



2025 Credit Guarantee Vehicle
**PRELIMINARY DRAFT ENVIRONMENTAL &
SOCIAL MANAGEMENT SYSTEM POLICY**



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



PRELIMINARY DRAFT ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM POLICY: CREDIT GUARANTEE VEHICLE

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This document is a preliminary draft intended for internal review, discussion and relevant approvals purposes only. The analysis, assumptions, and recommendations contained herein are subject to further validation and refinement. Final conclusions may change based on additional data, stakeholder input, and evolving market conditions.

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1. CGV INVESTMENT STRATEGY

The Credit Guarantee Vehicle (CGV) has been established as a new majority privately owned financing vehicle that aims to mobilise private capital into South Africa's sustainable infrastructure sectors. Its primary objective is to support the country's Just Energy Transition and climate resilience objectives. The CGV will operate as an independent non-life insurer, licensed in terms of the Insurance Act, 2017 (Act No. 18 of 2017) and regulated in terms of the applicable financial sector laws. Developed as a private company by the World Bank Group in partnership with the National Treasury and other development partners, the CGV is structured to offer credit guarantees to de-risk infrastructure investments and attract private sector participation.

2. CGV ESG POLICY

CGV's Environmental, Social and Governance (ESG) policy outlines its commitment to ensuring ESG risk management considerations and governance standards in its credit guarantee business. The CGV will manage ESG risks in its investment portfolio and support projects aimed at achieving continuous improvement in environmental and social practices.

The CGV is committed to maintaining the highest standards of ESG responsibility as part of this integrated finance initiative through the establishment of an Environmental and Social Management System (ESMS). The ESMS is a fundamental institutional mechanism that enables the CGV to identify, assess, mitigate, and monitor the ESG risks and impacts associated with its credit guarantee business. The ESMS is consistent with the national laws and regulatory frameworks of South Africa, as well as international standards including the World Bank Environmental and Social Standards, International Finance Corporation (IFC) Performance Standards, World Bank Group Environmental, Health and Safety Guidelines, IFC Good Practice Notes (where relevant) and the Equator Principles.

The CGV will endeavor to ensure that its credit guarantee business, directly or indirectly, will conform with all relevant national and international standards. The CGV will not support business activities listed on our exclusion list.

The CGV's respect for human rights and their integration into our business engagements will be guided by South African national laws, standards established in the International Labor Organization Conventions (ILO Conventions) and other relevant International Standards the Republic of South Africa is aligned with. The guiding principles, commitments, and institutional arrangements outlined in this ESMS Policy will regulate the integration of ESG consideration into the decision-making and operational processes of the CGV. It functions as a statement of intent and a foundation for the establishment of a development-oriented, environmental, and social risk-aware, and robust institution.

This ESMS policy endorses the CGV's vision to provide support through issuing credit guarantees to enable the financing of environmentally and socially sustainable infrastructure projects while simultaneously fostering inclusive development outcomes, accountability and transparency.

3. THE IMPORTANCE OF ESG POLICY

The environmental challenges facing the world are complex, dynamic, and constantly changing. Awareness of environmental and sustainability issues is growing, given the increasing effects of climate change, population pressure and environmental degradation. In response, environmental legislation in South Africa has become increasingly stringent, while market policies and measures have evolved to promote sustainable development and support the transition to a green economy. Furthermore, integrating environmental and social governance into investments is a responsible investment practice and generates positive outcomes for public sector practices. Sustainable and equitable development along with environmental and social appraisal forms a component of the overall investment appraisal and enables the CGV to mainstream environmental principles to investment projects within the CGV's mandate.

4. SCOPE AND APPLICABILITY

This policy is applicable to all credit guarantee support provided by the CGV. Detailed climate, governance, labour, and gender aspects are covered under specific governance, labour and gender related policies, which should be read in conjunction with this policy. The policy practices include risk management and positive impact.

