

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

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PART I – ESG POLICY

PURPOSE AND SCOPE

- 1- The Arbaro Fund (the Fund) is committed to actively promote sustainable development in the full range of its activities and investments. The Fund recognizes the environmental and social functions of property, forest resources and forest-related ecosystem services. Through providing finance to sustainable forest operations with sound governance systems, the Fund aims to integrate forest resources effectively into sustainable economic development.
- 2- In this Policy the term Portfolio Company refers to the organization in which the Fund's resources are invested in. The Portfolio Company may be a joint-venture company directly co-managed by the Fund.
- 3- This Policy outlines the environmental, social and governance (ESG) principles and commitments that underpin the Fund's activities. All further ESG guidelines, requirements and procedures on Fund and Portfolio Company level shall be developed accordingly.

PRINCIPLES

- 4- The Fund promotes an integrated approach to nature conservation and social development, aligning forest operations to applicable international and national nature conservation and social development laws, wider landscape approaches, strategic planning processes and land use plans.
- 5- The Fund commits to the principles of sustainable forestry, particularly the Principles and Criteria of the Forest Stewardship Council®.
- 6- The Fund applies a precautionary approach to the conservation, management and sustainable use of living natural resources by investing in Portfolio Companies that include measures to safeguard and, where feasible, enhance habitats and the biodiversity they support.
- 7- The Fund applies the principle of the mitigation hierarchy, seeking to avoid, and where this is not possible, minimize adverse impacts and enhance positive effects on the environment and affected stakeholders, so as to contribute to the avoidance of any deterioration in the quality of human life, the environment and any net loss of biodiversity and ecosystems.
- 8- The Fund promotes the efficient use of natural resources, the adoption of environmental and social safeguards, and the reduction of emissions of greenhouse gases.
- 9- The Fund recognizes the importance of addressing the causes and the consequences of climate change in its countries of operations by developing mitigation and adaptation measures.
- 10- The Fund recognizes the responsibility of business to respect human rights and seeks to avoid infringement on the human rights of others and address adverse human rights impacts that financed business operations may cause or contribute to.
- 11- The Fund seeks to apply the principles of fair treatment, non-discrimination and equal opportunity for employees and contractors on Fund and Portfolio Company level by complying with the International Labour Organisation Fundamental Conventions¹.

¹ ILO Conventions 29 and 105 (forced and bonded labour), 87 (freedom of association), 98 (right to collective bargaining), 100 and 111 (discrimination), 138 (minimum age) 182 (worst forms of child labour).

- 12- The Fund seeks to invest in activities that offer a safe and healthy working environment to all workers and safeguard the health and safety of all stakeholders affected by business operations where the Fund's capital is invested in.
- 13- The Fund seeks the fair treatment of all stakeholders relevant to the activities in which the Fund's capital is invested in by: i) identifying relevant stakeholders; ii) respecting local communities and indigenous peoples legal and customary rights over resources, as well as culturally and socially vulnerable sites; and iii) engaging in participatory, fair and transparent decision making processes.
- 14- The Fund is committed to exhibit honesty, integrity, fairness, diligence and respect in all business dealings by adhering to, and requiring Portfolio Companies to adhere to the principles of good corporate governance and integrity standards.
- 15- The Fund is committed to the principles of transparency, accountability and stakeholder engagement.

COMMITMENTS

- 16- The Fund will only finance Portfolio Companies that comply with this Policy.
- 17- The Fund will refrain from making investments included in its Exclusion List and may refrain from financing a Portfolio Company on environmental or social grounds.
- 18- The Fund will only finance Portfolio Companies that comply with all applicable local and national laws, as well as international conventions and agreements ratified by the host country.
- 19- The Fund will avoid investing in projects or companies which may involve non-resolvable land use conflicts with local communities.
- 20- The Fund will engage in environmental and social appraisal processes when considering an investment opportunity, and will integrate the International Finance Corporation (IFC) Environmental and Social Performance Standards 2012 and European Investment Bank (EIB) Environmental and Social Standards 2013 early in the planning process of each investment.
- 21- The Fund will require Portfolio Companies to establish an Environmental and Social Management System. The Fund will actively seek for senior level endorsement of and adherence to its ESG requirements, establishing formal commitments through appropriate tools, targets, budgets, resources and timetables for implementation.
- 22- The Fund will adopt a set of environmental and social key performance indicators to assess Portfolio Companies and will undertake appropriate follow-up and monitoring of the ESG performance of Portfolio Companies throughout the investment process, and provide technical support in the light of difficulties, new challenges and opportunities for improvement.
- 23- The Fund will require and support Portfolio Companies to seek Forest Stewardship Council certification.
- 24- The Fund will engage in a dialogue with relevant stakeholders related to the Fund's environmental and social performance.
- 25- The Fund will seek to support and uphold the principles of good forest governance and legality of forest products trade in the companies and countries in which it operates, as outlined in the European Union's Forest Law Enforcement, Governance and Trade (FLEGT) policy.
- 26- The Fund will assess the ESG credentials of potential buyers at the exit of an investment.

INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

- 27- The Fund will allocate responsibilities and appropriate resources for the effective implementation of this Policy. The Fund will nominate one responsible person and adequate staff resources to oversee the environmental and social appraisal and monitoring processes and to initiate and develop environmentally and socially beneficial projects.
- 28- The Fund will develop and maintain appropriate documents to assist in implementing this Policy and will ensure that staff receives appropriate procedures and training on the requirements of this Policy.
- 29- This Policy may be amended or updated, subject to approval of the Investment Committee. In addition, this Policy will be subject to review by the Investment Committee at least every 5 years.
- 30- The Fund will establish a streamlined protocol to obtain feedback and redress grievances associated with the implementation of the Fund's activities and investments.
- 31- The Fund will make this Policy public and disclose any relevant related documents or information.

PART II – ESMS OPERATIONAL GUIDELINES

1 INTRODUCTION

The Principles and Commitments stated in the ESG Policy included in Part I are a cornerstone of all business operations of the Fund. Compliance with the ESG Policy will be achieved through an Environmental and Social Management System (ESMS) implemented at two levels:

- **ESMS at Portfolio Companies:** Portfolio Companies will be required to adhere to the ESG requirements of the Fund. Each Portfolio Company will establish and maintain its own ESMS to assess, address and monitor ESG risks and impacts of company operations in line with the Fund requirements.
- **ESMS at Fund level:** The Fund management team will establish and maintain the Fund ESMS to assess, oversee and support the management of ESG matters by the Portfolio Companies, as well as oversee ESG matters at overall Portfolio level.

These Operational Guidelines aim to provide the information needed to support the implementation and operationalization the ESMS. They are based on the IFC Policy and Performance Standards on Social and Environmental Sustainability 2012, its Guidance Notes, and the Forest Stewardship Council (FSC®) Principles, which have been harmonized with the EIB Environmental and Social Principles and Standards.

These Operational Guidelines are structured as follows:

- Section 2 presents an overview of environmental and social risks and impacts associated to plantation forestry operations.
- Section 3 provides an overview of the ESMS at Fund level, describing the methods used throughout the investment lifecycle to assess, plan, implement, monitor and review the ESG performance of Portfolio Companies and their business plans against set standards.
- Section 4 presents the resources allocated on Fund level to conduct all ESG related activities. It also gives an overview of the expected resources that Portfolio Companies will have to allocate to ESG matters.
- Section 5 outlines the ESG requirements and standards of the Fund, including the criteria and requirements regarding the aspects of good governance and environmental and social performance. It also includes a description of the ESMS at Portfolio Company level.
- Section 6 describes the monitoring and reporting system set up by the Fund to monitor the ESG performance of Portfolio Companies and report to its investors.

2 RISKS AND IMPACTS IN PLANTATION FORESTRY

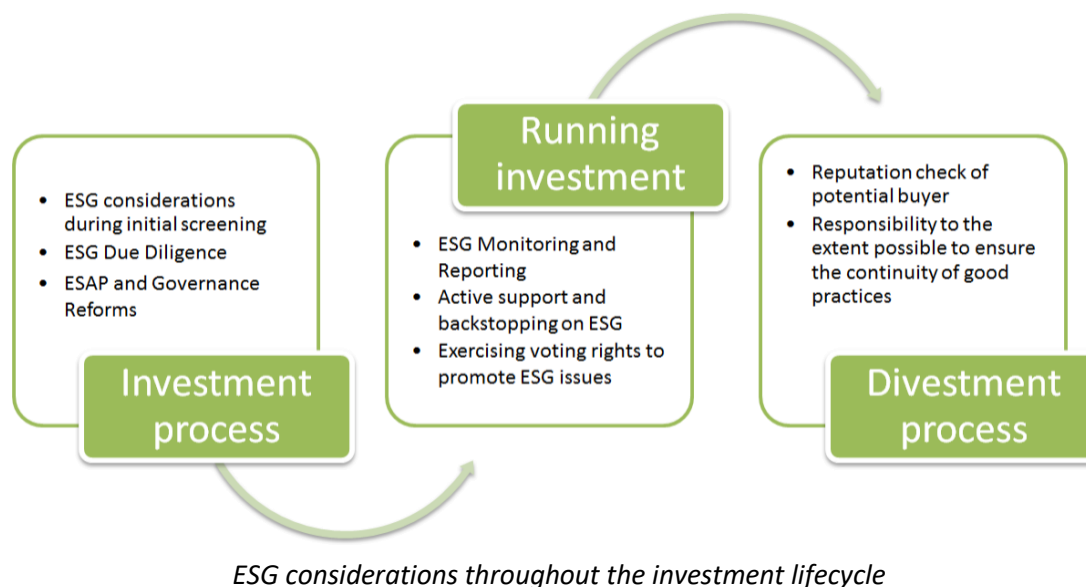
The following table presents an overview of relevant environmental and social risks for plantation forestry operations, based on the IFC Environmental, Health and Safety Guidelines for Forest Harvesting Operations and Perennial Crop Production.

Risk category	Description
Environment	<ul style="list-style-type: none"> • Erosion due to inappropriate land preparation and soil conservation techniques • Soil degradation and contamination due to poor soil fertility management • Waste management • Water management and quality • Pest management • Use and management of pesticides and fertilizers • Habitat alteration and loss of biodiversity • Energy use, air quality and GHG emissions • Introduction of invasive species • Indirect deforestation due to displacement of productive activities or replication of plantation operations
Occupational health and safety	<ul style="list-style-type: none"> • Operational hazards in field operations, particularly in harvest operations and under extreme weather conditions • Accidents in the use of machines and vehicles, particularly in land preparation and harvest operations, as well as transport of equipment and teams to plantation sites • Risk of fire originated in plantation sites or nearby areas • Contact with venomous animals in plantation sites • Exposure to pesticides applied in maintenance operations
Community health and safety	<ul style="list-style-type: none"> • Increased vulnerability or livelihood loss due to limited access to natural resources, environmental degradation or physical / economic displacement • Adverse impacts on indigenous peoples • Use of security personnel • Social conflicts related to benefit sharing mechanisms • Increased risk of road accidents due to increased traffic • Water quality • Exposure to pesticides and air emissions from fires

In addition, plantation forestry operations may have unintended impacts, mainly the conversion of natural forests due to displacement of productive activities or to establishment of forest plantations by other stakeholders. In order to address this, the Fund will always try to avoid, and when not possible, minimize any displacement as a result of its operations. Should any displacement take place, the IFC Performance Standards will be followed and environmental and social impacts will be mitigated. Furthermore, the Fund will always seek exchange with other plantation forestry companies in the region where it operates, and Portfolio Companies may serve as best practice examples, through implementation of professional management and high environmental and social standards.

3 ESG MANAGEMENT AT THE FUND LEVEL

The ESMS of the Fund considers environmental and social requirements and governance and integrity standards from the initial phase of the investment process and throughout the investment lifetime. The integration of ESG into each step of the investment process is presented in the figure below and detailed in the following sections.

