specific companies/sectors. In that scenario, the total score of category was calculated as per the below formula:

Total category score = (Total score obtained / (Total score of category – Total score of not applicable evaluating criteria)) * 100
About Sectors and Case Studies
3. Sectors and Case Studies

3.1 Ethiopian Ceramic Sector

The Ceramics industry qualifies as one of the priority sectors “Chemical and Construction” as per the Growth and Transformation Plan II (GTP II). In Ethiopia, there has been rapid economic growth and development in the construction sector, which has significantly increased the demand for ceramic products in the country. The Ceramic industry manufactures products like floor and wall tiles, insulator and sanitary, kitchenware, and clay structures. In recent years, this sector has received multiple Foreign Direct Investments (FDIs) mostly from China.

Under GTP II, the Ceramic industry has envisaged growth in its production capacity from 78 thousand tons in 2016 to 358 thousand tons in 2020. This will improve production capacity utilization from 60% in 2016 to 85% in 2020. The figure below depicts year on year targets of the Ceramic sector.

![Development of Ceramic Sector envisaged under GTP -II](image)

Ceramic industries have promising growth potential, but certain EHS risks are associated with the sector. According to The World Bank’s Environmental, Health, and Safety Guidelines for Ceramic Tile and Sanitary Ware Manufacturing, there are three categories of risks i.e. Environmental risks, Occupational Health and Safety risks, and Community Health and Safety risks. An illustrative list of key risks is provided in the table below:
Environmental
The three categorises of environmental issues are air emissions, wastewater and solid waste.

Air emissions sources
Generated during the storage and handling of raw materials, Firing or spray drying of ceramics and Emissions from fuels.

Types of air emissions
• Particulate matter
• Sulphur oxides
• Nitrogen oxides
• Greenhouse Gases
• Chlorides and Fluorides

Industrial process wastewater
Generated from cleaning water in preparation and casting units, and various process activities (e.g. glazing, decorating, polishing, and wet grinding).

Solid waste
It consists of different types of sludge, including sludge from process wastewater treatment, and process sludge resulting from glazing, plaster, and grinding activities.

Other waste include broken ware, broken refractory material, solids from dust treatments, spent plaster molds; spent sorption agents, and packaging waste.

Occupational Health and Safety (OHS)
The major OHS risks associated with the sector are listed below:
• Respiratory hazards
• Exposure to heat
• Exposure to noise / vibration
• Physical hazards
• Electrical hazards

Respiratory hazards - Fine airborne particles of silica dust (SiO2), deriving from silica sands and feldspar, is the main occupational hazard in this sector.

Exposure to heat – Due to operation and maintenance of furnaces or other hot equipment.

Exposure to noise / vibration – During raw material preparation, pressing and granulation processes, cutting, grinding and polishing, fan burners in kilns, and packaging activities.

Physical hazards - Operation and maintenance of equipment such as mills, mill separators, and belt conveyors. Other hazards include handling sharp materials, lifting heavy objects, performing repetitive motions.

Electrical hazards - Due to the presence of electrical equipment in the manufacturing facilities.

Community Health and Safety
Major community health and safety issues during the construction, operations and decommissioning phases are listed below:
• Impact on water quality and availability
• Increase in the level of pollutants
• Structural safety issues
• Fire hazards
• Inadequate emergency response measures
• Road safety issues
• Spread of communicable diseases
• Improper waste handling and disposal

Figure 9: Key ESG risks identified in The World Bank’s Environmental, Health, and Safety Guidelines for Ceramic Tile and Sanitary Ware Manufacturing
Based on the detailed ESG assessment undertaken at the Ceramic and Energy sector companies in Ethiopia as part of this engagement, we have developed four case studies to highlight key gaps in the existing systems in terms of ESG integration for achieving long-term sustainability.

3.2 Case Study 1 - Di Yuan Ceramics PLC

3.2.1 Brief about Di Yuan Ceramics Ltd

In March 2016, Di Yuan Ceramics PLC was established in Ethiopia with a capital of ETB 221,000,000 by ‘The China Rongguang Group’. The company specializes in the production of wall and floor tiles, sanitary wares, pottery and other ceramic products on 200,000 square meters of land in the Eastern Industrial Zone, Dukem, and Oromia Region, Ethiopia. The general establishment of this company is divided into three phases:

- Phase 1 – production of antique tiles.
- Phase 2 – production of wall tiles and polished tiles.
- Phase 3 – production of sanitary wares and glazed tiles

The main raw materials used by the company include kaolin, limestone, talk fieldspa and quartz.

The table below summarizes some key information about this company:

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>Di Yuan Ceramics PLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Industrial zone, Dukem, Oromia Region, Ethiopia</td>
</tr>
<tr>
<td>Year of establishment</td>
<td>2016</td>
</tr>
<tr>
<td>The total area of plant premises</td>
<td>200,000 square meters</td>
</tr>
<tr>
<td>Type of products manufactured</td>
<td>Wall and floor tiles, sanitary ware, pottery and other ceramic products</td>
</tr>
<tr>
<td>Total number of employee</td>
<td>726 Ethiopian employees &amp; 76 Chinese on a permanent basis</td>
</tr>
<tr>
<td>Annual electricity consumption in kWh</td>
<td>474,396 kWh</td>
</tr>
<tr>
<td>Annual fuel consumption</td>
<td>Diesel: 18,767,572 litre</td>
</tr>
<tr>
<td>GHG emissions</td>
<td>50,171.83 tCO₂ equivalent</td>
</tr>
</tbody>
</table>

Production Process:

The below diagram provides the schematic depiction of the process undertaken in the premises:
3.2.2 ESG performance score

The overall ESG performance score of Di Yuan Ceramics PLC is 30%, which is a low score in terms of integration of ESG principles in the business operations and comes under the performance band C. The individual category score of Environment is 30% (Performance band ‘C’), Social is 39% (Performance band ‘C’), and Governance is 22% (Performance band ‘D’).

The Governance aspects considered in the assessment process focused on the international best practices and policies around ESG in line with international guidelines and principles. The company has a mechanism in place to comply with the National regulatory requirements and no exceptions were noted with regards to regulatory compliance relating to obtaining permits or licenses to operate with respect to Ethiopian regulations. However, the low-performance score on Governance was primarily due to the lack of policy and procedures around ESG aspects such as grievance redressal mechanisms, supply chain management, business ethics, anti-corruption, data security, monitoring and reporting mechanisms, and ESG related disclosures. In line with international standards, these are the essential elements of a mature governance system and plays a significant role in ESG integration.
Diagnostics study on Environmental, Social and Governance (ESG) Sustainable Investments - Infrastructure Investments: Energy and Ceramics

Figure 10: Performance of Di Yuan Ceramics PLC in terms of environmental parameters

- Noise: 30%
- Waste water/Effluents: 45%
- Hazardous and non-hazardous waste: 33%
- Air emissions: 35%
- Ecosystem services: 10%
- Resource efficiency: 10%
- Biodiversity: 50%

Figure 11: Performance of Di Yuan Ceramics PLC in terms of social parameters

- Infrastructure and equipment safety: 17%
- Exposure to heat - Ceramic sector: 30%
- Spread of disease: 25%
- Safe management of hazardous materials: 33%
- Employees engaged sub-contractors and supply chain partners: 0%
- Retrenchment: 10%
- Occupational, Health, and Safety: 25%
- Working hours, wages, overtime payment, and leaves: 33%
- Freedom of association and Collective bargaining: 33%
- Forced labour: 0%
- Young workers: 58%
- Child labour: 0%
- Non-discrimination and equal opportunities: 25%
- Terms of employment: 44%
- Human resource policies and procedures: 33%
Some of the aspects of ESG framework that were not applicable for Di Yuan Ceramics PLC due to its nature of operations and location in a Special Economic Zone (SEZ) are as follows:

### 3.2.3 Good ESG practices

During the site assessment following good ESG practices/systems were observed:

- The system to prevent the employment of child labour was robust. Management has implemented a robust system to verify the proof of age records of employees at the time of recruitment and has maintained the individual files with proof of age for every employee.
- Management has implemented a system to ensure timely payment of salaries to every employee. No instance of salary withholding or delay in payment was reported during the employee interviews.
- Management has implemented a system to maintain employee-related documentation such as salary records, attendance records, employee contracts, proof of age records, etc.
- Adequate safety signage was installed on the factory premises.

### 3.2.4 Site observations

Key gaps identified during the assessment are listed below:

**Environment:**

1. Internal systems were not defined to carry out monitoring of air emissions, noise levels, and quality of treated wastewater, due to which the company may not be able to identify any deviations in terms of pollution prevention norms and may lead to regulatory non-compliance. A non-compliance incident was reported two years ago (2018), where the regulatory authorities closed the factory on receiving complaints relating to air pollution from the local community, which had damaged their crops. Subsequently, the company had to pay compensation for the crop damage.
2. The procedures to identify and implement the resource efficiency measures for optimising resource consumption were not defined.
3. Operational Control Procedures (OCPs) for the management of hazardous and non-hazardous waste were not defined. In addition, no documentation was maintained to record the generation and disposal of waste material from the manufacturing facility.

Social:

1. Promotion policy and procedures were not well defined due to which a sense of concern was observed among employees during the interviews.
2. Excessive overtime was taking place in the factory, which is a violation of section 67.2 of Labour Proclamation No.1156/2019. It was noted during the interviews that there was a mandatory 16 hours shift for the employees working in the Operations and Maintenance departments. The permissible overtime hours as per the Labour Proclamation shall not exceed 12 hours per week, while actual overtime reported at the site was 40 hours per week.
3. Some of the employees were found to be working without any weekly off, which is a violation of Section 69 of Labour Proclamation No.1156/2019. For instance, employees in the Housekeeping department (Cleaners) do not have a provision of a weekly rest day.
4. Employees were not entitled to paid leave, which is a violation of Section 78 of Labour Proclamation No.1156/2019. During the interviews, employees expressed their concerns related to the lack of provision for annual leave.
5. The Freedom of Association was prohibited in the factory, which is a violation of Section 113 of Labour Proclamation No.1156/2019. It was noted during the interviews with employees and subsequent management discussions that during the working hours conducting meetings and establishing associations was forbidden.
6. No policies were defined relating to Human Resource (HR) procedures such as recruitment of employees, non-discrimination and equal opportunity, freedom of association and collective bargaining, prevention of child labour, prevention of forced and bonded labour, protection of young workers, retrenchment, and employee wellbeing.
7. Implementation of Personal Protective Equipment (PPE) was not robust in the factory. During the site visit and factory walkthrough, employees were found working without PPEs in the areas having high exposure to noise and dust; this may lead to occupational health-related issues due to continuous exposure.
8. The system of incident reporting was not robust at the site. It was noted during the interviews that a fatality incident took place due to a crane accident, yet the same was neither reported to Dukem town administration’s labour and social affairs office, nor was it recorded in the company’s internal incident/accident register.
9. No system was implemented to undertake the Hazard Identification and Risk Assessment (HIRA) process or periodic Health and Safety audit to identify potential hazards associated with the manufacturing operations.

Governance:

1. The overall ESG implementation at the manufacturing facility was not robust. Some of the major gaps identified in the governance system are as follows:
   - ESG related policy and procedures were not defined.
   - Systems and procedures were not defined to prevent corruption and unethical business practices.
   - Hazard Identification and Risk Assessment was not undertaken to identify the potential hazards in manufacturing operations.
   - Roles and responsibilities related to ESG implementation were not defined.
   - Monitoring and reporting system was not robust.
   - Compliance tracking system was not implemented at the project site.
   - Grievance redressal system was not defined for internal and external stakeholders.
   - System defined for providing capacity development training was not robust. No training records were available during the assessment.
   - Emergency response procedures were not defined.
2. There were no systems/mechanisms implemented to communicate the essential ESG requirements to supply chain partners.
3. The organisation is not making any ESG-specific disclosures such as an annual sustainability/ESG report or reporting on platforms like CDP, TCFD, etc.
3.3 Case Study 2 - Aone Marble and Granite Plc

3.3.1 Brief about Aone Marble and Granite Plc

Aone Marble and Granite Plc was established in 2016 and is engaged in the processing of marble and granite by cutting, shaping and finishing. The company’s current registered capital is ETB 23,108,000. Aone Marble is involved in mining and processing industry, along with wholesale and resale outlets.

The main unit of the company is situated in a 20,000 square meters piece of land allotted to it within the Industrial Parks Development Corporation of Ethiopia (IPDC), Debrebrihan, Amhara Region. The company has built a steel structure of 2,730 square meters, which is the heart of the company. The steel structure contains various machines for the processing of marble and granite.

The table below summarizes some key information about this company:

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>Aone Marble &amp; Marble and Granite PLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the company</td>
<td>Aone Marble &amp; Marble and Granite PLC</td>
</tr>
<tr>
<td>Location</td>
<td>IPDC, Debrebriham, Amhara Region, Ethiopia</td>
</tr>
<tr>
<td>Year of establishment</td>
<td>2016</td>
</tr>
<tr>
<td>The total area of plant premises</td>
<td>20,000 square meters</td>
</tr>
<tr>
<td>Type of products manufactured</td>
<td>Granite &amp; Marble (Window &amp; Door Frames, Elevator Claddings, Articles &amp; Statues, Pillar Claddings, Wall Claddings, Centre pieces, Countertops, Tombstones, Staircases, Window &amp; Door Sill)</td>
</tr>
<tr>
<td>Installed capacity</td>
<td>Granite = 57,600 m² &amp; Marble = 61,234 m²</td>
</tr>
<tr>
<td>Annual electricity consumption in KWh</td>
<td>720,000 kWh</td>
</tr>
<tr>
<td>Annual fuel consumption</td>
<td>Diesel: 28,000 litres</td>
</tr>
<tr>
<td>GHG Emission</td>
<td>169.5 tCO₂ equivalent</td>
</tr>
</tbody>
</table>

Production Process:

The following diagram is the schematic depiction of the process undertaken in the premises:

![Production Process Diagram]
3.3.2 ESG performance score

The overall ESG performance score of Aone Marble and Granite Plc is 41%, which is a low score in terms of integration of ESG principles in the business operations and comes under the performance band C. The individual category score of Environment is 49% (Performance band ‘C’), Social is 55% (Performance band ‘B’), and Governance is 17% (Performance band ‘D’).

