

Sustainability Guideline of the KfW Raw Materials Fund



Principles and procedures for managing environmental and social aspects

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Abbreviations

BMF	German Federal Ministry of Finance
BMWK	German Federal Ministry for Economic Affairs and Climate Action
CMSI	Consolidated Mining Standard Initiative
EHS	Environmental, Health and Safety
ESS	(World Bank) Environmental and Social Standards
EU	European Union
FPIC	Free, prior, informed consent
GPN	Good practice note
HRIA	Human Rights Impact Assessment
ICMM	International Council on Mining and Metals
IFC	International Finance Corporation
ILO	International Labour Organisation
IRMA	Initiative for Responsible Mining Assurance
KfW	Kreditanstalt für Wiederaufbau
LRP	Livelihood Restoration Plan
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
PS	(IFC) Performance Standard
RAP	Resettlement Action Plan
TCFD	Task Force on Climate-Related Financial Disclosure
UN	United Nations
ESAP	Environmental and social action plan
ESDD	Environmental and social due diligence
ESMP	Environmental and social management plan
ESMS	Environmental and social management system
ESIA	Environmental and Social Impact Assessment
WB	World Bank
WBG	World Bank Group

1. Preamble

1.1 Objective and Context of the Raw Materials Fund

1.1.1 The Raw Materials Fund, initiated by KfW on behalf of the German government, aims to promote national and international projects that contribute to safeguarding the supply of raw materials and which help to extract, process, and recycle critical raw materials. The principles of sustainability are important guiding principles for the **KfW Raw Materials Fund** ("Raw Materials Fund") in its promotional activities, along with the associated environmental and social sustainability of the projects.

1.1.2 Projects within the scope of the Raw Materials Fund are exclusively promoted via mandated transactions. This means that all opportunities and risks of the projects are borne by the Federal Government. KfW undertakes the appraisal of the submitted project proposals, but the decision as to which projects will be promoted and in what form lies solely with the Federal Government.

1.2 Sustainability Guideline

1.2.1 This guideline specifies KfW Group's sustainability mission statement as well as the requirements of the German Federal Government with regard to the environmental and social due diligence for the promotional activities of the Raw Materials Fund. The Raw Materials Fund aim to use the instruments at its disposal to actively support the implementation of international human rights in its business activities in accordance with the Policy statement of KfW and its subsidiaries on human rights and on its human rights strategy. The risks of climate change are also taken into account as part of the environmental and social due diligence.

1.2.2 The guideline aims to provide a standardised framework for managing environmental and social aspects for all projects of the Raw Materials Fund. The environmental and social due diligence (ESDD) is the key instrument for this. All projects promoted by the Raw Materials Fund are comprehensively and systematically assessed by KfW for their environmental and social sustainability. The guideline defines the ESDD's principles and procedures, thereby contributing to transparency in the decision-making processes with regard to environmental and social aspects. However, the decision on entering into and implementing a transaction within the scope of the Raw Materials Fund is subject to the German Federal Government, which is responsible for addressing the relevant aspects. Against this background, in individual cases a decision by the German Federal Government may result in a total or partial deviation from this guideline. In the event of individual deviations, the other points of the guideline remain unaffected.

1.2.3 This guideline shall apply exclusively to projects within the scope of the Raw Materials Fund. Other mandated transactions are not subject to this guideline.

1.3 Environmental and Social Due Diligence

1.3.1 The ESDD ensures that potential negative environment and social impacts and/or risks (including climate and human rights) of the projects supported by the Raw Materials Fund are properly identified, assessed, and managed.

1.3.2 The submitted project proposals are reviewed by KfW for their level of preparation (including existing environmental and social studies, permits, applicable standards) and potential environmental and social impacts. Based on the risks identified, a project-specific environmental and social risk category is then assigned. Projects subsequently selected by the German Federal Government will be subject to an in-depth appraisal in accordance with the relevant environmental and social requirements of the Raw Materials Fund. If the project does not comply with environmental and social standards at the time of the in-depth appraisal, a specific environmental and social action plan (ESAP) is drawn up. The results of the in-depth appraisal are presented to the German Federal Government for the investment decision. If compliance of the project with the environmental and social requirements of the Raw Materials Fund cannot foreseeably be achieved via an ESAP, KfW will submit this assessment result to the Federal Government for its decision.