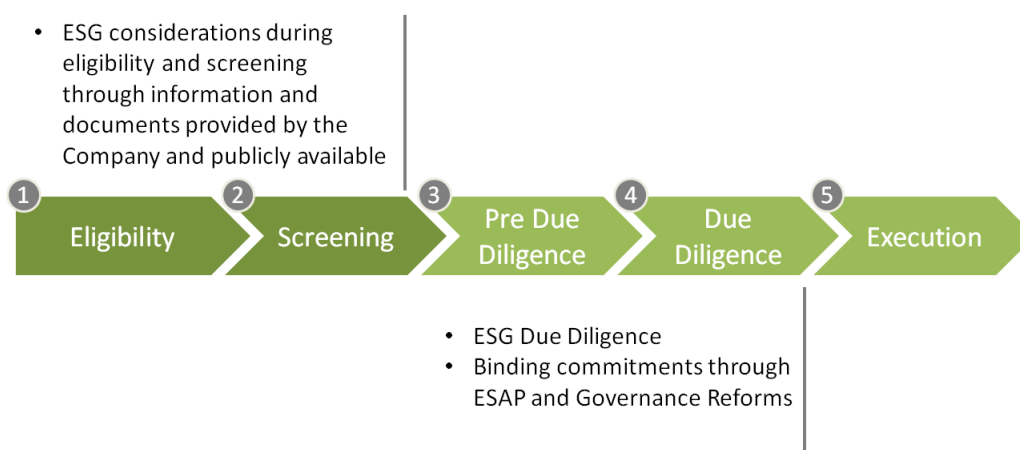


3.1 ESG considerations during the investment process

During the investment process, the Fund will assess the ESG risks associated with the potential Portfolio Company and the foreseen project to be developed with the Fund investment, as well as the capacity of the potential Portfolio Company to address them. For the assessment, potential Portfolio Companies are required to present a business plan which outlines the foreseen project that the Fund investment will finance. The project includes all the future activities, operations and subprojects that are foreseen.

In greenfield projects, the assessment will focus on the risks of planned operations and the measures foreseen by the Portfolio Companies to assess, manage and mitigate such risks. In brownfield projects, the assessment will as well consider the ESG performance of the Portfolio Company in their existing operations.

ESG considerations at the different stages of the investment process can be visualized as follows:



ESG considerations during the investment process

3.1.1 Eligibility and Screening

Each potential Portfolio Company will be assigned a deal manager, a member of the Fund management team who will be responsible for coordinating and overseeing the assessment and for communicating with the potential Portfolio Company.

During eligibility and screening the deal manager will assess general information about the potential Portfolio Company and the foreseen project. The **ESG assessment** shall encompass a review of public information to reveal any environmental, social, business integrity or legal controversy related to the potential Portfolio Company. For example, news articles will be searched through, and internationally recognized “black lists” that identify criminal offenders, sanctions and embargos will be checked as part of the Integrity Clearance procedure. This evaluation will be enhanced and triangulated by any additional information or documentation provided by the potential Portfolio Company (e.g. policies, management plans, reports, etc.) that are relevant to its ESG performance.

At this stage, the *ESG Checklist* (template included in Annex 1) will serve the deal manager as guidance to identify deal breaking issues and potential risks associated with the potential Portfolio Company and the foreseen project, and get an overview of the ESG performance of the potential Portfolio Company.

3.1.2 ESG Due Diligence

The main tool to assess the ESG risks associated with a potential Portfolio Company and its foreseen project and compliance to ESG standards is the **ESG Due Diligence (ESG DD)** process.

During the initial phase of a DD, the deal manager will conduct a first site visit to the potential Portfolio Company during which inter alia additional ESG information will be gathered. The *ESG Checklist* will be completed with further detailed information on the ESG performance of the company and potential ESG risks associated to the foreseen project. If no deal breaking issues or major concerns are identified during this initial assessment, the project prequalifies, and the Fund management team will assign a specialized ESG team to conduct the ESG DD study including site visits as necessary.

The ESG team will be led and coordinated by Arbaro Advisors and strengthened as necessary by additional external ESG experts specialized in different areas. The ESG team will be granted full independency to perform an objective ESG DD study. In cases of potential conflict of interest, the ESG team will be an independent third party in conformity with the *Conflict of Interest Policy* of the Fund.

The deal manager will provide the ESG team with the information gathered through the *ESG Checklist* and communicate any ESG related concerns that have been identified during the first site visit. The *ESG Checklist* will include a risk categorization of the project as:

- Category A: Potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- Category B: Potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
- Category C: Minimal or no adverse environmental or social risks and/or impacts.

The *ESG Checklist* will help the ESG DD team to identify major risk areas that require special attention in the DD and ES requirements that are commensurate with the risk category. For instance, for category A projects a full and comprehensive Environmental and Social Impact Assessment (ESIA) and an Environmental and Social Management Plan (ESMP) will be required, while for category B projects a simplified and fit for purpose ESIA and ESMP may be appropriate. Category C projects may not require any assessments, but the Fund does not anticipate any projects under this category. The assessment will involve all the subprojects that are part of the project foreseen by the Portfolio Company. In cases of multiple subprojects with different risk levels, the overall project will be rated as the highest risk category identified, while the applicable ES requirements will be specific for each subproject and proportional to its associated risks.

The independent ESG team will conduct an ESG assessment and provide a gap analysis between the ESG performance of the potential Portfolio Company in its current operations, but also in regards to the planned project that is included in the business plan and intended to be undertaken, by comparing those to the Fund requirements as described in section 5. This will be carried out mainly through documentation review, site visits and interviews with relevant stakeholders.

The resulting information will be compiled, analysed and presented following the structure and guidance of the IFC Performance Standards, including but not limited to the ESG risks and opportunities of the potential Portfolio Company and foreseen project and its capacity to address those risks internally or with external support. The *ESG Due Diligence Report* (template included in Annex 2) will provide all the information needed to understand environmental and social risks in order to take an investment decision, and to identify ESG reforms considered necessary to comply with the Fund requirements.

The ability and willingness of the potential Portfolio Company to undertake such reforms, corrective measures and improvements in a reasonable timeframe and the related allocation of resources to do so shall be assessed by the Fund management team and be considered for the investment decision.

3.1.3 Binding commitment on ESAP and Governance Reforms

If the Fund management team and the Investment Committee decide to carry on with the investment, the ESG reforms considered necessary during the ESG DD will be formulated into an **Environmental and Social Action Plan (ESAP)**. The ESAP will be formulated in negotiation with the senior management of the Portfolio Company, and will include identified priority ESG concerns, risk levels, actions required, delegated responsibilities, implementation timeline and costs involved. Furthermore, the ESAP will clearly delineate the monitoring processes that shall be undertaken by the Portfolio Company (see sections 3.2 and 6).

The investment contract between the Fund and the Portfolio Company will explicitly include the commitment of the Portfolio Company to implement the ESAP, meet reporting duties, and assume ESG related costs, as well as the implications of a breach of ESG requirements. The ESAP will be part of the contract as well, imposing a legally binding commitment to adhere to ESG reforms, including serious consequences for breaching such commitments. The Fund management team shall clearly communicate ESG requirements to the senior management of the Portfolio Company and its wider implications. Any additional risks, challenges and expectations on both sides shall be clarified at this stage.

3.2 ESG considerations during running investment

After Fund investment, the Portfolio Company starts implementing the agreed business plan, i.e. the project that has been agreed as part of such plan and as assessed as part of the DD process of the Fund. The Portfolio Company will as well implement the reforms that have been identified as necessary to fully comply with the ESG requirements of the Fund, in a timely and appropriate manner as detailed in the ESAP.

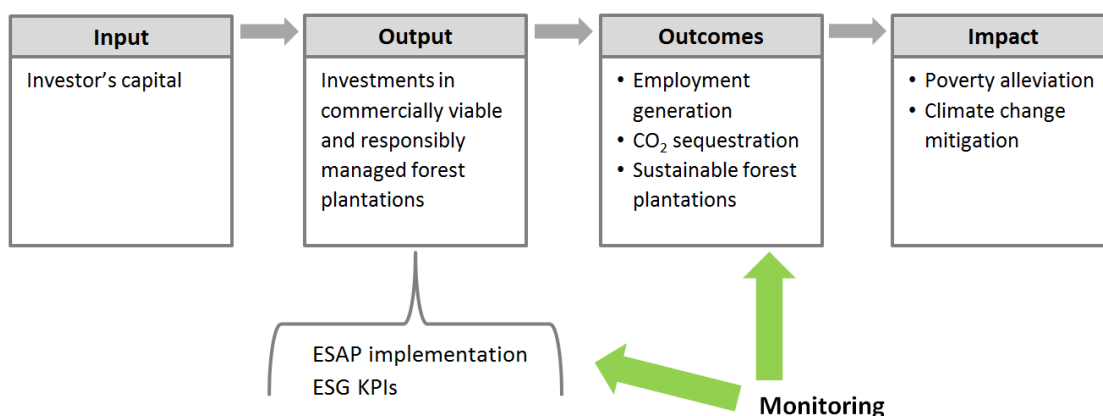
The adherence to such business plan is part of the legal obligations of the Portfolio Company, and therefore, the Portfolio Company may not proceed with any material changes to the business plan without receiving explicit consent from the Fund. Should there be significant changes to such business plan, e.g. new or significantly revised subprojects, then, the Portfolio Company is required to conduct the necessary environmental and social assessments and provide the outcome for the Fund to consider in order to decide whether or not the Portfolio Company may proceed with such subproject, and whether or not such new or significantly revised subproject requires amendments to the Portfolio Company's ESAP. The environmental and social assessment of subprojects needs to follow the Fund's ESG requirements (see section 5.2.3).

During a running investment, the engagement of the Fund with its Portfolio Companies will aim at ensuring responsible business operations and increasing the Portfolio Companies' awareness and knowledge regarding ESG issues through:

- Monitoring and reporting;
- Active support and backstopping;
- Exercising voting rights to promote ESG issues.

Monitoring and reporting is one of the major tasks at this stage. As activities of the Portfolio Company are expected to have positive effects on local people, their environment and the climate, stringent monitoring and reporting is necessary to ensure that project implementation actually leads to such positive impacts. Therefore, the Fund will document and promote ESG measures by applying a pragmatic monitoring approach in accordance with the CDC toolkit², as shown in the figure below.

² CDC (2010). Toolkit on ESG for fund managers. Adding value through effective environmental, social and governance (ESG) management, London, UK.



Impact chain of the Fund's ESG monitoring system (source: based on CDC)

Further details on the monitoring and reporting system are provided in section 6.

3.3 ESG considerations during divestment process

To ensure the sustainability of environmental and social standards the Fund will carry out a reputation check on the potential buyer and the exit process may not proceed if there is evidence that the potential buyer is or has been involved in business practices listed in the Fund's Excluded Investments List. During exit negotiations, the Fund management team will to the extent possible, propose to select a new investor that ensures the continuity of high ESG standards, e.g. through representations to be made by the buyer of the Portfolio Company.

4 ALLOCATION OF RESOURCES, ORGANIZATIONAL CAPACITY AND RESPONSIBILITIES

4.1 On Fund level

To ensure the implementation of the ESMS, the Fund management team includes one designated person responsible for ESG matters. Over the investment period, the human resources dedicated to ESG matters will increase progressively according to the needs, as new Portfolio Companies engage with the Fund. At the end of the investment period, the Fund management team will include one person fully and exclusively dedicated ESG matters.

The ESG expert of the Fund management team will be responsible for overseeing all ESG related processes described in the sections above, namely:

- Overseeing the execution of the ESG DD process and reviewing the ESAP (see section 3.1);
- Keeping the overview of the Portfolio Company's ESG performance against set indicators and ensuring appropriate backstopping and support is provided in case of difficulties or extraordinary events (see section 3.2);
- Monitoring and reporting to the investors (see section 6);
- Ensuring that ESG matters are included during the buyers check (see section 3.3).