The policy applies to all infrastructure sub-sectors that will be eligible for support under the CGV, including:

- Renewable energy and energy storage programmes (e.g., solar, wind, battery storage)
- Transmission infrastructure
- Water infrastructure (e.g., abstraction, treatment of potable and effluent water, distribution, and water efficiency)
- Transport (e.g., freight rail, ports, roads)
- Housing and mixed-use development
- Wastewater treatment

These sectors are subject to environmental and social screening under this policy, including risk classification into categories High, Substantial/Moderate and Low risks as defined in the CGV's ESMS and Information Memorandum.

5. APPROACH TO CLIMATE CHANGE

The CGV will ensure sub-projects that have significant impact on climate change will, where necessary, conduct additional detailed climate-related assessments and provide relevant information to manage climate-related risks and impacts. In addition, the CGV must ensure resilience considerations are integrated into the planning, design, and implementation of infrastructure investments to ensure long-term sustainability and climate adaptability. The client will need to provide vulnerability assessments, mitigation and adaptation objectives, measures, indicators, monitoring plans and budgets.

The project/s need to address the following:

- How a project promotes or detracts from a country's transition planning to renewable energy, biodiversity conservation and water security.
- How will risk be managed in vulnerable parts of the economy.
- An assessment of climate risks, incorporating adaptive design standards, and aligning projects with national and international climate resilience frameworks.
- How harmful developments have been avoided or deferred, and how capital allocation will be shifted to sectors resilient to transition risk or to those that may benefit from the transition.

6. CGV'S COMMITMENT TO SOCIAL AND ENVIRONMENTAL SUSTAINABILITY

- **Sustainable Finance:** CGV will prioritise support for infrastructure initiatives that not only deliver financial returns but also develop long-term climate goals, promote social equity, and enhance environmental resilience. This encompasses compliance with the Paris Agreement 2015 (including the National Climate Change Adaption Strategy), United Nations Framework Convention on Climate Change, the Just Energy Transition Partnership, Climate Change Act, 2024 (Act No. 22 of 2024), Green Finance Taxonomy Policy, National Environmental Management Act, 1998 (Act No. 107 of 1998) and South Africa's National Development Plan.
- **ESMS Implementation:** For each major activity in its investment cycle, the CGV will develop and operationalise tailored tools, procedures and plans that align with the standards articulated in this ESMS policy. The CGV ESMS implementation will provide a structured framework for identifying, assessing, and mitigating ESG risks, ensuring comprehensive documentation, accountability, and alignment with both local and international standards. By implementing this ESMS, CGV reinforces its commitment to sustainable, socially responsible development and the long-term success of its credit guarantee initiatives.
- **Compliance:** The CGV will only support activities that comply with all applicable national environment, health, safety, labour, and social legislation and relevant municipal by-laws. In addition to national regulations, the CGV will mandate initiatives to comply with international standards, including the IFC Performance

Standards, World Bank Environmental and Social Standards, Equator Principles, and pertinent international labor and human rights conventions.

