

1 Introduction:

- This policy statement defines the approach of Micro, Small and Medium Enterprise Development Agency (MSMEDA) to environmental and social sustainability and states the relevant commitments coming from the direct and indirect contribution of the agency towards achieving the national sustainability goals.
- This policy statement on sustainability builds on Decree No. 947/2017 and its amendments relating to the establishment of MSMEDA, Law 152/2020 for the development of Micro, Small and Medium Enterprises in Egypt, and the Egyptian Environmental law 4/1994, and its executive regulations, as well as all its amendments.
- MSMEDA works to support micro, small, and medium-sized enterprises financially, non-financially, and technically including introducing, promoting, and integrating, environmental and social sustainability and demonstrating compliance with the Sustainable Development Goals (SDGs) across the projects financed by MSMEDA and its stakeholders as we believe in the pivotal role played by these enterprises in achieving a sustainable social and economic growth.
- MSMEDA defines sustainability as the creation of long-term value with respect to economic, environmental, social, and ethical perspectives, for substantial positive impact of stakeholders and local communities.
- MSMEDA aims at contributing significantly to the sustainable economic growth in the local markets and helping to draw the roadmaps for next generations.
- MSMEDA recognizes that its activities have the potential to impact the surrounding communities and the environment. We also recognize that assessing risk management and opportunities related to the environment and the society, as well as governance, are among the most important tools to achieve these goals.
- MSMEDA recognizes the important role played by MSMEs in achieving the UN SDGs; we also recognize the related risks to which MSMEs are exposed to. Therefore, MSMEDA aspires to integrate these issues and challenges and mainstream them into the decision-making process, policies and practices.

2 Purpose:

This policy statement outlines MSMEDA's approach in achieving the sustainable economic and social growth and low-emission development in various sectors, in line with:

- Egypt's National Climate Change Strategy 2050;
- Sustainable Development Strategy: Egypt's Vision 2030;
- Transformation strategies for the green economy, financial inclusion, and digitization;
- UNEP Finance Initiative Six Principles of Sustainable Banking released in November 2018;
- Principles of Sustainable Finance announced by the Central Bank of Egypt in 2021;
- The UN Sustainable Development Goals (SDGs) adopted by the United Nations in 2015;
- 2015 Paris Climate Agreement;
- United Nations Global Compact; International best practice including the environmental and social safeguards requirements of development finance institutions (DFIs) such as the Integrated Safeguards System (ISS) of the African Development Bank and the Performance Standards of the International Finance Corporation (IFC), KfW sustainability guidelines;
- MSMEDA's exclusion list for MSMEs.

3 Scope:

- MSMEDA recognizes the important role played by MSMEs in achieving the UN Sustainable Development Goals and the related environmental and social risks, impacts and opportunities to which MSMEs are exposed. Therefore, MSMEDA aspires to integrate these issues and challenges and mainstream them into all of its decision-making process, policies and practices. MSMEDA's Sustainability Policy applies to all the Agency's central sectors, departments, functions, and lines of business. It provides guidance to all internal stakeholders who are responsible for aligning with the requirements of this policy in their respective areas of responsibility.
- All our employees, partner financial institutions and service providers, share the responsibility of protecting the environment and society in their own field of activity. This Sustainability Policy will also apply to all stakeholders, partners and beneficiaries benefiting from MSMEDA's financing or support.
- This policy statement to be complemented by Environmental and Social Management System (ESMS), Standard Operating Procedures (SOP) Manual

that ensures that environmental and social risks and impacts are early identified, carefully assessed and responsibly managed; as well as that relevant opportunities are identified and maximized. The ESMS SOP Manual to be reviewed periodically and updated if needed.

4 Mission:

- At MSMEDA, we believe that our responsible approach to business is a decisive factor determining the long-term success of our Agency. Our vision is to become the world's most admired MSME support Organization. To realize this vision, we uphold high ethical values and professional standards in order to maintain and strengthen our reputation for integrity, fair dealing and measured risk-taking. Protecting the natural eco-systems which all forms of life depend on, the cultural heritage, eradicating poverty and hunger, and advancing socio-economic development are among the greatest challenges confronting humanity. We recognize that the policies and practices adopted today will shape not only our lives, but also those of future generations.
- Our approach to sustainability is founded on a broad understanding of our duties as a development agency for MSMEs, and our responsibilities towards society and the environment, as well as our role as an employer. It also reflects the importance we assign to our dialogue with our stakeholders.