The Governance aspects considered in the assessment process focused on international best practices and policies around ESG in line with international guidelines and principles. The company has a mechanism in place to comply with the National regulatory requirements and no exceptions were noted with regards to regulatory compliance relating to obtaining permits or licenses to operate with respect to Ethiopian regulations. However, the low-performance score on Governance was primarily due to the lack of policy and procedures around ESG aspects such as grievance redressal mechanism, supply chain management, business ethics, anti-corruption, data security, monitoring and reporting mechanism, and ESG related disclosures. In terms of international standards, these are the essential elements of a mature governance system and plays a significant role in ESG integration.

Figure 13: Performance of Aone Marble and Granite Plc in terms of environmental parameters
Figure 14: Performance of Aone Marble and Granite PLC in terms of social parameters

Some of the aspects of ESG framework that were not applicable for Aone Marble and Granite PLC due to its nature of operations and location in a Special Economic Zone (SEZ) are as follows:

- Ozone depleting substances
- Exposure to heat - Ceramic sector
- Land acquisition process
- Protection of cultural heritage
- Indigenous peoples
- Shadow Flicker - Wind Energy projects
- Dam safety - Hydro-power projects
- Community engagement
3.3.3 Good ESG practices

During the site assessment the following good ESG practices/systems were observed:

- The company had conducted ESIA study during the construction phase of the project and had taken adequate measures for the implementation of Environmental Management Plan (EMP).
- The system to prevent the employment of child labour was robust. Management has implemented a robust system to verify the proof of age records of employees at the time of recruitment and has maintained the individual files with proof of age for every employee.
- Management has implemented a system to ensure timely payment of salaries to every employee. No instance of salary withholding or delay in payment was reported during the employee interviews.
- Management has implemented a system to maintain employee-related documentation such as salary records, attendance records, employee contracts, age proof records, etc.
- Adequate safety signage was installed on the factory premises.

3.3.4 Site observations

Key gaps identified during the assessment are listed below:

**Environment:**

1. Periodic monitoring of environmental parameters such as indoor air quality, noise level and quality of treated wastewater was not taking place in the manufacturing facility.
2. Operational Control Procedures (OCPs) were not defined for the management of treated wastewater. Information related to quality of treated wastewater, quantity of wastewater generation, and percentage recovery of wastewater recycling system were not available at the time of assessment.
3. The overall management of hazardous and non-hazardous waste was not robust at the site. During the assessment following gaps were observed:
   - No documentation was maintained related to generation, storage and disposal of waste; OCPs were not defined for waste management; and
   - There was improper waste segregation and leakage of hazardous waste (used oil and grease) was observed during the site walkthrough.
4. No system was defined to identify, assess and implement resource efficiency measures at the project site.

**Social:**

1. The freedom of association was prohibited in the factory, which is a violation of Section 113 of Labour Proclamation No.1156/2019. It was noted during the employees’ interviews and subsequent management discussions that during working hours, conducting meetings and/or establishing associations was forbidden and warranted immediate termination.
2. No policies were defined related to Human Resource (HR) procedures such as recruitment of employees, non-discrimination and equal opportunity, freedom of association and collective bargaining, prevention of child labour, prevention of forced and bonded labour, protection of young workers, retrenchment, and employee wellbeing.
3. A robust procedure to verify the proof of age records of workers at the time of recruitment was implemented to prevent the employment of child labour. In addition, Management provides employment contracts to all the employees at the time of joining.
4. In terms of workplace safety, management has installed safety signage, fire extinguishers, notice boards, first aid kits and provided Personal Protective Equipment (PPE) to employees. However, during the interviews with the workers’ concerns were raised regarding the absence of proper PPEs. In addition, as a precautionary measure towards COVID-19 pandemic, management had implemented a system to check the temperature of employees.
5. No safety audit was conducted at the employees’ accommodation facility, which is essential to identify potential health & safety-related risks in accommodation.

**Governance**

1. The overall Governance system at the manufacturing facility was very weak. Some of the major gaps identified in the governance system are as follows:
   - ESG related policy and procedures were not defined.
   - Hazard Identification and Risk Assessment (HIRA) was not undertaken to identify the potential hazards in manufacturing operations.
• Roles and responsibilities related to ESG implementation were not defined.
• Monitoring and reporting system was not robust.
• Grievance redressal system was not defined.
• System defined for providing capacity development training was not robust. No training records were available during the assessment.
• Compliance tracking system was not implemented at the project site.
• Emergency response procedures were not defined and the register maintained for recording the grievances was not filled.
• No defined internal system to monitor the regulatory compliance.
• Policies and defined procedures relating to business ethics and anti-corruption were not defined.

2. There were no systems/mechanisms in place to communicate the essential ESG requirements to supply chain partners.

3. The organisation is not making any ESG-specific disclosures such as an annual sustainability/ESG report or reporting on platforms like CDP, TCFD, etc.

3.4 Ethiopian Energy Sector

Ethiopia is blessed with abundant energy resources particularly renewable energy. It has the potential to generate over 60,000 megawatts (MW) of electric power from hydroelectric, wind, solar and geothermal sources. The table below provides the details of the available energy resources in the country.

Table 6: Availability of energy resources in Ethiopia

<table>
<thead>
<tr>
<th>Resources</th>
<th>Unit</th>
<th>Exploitable Reserves</th>
<th>Exploited Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydropower</td>
<td>MW</td>
<td>45,000</td>
<td>&lt;5%</td>
</tr>
<tr>
<td>Solar energy</td>
<td>KWh/m²</td>
<td>Avg. 5.5</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Wind: Power Speed</td>
<td>GW/m/s</td>
<td>1350 &gt; 6.5</td>
<td>&lt; 1%</td>
</tr>
<tr>
<td>Geothermal</td>
<td>MW</td>
<td>7000</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Wood</td>
<td>Million tons</td>
<td>1120</td>
<td>50%</td>
</tr>
<tr>
<td>Agricultural waste</td>
<td>Million tons</td>
<td>15-20</td>
<td>30%</td>
</tr>
<tr>
<td>Natural gas</td>
<td>Billion m³</td>
<td>113</td>
<td>0%</td>
</tr>
<tr>
<td>Coal</td>
<td>Million tons</td>
<td>300</td>
<td>0%</td>
</tr>
<tr>
<td>Oil Shale</td>
<td>Million tons</td>
<td>253</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Ethiopian Electric Utility

In 2017, the total primary energy consumption in Ethiopia was 0.323 quad btu of which oil, renewables and coal comprised 0.184 (57%), 0.126 (39%), and 0.012 (3.7%) quad btu respectively (U.S. EIA, n.d.).

Ethiopia is one of the few countries in the world, which generates a significant proportion of its electricity from renewable resources. In 2018, Ethiopia had an installed capacity of 4206 MW of which hydroelectric had a share of 3743 MW (89%), wind 337MW (8%), and thermal 126 MW (3%). It has a 12,825 km transmission network, 145 substations, 150,000 km distribution networks, and almost 3.2 million connected customers (Power Africa, 2018).

As a result of Ethiopia’s rapid GDP growth over the last decade, electricity demand has been steadily increasing and despite having sufficient energy resources, the country is facing energy shortages and load shedding. The country has an electricity access rate of approx 40%, while the urban area has an access rate of 85%, the rural area has an access rate of only 29%. (Power Africa, 2018).

The country aims to achieve an annual average real GDP growth rate of 11% within a stable macroeconomic environment and become a lower-middle-income country by 2025. Under the National Electrification Program (2017), the government targets 100% electrification by 2025, with 35% off-grid and 65% grid, while extending the grid to reach 96% connections by 2030. On the account of the National Electrification Program targets, energy demand in the country is estimated to grow at an average of approx 30% per year (Power Africa).

Keeping the above in mind, Ethiopia has set targets to increase generating capacity by 25,000 MW by 2030 consisting of 22000 MW of hydro, 1 000 MW of geothermal, and 2,000 MW of wind. Some of the major plants which are already under construction or commissioning stage are Grand Ethiopian Renaissance dam, Koyshadam, Genale Dawa dam, Ayshawind, etc. (EEU, 2019).
Diagnostics study on Environmental, Social and Governance (ESG) Sustainable Investments - Infrastructure Investments: Energy and Ceramics

As per IEA energy outlook 2019, Ethiopia’s cumulative investment needs (2019 - 2040) is estimated to be $100 - 180 billion with electricity access and networks taking the majority. (IEA, 2019)

![Figure 16: Current Installed capacity and projections until 2030](image)

**Institutional and Regulatory Framework:**

The Ministry of Water, Irrigation and Energy (MoWIE) is responsible for the coordination and oversight of the electricity sector in the country. Its responsibility falls in three broad categories i.e. resource assessment and development, research and development (R&D), and regulatory and policy. It supervises the following agencies having different areas of work in the sector:

1. **Ethiopian Energy Authority (EEA)** – It is responsible for developing transparent and effective rules, directives, and standards to promote performance and investment in the sector.

2. **Ethiopian Electric Power (EEP)** – It is responsible for the generation and transmission subsectors.

3. **Ethiopian Electric Utility (EEU)** – It is mandated with the responsibility of power distribution and sales. This agency is also responsible for implementing the National Electrification Program.

Major energy sector-related regulations and strategies in Ethiopia include:
- Energy proclamation (810/20213)
- Energy regulation
- Geothermal resource development proclamation (981/2016)
- Public-private partnership proclamation 1076/2018)
- National electrification strategy
- Ethiopian climate resilient green economy strategy

**EHS risks in the Energy sector**

Select sectoral risks identified in the IFC and World Bank’s sector specific guidelines are listed below:

1. **Thermal Power Plants**

According to the World Bank’s Environmental, Health, and Safety Guidelines for Thermal Power Plants, the key EHS issues associated with the sector are listed below:

<table>
<thead>
<tr>
<th>Environmental issues</th>
<th>Occupational, Health and Safety issues</th>
<th>Community, Health and Safety issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air emissions</td>
<td>Non-ionizing radiation</td>
<td>Water consumption</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>Heat</td>
<td>Traffic safety</td>
</tr>
<tr>
<td>Greenhouse gas</td>
<td>Noise</td>
<td></td>
</tr>
<tr>
<td>emissions</td>
<td>Confined spaces</td>
<td></td>
</tr>
<tr>
<td>Water consumption</td>
<td>Electrical hazards</td>
<td></td>
</tr>
<tr>
<td>and aquatic habitat</td>
<td>Fire and explosion hazards</td>
<td></td>
</tr>
<tr>
<td>alteration</td>
<td>Chemical hazards</td>
<td></td>
</tr>
<tr>
<td>Effluents</td>
<td>Dust</td>
<td></td>
</tr>
<tr>
<td>Solid wastes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hazardous materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and oil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noise</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 2. Wind Energy Projects

According to the World Bank’s Environmental, Health, and Safety Guidelines for Wind Energy, the key EHS issues associated with the sector are listed below:

<table>
<thead>
<tr>
<th>Environmental issues</th>
<th>Occupational, Health and Safety issues</th>
<th>Community, Health and Safety issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landscape, Seascape, and Visual impacts</td>
<td>Working at height</td>
<td>Blade and ice throw</td>
</tr>
<tr>
<td>Noise</td>
<td>Working over water</td>
<td>Aviation</td>
</tr>
<tr>
<td>Biodiversity</td>
<td>Working in remote locations</td>
<td>Marine navigation and safety</td>
</tr>
<tr>
<td>Shadow flicker</td>
<td>Lifting operations</td>
<td>Electromagnetic interference and Radiation</td>
</tr>
<tr>
<td>Water quality</td>
<td></td>
<td>Public access</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Abnormal load transportation</td>
</tr>
</tbody>
</table>

### 3. Geothermal Power Generation

According to the World Bank’s Environmental, Health, and Safety Guidelines for Geothermal Power Generation, the key EHS issues associated with the sector are listed below:

<table>
<thead>
<tr>
<th>Environmental issues</th>
<th>Occupational, Health and Safety issues</th>
<th>Community, Health and Safety issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effluents</td>
<td>Geothermal gases</td>
<td>Exposure to hydrogen sulfide gas</td>
</tr>
<tr>
<td>Air emissions</td>
<td>Confined spaces</td>
<td>Infrastructure safety</td>
</tr>
<tr>
<td>Solid waste</td>
<td>Heat</td>
<td>Impacts on water resources</td>
</tr>
<tr>
<td>Well blowouts and pipeline failures</td>
<td>Noise</td>
<td></td>
</tr>
<tr>
<td>Water consumption and extraction</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4. Hydropower Projects

According to the IFC Good Practice Note for Environmental, Health, and Safety approach for Hydroelectric projects, the key EHS issues associated with the sector are listed below:

<table>
<thead>
<tr>
<th>Environmental issues</th>
<th>Occupational, Health and Safety issues</th>
<th>Community, Health and Safety issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watershed management issues</td>
<td>Use of explosive during the construction phase</td>
<td>Dam failure</td>
</tr>
<tr>
<td>Habitat degradation</td>
<td>High level of hazards during the tunneling activity</td>
<td>Inadequate emergency and response measures</td>
</tr>
<tr>
<td>Changes in instream flow</td>
<td>Inadequate traffic safety</td>
<td>Reservoir slope failures</td>
</tr>
<tr>
<td>Obstruction in upstream and downstream movement of aquatic organisms.</td>
<td>Improper snow avalanche management</td>
<td>Spread of water borne diseases</td>
</tr>
<tr>
<td>Impact on stream morphology</td>
<td>Non-ionizing radiation hazard</td>
<td>Other hazards such as spread of communicable diseases, increase in pollutant levels, etc.</td>
</tr>
<tr>
<td>Improper sediment management.</td>
<td>Increase in noise level</td>
<td></td>
</tr>
<tr>
<td>Increase in level of pollutants during the construction phase.</td>
<td>Hazard due to working in confined spaces and at height</td>
<td></td>
</tr>
<tr>
<td>Impact on water quality.</td>
<td>Electrical hazards</td>
<td></td>
</tr>
</tbody>
</table>

### 5. Electric Power Transmission and Distribution

According to the World Bank’s Environmental, Health, and Safety Guidelines for Electric Power Transmission and Distribution, the key EHS issues associated with the sector are listed below:

<table>
<thead>
<tr>
<th>Environmental issues</th>
<th>Occupational, Health and Safety issues</th>
<th>Community, Health and Safety issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terrestrial habitat alteration</td>
<td>High electrical hazard due to live power lines</td>
<td>Risk of electrocution</td>
</tr>
<tr>
<td>Aquatic habitat alteration</td>
<td>Hazard due to working at height on poles and structures</td>
<td>Electromagnetic interference</td>
</tr>
<tr>
<td>Hazards due to electric and magnetic fields</td>
<td>Exposure to electric and magnetic field</td>
<td>Impact on visual amenity</td>
</tr>
<tr>
<td>Improper management of hazardous waste</td>
<td>Exposure to chemicals</td>
<td>Generation of noise and ozone (not known for any health risks)</td>
</tr>
<tr>
<td>Adverse impacts on avifauna</td>
<td></td>
<td>Impact on aircraft navigation safety</td>
</tr>
</tbody>
</table>
3.5 Case Study 3 - Gibe III Hydroelectric Power Project

3.5.1 Brief about Gibe III Hydroelectric Power Project

The Gilgel Gibe III Dam is a 250 m high roller-compacted concrete dam with an associated hydroelectric power plant on the Omo River in Ethiopia. It is located about 62 km west of Sodo in the Southern Nations, Nationalities, and Peoples’ Region. The Gibe III dam is the third in the Gibe cascade, a series of dams including the existing Gibe I dam (184 MW) and Gibe II power station (420 MW) owned and operated by the state-owned Ethiopian Electric Power. The USD 1.8 billion project began in 2006 and began to generate electricity in October 2015. The table below summarizes some key information about this company:

Table 7: Key information about Gibe III Hydroelectric Power

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>Gibe III Hydroelectric Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Gibe - Omo River Basin, South Nation, Nationality &amp; People Regional State Ethiopia</td>
</tr>
<tr>
<td>Year of establishment</td>
<td>2006</td>
</tr>
<tr>
<td>The total area of plant premises</td>
<td>1.6 square kilometres</td>
</tr>
<tr>
<td>Type of products manufactured</td>
<td>Hydroelectric power</td>
</tr>
<tr>
<td>Installed capacity</td>
<td>6,500 GWh/year</td>
</tr>
<tr>
<td>Total Generation</td>
<td>5400 GWh/year (guaranteed at 95 %)</td>
</tr>
</tbody>
</table>

3.5.2 ESG performance score

The overall ESG performance score of Gibe III Hydroelectric Power Project is 57%, which is a medium category score in terms of integration of ESG principles in the business operations and comes under the performance band B.
individual category score of Environment is 51% (Performance band ‘B’), Social is 77% (Performance band ‘A’), and Governance is 42% (Performance band ‘C’).

![Performance on environmental parameters](image)

**Figure 17:** Performance of Gibe III Hydroelectric Power Project in terms of environmental parameters

![Performance on social parameters](image)

**Figure 18:** Performance of Gibe III Hydroelectric Power Project in terms of social parameters
3.5.3 Good ESG practices

During the site assessment following good ESG practices/systems were observed:

- The organisation has comprehensively defined Human Resource (HR) policies and procedures that cover essential operational and employee wellbeing related aspects.
- The system to prevent the employment of child labour and young workers was robust. Management has implemented a robust system to verify the proof of age records of employees at the time of recruitment and has maintained the individual files with proof of age for every employee. Due to the nature of operations, management does not employ young workers at the project site.
- Management has implemented a system to provide an employment contract to every employee working on the project site. The employment contract covers all the essential information on the working conditions and the terms of employment.
- Management has implemented a system to maintain employee-related documentation such as salary records, attendance records, employee contracts, proof of age records, etc.
- Management has implemented systems to ensure timely payment of salaries and no issues related to excessive overtime, salary deductions, document withholding, and discrimination were raised during the employee interviews.
- Management respects the employees’ right to freedom of association and collective bargaining. It was noted during the interviews that there were no restrictions on the employees.
- Management has considered design revision to minimise the adverse impact on the cultural heritage site. In addition, community consultation was undertaken while undertaking the ESIA study.
- The organisation has developed and implemented Resettlement Action Plan (RAP) for supporting the local community impacted by the project activity.
- Management has implemented necessary safety procedures for ensuring reservoir and community safety. Key safety measures included:
  - Undertaking dam break analysis and preparing an emergency preparedness plan that covers all the identified risks and hazards.
Implementing safety measures such as regular monitoring of river gauge, defined roles and responsibilities for implementing the emergency response plan, established communication channels to alert downstream communities, etc.

- Management has undertaken an Environmental and Social Impact Assessment (ESIA) study to assess the impact of the project on the environment and local communities. They have also developed the Environmental Management Plan (EMP) and the Resettlement Action Plan (RAP) to minimise adverse impact on environment and to ensure resettlement and livelihood restoration of local communities.
- The organisation has developed a code of conduct in accordance with national proclamations to promote business ethics, data security and to communicate zero tolerance towards bribery, fraud, theft, and other forms of corruption.

3.5.4 Site observations

Key gaps identified during the assessment are listed below:

**Environment:**

1. Documentation relating to the implementation of the Environmental Management Plan (EMP) were not available for assessment during the review.
2. The overall management of hazardous and non-hazardous waste was not robust at the site. During the assessment following gaps were observed:
   - No documentation was maintained relating to generation, storage and disposal of waste.
   - Operational control procedures were not defined for waste management.
   - Segregation of waste at source was not observed during the site walkthrough.
3. No system was defined to regularly monitor the level of noise in high-noise areas such as generators blocks, turbine floor, transformer section, etc.
4. No system was defined to identify, assess and implement resource efficiency measures at the project site.

**Social**

1. Management has implemented a system for undertaking health screening of new employees, but there was no documentation to evidence the same.
2. Management has provided accommodation facilities to employees; however, the implementation of health and safety measures was not robust. The following gaps were observed during the assessment:
   - Inadequate fire extinguishers were installed in the accommodation;
   - Unhygienic washrooms and bathing area;
   - Lack of first aid facilities;
   - No safety audit was conducted at the accommodation facility;
   - No emergency mock drill or fire safety training had been conducted at the accommodation facility; and
   - Lack of potable water supply.
3. HR policy does not include aspects relating to forced labour practices.
4. The minutes of meetings were not maintained for the meetings held between representatives of workers’ union and management representatives.
5. The safety recommendations proposed in the Health and Safety Status report were not implemented at the project site. The following gaps were observed in terms of implementation:
   - No safety officer was appointed at the site;
   - Health and Safety committee was not constituted;
   - The drinking water test report was not available;
   - Attendance records for safety induction training were not maintained; and
   - Implementation of Personal Protective Equipment (PPE) was not robust at the site.

**Governance:**

The organisation is a state-owned enterprise that has certain governance procedures in place with respect to the national regulatory requirements. However, in comparison to international best practices and policies, the following gaps were observed:

1. ESG related policies and procedures were not defined.
2. Roles and responsibilities related to ESG implementation were not defined.
3. No defined system to monitor the efficacy of management systems implemented at the project site.
4. No compliance tracking system was implemented at the project site.
5. Gaps were observed in terms of documentation. For instance, no documentary evidence was maintained for the implementation of the Environmental Management Plan. In addition, there were no records maintained relating to the ESG monitoring undertaken by the site management.
6. Systems defined for providing capacity development training was not robust. There were no training records available during the assessment.
7. No grievance redressal system was implemented for the internal and external stakeholders.
8. There was no defined policy and procedure to communicate key ESG requirements to the supply chain partners.
9. The organisation was not making any ESG-specific disclosures such as an annual sustainability/ESG report or reporting on platforms like CDP, etc.
3.6 Case Study 4 - Genale Dewa Hydroelectric Power Project

3.6.1 Brief about Genale Dewa Hydroelectric Power Project

Genale-Dawa III multipurpose hydropower project also called GD-3 is a 254MW hydroelectric power project situated in the Genale-Dawa River Basin in southeast Ethiopia. The GD-3 project took nine years to completion and was inaugurated in the first quarter of 2020. Owned and operated by the Ethiopian Government, the project was developed by China Gezhouba Group, a member of China Energy Engineering Group. The table below summarizes some key information about this company:

Table 8: Key information about Genale Dawa III Hydroelectric Power

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>Genale Dawa III Hydroelectric Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Genale-Dawa River Basin in southeast Ethiopia</td>
</tr>
<tr>
<td>Year of establishment</td>
<td>2020</td>
</tr>
<tr>
<td>The total area of plant premises</td>
<td>Catchment area of 10,445km² and a fill volume of 890,000 m³</td>
</tr>
<tr>
<td>Type of products manufactured</td>
<td>Hydroelectric power</td>
</tr>
<tr>
<td>Generation Capacity</td>
<td>254 MW of electrical power and 1,640 GWh of energy per year.</td>
</tr>
</tbody>
</table>

3.6.2 ESG performance score

The overall ESG performance score of Genale Dewa Hydroelectric Power Project is 59%, which is a medium category score in terms of integration of ESG principles in the business operations and comes under the performance band B. The individual category score of Environment is 57% (Performance band ‘B’), Social is 70% (Performance band ‘B’), and Governance is 50% (Performance band ‘C’).
Figure 20: Performance of Genale Dewa Hydroelectric Power Project in terms of environmental parameters

Figure 21: Performance of Genale Dewa Hydroelectric Power Project in terms of social parameters
3.6.3 Good ESG practices

During the site assessment following good ESG practices/systems were observed:

- The organisation has comprehensively defined Human Resource (HR) policies and procedures that cover essential operational and employee wellbeing related aspects.
- The system to prevent the employment of child labour and young workers was robust. Management has implemented a robust system to verify the proof of age records of employees at the time of recruitment and has maintained the individual files with proof of age for every employee. Due to the nature of operations, management does not employ young workers at the project site.
- Management has implemented a system to provide an employment contract to every employee working on the project site. The employment contract covers all the essential information on the working conditions and the terms of employment.
- Management has implemented a system to maintain employee-related documentation such as salary records, attendance records, employee contracts, proof of age records, etc.
- Management has implemented systems to ensure timely payment of salaries and management of overtime, salary deductions, document withholding, and discrimination.
- Management respects the employees’ right to freedom of association and collective bargaining. It was noted during the interviews that there were no restrictions on the employees.
- Management has implemented necessary safety procedures for ensuring reservoir and community safety. Key safety measures included:
  - Undertaking dam break analysis and preparing an emergency preparedness plan that covers all the identified risks and hazards.
  - Implementing a system to undertake monthly safety monitoring of the project.
  - Implementing safety measures such as regular monitoring of river gauge, defined roles and responsibilities for implementing the emergency response plan, established communication channels to alert downstream communities, etc.
Management has undertaken an Environmental and Social Impact Assessment (ESIA) study to assess the impact of the project on the environment and local communities. They have also developed the Environmental Management Plan (EMP) to minimise adverse impact on environment.

The organisation has developed a code of conduct in accordance with national proclamations to promote business ethics, data security and to communicate zero tolerance towards bribery, fraud, theft, and other forms of corruption.

### 3.6.4 Site observations

Key gaps identified during the assessment are listed below:

#### Environment:

1. Documentation relating to the implementation of the Environmental Management Plan (EMP) were not available for assessment during the review.
2. The overall management of hazardous and non-hazardous waste was not robust at the site. During the assessment following gaps were observed:
   - No documentation was maintained relating to generation, storage and disposal of waste.
   - OCPs were not defined for waste management.
   - Segregation of waste at source was not observed during the site walkthrough. All the type of waste was collected in a single bin without any segregation.
3. No system was defined to identify, assess, and implement resource efficiency measures at the project site.
4. Management has no information regarding the usage of any Ozone-Depleting Substance (ODS) at the project site. Generally, refrigerators have R-22 gas, which is a high ozone-depleting potential.