1.3.3 After the Federal Government has decided to invest in a project, appropriate project-specific measures will be agreed in the contract between KfW and the project/project partners in order to ensure compliance with the applicable environmental and social standards as well as avoid, minimise, mitigate or compensate for potential impacts and/or risks.

1.3.4 The project reports regularly to KfW on the implementation of the environmental and social requirements and the ESAP. In addition, the project is regularly monitored by KfW and, if necessary, by an independent environmental and social consultant.

1.4 Environmental and Social Requirements of the Raw Materials Fund

1.4.1 The Raw Materials Fund only invests in projects that, where applicable, comply with the environmental and social legislation of the respective project country as well as the exclusion list of KfW Group and are compatible with the Paris-compatible sector guidelines (subject to Section 1.2.2). In addition, the projects take into account the following appraisal standards, as published at the time of the appraisal:

- IFC Performance Standards¹
- World Bank Group Environmental, Health and Safety (EHS) Guidelines¹
- The core labour standards of the International Labour Organisation (ILO)
- United Nations Guiding Principles on Business and Human Rights
- Recommendations of the Task Force on Climate-related Financial Disclosures

1.4.2 Other relevant standards to be observed by the projects where possible, as published at the time of the appraisal:

- OECD Guidelines for Multinational Enterprises on Responsible Business Conduct
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas
- OECD Handbook on Environmental Due Diligence in Mineral Commodity Supply Chains
- Global Industry Standard on Tailings Management
- Extractive Industries Transparency Initiative
- Other relevant standards and guidelines from specialist institutions dealing with raw materials such as ICMM, IRMA, CMSI, etc.

2. Environmental and Social Due Diligence

2.1. Objectives and Core Elements

2.1.1. All the projects within the scope of the Raw Materials Fund are subject to an ESDD by KfW on the basis of this guideline.

2.1.2. The objective of the ESDD is to anticipate and appraise the foreseeable impacts and risks that a financed project may have on the environment and society (including climate and human rights), and to identify, avoid and/or minimize negative impacts and risks or, if unavoidable, to offset and compensate for them. In addition, any residual risks should be clearly identified, monitored and managed.

2.1.3. The main steps of the ESDD of the Raw Materials Fund are:

1. **Screening** of the project to assess its environmental and social risks
2. **Categorisation** of the project into category A, B+, B or C
3. **In-depth due diligence** of category A, B+ and B projects and **appraisal** of the applicants' **environmental and social management system** (ESMS)

¹ For projects in countries that have and implement an extensive set of environmental and social rules and regulations (Designated Countries, in accordance with the definition of the Equator Principles), the IFC Performance Standards and EHS Guidelines for category B and C projects do not apply. For category A and B+ projects, the Raw Materials Fund determines whether individual or several of the IFC Performance Standards and EHS Guidelines apply (see 2.2.1). If Indigenous Peoples are affected, conformity of the project with IFC PS 7 must always be assessed.

4. **Preparation of the contract** (incl. environmental and social clauses and, if necessary, an environmental and social action plan)

5. **Review of monitoring and reporting** of the project

2.1.4. These steps of the ESDD are integrated into the project cycle of the Raw Materials Fund and are explained in more detail below. The ESDD applies to the entire project, even if the Raw Materials Fund only invests in individual components of a project.

2.2. Screening and Categorisation of Projects

2.2.1. Submitted projects undergo an initial appraisal of their environmental and social impacts and risks as well as their preparation status (including national approval status, existing and planned environmental and social impact studies, applied standards, existing complaints, controversies and foreseeable gaps relating to the environmental and social requirements of the Raw Materials Fund). This is done by KfW on the basis of the documents submitted by the applicants and, if necessary, further research on the project and project partner as appropriate in the individual case. The type and extent of the project's potential environmental and social impacts and risks are identified and the scope of the assessment and standards to be applied for the subsequent in-depth appraisal are defined.