All resources associated to the ESG screening and DD process, which includes the assessment of environmental and social risks that is necessary to make an investment decision, will be covered by

the Fund. The actual implementation and monitoring of measures and reforms needed to fulfil and maintain the ESG standards will be introduced by the Portfolio Company. The Fund will facilitate and supervise that all necessary measures are conducted in line with the Fund requirements.

In cases when extraordinary measures call for additional studies conducted by external experts due to a serious breach of the ESG requirements by a Portfolio Company or there is reasonable doubt for high risk activities, the Fund and the Portfolio Company shall negotiate the resources needed for an independent review.

4.2 On Portfolio Company level

Depending on the results of the ESG DD and the gaps identified between current company practices and the compliance with the Fund's ESG requirements, the Portfolio Company is expected to allocate realistic budgets and human and financial resources to ESG matters.

As a minimum requirement, following roles shall be fulfilled in every Portfolio Company:

- **ESG Coordination:** Planning and coordinating ESG measures, monitoring and overseeing ESG performance and compliance with the Fund's ESG requirements, communicating with and reporting to the Fund management team (role focused on IFC Performance Standard 1).
- **Environmental Management:** Managing environmental risks, ensuring compliance with local legislation and the Fund's requirements regarding environmental performance (role focused on IFC Performance Standards 3 and 6).
- **Health & Safety Management:** Managing social risks related to labour associated to the company's direct and subcontracted personnel involved in forest operations, ensuring the implementation of security measures and fair and healthy working conditions (role focused on IFC Performance Standards 2 and 4).
- **Community Relations:** Managing social risks related to relevant stakeholders, particularly local communities living in or adjacent to the forest production area or depending on its resources. This includes stakeholder engagement, communication, grievance mechanisms and disclosure (role focused on IFC Performance Standards 5, 7 and 8).

The amount of personnel dedicated to the roles described above may vary considerably according to the Portfolio Company's risks and adverse impacts, and its phase of development. However, these roles shall be fulfilled to the extent that ensures the implementation and maintenance of the Fund's ESG requirements.

When specific ESG aspects of a Portfolio Company have been classified as bearing high risk during the ESG DD process, the human resources dedicated to them will be set in place or strengthened accordingly by the Portfolio Company. When these high-risk aspects fall into the scope of one of the roles listed above, there shall be at least one fully dedicated person to this particular role with sufficient knowledge, skills and authority. Otherwise an additional position shall be set in place.

5 ESG REQUIREMENTS AND STANDARDS

5.1 General Integrity and Good Governance

5.1.1 Identification of final beneficiaries

The Fund seeks to promote transparency of ownership and control. Accordingly, the Fund shall not enter into new investments whenever it is suspected or where there are substantiated allegations, that opaque corporate structures or corporate vehicles are being used to hide beneficial ownership. As part of the Due Diligence the Fund management team will identify the final beneficiary ownership of the potential Portfolio Company.

5.1.2 Integrity Clearance

Widely accepted and internationally recognized “black lists” (e.g. international sanctions, embargos) will be consulted to verify whether the proposed persons, or entities or their management or shareholders, appear on any of them. If during the Due Diligence process of an investment opportunity integrity red-flags are identified but cannot not be confirmed due to insufficient reliable evidence during the assessment, an additional background check may be commissioned to an independent specialized company. Background checks shall review the potential Portfolio Company’s and its officers’ current and past compliance with the integrity principles of the Fund and its level of involvement in activities included in the Excluded Investments List.

5.1.3 Excluded Investments List

During the Due Diligence of an investment opportunity the Fund management team will assess whether it is in line with the investment criteria and ESG Policy of the Fund. A main tool at this stage is the *Exclusion List* (please refer to Annex 3) of the Fund which lists activities excluded to be financed by the Fund. If a potential investment opportunity includes any of the businesses or activities included in the list the investment process may not proceed.

5.1.4 Conviction or serious criminal offences

Conviction of a serious crime of the potential Portfolio Company and/or any member of its management or executive board is a reason to turn down an investment opportunity. As a general principle, in the case of an on-going serious criminal investigation or where someone has been indicted, the Fund shall not enter into the relationship until the investigation is either dropped or a decision is made whether to prosecute. The Fund recognizes that in some jurisdictions criminal convictions and investigations, or the absence thereof, are not in themselves reliable indicators of guilt or innocence. However, a criminal conviction or investigation could expose the Fund to reputational risk which would be difficult to offset no matter what other positive aspects the investment may represent.

In the context of an already on-going investment by the Fund, the Fund management team shall review and analyse the potential impact of situations in which a criminal investigation is opened, or a criminal prosecution is initiated, or a criminal conviction is handed down, immediately upon receipt of the respective information. The same process applies if Portfolio Companies are subject to investigations or sanctions by regulatory bodies.

5.1.5 Links to organized crime

The Fund shall not proceed with an investment where evidence points to involvement with any of the following activities:

- Organized crime or associations with organized criminal groups or criminals;
- Participation in money laundering or terrorist financing operations;
- Association with acts of violence or threats thereof.

5.1.6 Anti-money laundering and counter terrorism finance

The Fund shall evaluate internal policies and controls in place at the potential Portfolio Company to avoid being used as a platform for any money laundering and/or terrorism financing scheme and the level of compliance of such policies and controls with local and international standards.

5.1.7 Compliance with current tax practices

The Fund shall not proceed with an investment where there is evidence of on-going illegal tax activities. In many cases, especially where tax laws or regulations are evolving, the legality of the practices may not be clear or may be considered marginal.

It is for the Fund management team to decide, taking account of exceptional circumstances (e.g. the practice is “condoned” by local authorities or is in line with generally accepted international practice) whether it can accept a period of uncertainty or minor non-compliance where it is confident that the legal and reputational risk is low.

5.1.8 Involvement in questionable business practices

In addition to the cases described above, the Fund shall avoid entering an investment at a potential Portfolio Company where there is evidence of involvement in poor, questionable or dubious business practices. Examples of such practices might include, but are not limited to, systematic abuse of information asymmetries between the potential Portfolio Company and its clients, remuneration of some staff deemed excessive given the size and profitability of the potential Portfolio Company, existence of dubious investment vehicles totally or partially owned by the potential Portfolio Company, allegations of involvement in corruption practices. Evidence found by the Fund management team leading to suspicion of a Portfolio Company or potential Portfolio Company involvement in such practices shall be immediately communicated to the Investment Committee.

5.2 Environmental and Social Standards

5.2.1 ESG Key Performance Indicators

Through investments in sustainable plantation forestry projects, the Fund aims at creating a wide range of positive environmental and social impacts. In order to measure its environmental and social performance, the Fund has defined three Key Performance Indicators (KPIs) that reflect direct impacts of Fund operations and can be measured in a transparent and simple manner.

The three ESG KPIs include:

- Employment generated by the investments of the Fund;
- CO₂ sequestration generated by forest plantations in which the Fund invests;
- FSC certification of forest plantations managed by the Portfolio Companies.

Portfolio Companies will be requested to commit to a process of full adherence to the FSC Principles through certification. This according to the following timeframe: Pre-audits shall take place within 1 year after the investment; first main audit shall take place within 3 years after the investment; and FSC certification shall be achieved within 3 years after the investment and subsequently maintained.

If FSC requirements are not fully met at the time of investment approval, the Portfolio Company will be required to achieve compliance through the adoption of corrective measures stated in the ESAP. As part of ESG monitoring activities, the Fund management team will register if FSC certification took place and is maintained.

5.2.2 International Environmental and Social Standards

All ES related assessments, monitoring and reporting processes described in Section 3 are based on the IFC Performance Standards 2012 and the FSC Principles. The IFC Performance Standards 2012 will be used as an overarching framework for all these tasks, as they evaluate environmental and social risks and its risk management, entail a holistic approach with a process-oriented focus and are in line with investors' expectations. On the other hand, FSC Principles will be equally important, as they are subject to a formal certification process entailing external audits and enhance sustainability. Furthermore, being a forestry standard, FSC focuses on forestry related specificities that are relevant and might be overlooked otherwise. Annex 4 provides additional information on sustainable plantation forestry and FSC certification.

To ensure compliance to both standards and create synergies between the IFC Performance Standards 2012 and the FSC Principles, the *ESG Checklist* and the *ESG Due Diligence Report* will be developed including all relevant aspects. Hence, evaluations will follow the structure and wording of the IFC Performance Standards, while at the same time including additional aspects not covered by IFC but considered specifically by FSC.

Both IFC Performance Standards 2012 and FSC Principles as at the time of the formulation of this document are listed in the following.

IFC Performance Standards 2012

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
Performance Standard 2: Labour and Working Conditions
Performance Standard 3: Resource Efficiency and Pollution Prevention
Performance Standard 4: Community Health, Safety, and Security
Performance Standard 5: Land Acquisition and Involuntary Resettlement
Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
Performance Standard 7: Indigenous Peoples
Performance Standard 8: Cultural Heritage

FSC Principles

Principle 1. Compliance with laws and FSC Principles: Compliance with laws, regulations, treaties, conventions and agreements, together with all FSC Principles and Criteria
Principle 2. Tenure and use rights and responsibilities: Definition, documentation and legal establishment of long-term tenure and use rights
Principle 3. Indigenous peoples' rights: Identification and upholding of indigenous peoples' rights of ownership and use of land and resources
Principle 4. Community relations and worker's rights: Maintenance or enhancement of forest workers' and local communities' social and economic well-being
Principle 5. Benefits from the forest: Maintenance or enhancement of long-term economic, social and environmental benefits from the forest
Principle 6. Environmental impact: Maintenance or restoration of the ecosystem, its biodiversity, resources and landscapes
Principle 7. Management plan: Existence of a management plan, which is implemented, monitored and documented
Principle 8. Monitoring and assessment: Demonstration of progress towards management objectives
Principle 9. Maintenance of high conservation value forests: Maintenance or enhancement of the attributes which define such forests
Principle 10. Plantations: Planning and management of plantations in accordance with FSC Principles and Criteria

5.2.3 Implementation of an Environmental and Social Management System

Portfolio Companies will be required to establish an ESMS in accordance to IFC Performance Standard 1 – *Assessment and Management of Environmental and Social Risks and Impacts*. This represents an overarching requirement that shall define the framework to manage all environmental and social matters in a structured way throughout the project cycle and thus shall support continuous compliance to all the other IFC Performance Standards and FSC Principles and Criteria. (For the ESMS at Fund level and related screening and due diligence processes, please refer to section 3).



ESMS according to IFC Performance Standard 1 (source: IFC)

Portfolio Companies will be required to set in place a management system that establishes procedures and tools, and allocates appropriate resources to guarantee the effective implementation of environmental and social requirements. The system shall ensure the involvement of all relevant stakeholders and include all environmental and social requirements. Portfolio Companies shall make sure that the system functions in a dynamic and continuous process, ensuring an effective learning and improvement cycle.