#### Social:

1. Resettlement Action Plan (RAP) that was developed as a part of the ESIA study to provide compensation and resettlement benefits to the local community was not shared with the assessment team for review.
2. As per the Grievance Redressal Report, the local community has raised concerns relating to the delay in compensation payment.
3. The documentation related to the consent obtained from the local community for flooding a cultural heritage site (burial sites and graveyards) was not shared with the assessment team for review.
4. Management has implemented a system for undertaking health screening of new employees, but no documentary evidence was maintained to verify the same.
5. Management has provided accommodation facilities to employees, but the implementation of health and safety measures was not robust. The following gaps were observed during the assessment:
   - Inadequate fire extinguishers were installed in the accommodation.
   - Lack of availability of drinking water.
   - Shortage of water supply in the washrooms and bathing area.
   - Inadequate waste collection bins, there was only one waste bin for the entire accommodation.
   - The beds, mattresses, pillows, and bed sheets provided in the rooms were not in good condition.
   - Lack of first aid facility inside the accommodation. However, there was a clinic in the compound.
   - No safety audit was conducted at the accommodation facility.
   - No emergency mock drill or fire safety training was conducted at the accommodation facility.
6. HR policy does not include aspects related to forced labour practices.
7. The minutes of meetings were not maintained for the meetings between representatives of workers’ union and management representatives.
8. The safety recommendations proposed in the Health and Safety Status report were not implemented at the project site. The following gaps were observed in terms of implementation:
   - No safety officer was appointed at the site;
   - Health and Safety committee was not constituted;
   - The drinking water test report was not available;
   - Attendance records for safety induction training were not maintained; and
   - Implementation of Personal Protective Equipment (PPE) was not robust at the site.

#### Governance:

The organisation is a state-owned enterprise that has certain governance procedures in place with respect to the national regulatory requirements. However, in comparison to international best practices and policies, the following gaps were observed:
1. ESG related policies and procedures were not defined.
2. Roles and responsibilities related to ESG implementation were not defined.
3. No defined system to monitor the efficacy of management systems implemented at the project site.
4. No compliance tracking system was implemented at the project site.
5. Gaps were observed in terms of documentation. For instance, no documentary evidence was maintained for the implementation of the Environmental Management Plan. In addition, documentation regarding the compensation paid to the local community was not available for review.
6. Systems defined for providing capacity development training was not robust. There were no training records available during the assessment.
7. A grievance redressal system was not implemented for the internal and external stakeholders.
8. There was no defined policy and procedure to communicate key ESG requirements to the supply chain partners.
9. The organisation was not making any ESG-specific disclosures such as an annual sustainability/ESG report or reporting on platforms like CDP, etc.
Recommendations
4. Recommendations

As a part of this engagement, four pilot ESG assessments were undertaken covering Energy and Ceramic sector establishments in Ethiopia. The overall ESG performance of both the hydroelectric power projects (energy sector) was better than the ceramic sector companies. In terms of individual category scores, all the companies have recorded a better score in the Social category and poor scores in the Governance category. The companies have implemented mechanisms to comply with the national regulatory requirements. There were no exceptions noted with regards to regulatory compliance relating to obtaining permits or licenses to operate. Shortcomings were observed with respect to international guidelines and standards, where policies and procedures have not been defined.

In the case of hydroelectric power projects, both are governed by Ethiopian Electric Power (EEP), which is a state-owned enterprise. EEP has implemented a social management system at the project sites to ensure the safety and well-being of its employees and community members. Firms have also carried out Environmental and Social Impact Assessment (ESIA) studies at the inception phase of the projects and have implemented measures to minimise adverse impact caused by project activities. Key improvement areas identified related to strengthening the grievance redressal systems for internal and external stakeholders, defining policies, roles, and responsibilities for ESG integration, implementing operational control procedures (OCPs) for waste management, defining reporting and documentation procedures, and strengthening existing health and safety systems at employees’ accommodation.

In the case of ceramic sector companies, firms have implemented a robust system to prevent the employment of child labour and young workers, and have maintained employee related documentation such as personal files, attendance records, salary records, etc. Firms have also implemented adequate safety signage in the workplace. However, a few regulatory non-compliance were observed with respect to overtime work, non-provision of leave and weekly off days, and restrictions in terms of freedom of association. Other key improvement areas identified related to developing ESG specific policies and procedures, implementing operational control procedures for managing environmental and employees’ safety-related aspects, defining roles and responsibilities for ESG implementation, defining reporting and documentation procedures, and establishing a grievance redressal system.

Based on the above areas of improvement identified in the pilot assessments, we have formulated recommendations to strengthen the existing ESG management system at national and firm level. The methodology adopted for identification, screening and evaluation of potential recommendation included the following steps:

- Identification of gaps in the existing system with respect to national regulations and essential ESG criteria as per the ESG framework
- Understanding the root cause of the issues by discussing with site management and internal experts
- Categorising the identified gaps as systemic and non-systemic issue
- Developing recommendations by considering the sectoral, regulatory and regional aspects

The potential recommendations developed are categorised as Firm-level and National-level recommendations. However, EIC may consider implementing some of the firm-level recommendations at the national level.
4.1 Firm-level recommendations

With the growing focus on responsible business conduct, companies need to develop a strong ESG culture to meet the expectations of stakeholders and build eminence in the international markets. The strong commitment of the Ethiopian Investment Commission (EIC) towards sustainable investments in Ethiopia presents an opportunity for firms to enhance their systems and processes at par with the international standards. Based on the pilot assessment studies undertaken at the Energy and Ceramic sector companies, we believe that the following interventions at the firm level may be considered for integrating ESG principles:

4.1.1 Policy interventions

1. Companies should institute individual studies to identify key material ESG issues in their business based on this initial evaluation carried out through this UNDP engagement. Bucket these risks against available solutions and start implementing solutions through appropriate policy-level interventions.

2. Companies may consider defining ESG policies followed by the development of a structured ESG Framework to comprehensively cover environmental, social, and governance-related aspects for strengthening the existing ESG management system. The framework should not only be based on the local laws and regulations but should adequately cover the markets in which these companies operate and some of the international best practices.

3. In addition to an overarching ESG policy, Companies may consider defining a comprehensive Human Resource (HR), Environmental Management, and Occupational, Health and Safety (OHS) policies that will cover all the essential aspects depending upon the scale and nature of operations.

4.1.2 Systemic interventions

1. Companies may develop systems for ensuring proactive regulatory compliance by identifying the applicable regulatory requirements, tracking the amendments, monitoring the level of compliance, and carrying out immediate remedial actions against identified gaps in the system.

2. Ceramic sector companies may consider implementing a system for preventing excessive overtime and to provide equal opportunities to every employee at the workplace. In addition, companies may consider extending provisions prescribed under the Ethiopian laws on employees’ rights to freedom of association and collective bargaining.

3. Companies may consider defining the roles, responsibilities, and authorities of employees for ensuring robust implementation of ESG policies and framework.

4. Companies may consider defining the operational control procedures (OCPs) for the management of environmental aspects such as air emissions, effluent, noise level, waste, usage of natural resources like water, raw materials, etc. OCPs shall also cover the documentation requirements and assign roles and responsibilities for its implementation.

5. Companies may consider implementing systems to measure the energy usage and operational efficiency of the process. They may undertake energy audits for identifying potential areas of improvement in the system.
6. Companies may consider implementing a system for providing capacity development training to employees. They may consider developing a standardized training module for conducting training sessions such as induction training, work-specific training, awareness sessions, etc. and maintain the attendance records of training sessions.

7. Companies may consider undertaking Hazard Identification and Risk Assessment (HIRA) to identify potential Occupational, Health, and Safety (OHS) risks at the workplace and implement adequate safeguards for mitigating the identified risks.

8. Companies may consider implementing a procedure for monitoring the implementation of adequate safety measures and usage of Personal Protective Equipment at the workplace.

9. Companies may also consider cascading ESG requirements both upstream and downstream of their supply chain to ensure that the complete product life cycle is improved and adds to stakeholder values.

10. Companies may institute a grievance redressal mechanism for receiving and resolving the concerns of both internal and external stakeholders. All the stakeholders should have access to the grievance redressal system and concerns must be addressed within a specified timeline.

11. Companies may consider implementing systems to monitor the implementation of ESG requirements and shall maintain adequate documentation for the same.

12. For continuous improvement of ESG performance, it is advisable that disclosures on certain ESG indicators be considered as part of the annual report.

13. Hydroelectric power companies may consider maintaining the documentation of the Environmental Management Plan (EMP) implementation work they are carrying out in the project area.

14. Companies may also consider developing a roadmap for replacing the appliances (refrigerators) having Ozone-Depleting Substances (ODS) with the non-ODS appliances as per the Montreal Protocol’s timelines.

4.1.3 Aspirational Interventions

1. Companies may consider defining short-term and long-term sustainability targets such as zero liquid discharge, transition to renewable energy, achieving net-zero emissions, transition to electric/hybrid transportation fleet, zero landfill disposal, implementing a safety management system, promoting LGBT+ at the workplace, etc.

2. Companies may consider publishing an annual sustainability report in accordance with global reporting standards such as GRI, TCFD, SASB, or any other standards in line with their stakeholders’ expectations.

3. Companies may consider defining certain thematic areas for making a positive impact on the lives of communities staying around the project/manufacturing site. They may drive certain Corporate Social Responsibility (CSR) initiatives for promoting community wellbeing.

Globally, the growing interest in ESG performance of businesses have led to the development of reporting frameworks, codes, rules and practices. The objective of these frameworks is systematic and effective communication of organisations’ Environmental, Social, and Governance performance to all the relevant stakeholders. Most of the ESG disclosures frameworks are voluntary in nature and are being adopted solely based on the decision of the company/organizations. Some, of the globally adopted voluntary ESG disclosure framework are the Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB), etc.
4.2 National-level recommendations

4.2.1 Shortcomings observed in the existing policy framework and its implementation:

Countries across the globe are witnessing the adverse impacts of unsustainable business practices in the form of climate crisis, resource conflicts, labour unrest, unethical business practices, and many more, which directly impact the entire ecosystem of a nation. Therefore, to maintain a high level of economic growth in a sustainable manner, it is the need of the hour to integrate ESG in business operations.

Globally, it has been observed that there are both regulatory and market drivers for the recent surge in attention being given to ESG. Countries through its policy supported by regulations have started emphasizing ESG aspects. Similarly, there are several market requirements, mostly voluntary, that have also driven the ESG integration in business operations.

However, regulatory frameworks that include relevant laws, standards, and implementation tools at the country level are essential steps towards ESG integration. As a first step to guide the country in achieving its ESG goals, it is essential to have a robust national policy supported by effective laws, regulations, and institutional setup. Further, the success of these policies also lies in the implementation mechanisms available.

Based on the analysis of existing ESG policies & framework in Ethiopia and the observations made during the site visits as part of the case study assessments, we observed three categories of shortcomings in overall ESG integration at the country level:
All three aspects Environment, Social, and Governance were observed to be having these shortcomings with the dominance of different categories in each aspect. The following is our analysis of Environment, Social, and Governance regulation vis-a-vis these three categories:

**Environment**

Ethiopia in recent years has significantly strengthened its regulatory requirements around environmental aspects. It has an overarching environment policy issued in 1997, which has been followed by several proclamations and guidelines in the subsequent years. These regulations have been listed and discussed in detail in the previous sections. However, the team has observed shortcomings in terms of effective enforcement and inadequacy of policies and standards.

**Lack of effective enforcement**

There were instances observed during our assessment that depicted a lack of enforcement of existing regulatory requirements. These gaps were due to both, lack of awareness and inefficient monitoring and verification. Some of the observations include:

- Inadequate documentation: The system of maintaining documentation was not robust at most of the companies visited. For instance, no documentation was maintained to record the generation, storage, and disposal of waste generated at the project sites. Similarly, no documentation was available to verify the implementation of the Environmental Management Plan (EMP) at project sites.
- Lack of environment monitoring: There were no mechanisms implemented to undertake the periodic monitoring of environmental parameters such as air emissions, treated wastewater quality, noise level, etc. at multiple companies.

**Inadequate policies and standards**

Based on the review of existing environmental policies and standards following gaps were observed:

- Lack of standards for energy efficiency: Ethiopia at present lacks industry-specific standards/benchmarking for Energy Efficiency. The Energy Proclamation 810/2013 sets the regulatory framework for energy efficiency and conservation in the country and envisaged the roles and responsibilities of the Ethiopian Energy Authority (EEA). The Ethiopian Energy Authority (EEA) has been tasked with developing energy efficiency programs. EEA has developed the Energy Efficiency Action Plan, which recognises development of standards and labelling as one of the key tasks. Currently, EEA is in the process of setting up the baseline and industry benchmarking.

**Social**

Ethiopia has made significant development in establishing policies and regulations on social aspects, particularly labour-related issues. For instance, the Ethiopian Labour Proclamation 2019 is a landmark development in terms of labour-related requirements in the country. It has comprehensively covered all the critical aspects concerning workers is in line with ILO requirements. However, during the assessment, a lack of enforcement of requirements was observed which related to working hours, overtime, freedom of association, etc.

**Lack of effective enforcement**
The following instances observed during the assessment shows the need for effective enforcement:

- The freedom of association was prohibited in the ceramic factories, which is a violation of Section 113 of Labour Proclamation No.1156/2019.
- The system to ensure the implementation of Personal Protective Equipment (PPE) was not robust at the sites. In all the four companies, employees were found to be working without PPEs.
- The incident reporting system was not effective. There were instances where major accidents were not recorded in the system.
- Excessive overtime hours, no provision for weekly rest days, and annual leave were observed, which is a violation of Section 67, 69, and 78 of Labour Proclamation No.1156/2019.