- **ESG Risk Integration:** The credit approval framework of CGV will require screening and categorisation of ESG risks. ESG considerations will be integrated into all phases of the CGV guarantee business, from pre-appraisal to post-disbursement monitoring, to ensure that material risks are identified, mitigated, and reported. The CGV will utilise mechanisms to ensure companies incorporate the relevant ESG requirements in line with national legislative requirements and relevant international standards.
- **Capacity and Resources:** Throughout its lifecycle, the CGV will appoint a senior management representative, referred to as the 'ESMS Officer', to oversee ESG risk management within its credit guarantee portfolio and to lead the establishment of the ESMS organogram. The CGV ESMS Officer will be supported by a team of qualified professionals who will be responsible for ensuring portfolio investees align with the CGV ESMS. Additionally, the CGV will establish partnerships with the Department of Forestry, Fisheries and the Environment (DFFE) and other technical agencies to facilitate capacity development and continuous learning.
- **Continuous Improvement:** To ensure robust oversight and continuous improvement, CGV will implement internal review mechanisms accompanied by key performance indicators ("KPIs") specifically designed to monitor portfolio-level ESG performance. These KPIs will serve as benchmarks, enabling the CGV to systematically track progress, address emerging risks, and celebrate successes. Periodic policy, procedural, and instrument updates will be guided by insights gained through the ongoing operation of the ESG management system, fostering a culture of adaptive learning.
- **Transparency and Disclosure:** The CGV will develop a monitoring and reporting framework to disclose material ESG information in conformance with the international standards, investor requirements and transparency best practices. This encompasses the timely publication of annual sustainability performance reports, ESMS updates, and high-risk project summaries.
- **External Communications Mechanism:** CGV's ESMS includes an External Communication Mechanism (ECM) which provides a means for the public to submit or raise concerns related to the CGV's ESG Policy and the CGV's guarantee portfolio, and have these inquiries responded to by the CGV in a timely manner. The process of receiving, reviewing and responding to communications from external stakeholders is described in the detailed ECM.
- **Stakeholder Engagement:** The CGV will maintain the principles of participatory and inclusive engagement. The CGV will ensure that the voices of vulnerable groups, such as women, youth, and Indigenous communities, are taken into account in the design and implementation of the project by facilitating stakeholder consultation and grievance redress procedures.

7. ESG RISK MANAGEMENT APPROACH

The CGV recognises that the proactive and systematic management of ESG risks is crucial for the successful mobilisation of private capital for sustainable infrastructure. The CGV will establish and implement a comprehensive ESMS to ensure that its credit guarantee business does not lead to adverse environmental or social outcomes and instead contribute positively to development.

The ESG risk management approach of the CGV comprises the following key components:

7.1. Screening

The CGV will screen all projects to ensure that projects align with the CGV Exclusion List. In addition to other exclusions, the CGV's Exclusion List will include the IFC Exclusion List of projects that cannot be financed.

7.2. ESG Risk Categorisation

All sub-projects that are considered for credit guarantees will be categorised according to their nature, scale, location and severity of their potential environmental and social risks and impacts. The sensitivity of affected communities and environments will determine the classification of projects as High, Substantial, Moderate, or Low risk.

- High-risk projects will result in substantial adverse ESG consequences that are either irreversible, diverse, or unprecedented.
- Substantial/Moderate risk projects may have substantial adverse effects that are restricted in scope and can be mitigated through established protocols.
- Low risk projects have minimal or limited adverse impacts that are readily mitigated.

7.3. ESG Due Diligence

The CGV will ascertain the necessary scope and extent of due diligence in accordance with the risk categorisation. Due diligence may encompass the following for sub-projects with High, Substantial and Moderate risks:

- A review of stakeholder engagement records, environmental and social management plans (ESMPs), resettlement action plans (RAPs), and environmental and social impact assessments (ESIAs).
- Confirmation of adherence to the environmental statutes of South Africa and the standards of the IFC and the World Bank Group Environmental, Health and Safety Guidelines.
- Site visits, consultations with affected communities, and third-party expert reviews as required.

Before issuing any guarantee for projects with material ESG gaps identified during due diligence, the CGV will require mitigation measures, capacity enhancements in an Environmental and Social Action Plan (ESAP).

7.4. Integration with Guarantee Decision Processes

The credit risk assessments and investment committee decisions of the CGV will be completely integrated with the results of ESG due diligence. Approval may be contingent upon the execution of specific mitigation measures or capacity enhancements for projects with a high level of risk.

Guarantee contracts will incorporate proposed ESAP, ESG terms and conditions to ensure enforceability.

7.5. Supervision and Monitoring

A monitoring framework that is risk based will be implemented by the CGV. Projects that pose a high, substantial and moderate risk will be monitored throughout the duration of the guarantee to evaluate:

- Adherence to the ESMS and legal obligations.
- Progress on addressing the ESAP items.
- Community grievances and emerging or unforeseen ESG hazards.