5 Sustainability Governance:

- We strive to integrate environmental and social sustainability principles into the main strategic policies of MSMEDA. Accordingly, we aim to set cross-cutting objectives for the central sectors of environmental and social sustainability, climate change adaptation and mitigation and oversee their implementation. Environmental and social issues, including climate change, and aspects of the MSME's development agenda are to be integrated and mainstreamed into the strategies, procedures, financial and administrative plans and day-to-day activities of MSMEDA.
- The Board of Directors supervises and monitors the application of sustainability standards, objectives and practices to ensure the performance of specialized committees and management in this regard and to achieve the principles of accountability and transparency as set out in this Sustainability Statement.
- The Governance committee is a multifunctional committee that includes a

group of members of MSMEDA's board, higher, and executive management. Its mandate is to establish, guide, promote and monitor sustainable finance standards and practices within the framework of day-to-day operational requirements and international best practices. It also ensures that the activities of MSMEDA reflect the Committee's objectives, and serve the broader social, economic and environmental interests.

- The committee oversees the process of integrating sustainability standards within MSMEDA to create shared value. It endorses all frameworks, strategies, international affiliations, initiatives and memberships related to sustainability.
- MSMEDA's Executive Director is the competent authority who has the decision-making power on sustainability and climate matters and is supported by the Governance Committee.

6 Stakeholder Expectations:

- Our success depends on the trust of all our stakeholders, International Donors, Partner Financial Institutions, MSMEs end-beneficiaries, Public and Private Sectors, and our achievements with regard to sustainability. Following a sustainable approach to business is not only a prerequisite for long-term success, but also makes MSMEDA an attractive partner for Donors who integrate environmental and social sustainability into their investment decisions and when choosing their partners.
- We are committed to meeting the national, regional and international environmental and social standards applicable to our business operations and services, and to fulfilling our obligations under the United Nations Environment Program (UNEP), Statement by financial institutions on environment and sustainable development, the United Nations Global Compact, the Equator principles (Guiding Principles to provide a framework in addressing environmental and social risks in project financing), environmental and social safeguards requirements of development finance institutions (DFIs) such as the Integrated Safeguards System (ISS) of the African Development Bank and the Performance Standards of the International Finance Corporation (IFC), KfW sustainability guidelines, The World Bank's environmental and social standards (ESS) and other applicable standards when they arise. Social, economic and environmental issues, including climate change, matter in the communities where we do business.

We are integrating such considerations into our activities in order to meet the expectations of our diverse stakeholders.

- We take measures to raise our employees' awareness on sustainability commitments and involve them in applying them, including monitoring and reporting. All our staff, as well as our partner financial institutions and service providers, share the responsibility for the protection of the environment in their particular area of activity.
- Relevant functions to be trained on managing environmental and social aspects of their work and be supported by internal and external specialists.
- MSMEDA adopts the principle of materiality assessment to identify the most prominent economic, social and environmental issues that will affect the activities of the Agency and its stakeholders. This is done by identifying challenges, risks and opportunities related to sustainability and climate as well as identifying stakeholders' concerns, which will help us to prioritize and focus our efforts on the most important issues first, to improve the value of our stakeholders and the sustainable performance of the Agency. The principle of materiality also helps us to identify the issues and topics that must be disclosed.

7 Environmental Management:

- Sustainability standards are to be integrated into the operations and activities of MSMEDA to cover all levels and procedures.
- MSMEDA will not finance excluded activities. All applications are subject to examination of MSMEDA's exclusion list of MSMEs, if any. It also involves confirmation that the customer complies with the national regulations.
- The approach to be followed by MSMEDA's staff is based on the categorization and the environmental and social review of the project using appropriate tools. The Environmental and Social risk category is assigned based on the magnitude and impact of the client's operations on the environment and surrounding community. MSMEDA assigns the environmental and social risk categories based on the definitions proposed by the Egyptian Environmental Affairs Agency (EEAA) and the international best practices from Multi-lateral Banks. The environmental and social review is to assess the client's approach to environmental and social risk management at the enterprise level, the specific environmental and social

impacts at the asset level (e.g., for asset specific financing), or both. The environmental and social due diligence (ESDD) focuses on the client's commitment and ability to manage risks related to their activities including E&S policy and governance, risk management, identification of opportunities related to environmental and social sustainability, climate change mitigation and adaptation, stakeholder engagement approaches, grievance management, E&S monitoring and reporting. In case of non-compliance, a corrective action plan is developed and discussed with the client in order to mitigate the potential negative effects of the project to be financed.