Governance

Earlier in Ethiopia, every business dealing was state-owned and the governing bodies were the government. Therefore, corporate governance practices was not a material issue. Now, with the inflow of foreign direct investments, it has become imperative to update the regulatory framework with one that takes into account the current corporate governance best practices of the world.

Lack of policies

Currently, the country does not have an overarching corporate governance policy. Most of the current governance-related policies such as Council of Ministers Regulation No. 144/2008, Proclamation No 882-2015, the Revised Anti-Corruption Special Procedure Proclamation-No-883-2015, are meant for state-owned bodies. A comprehensive policy covering the different aspects of corporate governance needs to be developed. This shall incorporate aspects related:

- Business ethics and anti-corruption,
- Disclosure and transparency - Financial as well as ESG performance;
- Requirement for Corporate Social Responsibility (CSR); and
- Protection to the whistle-blowers, etc.

4.2.2 Proposed Interventions

Countries across the globe are witnessing the adverse impact of unsustainable business practices in the form of climate crises, resource conflicts, labour unrest, unethical business practices, and many more, which directly impact the entire ecosystem of a nation. Therefore, to maintain a high level of economic growth in a sustainable manner, it is imperative to integrate ESG in business operations.

Ethiopia is being recognized as Africa’s growth engine and considering the promising growth potential for reaching lower-middle-income status by 2025, there is a need to promote sustainable investment across sectors. Based on the pilot assessment studies undertaken at the Energy and Ceramic sector companies, we propose the following national-level interventions for strengthening the ESG culture:

Policy interventions

1. EIC may consider formulating a policy for incentivizing the companies that integrate ESG in their business operations. They may consider providing fiscal benefits such as tax exemption, a lower rate of interest on loans, or any other kind of incentive that may be relevant for a particular business/sector. Refer Annexure 1 for its implementation framework.

Strategic interventions

1. The Ethiopian Investment Commission (EIC) may consider defining certain short-term, medium-term, and long-term targets for all the companies to integrate ESG in business operations.

Regulatory interventions

1. The Environmental Protection Commission (EPC) may consider the formulation of environmental standards specific for Ceramic and Energy sector companies. At present, both these sectors come under the ‘Other’ industry category, which is generic standards for all the industrial sectors.
2. EIC, Ministry of Labour and Social Affairs, and the Wage Board may consider defining the legal minimum wages for all the categories of employees i.e. Unskilled, Semi-Skilled, Skilled, and Highly Skilled. They should also ensure that the legal minimum wages are revised at least once a year, communicated to every employee, and implemented by all the companies.
3. EIC may initiate a study to assess the existing system of waste management (both hazardous and non-hazardous waste) in the country and may institute a system for the implementation of waste management
guidelines as per Environmental Pollution Control Proclamation No 300/2002 and Solid Waste Management Proclamation 513/2007. They may also consider making it mandatory to dispose of hazardous waste via authorized waste vendor/recycler only.

4. EIC and EPC may consider defining timelines for carrying out the monitoring of certain environmental parameters specific to industrial sectors or they may link the renewal of some licenses/permits with the adherence to the environmental norms.

5. EIC may consider developing a guidance document on integrating ESG principles based on national regulations and international frameworks and standards such as UN’s guiding principles, ILO’s requirements, World Bank and IFC’s guidelines, SASB standards, etc.

6. EIC may consider instituting ESG disclosure guidelines on which companies beyond a certain threshold level has to report annually. They may consider guidelines like Business Responsibility and Sustainability Reporting guidelines that are mandatory for the top 1000 listed companies in Ethiopia.

4.3 Way forward

To implement the recommendations suggested in the previous section, there is need of a detailed action plan or roadmap at firm level and national level. The tentative steps for way forward may include:

- Preparation of detailed action plan based on recommendations and interventions identified in this study.
- Identification of institutions (or departments) responsible for implementation of various interventions of action plan.
- Defining role and responsibilities of responsible institutions.
- Identification of an apex body (probably EIC) to:
  - Formulate ESG related policies, regulations and guidelines.
  - Administer use of ESG framework and updating of ESG framework, if required.
  - Emppanelment of third party ESG assessment agencies and experts for assessment of ESG performance of firms.
  - Monitoring of ESG performance of firms and implementation of corrective action plan (CAP).
  - Encourage firms to improve their ESG performance through regulatory provisions or incentives.
  - Improve awareness of ESG among stakeholders by developing a capacity building plans.

Tentative steps for implementation of ESG is provided in figure below:

- The United Kingdom has announced to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023 (GOV.UK, 2020)
- The China Securities Regulatory Commission has mandatory for all the all listed companies and bond issuers to make ESG disclosures on the risk associated with their business operations (LLP, 2020)
Tentative steps for Implementation of ESG in Ethiopia

**Step 1: Formulation of policy and guidelines by EIC**
- EIC will formulate guidelines on ESG integration for companies
- EIC will formulate a national level policy to incentivizing the companies based on their level of ESG integration
- EIC will issue a notification for onboarding assessment agencies and pool of experts for undertaking due diligence at companies
- EIC will define the monitoring protocols for the empaneled agencies and experts
- EIC will conduct awareness sessions for encouraging companies to integrate ESG in business operations

**Step 2: Empanelment of assessment agencies and experts**
- EIC will empanel assessment agencies and individual experts for conducting assessments and to provide technical/capacity building support to companies
- EIC will provide trainings to assessment agencies and experts on the ESG integration requirements and expected outcome.

**Step 3: Assessment of companies and implementation of CAP**
- Companies will apply for EIC incentive scheme
- Assessment agency or individual expert will carry out assessment to assess the maturity level in terms of ESG integration
- Assessor will provide ESG performance score to EIC and company
- Assessor will also provide corrective action plan for upgrading the existing system
- Companies can onboard assessment agency or Pool of experts for the technical support.

**Step 4: Reassessment of companies and incentivization**
- Company will reapply for ESG performance assessment
- EIC will appoint a different assessment agency or expert will reassess the company and the score will be directly provided to EIC
- If the assessment score does not meet the EIC criteria then again company has to implement necessary measures
- If the assessment score qualifies the EIC benchmark then incentives will be provided to the company.

**Step 5: Capacity building and periodic assessment**
- There will be provision for capacity building sessions which a company can avail from the empaneled experts
- EIC will undertake periodic monitoring of ESG performance and in case the company does not required standard then the incentives will be stopped
- Failed companies will have to again reapply for the process.

Figure 24: Implementation framework for ESG in Ethiopia

The four key stakeholders in the incentive scheme for promoting ESG integration are EIC, Companies, Assessment agencies and Pool of individual ESG experts.
Annexure 1

Reference Conventions, Framework and Guidelines

We have referred to the following international guidelines, frameworks, and conventions in developing this ESG framework.

1. International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability
2. IFC Good practice Note on Environmental, Health, and Safety Approaches for Hydropower Projects
3. The World Bank Group – Environmental and Social Framework
5. The World Bank Group - Environmental, Health, and Safety Sector-Specific Guidelines for the following:
   I. Wind Energy
   II. Electric Power Transmission and Distribution
   III. Geothermal Power Generation
   IV. Thermal Power Plants
   V. Ceramic Tile and Sanitary Ware Manufacturing
6. United Nations Principles for Responsible Investment – 06 Principles
7. United Nations Global Compact- 10 Principles
9. United Nations Sustainable Development Goals
11. Sustainability Accounting Standards Board (SASB)
12. KfW Development Bank - Sustainability Guideline Assessment and management of Environmental, Social, and Climate Aspects: Principles and Procedures
13. OECD Due Diligence Guidance for Responsible Business Conduct
16. ILO C100 - Equal Remuneration Convention, 1951 (No. 100)
17. ILO C111 - Discrimination (Employment and Occupation) Convention, 1958 (No. 111)
18. ILO R130 - Examination of Grievances Recommendation, 1967 (No. 130)
19. ILO Convention No. 158 and Recommendation No. 166 concerning termination of employment
20. ILO Minimum Age Convention, 1973 (No. 138) and its Recommendation No. 146
21. ILO Worst Forms of Child Labour Convention, 1999 (No. 182) and its Recommendation No. 190
22. ILO C 029 - Forced Labour Convention, 1930 (No. 29)
23. ILO C 105 - Abolition of Forced Labour Convention, 1957 (No. 105)
24. ILO R 203 - Forced Labour (Supplementary Measures) Recommendation, 2014 (No. 203)
25. ILO Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
26. ILO C098 - Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
27. ILO C154 - Collective Bargaining Convention, 1981 (No. 154)
28. ILO R115 - Workers' Housing Recommendation, 1961 (No. 115)
29. ILO R116 - Reduction of Hours of Work Recommendation, 1962 (No. 116)
30. ILO C169 - Indigenous and Tribal Peoples Convention, 1989 (No. 169)
32. ILO R156 - Working Environment (Air Pollution, Noise and Vibration) Recommendation, 1977 (No. 156)
33. The Montreal Convention
34. Sendai Framework for Disaster Risk Reduction 2015 – 2030
35. UNDG - Guidance Note On Big Data For Achievement Of The 2030 Agenda
36. The Equator Principles
A 2-1. Summary of ESG performance score - Di Yuan Ceramics PLC

The overall ESG performance score of Di Yuan Ceramics PLC is 30%, which is a low score in terms of integration of ESG principles in the business operations and comes under the performance band C. The individual category score of Environment is 30% (Performance band ‘C’), Social is 39% (Performance band ‘C’), and Governance is 22% (Performance band ‘D’).

Table 9: Summary of ESG performance score - Di Yuan Ceramics PLC

<table>
<thead>
<tr>
<th>Reference Environment</th>
<th>ESG parameter</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>E 1-1</td>
<td>Biodiversity</td>
<td>50</td>
<td>No documentation was maintained to verify the implementation of the Environmental Management Plan. In addition, two years ago, regulatory authorities had closed the factory on receiving air pollution-related complaints from the local community, which had damaged their crops.</td>
</tr>
<tr>
<td>E 1-2</td>
<td>Resource efficiency</td>
<td>10</td>
<td>No defined system for enhancing the resource efficiency of the process. Documentation was not maintained to assess the process-wise resource consumption, which shall assist in the identification of resource efficiency measures.</td>
</tr>
<tr>
<td>E 1-3</td>
<td>Ecosystem services</td>
<td>10</td>
<td>No defined system for the identification of risks and impacts on ecosystem services due to the company’s operations. In addition, no contingency plan was developed for ensuring business continuity.</td>
</tr>
<tr>
<td>E 2-1</td>
<td>Air emissions</td>
<td>35</td>
<td>Operational Control Procedures (OCPs) were not defined for periodically monitoring the level of air emissions. In the past, due to air pollution-related issues, regulatory authorities have closed the factory.</td>
</tr>
<tr>
<td>E 2-2</td>
<td>Hazardous and non-hazardous waste</td>
<td>33</td>
<td>OCPs were not defined for waste management. In addition, no documentation was maintained to record the generation and disposal of waste material from the manufacturing facility.</td>
</tr>
<tr>
<td>E 2-3</td>
<td>Wastewater/Effluents</td>
<td>45</td>
<td>OCPs were not defined for wastewater management. In addition, no documentation was maintained to check the quality of treated wastewater, which the company is reusing.</td>
</tr>
<tr>
<td>E 2-4</td>
<td>Noise</td>
<td>30</td>
<td>The company does not have any defined procedure to monitor noise levels in the workplace.</td>
</tr>
<tr>
<td>E 2-5</td>
<td>Ozone-depleting substances</td>
<td>NA</td>
<td>The company is not using any machinery that has Ozone-Depleting Substances (ODS).</td>
</tr>
<tr>
<td>Social</td>
<td>S 1-1 Human resource policies and procedures</td>
<td>33</td>
<td>The company does not have any defined Human Resource (HR) policies and procedures.</td>
</tr>
</tbody>
</table>