Progress reports from project developers, independent audits, and site visits by CGV or third- party experts are all potential monitoring instruments.

7.6. Accountability and Grievance Redress

The CGV will ensure that the ECM is accessible and functional for stakeholders who are impacted by sub-projects.

Moreover, the CGV will establish its own autonomous mechanism to receive and address complaints concerning ESG consequences associated with guaranteed initiatives. This is indicative of the CGV's dedication to accountability, transparency, and community engagement.

7.7. Training and Institutional Capacity

The ESMS will be implemented by the CGV through the establishment of an internal ESG function that is staffed by dedicated and trained personnel. Staff capacity will be continuously developed through training, participation in development finance institutions (DFI) networks, and collaboration with technical partners. The CGV will also offer ESG awareness training to its collaborators and sub-project developers as needed.

7.8. Disclosure and Reporting

On a quarterly basis, the CGV will provide an update on the ESG performance of its portfolio. ESG summaries and essential documents will be publicly disclosed in a timely manner. The institution will ensure that its ESG commitments and performance indicators are transparently documented.

8. CGV EXCLUSION LIST

The CGV is committed to preventing the support of projects or activities that present intolerable environmental, social, or reputational risks, particularly in the context of infrastructure development, through its credit guarantee operations. Consequently, the CGV will not offer credit guarantees to sub-projects that are explicitly associated with or involve any of the following:

- Activities that are prohibited by South African law or international agreements to which South Africa is a party, such as those that have a substantial negative impact on biodiversity, cultural heritage sites, protected areas or human rights.
- Production or trade in any product or activity deemed illegal under South African laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
- Production or trade in weapons and ammunitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.
- Infrastructure projects that involve forced or detrimental displacement in the absence of sufficient resettlement and livelihood restoration plans, as defined by national legislation and international standards (e.g., IFC Performance Standard 5).
- Projects that are either involved in or contribute to human trafficking, forced labour, or child labour, including those that are part of construction supply chains or service contracts.

- The construction or operation of facilities that produce or trade in banned or restricted substances, such as ozone-depleting substances, asbestos, or persistent organic pollutants (POPs), in violation of South African regulations or multilateral environmental agreements.
- Projects that are situated in or have a negative impact on legally protected areas, critical habitats, or indigenous lands, unless consent and mitigation measures are clearly documented and disclosed.
- The construction of large-scale infrastructure that poses significant environmental or social risks is prohibited unless such projects are in accordance with international best practices and subject to complete public consultation and disclosure.
- Projects that are primarily intended for military or paramilitary purposes, or that involve the manufacturing or sale of weapons, ammunition, or military infrastructure.
- Projects that fail to satisfy the applicable environmental impact assessment (EIA) requirements, water use licenses, air quality permits, or any other environmental regulatory approvals mandated by South African law.
- Any activity that is likely to cause reputational injury to the CGV or its development partners, including those that are linked to unresolved community conflict, corruption or legacy environmental damage.

9. GOVERNANCE AND IMPLEMENTATION

An integrated structure will be used to anchor the governance and implementation of the ESMS. These structures will ensure the institutional independence of the CGV while also maintaining appropriate government oversight through the National Treasury:

9.1. Oversight by the National Treasury through the Project Implementation Unit

A Project Implementation Unit (“PIU”) will be established under the National Treasury's authority to serve as an oversight and coordination entity. During the CGV's design, early operationalisation, and implementation periods, the PIU will function as the institutional interface between the CGV and the World Bank Group. Among its obligations will be:

- Ensure that the CGV's ESMS and its associated procedures comply with the IFC Performance Standards, the World Bank Group Environmental, Health and Safety Guidelines, and Equator Principles. In addition, the ESMS and related procedures must align with all relevant national policies and regulatory frameworks named above.
- Assisting the CGV in the establishment of fundamental ESG systems, the staffing of the ESG function, and the integration of safeguards into credit guarantee processes.
- The CGV's adherence to critical policy commitments associated with the World Bank's Investment Project Financing (IPF) and any corresponding legal agreements that are being monitored.