8 Products & Services

- MSMEDA aims to incorporate environmental and social considerations in the development and delivery of products and services in order to meet the interests and needs of our customers and stakeholders, and to take advantage of opportunities related to environmental and social sustainability, climate change mitigation and adaptation.
- MSMEDA is to set environmental guidelines (in alignment with national laws and regulations) for all its activities and integrates the environmental and social safeguards considerations into all project phases (preparation, implementation, and operation) that reflect the significance of the environmental and social risk management within the business practices.
- MSMEDA recognizes that micro, small, and medium enterprises (MSMEs) play a key role in developing the industrial and productive capabilities of Egypt in addition to creating job opportunities and providing foreign currency by expanding the fields of productive and service export. It also recognizes that access to services and financial flows is one of the biggest challenges facing these institutions. Therefore, MSMEDA focuses on providing sustainable financial services to micro, small and medium enterprises, as they are the most important in providing production inputs, improving the efficiency of agribusiness activities and industrial supply chains, and contributing in dealing with the risks of increasing inflation, especially in light of the economic challenges facing the world resulting from several successive crises.
- MSMEDA supports investment in development and innovation in the field of sustainability and climate change, especially in the food, water and energy nexus, and supports businesses for innovation, improving efficiency, expanding into new markets and creating job opportunities.

- MSMEDA supports gender equality in all its operations, including the products and services it provides.
- MSMEDA develops products and services that generate environmental and/or social benefits with particular priority given to climate change mitigation and adaptation. This includes the provision of technical and financial services as well as financing opportunities related to renewable energy, resource efficiency, eco-friendly and green projects, climate-smart agriculture and microfinance, among others.

9 Risk Management

- MSMEDA believes that balancing environmental, social and economic issues is essential for sound risk management and an integral part of its responsibility towards achieving sustainable development.
- MSMEDA supports a precautionary approach to environmental and social challenges, as it aims to conservatively manage environmental, social and reputation risks and support our clients, MSMEs and PFIs, in managing and mitigating those risks.
- MSMEDA follows a strategy that excludes any involvement in transactions or activities that do not comply with the agreements it has signed, as well as those that could pose an unacceptable risk to our reputation.

10 Climate change

- MSMEDA recognizes the importance of identifying risks and opportunities related to climate change mitigation and adaptation, especially in light of the implementation of the National Climate Change Strategy 2050 and the Sustainable Finance Guidelines announced by the Central Bank of Egypt. MSMEs play a pivotal role in adapting to climate change, especially in communities that are most vulnerable to these risks, such as rural communities and poor families, by creating jobs, promoting entrepreneurship and innovation opportunities, and diversifying and securing sources of income, which contributes to enhancing the capacity of vulnerable communities and families to withstand the impacts, shocks and pressures of climate change.
- MSMEDA to incorporate the following principles and procedures:
 - Integrate climate change topics into governance, management and decision-making with the aim of identifying, assessing and managing

climate change risks and opportunities and working to reduce and adapt to them.

- Study the risks of climate change in the projects to be financed and work to manage those risks.
- Issuing the Carbon Footprint report (CFP) and developing an action plan for the issuance of the Task Force on Climate Related Financial Disclosure (TCFD) as a standalone report or as part of the annual report of the Agency.
- Support MSMEs to identify, assess and manage risks and opportunities related to climate change and work to reduce and adapt to them.
- Give special priority to services and products related to climate change and set objectives/targets for emission reduction and adaptation projects
- Encourage the financing of projects aimed at mitigation of and adaptation to climate change and resilience.

11 Engagement, Reporting and Grievance Mechanism

- MSMEDA attaches great importance to effective and continuous communication with stakeholders to ensure transparency about our practices and achievements related to sustainability challenges, as well as to ensure the availability of the resources, information, tools and capabilities required to achieve sustainability goals and the desired results. We will build a proactive and open dialogue with our customers, shareholders and other stakeholders by regularly disclosing our sustainability performance.
- MSMEDA trains employees and provides the necessary resources to ensure the achievement of environmental and social safeguards objectives and the implementation of relevant policies, rules and procedures.
- MSMEDA implements internal processes to ensure that relevant transactions are referred to the Environmental and Social Risk department for environmental and social assessment.
- MSMEDA's Environment Department shares all actions taken, mitigation measures and all environmental and social achievements as part of the periodic progress reports and the final report of each donor agreement. In addition, the Environment Department will publish the sustainability and annual carbon footprint in relation to actions towards the environment, society and climate change for activities and projects managed by MSMEDA. The annual report prepared by the Environment Department identifies the goals, discloses progress made in achieving the previous year's goals, and

includes a discussion of the environmental and social risk management made by the agency and its efforts related to sustainability and climate change.

- MSMEDA has Grievance mechanisms for workers separate from public grievance mechanisms and in accordance with international best standards.

12 Validity and review of this Guideline

Last updated in January 2024. This MSMEDA's Statement on Sustainability will be reviewed on a regular basis and updated as necessary.