2.2.2. All projects are classified in one of the following four **categories: "A"** (high risk), **"B+"** (substantial risk), **"B"** (moderate risk) or **"C"** (low risk) according to the extent of their potential negative environmental and social impacts and risks.

2.2.3. A project is classified as **category A** if there is a possibility of diverse significant adverse impacts and risks on environmental or social aspects. Such impacts and risks may derive from the complex nature of the project, its scale, the sensitivity of the location or from the potential impacts and risks being irreversible or unprecedented. These impacts and risks may affect a larger area than merely the plant/facility under construction, the location of the plant and, if applicable, any associated facilities, or just the project area in the narrower sense. Category A therefore includes, for example, projects that:

- May adversely impact important protected assets such as tropical forests, coral reefs and nature reserves
- Have significant cross-border impacts or relevance for international conventions, such as in the field of international waste management regulation or marine conservation
- Are associated with high resource consumption, particularly in terms of soil, land or water.
- Pose high risks to human health or safety, such as industrial or transport constructions that cause significant noise and pollutant emissions near residential areas
- Require significant numbers of people to resettle or lead to loss of livelihoods
- Are likely to adversely impact Indigenous Peoples.

2.2.4. Typical category A projects for the Raw Materials Fund are: underground or open pit mining, expansion of underground or open pit mining, construction and operation of upstream and downstream processing facilities for mining products or the extraction of raw materials.

2.2.5. A project is classified in **category B+** if there is the possibility of isolated significant adverse impacts and risks on environmental and the social aspects.

2.2.6. A project is classified as **category B** if there is also a possibility of adverse impacts and risks on environmental and social aspects, but these are less significant than those for category A projects. These impacts and risks can generally be mitigated with state-of-the-art management measures or standard solutions. The possible impacts and risks tend to be generally site-specific, and largely reversible.

2.2.7. A project is classified as **category C** if it is expected to entail no or only minor adverse environmental and social impacts or risks that do not require special protection, mitigation or monitoring measures during implementation and operation. Due to the investment focus of the Raw Materials Fund (mining, further processing and/or recycling), it is assumed that no category C projects will be submitted for investment.

2.2.8. The result of the screening and categorisation of the projects is submitted to the Federal Government by KfW.

2.3. In-depth Environmental and Social Due Diligence

2.3.1. Projects selected by the Federal Government for further follow-up (assessment phase) are subject to an in-depth ESDD.

2.3.2. To meet the environmental and social requirements of the Raw Materials Fund, the projects develop **environmental and social management instruments** that address the project-specific environmental and social risks and impacts in accordance with the applicable environmental and social requirements. Since the projects can be proposed for investment at different preparatory stages (including without a finalized environmental and social impact assessment (ESIA)), the respective status and existing documentation are analysed and checked against the environmental and social requirements of the Raw Materials Fund (see 1.4.) in the in-depth due diligence. The scope of required management instruments and documents to be submitted by the project or created as part of the in-depth due diligence or after the investment decision varies depending on the categorisation of the project as specified below in more detail. The applicants are responsible for providing the information for the assessment of environmental and social impacts and risks. When carrying out supplementary studies, the Raw Materials Fund supports the respective applicants with its expertise where necessary.

2.3.3. For **category A and B+** projects, the project must carry out an analysis and evaluation of the negative environmental and social impacts as part of an environmental and social impact assessment (ESIA) and develop an environmental and social management plan (ESMP). The ESMP sets out the measures necessary to avoid, mitigate, compensate, offset and monitor the potential adverse impacts and risks identified in the ESIA. It also identifies responsibilities for implementing the measures and their costs.