Reference:
<table>
<thead>
<tr>
<th>Section</th>
<th>Topic</th>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>S 1-2</td>
<td>Terms of employment</td>
<td>44</td>
<td>The employment contract does not mention all the essential terms of employment. For instance, information related to grievance redressal, collective bargaining was not present in the sample contracts reviewed during the assessment.</td>
</tr>
<tr>
<td>S 1-3</td>
<td>Non-discrimination and equal opportunities</td>
<td>25</td>
<td>The company does not have a policy to promote non-discrimination and equal opportunities in the workplace. Promotion policy and procedures were not well defined due to which a sense of concern was observed among employees during the interviews.</td>
</tr>
<tr>
<td>S 1-4</td>
<td>Child labour</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. No case of actual child labour was found during the assessment.</td>
</tr>
<tr>
<td>S 1-5</td>
<td>Young workers</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. As per the company’s policy, due to the nature of operations, they do not employ young workers.</td>
</tr>
<tr>
<td>S 1-6</td>
<td>Forced labour</td>
<td>58</td>
<td>The company does not have a defined policy and procedures to prevent forced labour practices at the workplace. However, no such instance was observed during the assessment.</td>
</tr>
<tr>
<td>S 1-7</td>
<td>Freedom of association and Collective bargaining</td>
<td>0</td>
<td>The Freedom of Association was prohibited in the factory, which is a violation of Section 113 of Labour Proclamation No.1156/2019. It was noted during the employees’ interviews and subsequent Management discussions that during the working hours conducting a meeting and establishing an association is forbidden.</td>
</tr>
<tr>
<td>S 1-8</td>
<td>Working hours, wages, overtime payment, and leaves</td>
<td>10</td>
<td>Regulatory non-compliances with respect to Labour Proclamation No.1156/2019 was observed. Instances of excessive overtime work, no provision of weekly rest days and annual leaves were found during the assessment. However, in terms of payment of salaries, employees were getting salaries on time.</td>
</tr>
<tr>
<td>S 1-9</td>
<td>Occupational, Health, and Safety</td>
<td>33</td>
<td>Implementation of Personal Protective Equipment (PPE) was not robust in the factory. During the site walkthrough, employees were found working without PPEs in the areas having high exposure to noise and dust, which may lead to occupational health-related issues due to continuous exposure. In addition, no documentation related to employees’ training was maintained at the site.</td>
</tr>
<tr>
<td>S 1-10</td>
<td>Retrenchment</td>
<td>25</td>
<td>There was no defined HR policy and procedures around retrenchment. No mass retrenchment took place in the factory. However, some employment termination took place in the past.</td>
</tr>
<tr>
<td>S 1-11</td>
<td>Employees engaged sub-contractors and supply chain partners</td>
<td>0</td>
<td>There was no defined policies and procedures for monitoring the performance of sub-contractors and supply chain partners in terms of implementing ESG requirements.</td>
</tr>
<tr>
<td>S 1-12</td>
<td>Workers' accommodation</td>
<td>NA</td>
<td>The company does not have any dormitory. Therefore, this section is not applicable.</td>
</tr>
<tr>
<td>S 2-1</td>
<td>Safe management of hazardous materials</td>
<td>33</td>
<td>No Operational Control Procedures were defined for the same management of hazardous waste.</td>
</tr>
<tr>
<td>S 2-2</td>
<td>Spread of disease</td>
<td>25</td>
<td>No system was implemented at the site to carry out the health screening of new workers before joining. In addition, no mechanisms were implemented to monitor the temperature of employees at workplace. However, the company has donated ETB 100,000 to the community</td>
</tr>
</tbody>
</table>
Diagnostics study on Environmental, Social and Governance (ESG) Sustainable Investments - Infrastructure Investments: Energy and Ceramics

The company implemented Personal Protective Equipment (PPE) in the factory. In addition, the system of incident reporting was not robust.

The company has not defined and implemented adequate control for ensuring data security. They were only communicating data security requirements to their employees through contractual agreements.

The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by project-affected communities.

The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by employees. In addition, employees have raised the concerns regarding lack of grievance redressal mechanism in the factory.

The system of Hazard Identification and Risk Assessment (HIRA) and Root cause analysis was not robust. Company has implemented a system to provide a daily toolbox talk through the government for the purchase of preventive material of COVID-19 pandemic.

| 2-3 | Land acquisition process | NA | The company is situated in the Special Economic Zone (SEZ) and has received the land from the Government authorities. Therefore, this section is not applicable. |
| 2-4 | Protection of cultural heritage | NA | There was no cultural heritage site around the company’s premises. |
| 2-5 | Indigenous peoples | NA | There was no settlement of Indigenous peoples around the company’s premises whose traditional lifestyles could be compromised through this project. |
| 2-6 | Exposure to heat - Ceramic sector | 30 | Implementation of Personal Protective Equipment (PPE) was not proper in the factory. In addition, the system of incident reporting was not robust. |
| 2-7 | Shadow Flicker - Wind Energy projects | NA | This is not applicable. |
| 2-8 | Dam safety - Hydro-power projects | NA | This is not applicable. |
| 2-9 | Infrastructure and equipment safety | 17 | No system was implemented to undertake the Hazard Identification and Risk Assessment (HIRA) process or periodic Health and Safety audit to identify potential hazards associated with the manufacturing operations. In addition, no measures were implemented to monitor the efficacy of air pollution control measures. |
| 2-10 | Community engagement | NA | This is not applicable, as the company is situated in the Special Economic Zone (SEZ). |

**Governance**

| 1 | ESG Policy | 33 | The company has not defined ESG policy and procedures but has implemented certain ESG specific measures such as age proof verification, employee-related documentation, etc. in the factory. |
| 2 | ESG Risks identification, assessment, and management | 17 | The company does not have an ESG management system for the identification and management of risks and hazards associated with business operations. However, they have implemented control measures for past non-compliance. |
| 3 | Monitoring and Review | 0 | The company has not defined any monitoring and review procedures to measure the efficiency of management programs. |
| 4 | Organisational capacity and competency | 0 | No roles and responsibilities were defined for the implementation of ESG Management System. |
| 5 | Business ethics and anti-corruption | 0 | The company does not have a policy and defined procedures to promote business ethics and anti-corruption measures in business operations. |
| 6 | Data security | 31 | The company has not defined and implemented adequate control for ensuring data security. They were only communicating data security requirements to their employees through contractual agreements. |
| 7a | Grievance redressal mechanism - External stakeholders | 20 | The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by project-affected communities. |
| 7b | Grievance redressal mechanism - Internal stakeholders | 10 | The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by employees. In addition, employees have raised the concerns regarding lack of grievance redressal mechanism in the factory. |
| 8 | Emergency response procedure | 32 | The system of Hazard Identification and Risk Assessment (HIRA) and Root cause analysis was not robust. Company has implemented a system to provide a daily toolbox talk through the government for the purchase of preventive material of COVID-19 pandemic. |
and safety instruction to employees, but no
documentation was maintained to verify the same.

<table>
<thead>
<tr>
<th>G 9</th>
<th>Regulatory compliance</th>
<th>50</th>
<th>The company has assigned the responsibilities to HR Manager for ensuring regulatory compliances, but a few deviations were observed during the assessment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>G 10</td>
<td>Supply chain management</td>
<td>0</td>
<td>The company has not developed the Code of Conduct to communicate the responsible business practices and essential ESG requirements to the supply chain partners.</td>
</tr>
<tr>
<td>G 11</td>
<td>ESG disclosures and transparency</td>
<td>50</td>
<td>The system of ESG disclosure was not robust. They are not making any ESG specific disclosures. However, they have maintained transparency in terms of documentation and information sharing.</td>
</tr>
</tbody>
</table>
A 2-2. Summary of ESG performance score - Aone Marble and Granite Plc

The overall ESG performance score of Aone Marble and Granite Plc is 41%, which is a low score in terms of integration of ESG principles in the business operations and comes under the performance band C. The individual category score of Environment is 49% (Performance band ‘C’), Social is 55% (Performance band ‘B’), and Governance is 17% (Performance band ‘D’).

Table 10: Summary of ESG performance score - Aone Marble and Granite Plc

<table>
<thead>
<tr>
<th>Reference</th>
<th>ESG parameter</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E 1-1</td>
<td>Biodiversity</td>
<td>100</td>
<td>As per the EIA report, no adverse impact biodiversity was reported, and the management has implemented measures recommended in the Environmental Management Plan (EMP). In addition, there was no critical habitat within a 10 km radius of the project site.</td>
</tr>
<tr>
<td>E 1-2</td>
<td>Resource efficiency</td>
<td>30</td>
<td>No defined system for enhancing the resource efficiency of the process. However, Management has identified the processes that have a high consumption of water and electricity, but no action plan was developed for improving operational efficiency.</td>
</tr>
<tr>
<td>E 1-3</td>
<td>Ecosystem services</td>
<td>60</td>
<td>Considering the nature of operations there is no severe impact on the ecosystem services. The company has conducted EIA study to assess the impact, but no process was defined to measure the efficacy of wastewater treatment system. Also, no contingency plan was developed for ensuring business continuity</td>
</tr>
<tr>
<td>E 2-1</td>
<td>Air emissions</td>
<td>45</td>
<td>Operational Control Procedures (OCPs) were not defined for periodically monitoring the level of air emissions i.e. Particulate matter (dust).</td>
</tr>
<tr>
<td>E 2-2</td>
<td>Hazardous and non-hazardous waste</td>
<td>38</td>
<td>OCPs were not defined for waste management. In addition, no documentation was maintained to record the generation and disposal of waste material from the manufacturing facility. In addition, there was improper waste segregation and leakage of hazardous waste (used oil and grease) was observed during the site walkthrough.</td>
</tr>
<tr>
<td>E 2-3</td>
<td>Wastewater/Effluents</td>
<td>30</td>
<td>Operational Control Procedures (OCPs) were not defined for the management of treated wastewater. Information related to quality of treated wastewater, quantity of wastewater generation, and percentage recovery of wastewater recycling system was not available at the time of assessment.</td>
</tr>
<tr>
<td>E 2-4</td>
<td>Noise</td>
<td>40</td>
<td>The company does not have any defined procedure to monitor noise levels in the workplace.</td>
</tr>
<tr>
<td>E 2-5</td>
<td>Ozone-depleting substances</td>
<td>NA</td>
<td>The company is not using any machinery that has Ozone-Depleting Substances (ODS).</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S 1-1</td>
<td>Human resource policies and procedures</td>
<td>50</td>
<td>The company does not have any defined Human Resource (HR) policies and procedures. However, the company has</td>
</tr>
<tr>
<td>Reference</td>
<td>ESG parameter</td>
<td>% Score</td>
<td>Observations</td>
</tr>
<tr>
<td>-----------</td>
<td>------------------------------------------------------------------------------</td>
<td>---------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>S 1-2</td>
<td>Terms of employment</td>
<td>31</td>
<td>The employment contract provided to the permanent employee covers information related to working conditions and terms of employment. However, the terms of conditions are not communicated to employees in the probation period.</td>
</tr>
<tr>
<td>S 1-3</td>
<td>Non-discrimination and equal opportunities</td>
<td>0</td>
<td>The company does not have a policy to promote non-discrimination and equal opportunities in the workplace. Promotion policy and procedures were not well defined due to which a sense of concern was observed among employees during the interviews. In addition, few employees raised the concern related to wage disparity.</td>
</tr>
<tr>
<td>S 1-4</td>
<td>Child labour</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. No case of actual child labour was found during the assessment.</td>
</tr>
<tr>
<td>S 1-5</td>
<td>Young workers</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. As per the company’s policy, due to the nature of operations, they do not employ young workers.</td>
</tr>
<tr>
<td>S 1-6</td>
<td>Forced labour</td>
<td>83</td>
<td>The company does not have a defined policy to prevent forced labour practices at the workplace. However, it was noted during all the interviews that there were no employment restrictions at the workplace.</td>
</tr>
<tr>
<td>S 1-7</td>
<td>Freedom of association and Collective bargaining</td>
<td>0</td>
<td>The Freedom of Association was prohibited in the factory, which is a violation of Section 113 of Labour Proclamation No.1156/2019. It was noted during the employees’ interviews and subsequent Management discussions that during the working hours conducting a meeting and establishing an association is forbidden and leads to immediate termination.</td>
</tr>
<tr>
<td>S 1-8</td>
<td>Working hours, wages, overtime payment, and leaves</td>
<td>70</td>
<td>There was no defined procedure to ensure compliance with the Ethiopian Labour Proclamation. Despite that, no regulatory non-compliances related to working hours, wages payment, and leave was observed during the assessment.</td>
</tr>
<tr>
<td>S 1-9</td>
<td>Occupational, Health, and Safety</td>
<td>29</td>
<td>In terms of workplace safety, Management has installed safety signage, fire extinguishers, notice boards, first aid kits, and provided Personal Protective Equipment (PPE) to employees. However, during the workers’ interviews, they have raised the concern regarding the absence of proper PPEs. In addition, no documentation related to employees’ training was maintained at the site.</td>
</tr>
<tr>
<td>S 1-10</td>
<td>Retrenchment</td>
<td>100</td>
<td>There was no defined HR policy and procedures around retrenchment. No mass retrenchment took place in the factory.</td>
</tr>
<tr>
<td>S 1-11</td>
<td>Employees engaged sub-contractors and supply chain partners</td>
<td>17</td>
<td>There was no defined policies and procedures for monitoring the performance of sub-contractors and supply chain partners in terms of implementing ESG requirements.</td>
</tr>
<tr>
<td>S 1-12</td>
<td>Workers’ accommodation</td>
<td>45</td>
<td>No safety audit was conducted at the employees’ accommodation facility, which is essential to identify potential health &amp; safety-related risks in accommodation.</td>
</tr>
<tr>
<td>S 2-1</td>
<td>Safe management of hazardous materials</td>
<td>0</td>
<td>No Operational Control Procedures were defined for the same management of hazardous waste. There was improper waste segregation and leakage of hazardous materials.</td>
</tr>
<tr>
<td>Reference</td>
<td>ESG parameter</td>
<td>% Score</td>
<td>Observations</td>
</tr>
<tr>
<td>-----------</td>
<td>---------------</td>
<td>---------</td>
<td>--------------</td>
</tr>
<tr>
<td>S 2-2</td>
<td>Spread of disease</td>
<td>88</td>
<td>To prevent the spread of Covid-19 pandemic, the company has implemented a system to monitor the temperature of every employee. The Management informed that, if required, they could take employees to the hospital as well. Company has also donated sanitary materials and facemasks to communities through IPDC to prevent the spread of the COVID-19 pandemic.</td>
</tr>
<tr>
<td>S 2-3</td>
<td>Land acquisition process</td>
<td>NA</td>
<td>The company is situated in the Special Economic Zone (SEZ) and has received the land from the Government authorities. Therefore, this section is not applicable.</td>
</tr>
<tr>
<td>S 2-4</td>
<td>Protection of cultural heritage</td>
<td>NA</td>
<td>There was no cultural heritage site around the company’s premises.</td>
</tr>
<tr>
<td>S 2-5</td>
<td>Indigenous peoples</td>
<td>NA</td>
<td>There was no settlement of Indigenous people in and around the project area whose traditional lifestyles could be compromised through this project.</td>
</tr>
<tr>
<td>S 2-6</td>
<td>Exposure to heat - Ceramic sector</td>
<td>NA</td>
<td>This is not applicable.</td>
</tr>
<tr>
<td>S 2-7</td>
<td>Shadow Flicker - Wind Energy projects</td>
<td>NA</td>
<td>This is not applicable.</td>
</tr>
<tr>
<td>S 2-8</td>
<td>Dam safety - Hydro-power projects</td>
<td>NA</td>
<td>This is not applicable.</td>
</tr>
<tr>
<td>S 2-9</td>
<td>Infrastructure and equipment safety</td>
<td>58</td>
<td>No system was implemented to undertake the Hazard Identification and Risk Assessment (HIRA) process or periodic Health and Safety audit to identify potential hazards associated with the operations.</td>
</tr>
<tr>
<td>S 2-10</td>
<td>Community engagement</td>
<td>NA</td>
<td>This is not applicable, as the company is situated in the Special Economic Zone (SEZ).</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G 1</td>
<td>ESG Policy</td>
<td>33</td>
<td>The company has not defined ESG policy and procedures but has implemented certain ESG specific measures such as age proof verification, employee-related documentation, etc. in the factory.</td>
</tr>
<tr>
<td>G 2</td>
<td>ESG Risks identification, assessment, and management</td>
<td>33</td>
<td>The company does not have an ESG management system for the identification and management of risks and hazards associated with business operations. In addition, the overall risk identification and management system were not robust.</td>
</tr>
<tr>
<td>G 3</td>
<td>Monitoring and Review</td>
<td>0</td>
<td>The company has not defined any monitoring and review procedures to measure the efficiency of management programs.</td>
</tr>
<tr>
<td>G 4</td>
<td>Organisational capacity and competency</td>
<td>10</td>
<td>No roles and responsibilities were defined for the implementation of ESG Management System. They have appointed a lawyer for monitoring the compliance process, but within the company roles and responsibilities were not defined.</td>
</tr>
<tr>
<td>G 5</td>
<td>Business ethics and anti-corruption</td>
<td>0</td>
<td>The company does not have a policy and defined procedures to promote business ethics and anti-corruption measures in business operations.</td>
</tr>
<tr>
<td>G 6</td>
<td>Data security</td>
<td>31</td>
<td>The company has not defined and implemented adequate control for ensuring data security. They were only communicating data security requirements to their employees through contractual agreements.</td>
</tr>
<tr>
<td>G 7a</td>
<td>Grievance redressal mechanism - External stakeholders</td>
<td>0</td>
<td>The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by project-affected communities.</td>
</tr>
</tbody>
</table>
### Reference ESG parameter Observations