The ESMS shall at least consist of the following four components:

- **Environmental and Social Policy:** Portfolio Companies shall formulate an Environmental and Social Policy that integrates nature conservation, biodiversity protection and social safeguard components with productive objectives, and that is compatible to the Fund's ESG Policy and related guidelines. The Environmental and Social Policy reflects the commitment of the Portfolio Company with sustainable development and provides a framework for the environmental and social management on company level. Therefore, it shall be officially endorsed by the senior management of the Portfolio Company and appropriately communicated internally and externally.
- **Identification of Risks and Impacts:** Portfolio Companies shall carry out or commission an Environmental and Social Risk and Impact Assessment (ESIA) or an environmental and social audit in case of existing assets, before initiating or expanding business operations and subprojects according to IFC Performance Standards and in line with national legislation. The assessment process shall adjust to the type, scale and location of foreseen business operations. It shall consider the nature, likelihood, magnitude and materiality of identified risks and impacts. The Portfolio Company shall consult with local communities, local authorities and other relevant stakeholders during the assessment, particularly when the project area is or has been subject to land use conflicts or/and when vulnerable local communities and indigenous peoples live in the project area or area of influence. If required or regulated by law in host countries, a formal ESIA process shall be initiated and fulfil all applicable administrative rules and formal procedures for public participation, documentation and decision making. In all cases the Fund management team will assess if the content and scope of the ESIA undertaken by the Portfolio Company is satisfactory. If the ESIA conducted by the company is not satisfactory in terms of identifying risks and impacts according to IFC Performance Standards, the Portfolio Company will be obliged to undertake another assessment which will be evaluated for its quality and completeness by the ESG DD team and/or the Fund management team. Annex 5 provides an outline of the contents that a comprehensive ESIA report should include.
- **Management Program:** The management program must be consistent with the company's ESG Policy and provide mitigation and performance improvements to address identified risks and impacts, which may consist of a set of operational documents and procedures. For forestry activities and according to FSC Principles, the main document that provides the management rationale of forestry operations is the Forest Management Plan (FMP). Portfolio Companies shall plan forest operations according to a sound FMP in line with FSC requirements considering the findings of the risk and impact assessment and outline social and environmental safeguards, including tools to safeguard workers, local communities and indigenous rights. The FMP must be complemented with operation procedures appropriately socialized and implemented to serve its operational function and guarantee that all operations are conducted according to the plan. The

management program shall be subject to continuous revision throughout the project cycle. Annex 6 provides an outline of ESG aspects that should be addressed in a management program.

- **Organizational Capacity:** The Portfolio Company shall establish and maintain an organizational structure that defines roles, responsibilities, and authority to implement the ESMS. Key environmental and social responsibilities should be well defined and communicated to the relevant personnel, and the human and financial resources provided shall be sufficient to achieve the Fund's ESG requirements on an ongoing basis (refer to section 4). Furthermore, the personnel should possess the knowledge, skills and experience to implement the specific measures and actions required under the ESMS.
- **Stakeholder Engagement:** Stakeholder engagement is an ongoing process that may involve stakeholder analysis and planning, disclosure and dissemination of information, consultation and participation, grievance mechanism, and reporting to affected communities. The nature, frequency, and level of effort of stakeholder engagement may vary considerably according to the project's risks and adverse impacts, and the project's phase of development. Typically, in forestry projects this involves identifying the communities that live in the area or adjacent to forestry operations or depend on the resources of this area and the initiation and maintenance of a dialog that ensures their involvement in important decision making and safeguards their user rights and livelihoods. Furthermore, effective grievance mechanisms should be developed with culturally appropriate and transparent procedures.
- **Monitoring and Review:** Portfolio Companies shall set in place systems to monitor and assess environmental and social matters according to sections 3.2 and 6. The Portfolio Company shall establish clear indicators that allow for an in-depth analysis against set environmental and social goals formulated in the ESAP and reflect its Environmental and Social Policy. Results of the monitoring system shall be carefully analysed and reported on, and shall be subject to periodic verification, revision and reporting by the Fund management team. When business operations are subject to external, independent reviews due to the attainment of the FSC certification schemes, this may considerably minimize efforts undertaken directly by the Fund management team.

5.2.4 Involuntary resettlement

Land acquisition and restrictions on land use that result from project implementation can have adverse impacts on the communities who use the land. Physical or economic displacement can lead to impoverishment of affected communities and to adverse environmental and socioeconomic impacts in the areas to which they are displaced. For these reasons, the Fund is committed to avoid involuntary resettlement whenever possible, and to minimize and mitigate adverse impacts when involuntary resettlement is unavoidable.

Portfolio Companies will be required to address land acquisition processes in compliance with the IFC Performance Standard 5 – *Land Acquisition and Involuntary Resettlement*. Portfolio Companies shall identify any potential physical or economic displacement as part of the Environmental and Social Risk and Impact Assessment conducted prior to the start or expansion of business operations. All ownership status should be considered in the assessment.

In cases of unavoidable involuntary resettlement, the Portfolio Company will develop a **Land Acquisition and Resettlement or Livelihood Restoration Action Plan (LARP)** that will be guided by the overall objectives: avoid forced eviction, avoid or minimize adverse impacts on displaced persons, compensate for losses and improve livelihoods of displaced persons. The process should be based on

appropriate information disclosure, consultation and participation of the affected communities, with special attention to vulnerable peoples. The Portfolio Company should as well explore ways to collaborate with public institutions.

In those cases where the exact nature of displacement is still unknown, Portfolio Companies will develop a **Land Acquisition and Resettlement or Livelihood Restoration Framework (LARF)** that will set the principles to develop specific plans once the project is defined and necessary information becomes available. Such frameworks shall be developed following the requirements of the IFC Performance Standards, the GCF Environmental and Social Policy, standards and requirements of other investors, and applicable national laws and policies.

A LARF or LARP should address at minimum the components required by the IFC Performance Standard 5:

- Criteria for identification and census of affected communities, with specific ownership status
- Measures to compensate for losses at full replacement cost with provisions to offer several choices and improvement to the displaced persons
- Measures to improve livelihood conditions
- Measures to provide relocation assistance or support until displaced economic activities are restored
- Detailed budget and schedule
- Approach to engage with affected communities: information disclosure, consultation, participation and establishment of grievance mechanisms
- System to document all measures undertaken
- System to monitor and report on the achievements of the plan
- Provisions for the completion audit

Annex 7 provides additional guidance on the objectives and components that should be considered for LARF and LARP.

5.2.5 Indigenous Peoples

Forestry projects may be developed in areas where communities of indigenous peoples are present. Given that indigenous peoples are particularly vulnerable to adverse impacts, Portfolio Companies will be required to identify all communities of indigenous peoples in the area of influence of the project as part of their Environmental and Social Risk and Impact Assessment.

In case project activities may have adverse impacts on indigenous peoples, the Portfolio Company will adopt specific measures to address them in compliance with the IFC Performance Standard 7 – *Indigenous Peoples*. Such requirements include:

- Ensure the full respect of their human rights, dignity, aspirations, culture and natural resource-based livelihoods.
- Avoid adverse impacts, or when unavoidable, minimize and compensate for such impacts.
- Promote sustainable development benefits and opportunities in a culturally appropriate manner.
- Establish a continuous relationship based on Informed Consultation and Participation.
- Ensure Free, Prior and Informed Consent where required.

- Respect and preserve their culture, knowledge and practices.

In cases where adverse impacts cannot be avoided, Portfolio Companies will develop an **Indigenous Peoples Plan** to address adverse impacts and explore opportunities to create positive impacts. The plan should include the following elements, based on the Annex A of the IFC Performance Standards Guidance Note 7:

- Baseline information
- Analysis of impacts, risks and opportunities
- Results of consultations and future engagement
- Measures to avoid, minimize and mitigate negative impacts and to enhance positive impacts
- Where applicable, community based natural resource management component
- Measures to enhance opportunities
- Grievance mechanism
- Costs, budget, timetable and organizational responsibilities
- Monitoring, evaluation and reporting

Annex 8 provides additional guidance on indigenous peoples.

5.2.6 Coherence with EU FLEGT and related policies

The Fund will work in a way that is consistent with commitments like the ECOFAC and FLEGT which reflect the EU's determination to work with timber-producing countries to tackle deforestation and curb illegal trade in timber. The Fund management team will therefore maintain a close dialog with the EU FLEGT Facility to ensure that investments target countries where a Voluntary Partnership Agreement is already signed, or the negotiation process is not put on hold due to limited commitment of the partner country. Similar processes such as the US Lacey Act will also be observed to assess the investment environment.

5.2.7 Stakeholder engagement

The Fund acknowledges that solid and constructive relationships between Portfolio Companies and stakeholders are essential to successfully manage environmental and social risks and create positive impacts. Portfolio Companies will be required to integrate stakeholder engagement into business operations as an inclusive and continuous process. The adopted strategies will be adapted to the specific characteristics of the operations, and resources and level of effort will be commensurate with the risks and impacts of the project. Portfolio Companies will follow the guidelines of the IFC Performance Standards, the IFC Stakeholder Consultations Good Practises Handbook, the GCF Sustainability Guidance Note: Designing and ensuring meaningful stakeholder engagement on GCF financed projects, as well as the recommendations of the FSC.

Stakeholder engagement involves the following elements in varying degrees:

- Stakeholder analysis and engagement planning
- Disclosure and dissemination of relevant information about the Portfolio Company operations
- Public consultations and stakeholder participation
- Effective grievance mechanism

- Ongoing reporting to affected communities

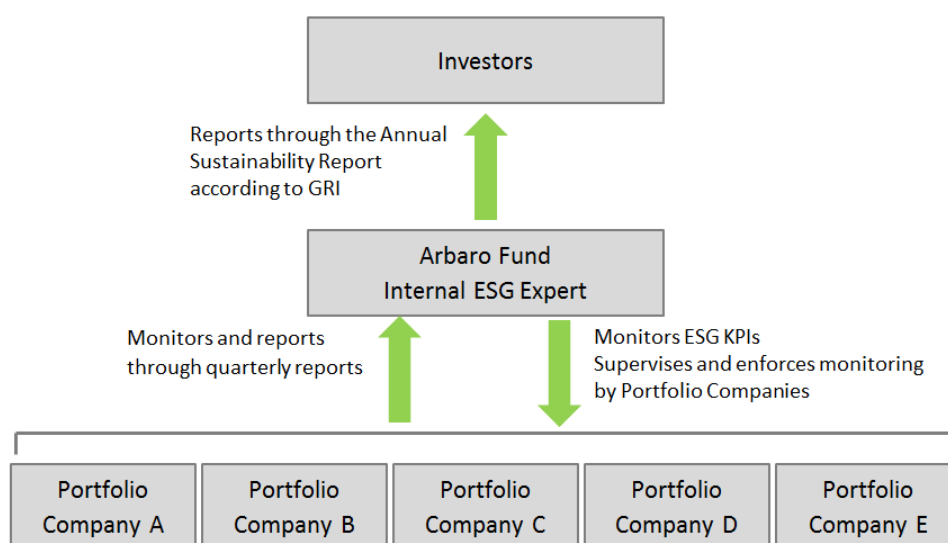
Annex 9 provides an outline of the contents that a comprehensive Stakeholder Engagement Plan should include, based on the Annex A of the IFC Performance Standards Guidance Note 1.

Annex 10 provides additional guidance related to Grievance Mechanisms that will be operated at Portfolio Company level. In addition to those, the Fund has developed a Complaint Policy (available in Annex 11) and will set up mechanism to offer stakeholders the possibility to address grievances directly to the Fund management team. Such mechanism will be made available to stakeholders through the Fund's website.

6 MONITORING AND REPORTING

6.1.1 Process overview

The Fund will implement an ESG monitoring and reporting process in two levels. Portfolio Companies will monitor project activities and report to the Fund management team. The Fund management team will in turn collect the data from Portfolio Companies and report in an aggregated form to investors.



Two-level monitoring and reporting process

6.1.2 Portfolio Company

The Portfolio Company will be held responsible to continuously monitor the ESG performance of its operations. The Portfolio Company will report periodically to the Fund on a defined set of indicators. In most cases report templates will consist of a simple table that shall be completed with the defined indicators and updated on a quarterly basis, and a section where additional observations can be described. This approach is considered to lower transaction costs and efforts for internal reporting while at the same time encouraging close follow-up of ESG matters.

The specific set indicators and frequency of reports will be defined case by case, but will in most cases include:

- **Quarterly reports:** General update on relevant social and environmental issues.

- **Annual reports:** Detailed information on the ESG performance of the Portfolio Companies. Contents normally included in the annual reports are included in Annex 12.

Also, ESG matters will be followed up during regular field visits of the Fund management team and will be in the agenda of Board meetings that will be held on a quarterly basis at the Portfolio Company. The Board will evaluate the ESG performance of the Portfolio Company against set goals, define the goals for the next year, analyse weaknesses and discuss any necessary adjustments. Furthermore, the Fund management team will support the Portfolio Companies to reach set ESG goals and introduce and enhance the monitoring and reporting process if difficulties arise that prevent the Portfolio Company from delivering according to the agreement.