2.3.4. The considerations of **human rights risks** can be integrated into the aforementioned environmental and social assessment and management instruments or presented as an independent study. If a project is to be implemented in an area where a critical human rights situation is known or expected, or if the project is expected to have impacts that could lead to conflicts that could significantly affect human rights (e.g. conflict of use), a separate in-depth investigation of human rights issues (Human Rights Impact Assessment – HRIA) and measures to ensure compliance with human rights is required, based on the UN Guiding Principles on Business and Human Rights.

2.3.5. A physical **climate risk** assessment is required for **category A and B+** projects as defined by the Task Force on Climate-Related Financial Disclosure (TCFD). For projects that are expected to emit more than 100,000 t CO₂e per year during operation (Scope 1 and 2 emissions combined), transition risks (as defined by the TCFD) must also be taken into account and the project must carry out an alternative analysis. The alternative analysis is intended to enable the project to select the most technically and financially efficient alternative for construction and operation, resulting in the lowest possible annual CO₂e emissions for the project through a tailored design. Where appropriate and possible, Scope 3 GHG emissions should also be assessed to better understand the emissions across the value chain (i.e. upstream and downstream) and make adjustments where necessary.

2.3.6. Where there is a significant loss of livelihoods due to land use change or where there is a need to involuntarily resettle project affected people, a Livelihood Restoration Plan (LRP) or a Resettlement (Action) Plan (RAP) or, if applicable, a Resettlement Policy Framework (RPF) must be developed.

2.3.7. For **category B** projects, the necessity, scope, focus areas and depth of an ESIA, including consideration of human rights and climate risks, and an ESMP must be determined on a case-by-case basis.

2.3.8. **Category C** projects generally do not require any further analysis within the scope of this guideline or further steps of the ESDD procedure. However, monitoring will focus on relevant changes in the course of the project.

2.3.9. The due diligence of a project also includes all necessary auxiliary and ancillary facilities (i.e. **associated facilities**) that are required for the construction and operation of the project and without which the project would not be feasible (for example, access roads and transmission lines for a power plant). If the project financed by the Raw Materials Fund serves as an associated facility of another project (for example, processing plant for an open-cast mine), the Raw Materials Fund also assesses whether this main project (for example, the open-cast mine) meets the fund's environmental and social requirements and whether improvements are possible where necessary. As in an ESIA, impacts and risks due to cumulative effects with other projects in the project region must also be included in the due diligence.

2.3.10. Regardless of the risk category, the development and implementation of an **environmental and social management system** (ESMS) for each project by the project partner is mandatory and is assessed against the requirements of IFC Performance Standards 1 as part of the in-depth ESDD. Components of such a management system are (a) adequate organisational capacities, (b) an environmental and social risk identification and assessment procedure, (c) a management programme or corresponding management plans, (d) environmental and social specific training measures, (e) structured relationships with internal and external stakeholder groups with complaint mechanisms, (f) monitoring and (g) reporting.

2.3.11. For **category A and B+** projects, the project partner must hire an **external independent environmental and social consultant** who has not been and will not be directly involved in the preparation of the project on behalf of the project partner. For **category B** projects, the Raw Materials Fund decides on a case-by-case basis on the need for an independent consultant and its scope of work. If negative impacts on Indigenous Peoples, sensitive environments, biodiversity or cultural heritage are to be expected or where large numbers of people are likely to be resettled, an independent assessment is always carried out. The consultant reviews the client's ESMS and ESIA, the resulting ESMP(s), the stakeholder engagement process and assesses the Project's conformity with the E&S requirements of the Raw Materials Fund and prepares an assessment report. After investment, the consultant carries out independent monitoring of the project to assess its conformity with the applicable standards. The costs for the consultant will be borne by the project.

2.3.12. For projects in which gaps with the relevant standards are identified, the independent consultant or KfW prepares an **environmental and social action plan** (ESAP). The ESAP aims to bring the project in conformance with the E&S requirements of the Raw Materials Fund. It specifies the needed actions with a time schedule to ensure adequate management and monitoring for the construction and operating phase of the project (including decommissioning and closure, if applicable). If necessary and appropriate, the ESAP is part of the contract between KfW and the project or project partner, and can be concluded or updated during the course of the project, depending on whether E&S requirements have been met, following a qualified assessment, e.g. by the external independent environmental and social consultant or KfW.