<table>
<thead>
<tr>
<th>Reference</th>
<th>ESG parameter</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>G 7b</td>
<td>Grievance redressal mechanism - Internal stakeholders</td>
<td>20</td>
<td>The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by employees. In addition, employees have raised the concern that Management does not address the grievances satisfactorily.</td>
</tr>
<tr>
<td>G 8</td>
<td>Emergency response procedure</td>
<td>14</td>
<td>The company does not have a system to identify hazards associated with operations and the no procedure defined for undertaking root cause analysis.</td>
</tr>
<tr>
<td>G 9</td>
<td>Regulatory compliance</td>
<td>50</td>
<td>The company has assigned the responsibilities to a lawyer for ensuring regulatory compliances, but there was no defined procedure to track the compliance requirements, and to provide capacity building training to internal employees.</td>
</tr>
<tr>
<td>G 10</td>
<td>Supply chain management</td>
<td>0</td>
<td>The company has not developed the Code of Conduct to communicate the responsible business practices and essential ESG requirements to the supply chain partners.</td>
</tr>
<tr>
<td>G 11</td>
<td>ESG disclosures and transparency</td>
<td>0</td>
<td>The system of ESG disclosure was not robust. They are not making any ESG specific disclosures.</td>
</tr>
</tbody>
</table>

The overall ESG performance score of Gibe III Hydroelectric Power Project is 57%, which is a medium category score in terms of integration of ESG principles in the business operations and comes under the performance band B. The individual category score of Environment is 51% (Performance band ‘B’), Social is 77% (Performance band ‘A’), and Governance is 42% (Performance band ‘C’).

Table 11: Summary of ESG performance score - Gibe III Hydroelectric Power Project

<table>
<thead>
<tr>
<th>Reference</th>
<th>ESG parameter</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>E 1-1 Biodiversity</td>
<td>50</td>
<td>Management has undertaken an ESIA study to identify and assess the impact of the project on biodiversity but has not maintained adequate documentation to verify the implementation of Environmental Management Plan. In addition, there was an instance during the impounding stage of the project, in which lake Turkana was impacted and due to which the World Bank suspended credit during the construction period of dam. However, the issue was later resolved by the consultations.</td>
</tr>
<tr>
<td>Environment</td>
<td>E 1-2 Resource efficiency</td>
<td>50</td>
<td>No defined system for enhancing the resource efficiency of the process. However, they have identified the processes/operations that have high resource consumption but have not documented information related to measures implemented and efficacy achieved.</td>
</tr>
<tr>
<td>Environment</td>
<td>E 1-3 Ecosystem services</td>
<td>70</td>
<td>Management has undertaken an Environmental and Social Impact Assessment (ESIA) study to assess the impact of the project on ecosystem services and has developed the Environmental Management Plan (EMP) to minimise the adverse impact. However, there was no defined procedure to measure the efficacy of mitigation measures.</td>
</tr>
<tr>
<td>Environment</td>
<td>E 2-1 Air emissions</td>
<td>80</td>
<td>Air emissions during the operational phase of the Hydro project are not significant. The source of air emissions were Diesel Generators and Vehicles. No emission monitoring reports were available for Diesel Generators.</td>
</tr>
<tr>
<td>Environment</td>
<td>E 2-2 Hazardous and non- hazardous waste</td>
<td>42</td>
<td>OCPs were not defined for waste management. In addition, no documentation was maintained to record the generation and disposal of waste material from the manufacturing facility. Also, segregation of waste at source was not observed during the site walkthrough.</td>
</tr>
<tr>
<td>Environment</td>
<td>E 2-3 Wastewater/Effluents</td>
<td>NA</td>
<td>There is no process effluents generated in the hydroelectric power projects.</td>
</tr>
<tr>
<td>Environment</td>
<td>E 2-4 Noise</td>
<td>40</td>
<td>No system was defined to regularly monitor the level of noise in high-noise areas such as generators blocks, turbine floor, transformer section, etc.</td>
</tr>
<tr>
<td>Environment</td>
<td>E 2-5 Ozone-depleting substances</td>
<td>25</td>
<td>There was no defined roadmap/management plan for replacing the appliances (refrigerators) having Ozone-Depleting Substances (ODS) with the non-ODS appliances as per the Montreal Protocol’s timelines.</td>
</tr>
</tbody>
</table>

Social
<table>
<thead>
<tr>
<th>Reference</th>
<th>ESG parameter</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>S 1-1</td>
<td>Human resource policies and procedures</td>
<td>67</td>
<td>The organisation has comprehensively defined Human Resource (HR) policies and procedures that cover essential operational and employee wellbeing related aspects. However, HR policy does not include aspects related to forced labour practices. In addition, no documentary evidence was available to verify the system implemented to monitor the implementation of HR policy and procedures at the project site.</td>
</tr>
<tr>
<td>S 1-2</td>
<td>Terms of employment</td>
<td>100</td>
<td>Management has implemented a system to provide the employment contract to every employee working on the project site. The employment contract covers all the essential information on the working conditions and the terms of employment.</td>
</tr>
<tr>
<td>S 1-3</td>
<td>Non-discrimination and equal opportunities</td>
<td>88</td>
<td>The organisation has an HR policy that encourages non-discrimination and equal opportunities for every employee. Management should also define a system to monitor the implementation of these policies, as no record was available to verify the same.</td>
</tr>
<tr>
<td>S 1-4</td>
<td>Child labour</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. No case of actual child labour was found during the assessment.</td>
</tr>
<tr>
<td>S 1-5</td>
<td>Young workers</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. As per the company’s policy, due to the nature of operations, they do not employ young workers.</td>
</tr>
<tr>
<td>S 1-6</td>
<td>Forced labour</td>
<td>67</td>
<td>The company does not have a defined policy to prevent forced labour practices at the workplace. However, it was noted during all the interviews that there were no employment restrictions at the workplace.</td>
</tr>
<tr>
<td>S 1-7</td>
<td>Freedom of association and Collective bargaining</td>
<td>67</td>
<td>Management respects the employees’ right to freedom of association and collective bargaining. It was noted during the interviews that there were no restrictions on the employees. However, minutes of meetings were not maintained for the meetings between representatives of workers’ union and management representatives.</td>
</tr>
<tr>
<td>S 1-8</td>
<td>Working hours, wages, overtime payment, and leaves</td>
<td>100</td>
<td>Management has implemented systems to ensure timely payment of salaries and no issue related to excessive overtime, salary deductions, document withholding, and discrimination was observed during the assessment.</td>
</tr>
<tr>
<td>S 1-9</td>
<td>Occupational, Health, and Safety</td>
<td>63</td>
<td>The safety recommendations proposed in the Health and Safety Status report were not implemented at the project site. Following gaps were observed in terms of implementation:</td>
</tr>
</tbody>
</table>
|           |                                                   |         | - No safety officer was appointed at the site  
- Health and Safety Committee was not formulated  
- The drinking water test report was not available  
- Attendance records for safety induction training were not maintained  
- Implementation of Personal Protective Equipment (PPE) was not robust at the site                                                                                                                                                                                                                                                                               |
<p>| S 1-10    | Retrenchment                                      | 100     | The organisation has an HR policy and procedures around retrenchment. No mass retrenchment took place in the factory.                                                                                                                                                                                                                                                                                                                                                     |
| S 1-11    | Employees engaged subcontractors and supply chain partners | 17      | There was no defined policies and procedures for monitoring the performance of sub-contractors and supply chain partners in terms of implementing ESG requirements.                                                                                                                                                                                                                                                                                                                                 |</p>
<table>
<thead>
<tr>
<th>Reference</th>
<th>ESG parameter</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
</table>
| S 1-12    | Workers’ accommodation                 | 38      | Management has provided accommodation facilities to employees, but the implementation of health and safety measures was not robust. Following gaps were observed during the assessment:  
- Inadequate fire extinguishers were installed in the accommodation  
- Unhygienic washrooms and bathing area  
- Lack of first aid facility  
- No safety audit was conducted at the accommodation facility  
- No emergency mock drill or fire safety training conducted at the accommodation facility  
- Lack of potable water supply                                                                                                                                                                                   |
| S 2-1     | Safe management of hazardous materials | 42      | No Operational Control Procedures were defined for the same management of hazardous waste.                                                                                                                                                                                                                                           |
| S 2-2     | Spread of disease                      | 50      | Management has implemented a system for undertaking the health screening of new employees, but no documentary evidence was maintained to verify the same.                                                                                                                                                              |
| S 2-3     | Land acquisition process               | 100     | The land acquisition took place in accordance with national regulations. The organisation has developed and implemented Resettlement Action Plan (RAP) for supporting the local community impacted by the project activity.                                                                                      |
| S 2-4     | Protection of cultural heritage        | 100     | Management has considered design revision to minimise the adverse impact on the cultural heritage site. In addition, community consultation was undertaken while undertaking the ESIA study.                                                                                                             |
| S 2-5     | Indigenous peoples                    | NA      | There was no settlement of Indigenous people in and around the project area whose traditional lifestyles could be compromised through this project.                                                                                                                                                                                                 |
| S 2-6     | Exposure to heat - Ceramic sector      | NA      | This is not applicable.                                                                                                                                                                                                                                                                                                                    |
| S 2-7     | Shadow Flicker - Wind Energy projects  | NA      | This is not applicable.                                                                                                                                                                                                                                                                                                                    |
| S 2-8     | Dam safety - Hydro-power projects      | 100     | Management has implemented necessary safety procedures for ensuring reservoir and community safety. Key safety measures are as follows:  
- Undertaken dam break analysis and prepared an emergency preparedness plan that covers all the identified risks and hazards  
- Implemented safety measures such as regular monitoring of river gauge, defined responsibilities and responsibilities for implementing the emergency response plan, established communication channels to alert downstream communities, etc. |
| S 2-9     | Infrastructure and equipment safety    | 88      | Management has implemented necessary safety procedures for ensuring reservoir and community safety. However, documentation to verify the implementation work was not available for review during the assessment.                                                                                   |
| S 2-10    | Community engagement                  | 88      | The community consultation was undertaken while undertaking the ESIA study. However, documentation to verify the implementation of community development initiatives was not available for review during the assessment.                                                                 |