In addition to standard reports, Portfolio Companies will be required to immediately report to the Fund in case of **extraordinary events**, such as any changes in the scope of the project that entail new ESG risks or opportunities, any serious incidents, or any breach of the ESG requirements. In such cases, additional site visits may be necessary to assess the situation through interviews with management, employees, contractors and affected communities, through relevant environmental checks, and reviews of company records. Furthermore, independent verifications by specialist consultants will be considered only in cases of serious ESG related incidents or reasonable doubt of serious infringements.

6.1.3 Fund level

The Fund management team will report regularly and in a transparent manner about activities, results, and challenges of its business operations in line with its vision and mission. ESG issues shall be reported in depth to investors at least once a year mainly through the **Annual ES Report** of the Fund. In addition, an **Annual Sustainability Report** will be publicly disclosed to report to all stakeholders.

Annual reports will present information on the ESG management at Fund level, as well as key information on Portfolio Companies. In order to facilitate this, it will be crucial to define with each Portfolio Company standardized and clearly defined indicators³. The Fund management team will also report progress against the ESG KPIs according to the methodology described in the *Methodological Approach for Environmental, Social and Governance Key Performance Indicators*.

7 DISCLOSURE OF INFORMATION

The Fund is committed to transparency in its operations and will seek to share and facilitate access to relevant information about its operations with stakeholders.

As described in previous sections, the Fund will ensure effective stakeholder engagement in all the projects in which it is invested, included appropriate grievance mechanisms, has set up a complaint mechanism at Fund level, and will publicly disclose its Annual Sustainability Report in the Fund website. In addition to these, the Fund will disclose additional reports on environmental and social impact of its projects, in line with the information disclosure policies of its investors, including the GCF.

In relation to each Category A and Category B subproject of the Portfolio Companies, the Fund will disclose the Environmental and Social Impact Assessment and Environmental and Social Management Plan, and as appropriate, the Land Acquisition and Resettlement Action Plan, Livelihood Restoration Action Plan, Indigenous Peoples Plan and any other associated information required to be disclosed in accordance with the GCF and Fund disclosure requirements. The Fund will disclose the information

³ Whenever possible the Fund will define indicators in line with the GRI standards.

120 calendar days (for Category A subprojects) or 30 calendar days (for Category B subprojects) in advance of the approval of the subprojects, in English and the local language. The disclosure will be on the Fund website and in locations convenient to affected peoples, and the information will be provided to GCF. The Fund will take into account the comments and inputs received in the finalization of the documents.

ANNEX 1 – ESG SCREENING CHECKLIST



ESG SCREENING CHECKLIST

August 2019

1 Objectives

- Provide relevant information for a preliminary assessment of potential ESG risks;
- Gather available documents and information on current ESG management;
- Identify to the extent possible any deal breaking issues at an early stage;
- Guide and inform the on-site due diligence process.

This list is not exhaustive, and further issues are considered as identified on a case by case basis.

2 General information on the potential Portfolio Company

Company Name	
First year of activities	
Location of plantation areas (with geographical coordinates)	
Target total and planted area	
Current total and planted area	
Species and regimes	

3 Identification of 'No-Go' issues

- ☐ Exclusion List
- ☐ Solid evidence / reasonable doubt of forest conversion since 1994
- ☐ EU FLEGT

If there is robust evidence that the project involves any 'No-Go' issues, the project shall not be considered for investment.

4 Key ESG information and risks

4.1 Land tenure – IFC PS 5

[Describe the land tenure situation in the country e.g. mostly private property / government owned and concession-based, and in the region e.g. land mostly owned by communities, smallholders, large-scale landowners.]

Aspect	Observation / Comment	Reference
Land use strategy foreseen by the company: Purchase / lease land from communities / large private owners Land concentrated in one property / distributed among more properties		
Share of the target production area already secured		
Tenure status of the area currently controlled by the company		
Any easements on the land? By whom?		
Information on conflicts over land tenure in current and target areas		
Company follows UN FAO VGGT if applicable?		

4.2 Communities – IFC PS 4, 5, 7 and 8

[Describe main traditional and customary rights of communities in the country.]

Aspect	Observation / Comment	Reference
Local and indigenous communities / stakeholders How far away and how many? Are these identified by the company?		
Main livelihoods of local and indigenous communities		
Are communities dependent on the resources and land managed by the company?		
Status of community customary rights over resources		
Company-community relationships		
Company implements a Stakeholder Engagement Plan?		

Aspect	Observation / Comment	Reference
Company employs participatory, fair and transparent decision-making processes? Evidence of FPIC from indigenous peoples? How is this recorded / documented?		
Any resettlements or (unresolvable) conflicts with communities, particularly in the last 5 years?		
Operations create noise, dust, vibration, shadow, etc. to an extent that could affect local communities?		
Project activities significantly increase transport and heavy vehicles in the area? Could this affect local infrastructure? Schools, hospitals, relocation of bridges, etc.		
Cultural sites on the project area or surroundings? Are these considered in the HCV process? Cultural sites could be cemeteries, places of worship, holy sites or trees, etc.		
Social impacts of company operations are monitored over time? Communities have an opportunity to discuss E&S performance with the company?		
Grievance mechanism operational and policy / processes developed to handle grievances?		
Security guards employed? Trained in the Voluntary Principles on Security and Human Rights?		

4.3 Labour – IFC PS 2

[Describe the main labour laws and the situation in the country: largely formal / informal workforce in the area, availability of professional contractors that comply with the law, likelihood of child labour, forced labour.]

Aspect	Observation / Comment	Reference
Number of workers and origin: local or non-local		
% of the workforce that is direct and contracted		
Awareness / information available regarding contractor's labour practices		
Is there any evidence or reasonable doubt of child labour or forced labour?		
Do workers live in the working place?		
Are forest operations mostly manual or mechanized? Do workers have adequate training and equipment?		
Did any serious accident happen in the last 5 years? Is there evidence of serious accident records?		
Do working conditions comply with the ILO Fundamental Conventions?		

4.4 Environmental aspects – IFC PS 3 and 6

[Describe the main environmental laws the project is subject to (environmental licenses, impact assessment, forest management plan, conservation areas) and the situation in the country (functioning governmental agencies, regular controls and high compliance in the country).]

Aspect	Observation / Comment	Reference
Status of the company regarding main environmental requirements		<i>[refer to environmental licenses, if any]</i>
Is there a land use planning process? Is there a target conservation area? Does it cover at least 5% of the area?		<i>[refer to land use planning process]</i>
Natural biophysical conditions and baseline		<i>[refer to ESIA, baseline studies]</i>

Aspect	Observation / Comment	Reference
conditions / studies conducted incl. status prior to activities		
Forest conversion after 1994?		<i>[refer to historical satellite images]</i>
Degradation of peatlands?		
Land with conservation / protected areas status (IUCN PA categories) in the vicinity (distance)?		
HCVA assessment completed? If no: Likelihood and size of HCVs in the management units or the vicinity		
Information on flora and fauna, particularly endangered species		
Critical habitat within management unit identified?		
Other conditions that pose significant environmental risk (natural or other conditions)	Soil / erosion (steep terrain, rockiness, floodplains)	
	Pests and diseases	
	Water (shortage, drought, floods)	
	Other	

4.5 FSC

Aspect	Observation / Comment	Reference
Company is FSC FM certified? If yes: Date of last audit and relevant CARs If no: Company expected to reach certification within 3 years?		
Timber harvest follows RIL methods?		

4.6 Organization – IFC PS 1

Aspect	Observation / Comment	Reference
Senior management aware of main ESG issues?		
Company ESG Policy endorsed by senior management?		
Is there a senior manager responsible for ESG?		
Are personnel assigned specific responsibility for different ESG aspects? Health and safety, community relations, etc. Are these staff suitably qualified to manage E&S risks?		
ESMS implemented according to IFC PS1 requirements?		
Company has conducted an ESIA? Is this publicly available?		
E&S impacts managed via ESAP?		
Application of the mitigation hierarchy?		

4.7 Governance

Aspect	Observation / Comment	Reference
Company commits to the Fund's ESG requirements?		
Company operations exclude all activities on the Fund's Exclusion List?		
Company complies with local and national laws and regulations?		
Company adheres to international conventions?		
Company adheres to good corporate governance and integrity standards? Business Integrity AP implemented?		

Company assesses risk of illegal timber in supply chains? Takes appropriate mitigation measures?

4.8 Impact

Aspect	Observation / Comment	Reference
Company will generate formal employment opportunities for local community members	<i>[provide estimate]</i>	
Company will sequester CO ₂	<i>[provide estimate]</i>	

5 Summary and preliminary risk categorization

The project involves following risk factors:

- ☐ Region with no precedents of this type of project
- ☐ Unclear tenure rights and/or evidence of conflicts regarding land tenure
- ☐ Local or indigenous communities in or surrounding the managed area
- ☐ Natural environment close to the project area is HCV, critical habitat, protected area
- ☐ Endangered or endemic species in the area
- ☐ Other significant environmental risk due to local conditions (soil, water, waste, pesticide)
- ☐ High share of sub-contracted personnel
- ☐ High historical accident / incident rate up to date or one major accident / incident
- ☐ Weak institutional framework and law enforcements regarding labor and environment

The project may be classified according to following risk categories with regard to the number, importance and extension of the risks stated above.

Preliminary risk category

- ☐ Category A: Potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented
- ☐ Category B: Potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures
- ☐ Category C: Minimal or no adverse environmental or social risks and/or impacts

Justification

6 Plan and budget for DD

- Need of specific experts
- Foreseen date for DD and site visits
- Estimated budget

7 Documents received / information used

	Y/N	Specifications
General documents		
Land titles / leasing contracts		
Business Plan		
Feasibility Studies		
E&S Policy / ESMS		
Forest Management Plan		
Corporate Governance / Business Integrity Policy / Action Plan		
Organisational Structure		
ESG documents		
ISO / FSC Certification, audit reports?		
Human Resource Policy		
Health and Safety Plan / Procedures		
E&S Monitoring Procedures		
List of workers and specifications		
Registry of accidents		
Fire prevention plan / other emergency plans		
Disaster		
EIA / ESIA / ESMP / Action Plan		
Stakeholder Engagement Plan		
Grievance Mechanism		
Environmental Permits		
E&S Monitoring & Review Plan		
Other documents		
Company / Project website		
Press & media / articles		
Satellite pictures		
Others		

ANNEX 2 – ES DUE DILIGENCE REPORT



ENVIRONMENTAL AND SOCIAL DD REPORT

August 2019

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1 Introduction

- Short description of the ESG process: dates and visits, experts involved
- List of reviewed documents (attachment)
- List of interviewed persons (attachment)
- Mention any limitations to the DD process
- Relevant standards that were assessed or are applicable:

Standards / requirements	Applicable	Assessed
IFC Performance Standards		
FSC Principles and Criteria		
Exclusion list		
EU FLEGT		
ILO Fundamental Conventions		
EIB Environmental and Social Handbook		
FAO VGGT		
Other		

2 Risk categorization

- Short information on the ESG risk profile of the project at hand when considering project type, size and location.
- Project categorization according to IFC guidelines: A, B, or C with short justification.

Risk category

- ☐ Category A: Potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented
- ☐ Category B: Potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures
- ☐ Category C: Minimal or no adverse environmental or social risks and/or impacts

Justification / Main risks identified

Confidential

3 Compliance with applicable local and international law

Assessment of local laws and international treaties and their requirements, necessary approvals from environmental agencies that exist or will be issued, in case approval has been issued which requirements have to be met.

[illegible]

4 Compliance with environmental and social requirements

Assessment of environmental and social risks following the structure of the IFC Performance Standards, and compliance to additional ES requirements of the Fund.