2.3.13. To prepare the Federal Government's **investment decision**, KfW assesses the selected projects for the aforementioned requirements and shares the result, including the action plan (ESAP), with the Federal Government for a decision. If the project has identifiable negative environmental and social impacts or risks that are not likely to be mitigated or offset to an acceptable level even through modifications and technical measures, KfW also submits this information to the Federal Government for consideration in its decision.

2.4. Contract Preparation

2.4.1. After the Federal Government's in principle investment decision, KfW will conclude the contract with the applicants. The necessary project-specific environmental and social clauses are agreed upon to ensure compliance with the applicable environmental and social requirements and to avoid, minimise, mitigate or compensate for potential impacts and/or risks.

2.4.2. The following agreements are made between KfW and the project or project partners in the contract, which are adapted and supplemented on a project-specific basis:

- Compliance with all relevant national and local laws, regulations and permits in the country of investment (relating to environmental and social aspects) and the relevant environmental and social requirements of the Raw Materials Fund;
- Compliance with the ESMP(s) and ESAP (if any) during construction, operation, decommissioning, subsequent use of the project;
- Reporting at appropriate intervals (at least annually) and in an agreed format on legal compliance, compliance with ESMP(s) and ESAP (if applicable), (ad-hoc) reporting of severe incidents, complaints.

2.4.3. If relevant ESIA's are not yet available at the time of the investment, acceptance of the studies by the independent consultant and KfW is generally agreed with the project partner.

2.5. Monitoring and Reporting

2.5.1. KfW will regularly assess the environmental and social performance of the projects in accordance with the contractual agreements. Reporting by the project partner to KfW in accordance with 2.4 and, if necessary, project-specific independent monitoring is required for assessing and ensuring compliance with environmental and social requirements over the term of the investment. The latter is carried out by an external, independent environmental and social consultant.

3. Stakeholder Engagement and Grievance Management

3.1. Stakeholder Engagement

3.1.1. The appropriate participation and consultation of the project affected people and information to the general public in the project country are part of the project preparation and implementation carried out by the project. Consultations with the project affected people and/or their community representatives, cooperatives/associations or non-governmental organisations (NGOs), shall be provided for when defining the scope of the ESIA and presenting the draft results. In accordance with the environmental and social requirements outlined by the Raw Materials Fund (see Section 1.4), the projects must carry out an appropriate participation and consultation process that allows the project affected and interested people to express their views on the project risks, impacts and mitigation measures, and enables the project to take these into account and respond accordingly. With the investment of the Raw Materials Fund the projects generally undertake, in the interests of transparency, , , to publish the relevant information on the projects' environmental and social sustainability, a non-technical summary and – if necessary – annual greenhouse gas emissions, in a culturally appropriate form and language, at an early stage, in an accessible location and through appropriate media . The whole process should be comprehensive and carried out throughout all phases of the project.

3.2. Grievance Management

3.2.1. The projects must establish an appropriate procedure for receiving and dealing with concerns and complaints from employees and the affected public (grievance mechanism). The procedure should be appropriate to the project and culturally adapted and will be reviewed by KfW as part of the ESDD. Grievances, their processing and results must be documented by the project and form part of the reporting to KfW.

3.2.2. The Raw Materials Fund's grievance mechanism enables the general public to express negative perceptions and criticism of the investments made by the Raw Materials Fund in a targeted manner, i.e. also with regard to environmental and social sustainability aspects. Grievances can be submitted to KfW using an online complaint form in German ([Rohstofffonds | KfW](#)) or English ([Raw Materials Fund | KfW](#)) on KfW's website. The complaints received are managed centrally by KfW's domestic promotion department and are forwarded to the persons responsible for the Raw Materials Fund for processing.

4. Review of this Guideline

4.1.1. This guideline is reviewed annually by KfW and updated if necessary.

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