**Governance**

<table>
<thead>
<tr>
<th>Reference</th>
<th>ESG Policy</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>G 1</td>
<td>ESG Policy</td>
<td>33</td>
<td>The company has not defined ESG policy and procedures but has implemented certain ESG specific measures such as age proof verification, defined HR procedures, etc.</td>
</tr>
<tr>
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<tr>
<td>G 2</td>
<td>ESG Risks identification, assessment, and management</td>
<td>75</td>
<td>The company carried out risk identifications and assessment. However, we did not get evidence on the management plan implemented for all the identified risks at the project level.</td>
</tr>
<tr>
<td>G 3</td>
<td>Monitoring and Review</td>
<td>0</td>
<td>The company has not defined any monitoring and review procedures to measure the efficiency of management systems.</td>
</tr>
<tr>
<td>G 4</td>
<td>Organisational capacity and competency</td>
<td>10</td>
<td>No roles and responsibilities were defined for the implementation of ESG Management System.</td>
</tr>
<tr>
<td>G 5</td>
<td>Business ethics and anti-corruption</td>
<td>88</td>
<td>The organisation has defined Code of Ethics, which sets out a zero-tolerance towards bribery, fraud, theft and other forms of corruption. However, attendance records of training conducted on business ethics and anti-corruption were not maintained.</td>
</tr>
<tr>
<td>G 6</td>
<td>Data security</td>
<td>75</td>
<td>The organisation has a separate domain center and data access controls implemented. The organisation has provided training to different departments. The company has a Cybersecurity policy developed based on Nest / USA data security, which also works in compliance with National data security, privacy regulations and Proclamation for the computer crime 958/2016 &amp; INSA: Critical mass procedure. At present, the organisation has not obtained ISO 27001 or equivalent certification.</td>
</tr>
<tr>
<td>G 7a</td>
<td>Grievance redressal mechanism - External stakeholders</td>
<td>0</td>
<td>The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by project-affected communities.</td>
</tr>
<tr>
<td>G 7b</td>
<td>Grievance redressal mechanism - Internal stakeholders</td>
<td>20</td>
<td>The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by employees. In addition, employees have raised the concern that Management does not address the grievances satisfactorily.</td>
</tr>
<tr>
<td>G 8</td>
<td>Emergency response procedure</td>
<td>75</td>
<td>The company has developed an emergency preparedness plan that covers all major hazards. Dam break analysis has also been undertaken. However, the corrective actions to rectify the root cause of any past accident/incident were not recorded in the incident report.</td>
</tr>
<tr>
<td>G 9</td>
<td>Regulatory compliance</td>
<td>60</td>
<td>The company has assigned the responsibilities to the Site Manager for ensuring regulatory compliances, but there was no defined procedure to track the compliance requirements and to provide capacity building training to employees.</td>
</tr>
<tr>
<td>G 10</td>
<td>Supply chain management</td>
<td>0</td>
<td>The company has not developed the Code of Conduct to communicate the responsible business practices and essential ESG requirements to the supply chain partners.</td>
</tr>
<tr>
<td>G 11</td>
<td>ESG disclosures and transparency</td>
<td>25</td>
<td>The system of ESG disclosure was not robust. They are not making any ESG specific disclosures. However, they have maintained transparency in terms of documentation and information sharing. Further, ESIA and EMP documents are available in the public domain.</td>
</tr>
</tbody>
</table>
A 2-4. Summary of ESG performance score - Genale Dewa Hydroelectric Power Project

The overall ESG performance score of Genale Dewa Hydroelectric Power Project is 59%, which is a medium category score in terms of integration of ESG principles in the business operations and comes under the performance band B. The individual category score of Environment is 57% (Performance band ‘B’), Social is 70% (Performance band ‘B’), and Governance is 50% (Performance band ‘C’).

Table 12: Summary of ESG performance score - Genale Dewa Hydroelectric Power Project

<table>
<thead>
<tr>
<th>Reference</th>
<th>ESG parameter</th>
<th>% Score</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>E 1-1</td>
<td>Biodiversity</td>
<td>75</td>
<td>Management has undertaken an ESIA study to identify and assess the impact of the project on biodiversity but has not maintained adequate documentation to verify the implementation of the Environmental Management Plan.</td>
</tr>
<tr>
<td>E 1-2</td>
<td>Resource efficiency</td>
<td>70</td>
<td>Absence of a comprehensive action plan for improving resource efficiency. In addition, there was no provision for monitoring/measurement of resource efficiency.</td>
</tr>
<tr>
<td>E 1-3</td>
<td>Ecosystem services</td>
<td>70</td>
<td>Management has undertaken an Environmental and Social Impact Assessment (ESIA) study to assess the impact of the project on ecosystem services and has developed the Environmental Management Plan (EMP) minimise the adverse impact. However, there was no defined procedure to measure the efficacy of mitigation measures. In addition, the project lacks waste management procedures and policies.</td>
</tr>
<tr>
<td>E 2-1</td>
<td>Air emissions</td>
<td>100</td>
<td>Air emissions during the operational phase of the Hydro project are not significant. Further, adequate mitigation/control measures during the construction and operation of the plant were undertaken.</td>
</tr>
<tr>
<td>E 2-2</td>
<td>Hazardous and non-hazardous waste</td>
<td>42</td>
<td>OCPs were not defined for waste management. In addition, no documentation was maintained to record the generation and disposal of waste material from the manufacturing facility. In addition, segregation of waste at source was not observed during the site walkthrough. All the type of waste was collected in a single bin without any segregation.</td>
</tr>
<tr>
<td>E 2-3</td>
<td>Wastewater/Effluents</td>
<td>NA</td>
<td>There is no process effluents generated in the hydroelectric power projects.</td>
</tr>
<tr>
<td>E 2-4</td>
<td>Noise</td>
<td>45</td>
<td>No system was defined to regularly monitor the level of noise in high-noise areas such as generators blocks, turbine floor, transformer section, etc.</td>
</tr>
<tr>
<td>E 2-5</td>
<td>Ozone-depleting substances</td>
<td>0</td>
<td>The organization has not properly identified machinery that uses ozone-depleting substances. Also, no defined roadmap/management plan for replacing the appliances (refrigerators) having Ozone-Depleting Substances (ODS)</td>
</tr>
<tr>
<td>Reference</td>
<td>ESG parameter</td>
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</tr>
<tr>
<td>-----------</td>
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<td>-----------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Social</td>
<td></td>
<td></td>
<td>with the non-ODS appliances as per the Montreal Protocol’s timelines.</td>
</tr>
<tr>
<td>S 1-1</td>
<td>Human resource policies and procedures</td>
<td>50</td>
<td>The organisation has comprehensively defined Human Resource (HR) policies and procedures that cover essential operational and employee wellbeing related aspects. However, HR policy does not include aspects related to forced labour practices. There was no documentary evidence available to verify the implementation and monitoring of system.</td>
</tr>
<tr>
<td>S 1-2</td>
<td>Terms of employment</td>
<td>100</td>
<td>Management has implemented a system to provide the employment contract to every employee working on the project site. The employment contract covers all the essential information on the working conditions and the terms of employment.</td>
</tr>
<tr>
<td>S 1-3</td>
<td>Non-discrimination and equal opportunities</td>
<td>88</td>
<td>The organisation has an HR policy that encourages non-discrimination and equal opportunities for every employee. Management should also define a system to monitor the implementation of these policies, as no record was available to verify the same.</td>
</tr>
<tr>
<td>S 1-4</td>
<td>Child labour</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. No case of actual child labour was found during the assessment.</td>
</tr>
<tr>
<td>S 1-5</td>
<td>Young workers</td>
<td>100</td>
<td>The company has implemented a robust system to verify the age proof records of every employee at the time of joining. As per the company’s policy, due to the nature of operations, they do not employ young workers.</td>
</tr>
<tr>
<td>S 1-6</td>
<td>Forced labour</td>
<td>67</td>
<td>The company does not have a defined policy to prevent forced labour practices at the workplace. However, it was noted during all the interviews that there were no employment restrictions at the workplace.</td>
</tr>
<tr>
<td>S 1-7</td>
<td>Freedom of association and Collective bargaining</td>
<td>67</td>
<td>Management respects the employees’ right to freedom of association and collective bargaining. It was noted during the interviews that there were no restrictions on the employees.</td>
</tr>
<tr>
<td>S 1-8</td>
<td>Working hours, wages, overtime payment, and leaves</td>
<td>100</td>
<td>Management has implemented systems to ensure timely payment of salaries and no issue related to excessive overtime, salary deductions, document withholding, and discrimination was observed during the assessment.</td>
</tr>
</tbody>
</table>
| S 1-9     | Occupational, Health, and Safety                             | 75      | The safety recommendations proposed in the Health and Safety Status report were not implemented at the project site. Following gaps were observed in terms of implementation:  
- No safety officer was appointed at the site  
- Health and Safety Committee was not formulated  
- The drinking water test report was not available  
- Attendance records for safety induction training were not maintained  
- Implementation of Personal Protective Equipment (PPE) was not robust at the site |
<p>| S 1-10    | Retrenchment                                                 | 100     | The organisation has an HR policy and procedures around retrenchment. No mass retrenchment took place in the factory.                         |
| S 1-11    | Employees engaged sub-contractors and supply chain partners  | 17      | There was no defined policies and procedures for monitoring the performance of sub-contractors and supply chain partners in terms of implementing ESG requirements. |</p>
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</table>
| S 1-12    | Workers’ accommodation                | 38      | Management has provided accommodation facilities to employees, but the implementation of health and safety measures was not robust. Following gaps were observed during the assessment:  
- Inadequate fire extinguishers were installed in the accommodation  
- Lack of availability of drinking water  
- Shortage of water supply in the washrooms and bathing area  
- Inadequate waste collection bins. There was only one waste bin for the entire accommodation  
- The beds, mattresses, pillows, and bed sheets provided in the rooms were not in good condition  
- Lack of first aid facility inside the accommodation. However, there was a clinic in the compound  
- No safety audit was conducted at the accommodation facility  
- No emergency mock drill or fire safety training conducted at the accommodation facility |
| S 2-1     | Safe management of hazardous materials| 25      | No Operational Control Procedures were defined for the same management of hazardous waste.                                                                                                                   |
| S 2-2     | Spread of disease                     | 63      | Management has implemented a system for undertaking the health screening of new employees, but no documentary evidence was maintained to verify the same. However, employees have confirmed the same during the interviews. |
| S 2-3     | Land acquisition process              | 60      | The Resettlement Action Plan (RAP) that was developed as a part of the ESIA study to provide compensation and resettlement benefits to the local community was not shared with the assessment team for the review. In addition, as per the Grievance Redressal Report, the local community has raised the concern related to the delay in compensation payment. |
| S 2-4     | Protection of cultural heritage       | 67      | The documentation related to the consent obtained from the local community for flooding a cultural heritage site (burial sites and graveyards) was not shared with the assessment team for the review. |
| S 2-5     | Indigenous peoples                   | NA      | There was no settlement of Indigenous people in and around the project area whose traditional lifestyles could be compromised through this project.                                                              |
| S 2-6     | Exposure to heat - Ceramic sector     | NA      | This is not applicable.                                                                                                                                                                                     |
| S 2-7     | Shadow Flicker - Wind Energy projects| NA      | This is not applicable.                                                                                                                                                                                     |
| S 2-8     | Dam safety - Hydro-power projects     | 100     | Management has implemented necessary safety procedures for ensuring reservoir and community safety. Key safety measures are as follows:  
- Undertaken dam break analysis and prepared an emergency preparedness plan that covers all the identified risks and hazards  
- Implemented a system to undertake monthly safety monitoring of the project  
- Implemented safety measures such as regular monitoring of river gauge, defined responsibilities and responsibilities for implementing the emergency response plan, established communication channels to alert downstream communities, etc. |
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<tr>
<td>S 2-9</td>
<td>Infrastructure and equipment safety</td>
<td>75</td>
<td>Management has implemented necessary safety procedures for ensuring reservoir and community safety. However, documentation to verify the implementation work was not available for review during the assessment.</td>
</tr>
<tr>
<td>S 2-10</td>
<td>Community engagement</td>
<td>50</td>
<td>The community consultation was undertaken while undertaking the ESIA study and minutes of the meeting were maintained. Minutes cover the purpose, nature, and scale of the project but lack aspects such as the stakeholder engagement process, grievance redressal mechanism.</td>
</tr>
</tbody>
</table>

**Governance**

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<td>33</td>
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<td>0</td>
<td>The company has not defined any monitoring and review procedures to measure the efficiency of management systems.</td>
</tr>
<tr>
<td>G 4</td>
<td>Organisational capacity and competency</td>
<td>30</td>
<td>The company has the E&amp;S &amp; H&amp;S departments but have not defined roles and responsibilities related to the governance aspects. In addition, no capacity building training on ESG was provided to employees.</td>
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<td>Business ethics and anti-corruption</td>
<td>88</td>
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<tr>
<td>G 7a</td>
<td>Grievance redressal mechanism - External stakeholders</td>
<td>75</td>
<td>The grievance redressal committee comprises officials from Ethiopian Electric Power and other Government offices for addressing the concerns of project-affected communities. However, there was no documented procedure with timelines and responsibilities for resolving the issues raised by the community/project-affected people.</td>
</tr>
<tr>
<td>G 7b</td>
<td>Grievance redressal mechanism - Internal stakeholders</td>
<td>10</td>
<td>The company has not established an effective grievance redressal mechanism to record and facilitate the timely resolution of grievances and concerns raised by employees. In addition, many employees have raised the concern that Management does not address the grievances satisfactorily.</td>
</tr>
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<td>G 8</td>
<td>Emergency response procedure</td>
<td>75</td>
<td>The company has developed an emergency preparedness plan, which covers all major hazards. Dam break analysis has also been undertaken. However, the corrective actions to rectify the root cause of any past accident/incident were not recorded in the incident report.</td>
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<td>The company has assigned the responsibilities to the Site Manager for ensuring regulatory compliances, but there was no defined procedure to track the compliance requirements and to provide capacity building training to employees.</td>
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Bibliography


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