4.1 PS1: Assessment and Management of Environmental and Social Risks and Impacts

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
ES Policy				
Identification of ES risks and impacts, including				
Baseline data collection				
Alternative analysis				
Evaluation methodology / significance criteria				
Mitigation measures				
Climate change				
Transboundary impacts				
Cumulative impacts				
Business and human rights				
Disadvantages or vulnerable groups				
Gender				
Third party impact				
Supply chains				
Regional, sectoral or strategic assessment				
Management program / ESMS				
Organizational capacity and competencies				
Emergency preparedness and response				
Monitoring system				
Stakeholder engagement				
Stakeholder analysis and engagement planning				
Disclosure of information				
Consultation / Informed consultation and participation				
Indigenous peoples				
Private sector responsibilities under government-led stakeholder engagement				
External communication				

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Grievances mechanism for affected communities				
Reporting and disclosure				
Periodic reporting to affected communities				

ESMS

- Describe which mechanisms are already in place and which are in process to be implemented.
- Documentation available: ES Policy, ES risk and impact assessment, management programs and monitoring system.
- Endorsement by senior management and communication to staff.

Organizational capacity to implement the ESMS

- Senior and staff roles and responsibilities, with emphasis on the thematic areas of coordination, environmental management, health and safety and community relations.

Stakeholder engagement

- Describe the procedures for identification of and engagement with affected communities and indigenous peoples.

External communication and grievance mechanisms

- Describe the system in place to communicate with relevant stakeholders, particularly with affected communities and indigenous peoples.
- Describe and assess grievance mechanisms in place.

Reporting and disclosure

- Describe the reporting system, frequency and kind of information reported.

4.2 PS2: Labour and Working Conditions

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Human Resources Policies				
Working conditions and terms of employment				
Workers accommodation				
Workers organizations				
Non-discrimination and equal opportunity				
Retrenchment				

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Labour grievance mechanism				
Child labour				
Forced labour				
Occupational health & safety				
Management of contractors				
Control over primary supply chains				

Human resources policies and working relations

- Do workers have legal contracts and benefits according to the law: social security, minimum age, working hours, collective bargain?
- In case the law is silent about this, does the company prevent collective bargain or hire workers under the age of 18 in exploitative forms?
- In case of contracted personnel, is there a reasonable control over these aspects? Are environmental and social aspects introduced into the contract with service providers?
- Are equal opportunities granted to women and minorities?
- Do working conditions comply with the ILO Fundamental Conventions?

Occupational health and safety

- Characteristics of working conditions: harvest operations, use heavy machinery, use and management of pesticides.
- Which necessary precautions are in place: trainings, EPI, signalisation, emergency plans? Which are not considered?
- Is there a health and safety plan in place?
- What kind of accidents and incidents have been registered and given due follow up?

4.3 PS3: Resource Efficiency and Pollution Prevention

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Resource efficiency				
Water usage and treatment				
Pollution prevention				
Pollutant emissions				
Contaminated land				
Waste management				
Hazardous materials management				
Pesticide use and management				
To be filled individually for each pesticide used				

Environmental impacts

- Which potential impacts have been identified and included in the ESMS? Have any potential impacts not been considered?
- Is there an appropriate management system in place for waste, water and emissions?

Use of chemicals

- Is there a plan for the safe use of chemicals, including application, storage and disposition?
- Are any pesticides and chemicals being used that are subject to international ban?
- Are any pesticides being used that are included in the list of highly hazardous pesticides of FSC?

4.4 PS4: Community Health, Safety and Security

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Community health and safety general requirements				
Dust / air quality				
Noise				
Vibration				
Shadow / visual impacts				
Infrastructure and equipment design and safety				
Traffic and transportation				
Ecosystem services / natural resources issues				
Exposure to hazardous materials				
Exposure to disease (water)				
Emergency preparedness and response				
Site security and security personnel				

Community health and safety

- Which main health and safety aspects have been identified (noise, dust, accidents, hazardous materials, water pollution) that could affect communities? Are any aspects not been considered?
- Are adequate mitigation measures in place and included in the ESMS?
- Are adequate grievance mechanisms in place?

Security personnel

- In case the company hired security personnel, are safeguards in place to minimize potential risk towards people outside the project area?

- Are they trained in the Voluntary Principles on Security and Human Rights?

4.5 PS5: Land Acquisition and Involuntary Resettlement

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Project design				
Compensations and benefits for displaced persons				
Community engagement				
Grievance mechanism				
Resettlement / livelihood restoration planning and implementation				
Physical displacement				
Economic displacement				
Private sector responsibilities under government-managed resettlement				

Conflicts over land tenure and displacement

- Are there any conflicts over land tenure?
- Is the project designed to avoid or minimize physical and/or economic displacement?
- If displacement is unavoidable, are resettlement or livelihood restoration plans in place? Is the process participative and does the company offer appropriate compensation?

UN FAO VGGT

- Does the company follow UN FAO VGGT if applicable?

4.6 PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Habitat				
Natural habitat				
Critical habitat				
Legally protected and internationally recognized areas				
Invasive alien species				
Land use design and planning respecting biodiversity				
Identification of risks and impacts on biodiversity				

Main aspects	Assessment			Comments
	Weak	Medium	Strong	
Application of the mitigation hierarchy				

Land use plan, conversion of natural forests and HCV assessment

- Describe land use of the project.
- Project is located on:
 - Modified habitat: XX ha
 - Natural habitat: XX ha
 - Critical habitat: XX ha
 - Legally protected area: XX ha
- Is there evidence that the project did conversion of natural forests since 1994 or do foreseen project activities involve conversion of natural forests?
- Is there a target conservation area?
- Have HCV areas been identified in the project area? Has the assessment been approved by local stakeholders? Are there mitigation measures in place and are these monitored?

Risk assessment and mitigation hierarchy

- Are these risks included in the ESMS according to the scope and scale of the project and the biological value of the area in which it is located?
- Are mitigation measures in place according to the mitigation hierarchy principle, particularly regarding impacts on biodiversity and ecosystem services, especially focusing on habitat loss, degradation and fragmentation and invasive species?
- Are differing values attached to biodiversity and ecosystem services by affected communities taken into account?

4.7 PS7: Indigenous Peoples

Main aspects	Assessment			Review of Project
	Weak	Medium	Strong	
Avoidance of adverse impacts				
Risks and impact assessment				
Impacts on traditional or customary lands				
Relocation from traditional or customary lands				
Design and implementation of mitigation measures				
Principles of FPIC				
Compensation and benefit sharing mechanisms				

Indigenous peoples

- How were indigenous peoples included in the risk assessment analysis?
- What traditional and customary rights were identified in the process? Were cultural sites considered in the assessment?
- Are the principles of FPIC met?
- Are appropriate mitigation measures in place? Are they compensated?

4.8 PS8: Cultural Heritage

Main aspects	Assessment			Review of Project
	Weak	Medium	Strong	
Project design to avoid impacts on cultural heritage				
Chance find procedures				
Consultation and community access				
Appropriate mitigation measures in place if applicable				

Cultural heritage identification

- Which cultural heritage sites did the company identify?
- Are chance find procedures in place, when applicable? Is this aspect considered in the ESMS?
- Are appropriate mitigation measures related to cultural heritage in place?

5 Summary of main findings and gap analysis

- Summarize the most important and relevant aspects of the assessment, combining main risks with an assessment of the management set in place to respond to these risks. Then describe main gaps and the current capacity and willingness of the company to address them.

Main risks identified	Management capacities in place ¹	Gaps and weaknesses	Capacity to address gaps and weaknesses

6 Vote and suggested ESAP measures

- Statement of decision if this project can be supported from an environmental and social point of view. In case deficiencies have been detected, decision can be linked to actions to be taken.
- Define necessary actions to be taken by the company to address risks and gaps identified. To the extent possible, these should include clear timelines, responsibilities, completion indicators and, to the extent possible, estimated costs.

¹ Weak: The aspect has not been implemented by the company and/or presents major flaws and inconsistencies and/or the company does not have the knowledge / capacities to implement it. Medium: The aspect is partially implemented with weaknesses which can be addressed. Strong: The aspect is largely implemented with minor weaknesses that are relatively easy to address and/or with a good plan regarding how to address weaknesses.

ANNEX 3 – EXCLUSION LIST

The Fund will not invest in companies which benefit from and/or which business revenue directly derives from:

- 1- Production or activities involving harmful or exploitative forms of forced labour⁴ / harmful child labour⁵;
- 2- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- 3- Any business relating to pornography or prostitution;
- 4- Production or trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES);
- 5- Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibres and products containing PCBs⁶;
- 6- Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations;
- 7- Unsustainable fishing methods (i.e. drift net fishing in the marine environment using nets in excess of 2.5 km in length and blast fishing);
- 8- Production, use of or trade in pharmaceuticals, pesticides / herbicides, chemicals, ozone depleting substances⁷ and other hazardous substances subject to international phase-outs or bans;
- 9- Destruction of Critical Habitats⁸;
- 10- Production and distribution of racist, anti-democratic and/or neo-Nazi media;

⁴ “Forced labour” means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁵ “Harmful child labour” means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child’s education, or to be harmful to the child’s health, or physical, mental, moral or social development. In addition, any labour that is performed by a person which has not yet reached the age of 15 is considered to be harmful, unless the local legislation specifies compulsory school attendance or the minimum age for working to be higher; in such cases, the higher age will be applied for defining harmful child labour.

⁶ PCBs: Polychlorinated biphenyls, a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

⁷ “Ozone Depleting Substances” (ODS): Chemical compounds, which react with and delete stratospheric ozone, resulting in “holes in the ozone layer”. The Montreal Protocol lists ODS and their target reduction and phase-out dates.

⁸ “Critical Habitat” is a subset of both natural and modified habitat that deserves particular attention. Critical Habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (“IUCN”) classification, including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species or as defined in any national legislation; areas having special significance for endemic or restricted-range species; sites that are critical for the survival of migratory species; areas supporting globally significant concentrations or numbers of individuals of congregatory species; areas with unique assemblages of species or which are affiliated with key evolutionary processes or provide key ecosystem services; and areas having biodiversity of significant social, economic or cultural importance to local communities. Primary forest or forests of high conservation value shall be considered Critical Habitats.

- 11- Tobacco, if it forms a substantial part of a project's primary financed business activities⁹;
- 12- Live animals for scientific and experimental purposes, including the breeding of these animals;
- 13- Ammunition and weapons, military / police equipment or infrastructure;
- 14- Gambling, casinos and equivalent enterprises;
- 15- Commercial concessions over, and logging on tropical natural forest; conversion of natural forest to a plantation;
- 16- Purchase of logging equipment for use in tropical natural forests or high nature value forest in all regions; and activities that lead to clear cutting and / or degradation of tropical natural forests or high nature value forest;
- 17- New palm oil plantations.

In addition to the above list of excluded activities, the Fund shall not make investments in the following:

- 1- Projects/Investments entailing negative land cover change¹⁰. This is to be demonstrated with aerial photographs or satellite images, or using credible, official records.
- 2- Extensive monoculture forest plantations¹¹;
- 3- Conversion of drylands to irrigated forest plantations with new permanent irrigation and/or pumping systems;
- 4- Projects/Investments entailing the production of, use of and trade in Genetically Modified Organisms (GMOs);
- 5- Greenfield or brownfield palm oil plantations and investments in the entire palm oil value chain;
- 6- Any biomass to energy project;
- 7- Any tropical natural forest management project, or any community forest management project when related to natural forest management.

⁹ A benchmark for substantial is 5-10% of the balance sheet or the financed volume or sales revenues in acquired asset or the Portfolio Company.

¹⁰ For example, the conversion of "Natural and Semi-Natural Vegetation" to "Cultivated and Managed Terrestrial Areas".

¹¹ Extensive monoculture plantations do not comply with international biodiversity objectives and bear high financial and economic risks (e.g. exposure to endemic risks such as pest attacks, wind-throws, and large forest fires).