The PIU will not be involved in the day-to-day operations of the CGV; however, it will provide strategic guidance, support institutional learning, and ensure accountability to both the Government of South Africa and its development partners. The National Treasury will maintain oversight of CGV's adherence to the ESMS throughout the operational phase of the CGV. An Implementation Agreement will be established to formalise and regulate the interaction between the CGV and the National Treasury's PIU, clearly defining roles, responsibilities, and coordination mechanisms essential for fulfilling the obligations and achieving the objectives of the ESMS.

9.2. Institutional Governance at CGV

The Board of Directors of the CGV will be comprised of independent members and shareholder-nominated directors, with representatives from development finance institutions (DFIs). The Board will:

- Endorse the ESMS Policy and supervise the comprehensive sustainability and risk management strategy of CGV.
- Ensure that the performance of ESG is in accordance with the expectations of shareholders and regulators by receiving regular reports.

The Board's dedicated Risk and Audit Committee will evaluate ESG risks, compliance reports, and mitigation measures, with a particular emphasis on high-risk infrastructure initiatives.

9.3. ESG Implementation and Executive Management

The day-to-day implementation of the ESMS will be the responsibility of the CGV Senior Management team, under the leadership of the Chief Executive Officer (CEO) or an equivalent senior executive. The screening, due diligence, monitoring, and stakeholder engagement processes necessary for sub-projects to comply with ESG standards will be overseen by a designated Environmental and Social Officer (ESO) or team. The CEO will receive direct reports from the ESO, who will also provide the Board's Risk and Audit Committee with regular updates.

9.4. Continuous Improvement and Feedback

To maintain accountability and promote best practices, the CGV will periodically engage independent evaluators to evaluate the efficacy of its ESMS. Updates to institutional capacity-building initiatives and ESG procedures will be informed by external evaluation and feedback from the National Treasury PIU, and project stakeholders.

10. STANDARDS AND GUIDELINES

The CGV is to implement the best ESG international practice appropriate for the nature of its investments. This includes standards and guidelines as follows:

- Applicable country(s) ESG related legislation (National Environmental Management Act, 1998 (Act No. 107 of 1998), National Water Act, 1998 (Act No. 36 of 1998), Carbon Tax Act, 2019 (Act No. 15 of 2019), Labour Relations Act, 1995 (Act No. 66 of 1995), Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003) to name a few).
- IFC Performance Standards, World Bank Environmental and Social Standards.
- World Bank Group Environmental, Health, and Safety (EHS) Guidelines.
- ESG standards and requirements by other development partners.
- King IV Code for Corporate Governance.

11. CONCLUSION

The ESMS is a critical component of the CGV's institutional framework, ensuring that the vehicle not only mobilises private capital investments, but also contributes to the responsible and sustainable development of infrastructure in South Africa. By means of this policy, the CGV validates its commitment to environmental protection, social inclusion, and compliance with both national regulations and international best practices, such as the IFC Performance Standards, World Bank Environmental and Social Standards, and World Bank Group Environmental, Health and Safety guidelines.

The ESMS will function as a practical instrument for risk management, stakeholder engagement, and continuous performance development as the CGV prepares to operationalise its guaranteed products. To guarantee that the ESMS remains adaptive, impactful, and fit-for-purpose, the CGV will conduct regular reviews and enhancements in collaboration with the National Treasury, development partners, and affected stakeholders.

The CGV endeavors to establish trust, attract long-term investment, and make a significant contribution to South Africa's development and just transition objectives by incorporating environmental and social sustainability into its governance and operations from the inception.

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