ANNEX 4 – SUSTAINABLE PLANTATION FORESTRY

Arbaro Approach

The Arbaro Fund supports that sustainably managed forest plantations can provide an efficient and continuous source of wood products, while reducing pressure on natural forests, creating employment and socioeconomic development in rural areas, and contributing to climate change mitigation and adaptation. The Fund is committed to develop sustainable plantation forestry projects where the sustainability needs to be evidenced in three broad areas: economic, environmental and social aspects.

In order to achieve these, the Fund adheres to, and uses a number of guidelines and analysis tools, detailed in the ESMS of the Fund. The most relevant are the IFC performance standards and the guiding notes supporting their application, and the Forest Stewardship Council (FSC) standards that are specific to forest management. All projects in which the Fund invests will adhere to full compliance to such standards and achieve FSC certification within three years.

Forest Stewardship Council

FSC is a non-profit organization that promotes environmentally sound, socially beneficial and economically viable management of forests. It provides a system for voluntary and independent certification that ensures compliance with the FSC Principles. Certification is possible for natural forests and forest plantations, defined as “a forest area established by planting or sowing with using either alien or native species, often with one or few species, regular spacing and even ages, and which lacks most of the principal characteristics and key elements of natural forests”.

The FSC Principles constitute the essential rules for sustainable forest management. National standards are further developed through dialogue with a wide range of stakeholders, including indigenous groups, environmental NGOs and trade unions, to determine the most appropriate methods for that country.

The 10 FSC Principles

Principle 1. Compliance with laws: Comply with all applicable laws, regulations, and nationally ratified international treaties, conventions and agreements.
Principle 2. Workers’ rights and employment conditions: Maintain or enhance the social and economic wellbeing of workers.
Principle 3. Indigenous peoples’ rights: Identify and uphold indigenous peoples’ legal and customary rights of ownership, use and management of land, territories and resources affected by management activities.
Principle 4. Community relations: Maintain or enhance the social and economic wellbeing of local communities.
Principle 5. Benefits from the forest: Maintain or enhance the long-term economic viability and the range of social and environmental benefits.
Principle 6. Environmental values and impacts: Maintain, conserve and / or restore ecosystem services and environmental values, and avoid, repair or mitigate negative environmental impacts.
Principle 7. Management planning: Have a management plan consistent with policies and objectives and proportionate to scale, intensity and risks of management activities. The plan is implemented and updated based on monitoring information to promote adaptive management. The plan and associated documentation are sufficient to guide staff, inform affected and interested stakeholders and justify management decisions.
Principle 8. Monitoring and assessment: Demonstrate the progress towards management objectives and impacts are monitored and evaluated proportionate to the scale, intensity and risk of management activities, in order to implement adaptive management.

Principle 9. High conservation values: Maintain and / or enhance the high conservation values through applying the precautionary approach.

Principle 10. Implementation of management activities: Management activities are selected and implemented consistent with the company economic, environmental and social policies and objectives, and in compliance with the FSC Principles and Criteria.

FSC certification is a powerful tool. It provides plantation managers with guidance for positive change and leads to the development of more transparent and open company cultures. It is the most rigorous and comprehensive forest certification scheme according to environmental NGOs such as the WWF.

Environmental Aspects

One of the key characteristics of an environmentally responsible forest plantation is that no deforestation occurs because of the establishment of the project. Therefore, conversion of existing natural forests is prohibited. Furthermore, operations have to promote the protection, restoration and conservation of natural forests and other high conservation value areas. Wildlife corridors, streamside zones and a mosaic of stands of different ages and rotation periods must be considered in the layout of the plantation.

FSC certified operations follow strict environmental requirements. For instance, they are not allowed to use genetically modified organisms, pesticide use must be replaced as much as possible and monitored, impacts on soil and water resources must be minimized, measures are required to maintain or improve soil structure, fertility and biological activity. Measures should also be taken to prevent and minimize outbreaks of pests, diseases, fire and invasive plant introductions.

Social Aspects

Certified plantations also have to respect a range of social indicators, including the long-term social and economic wellbeing of forest workers and local communities, respect for indigenous and worker rights, and safe working conditions. Plantations are often large rural employers, making certification an important means for ensuring that benefits from forestry operations pass on to workers.

Companies must integrate stakeholder engagement strategies into their operations. All local communities, indigenous peoples and other stakeholders that may be affected by project operations must be identified, and their legal and customary rights over the resources and any areas of special significance for them must be respected and protected. Companies have to assess, avoid and mitigate any potential negative impacts, develop mechanisms for grievance and compensation, and share sufficient information on operations. Furthermore, companies have to explore options to create additional opportunities and contribute to socioeconomic development.

Forest Management Plan and Economic Aspects

Certified companies have to conduct their operations in a manner that ensures the long-term economic viability of the project and the associated social and environmental benefits. The Forest Management Plan is the main tool to achieve this. The plan includes documented policies, detailed procedures and operational planning that is sufficient to ensure that operations are conducted in line with the objectives of the company. The implementation of a monitoring system is essential to continuously assess progress of activities planned and achievement of objectives. The results are shared with stakeholders and used to update the Forest Management Plan on a regular basis.

FSC certification process

- Country specific standards: While the FSC Principles set out the general requirements for sustainable forest management, companies are audited against more detailed sets of requirements, which are developed for national conditions through dialogue with stakeholders. This ensures that requirements, as well as improvements over time, are adapted to the specific conditions of projects.
- Certification by independent auditors: Certification is conducted by independent third-party certification bodies to ensure impartial certification decisions. Certification bodies follow specific requirements and rules for certification processes, need to be accredited, and are subject to regular controls themselves.
- Annual audits: To obtain FSC certification, companies need to successfully complete a main evaluation, which includes an audit of the management system, site audits, interviews and stakeholder consultations. The certificate is issued for five years, after which the company needs to undergo a new main evaluation. In addition, companies are subject to annual surveillance audits that involve desk audits, site visits, interviews and stakeholder consultation.
- Information publicly available: Summaries of all audit reports, with details on non-conformities and corrective measures, are available online for consultation at the FSC certificate database (<https://info.fsc.org/certificate.php>).

ANNEX 5 – OUTLINE OF ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT

Each Portfolio Company will be required to conduct an ESIA in line with the relevant legislation and the Fund ESG requirements. While the scope and level of detail of the ESIA should be commensurate with the potential impacts of the foresee operations, a comprehensive ESIA report should include the following items:

- (a) **Executive summary.** Concisely discusses significant findings and recommended actions.
- (b) **Policy, legal and administrative framework.** Presents the policy, legal and administrative framework within which the assessment is carried out.
- (c) **Project description.** Describes the proposed project and its geographic, ecological, social and temporal context, including any associated facilities and third-party activities. It also indicates need for additional considerations due to land requirements and in meeting the needs of indigenous peoples. A map of the project site and the projected area of influence is included.
- (d) **Baseline data.** Assesses the dimensions of the study area and describes relevant physical, biological and socioeconomic conditions based on up-to-date information, including any changes anticipated before the project commences. It also takes into account current and proposed development activities within the project area that may not be directly connected to the project.
- (e) **Environmental and social impacts.** Identifies, predicts and assesses the likely positive and negative impacts, in qualitative and quantitative terms as may be feasible. Identifies indirect, cumulative and transboundary impacts, as well as impacts due to associated facilities and third-party activities. Identifies mitigation measures and any residual negative impacts that cannot be mitigated. Explores opportunities for environmental enhancement and improvement of the welfare and livelihoods of affected people. Identifies and estimates the extent and quality of available data, key data gaps and uncertainties associated with predictions, and specifies topics that may require further studies and attention.
- (f) **Analysis of alternatives.** Systematically compares feasible alternatives to the proposed activities, site, technology, design and operation – including the "do nothing" situation – in terms of their potential environmental and social impacts; the feasibility of mitigating these impacts; their suitability under local conditions; and their institutional, training and monitoring requirements.
- (g) **Environmental and social management plan (ESMP).** Covers mitigation measures, monitoring and institutional strengthening. It also includes description of the stakeholder engagement plan, grievance redress mechanism and disclosure of safeguards documents and relevant updates and further due diligence that may need to be undertaken. Please refer to Annex 5.
- (h) **Conclusion and recommendation.** Describes the conclusions drawn from the assessment and provides recommendations (e.g. additional specialized studies that need to be undertaken).
- (i) **Appendices:**
 - List of report preparers, individuals and organizations.
 - References and written materials, both published and unpublished, used in study preparation.
 - Record of stakeholder consultations, interagency consultation meetings, including consultations for obtaining the informed views of the affected people and local non-governmental organizations (NGOs). The record specifies any means other than consultations (e.g. surveys) that were used to obtain the views of affected groups and local NGOs.
 - Photo documentation, modelling outputs and assumptions, computations, tables presenting the relevant data referred to or summarized in the main text.

- List of associated reports (e.g. audit reports, strategic environmental assessment study, cumulative impact assessment study, resettlement plan or indigenous people development plan, etc.).

ANNEX 6 – OUTLINE OF ENVIRONMENTAL AND SOCIAL MANAGEMENT PLAN

An environmental and social management plan (ESMP) consists of the mitigation, monitoring and institutional measures and the actions to be taken during implementation and operation to eliminate adverse environmental and social impacts or reduce them to acceptable levels. The ESMP is informed by the ESIA by identifying the risks and impacts of the project and must be integrated into the overall planning, design, budget and implementation of the Portfolio Company operations.

The ESMP may be part of a broader plan (such as the Forest Management Plan) and will address the following aspects:

- (a) **Mitigation.** Identifies feasible and effective measures that when implemented may reduce potentially significant adverse environmental and social impacts to acceptable levels. Specifically, the ESMP: (i) identifies and summarizes (if ESMP is prepared as a separate document from the ESIA) all anticipated adverse and positive environmental and social impacts (including those involving indigenous people or involuntary resettlement); (ii) describes in detail the mitigation measures for each, including the type of impact to which it relates and the conditions under which it is required (e.g. continuously or in the event of contingencies), together with designs, equipment descriptions, and operating procedures, as appropriate; (iii) estimates any potential environmental and social impacts of these measures; and (iv) provides linkage with any other mitigation plans (e.g. for involuntary resettlement, Indigenous Peoples, or cultural property) required for the project.
- (b) **Monitoring.** Includes details of the environmental and social monitoring during project implementation. Provides information on the expected environmental and social outcomes, risks and impacts of the project and how the effectiveness of the mitigation measures are assessed. Such information enables the evaluation of the success of mitigation and allows corrective action to be taken when needed.
- (c) **Capacity development and training.** If necessary, the ESMP recommends the establishment or further development of responsible units or institutions and the training of personnel to allow implementation of ESIA and ESMP recommendations. Specifically, the ESMP provides a specific description of institutional arrangements for activities designed to build the capacity of the implementing institutions.
- (d) **Implementation arrangements.** Describes how the ESMP will be implemented including the roles and responsibilities related to the measures identified in the ESMP.
- (e) **Implementation schedule and cost estimates.** The ESMP provides an implementation schedule for measures that must be carried out as part of the project and the capital and recurrent cost estimates and sources of funds for implementing and monitoring the ESMP.
- (f) **Stakeholder engagement plan.** The ESMP will include plan for engaging the communities and stakeholders throughout the life of the project. This will also include strategies and mechanism for external communication, information disclosure and reporting to the communities.
- (g) **Grievance redress mechanism.** The ESMP will also describe the project level grievance redress mechanism, its processes for receiving and resolving grievances, and reporting to the communities and stakeholders.

ANNEX 7 – GUIDANCE FOR LAND ACQUISITION AND RESETTLEMENT

Rationale of a LARF

A Land Acquisition and Resettlement Framework (LARF) defines the process for screening, assessing, compensating and managing potential risks and impacts from land acquisition and resettlement due to operations supported by a Portfolio Company. As soon as the specific sites and the beneficiary communities of the operations have been defined clearly and in detail, the LARF should be expanded into a specific Land Acquisition and Resettlement Plan (LARP) in line with applicable safeguard requirements.

A LARF provides the necessary background to ensure that any operations that might involve land acquisition and/or resettlement and loss of livelihoods of affected people will comply with the national laws and the Fund ESG requirements.

For each operation that would have activities likely to generate resettlement impacts, a LARP will be prepared. The LARF describes the design criteria for the resettlement of affected persons in the course of implementation of the project, the legal context, the process for the preparation of a LARP, its contents and the process for its execution, and finally the required institutional organization.

Purpose of a LARF

Land acquisition and involuntary resettlement involve the displacement of people arising from operations that encroach on their productive assets, cultural sites and income sources such as land, grazing fields, other assets, etc. What distinguishes involuntary from voluntary resettlement is that the former involves people who may be displaced against their wishes, as they are often not the initiators of their movement.

The implementation of the various operations of a Portfolio Company may trigger the environmental and social safeguards on involuntary resettlement as the land may be acquired for operations purposes and affected persons will need to be compensated for loss of land, crops, dwellings and other structures, and livelihoods.

The purpose of a LARF is to appropriately deal with matters such as the necessity for land acquisition, compensation and resettlement of people affected by the implementation of the operations of the Portfolio Company.

Objectives of a LARF

The overall objective of a LARF is to provide guidance on how to deal with risks and impacts related to land acquisition, compensation and resettlement during the implementation of the project. A LARF ensures that displacement is avoided, and if not avoided, the displaced and resettled persons are compensated for their loss at replacement cost, given opportunities to share in project created benefits, and assisted with the move and during the transition period at the resettlement site.

The specific objectives of a LARF are as follows:

1. To minimize, as much as possible, acquisition of land for implementation of project operations, where such acquisition or project related activities will result in adverse social impacts;
2. To ensure that where land acquisition is necessary, this is executed as sustainable programs to enable people to share in the project benefits;

3. To ensure meaningful consultation with people to be affected or displaced;
4. To provide assistance that will mitigate or restore the negative impacts of the project implementation on the livelihoods of people affected in order to improve their livelihoods or at least restore to pre-project levels;
5. Outline roles and responsibilities by various stakeholders in the planning, implementation, monitoring and evaluation of resettlement activities;
6. Allow redress among communities affected by project activities; and
7. Reduce stress on project-affected communities/households.

The operational objective of a LARF is to provide guidance to stakeholders participating in the mitigation of adverse social impacts of the project, including rehabilitation/resettlement operations, in order to ensure that project affected persons will not be impoverished by the adverse social impacts of the project. The target groups for a LARF are all the stakeholders relevant to the implementation of the project operations. This includes project affected persons, communities and NGOs as applicable.

Legal and administrative framework governing land acquisition and resettlement

The legal and administrative framework relating to land acquisition and resettlement risks and issues consist of the various pieces of legislation of the countries where the project operations will be undertaken and the Fund ESG requirements (which include ESG standards of its investors as well as FSC requirements). It is important that at the operation level and as part of the formulation of a LARP, a gap assessment is undertaken to determine the alignment of the various legal and policy requirements, with a view of adopting the most stringent requirements applicable to the activities and for addressing risks related to land acquisition and resettlement. Key areas of comparison of the legal and administrative framework include compensation of lost assets, eligibility, level of assistance to affected people for improving standards of living and livelihoods, consultation and grievance redress, census and asset inventory, cut-off dates, the timing of compensation, vulnerable communities, and monitoring and completion.

An important consideration in identifying legal and administrative framework at the country level is the specific context related to processes for acquisition and land take, processes for resettlement of affected peoples, land tenure system, customary rights and traditional ownership of lands.

In addition to the national requirements, the subprojects will also need to align with the ESG requirements of the Fund. In particular, IFC Performance Standard 5 specific to land acquisition and involuntary resettlement recognizes that project-related land acquisition and restrictions on land use can have adverse impacts on communities and persons that use this land. The standard thus has the following objectives:

1. To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs;
2. To avoid forced eviction;
3. To anticipate and avoid, or where avoidance is not possible, minimise adverse social and economic impacts from land acquisition or restrictions on land use by (i) providing compensation for loss of assets at replacement cost and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation and the informed participation of those affected;
4. To improve, or restore, the livelihoods and standards of living of displaced persons; and

5. To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure at resettlement sites.

Involuntary resettlement in IFC PS 5 refers both to physical displacement (relocation or loss of shelter) and to economic displacement (loss of assets or access to assets that leads to loss of income sources or means of livelihood) as a result of project-related land acquisition. Resettlement is considered involuntary when affected individuals or communities do not have the right to refuse land acquisition, which results in displacement. Where it is unavoidable, appropriate measures to mitigate adverse impacts on displaced persons and host communities must be carefully planned and implemented.

Compensation framework

The LARP that will be prepared for specific Portfolio Company operations assessed to likely generate land acquisition and resettlement risks and impacts will need to define a compensation framework that would provide the payment for loss of lands or assets including access to land and resources. The compensation framework will be guided by the following principles:

1. Provide transparent, fair and timely compensation (prior to land clearance or taking land) for displacement, including compensation for assets in accordance with national regulations and applicable standards;
2. Compensate for lost assets at full replacement value; and
3. Restore the livelihoods and welfare of project affect persons and local communities such that their well-being is at the least, equal to their pre-resettlement conditions, or that they are better off.

The LARP will present the types of affected persons (such as landowners, tenants, forest occupants without formal tenure, owners of permanent and non-permanent infrastructures, people potentially losing livelihood and access to resources, etc.) and their compensation entitlements. The LARP will also provide the eligibility of affected people for compensation, for example providing consideration to formal legal rights, with leased rights, without legal rights, those arriving after the cut-off dates, etc.

Entitlement Planning

The LARP will also present the entitlement planning process and which would entail determining applicable compensation rates at replacement value and establishing measures to mitigate further impacts of land take including livelihoods restoration initiatives, and vulnerable person assistance measures. In establishing the applicable compensation rates, an independent valuation expert may be engaged to advise on the market values of affected land, crops and other economic assets in the subproject area.

Method of Compensation

Individual and household compensation will be made in cash, in kind and/or through assistance in the knowledge and presence of both man and wife and adult children or other relevant stakeholders where applicable. The type of compensation will be an individual choice although every effort will be made to instil the importance and preference of accepting in-kind compensation especially when the loss amounts to more than 20% of the total loss of productive assets. It should be noted that when land holdings necessary for the livelihood of affected persons are taken away or reduced in size by the project works, the preferred form of compensation is to offer an equivalent parcel of land elsewhere, i.e. land for land. Where such land is not available, cash payment can be an option even though cash

compensation is not the preferred form of compensation in such cases. It should be noted that cash compensation is only appropriate where there is a market for land or other lost assets in the area of the impact. It is unacceptable to offer cash compensation to, say, a farmer, when he/she has no possibility of acquiring new land in the same area.

Other key elements of the LARP preparation are the process for notifying affected people, census and documentation of assets, agreements on compensation and integration in contracts, and the mechanism for delivering compensations to affected people.

Livelihood Restoration

The Portfolio Company operations may also affect access of local communities to resources resulting in losses of livelihoods. The LARF should also include a livelihood restoration strategy to prevent and mitigate the potential adverse impacts on the vulnerable project affected persons as a direct result of the resettlement process.

Key principles guiding livelihood restoration planning

The sustainable approach to livelihood restoration is based on the following principles:

1. Livelihoods are multi-faceted strategies, and a combination of approaches is therefore required to support the restoration of income and the reestablishment of community support networks;
2. Active participation of intended beneficiaries in planning and decision making to ensure proposed support reflects local realities and priorities;
3. Affected people should be provided with choices so that they can self-determine how their household will best benefit from the livelihood restoration options;
4. Transition allowances are necessary, but require clear eligibility and end points;
5. Capacity building should be incorporated into livelihood restoration activities to develop skills, including in agricultural practices. Capacity building acknowledges the different needs of women, men, youth, and vulnerable groups with respect to skills development.

Integration of livelihood restoration in plans

To recognize the potential and magnitude of adverse impacts and develop livelihood restoration options, the following approach may be considered:

1. Livelihood restoration for vulnerable affected peoples should refer to the ecological conditions, livelihoods and socio-cultural characteristics possessed by affected people;
2. Livelihood restoration should be able to support project affected people to gain a similar or even better livelihood, independently. It is important that the land acquisition and resettlement process will not cause dependency to the project which eventually would make more problems in the future;
3. The livelihood restoration should be focused on the characteristics of the vulnerability and potential sources of livelihood assets owned by each household;
4. Involving representatives of both communities, the project-affected people and host populations, in the consultation process to build familiarity and to resolve disputes that are expected to arise during and after the resettlement process.

Land Acquisition and Resettlement Action Plan

Should the Portfolio Company operations require a specific LARP, an outline of the contents that a comprehensive LARP should include, based on the IFC Performance Standards Guidance Notes, is provided in the following:

1. **Description of the project:** General description of the project and identification of the project area.
2. **Potential impacts:** Identification of
 - the project component or activities that give rise to resettlement;
 - the zone of impact of such component or activities;
 - the alternatives considered to avoid or minimize resettlement; and
 - the mechanisms established to minimize resettlement, to the extent possible, during project implementation.
3. **Objectives and studies undertaken:** The main objectives of the resettlement program and a summary of studies undertaken in support of resettlement planning / implementation, e.g. census surveys, socio-economic studies, meetings, site selection studies, etc.
4. **Regulatory framework:** Relevant laws of the host country, other policies and procedures, performance standards.
5. **Institutional framework:** Political structure, NGOs.
6. **Stakeholder engagement:** Summary of public consultation and disclosure associated with resettlement planning, including engagement with affected households, local and/or national authorities, relevant CBOs and NGOs and other identified stakeholders, including host communities. This should include, at a minimum, a list of key stakeholders identified, the process followed (meetings, focus groups, etc.), issues raised, responses provided, significant grievances (if any) and plan for ongoing engagement throughout the resettlement implementation process.
7. **Socioeconomic characteristics:** The findings of socioeconomic studies to be conducted in the early stages of project preparation and with the involvement of potentially displaced people, including results of household and census survey, information on vulnerable groups, information on livelihoods and standards of living, land tenure and transfer systems, use of natural resources, patterns of social interaction, social services and public infrastructure.
8. **Eligibility:** Definition of displaced persons and criteria for determining their eligibility for compensation and other resettlement assistance, including relevant cut-off dates.
9. **Valuation of and compensation for losses:** The methodology used in valuing losses to determine their replacement cost; and a description of the proposed types and levels of compensation under local law and such supplementary measures as are necessary to achieve replacement cost for lost assets.
10. **Magnitude of displacement:** Summary of the numbers of persons, households, structures, public buildings, businesses, croplands, churches, etc. to be affected.
11. **Entitlement framework:** Showing all categories of affected persons and what options they were/are being offered, preferably summarized in tabular form.
12. **Livelihood restoration measures:** The various measures to be used to improve or restore livelihoods of displaced people.

13. **Resettlement sites:** Including site selection, site preparation, and relocation, alternative relocation sites considered and explanation of those selected, impacts on host communities.
14. **Housing, infrastructure, and social services:** Plans to provide (or to finance resettlers' provision of) housing, infrastructure (e.g. water supply, feeder roads), and social services (e.g. schools, health services); plans to ensure comparable services to host populations; any necessary site development, engineering and architectural designs for these facilities.
15. **Grievance procedures:** Affordable and accessible procedures for third-party settlement of disputes arising from resettlement; such grievance mechanisms should take into account the availability of judicial recourse and community and traditional dispute settlement mechanisms.
16. **Organizational responsibilities:** The organizational framework for implementing resettlement, including identification of agencies responsible for delivery of resettlement measures and provision of services; arrangements to ensure appropriate coordination between agencies and jurisdictions involved in implementation; and any measures (including technical assistance) needed to strengthen the implementing agencies' capacity to design and carry out resettlement activities; provisions for the transfer to local authorities or resettlers themselves of responsibility for managing facilities and services provided under the project and for transferring other such responsibilities from the resettlement implementing agencies, when appropriate.
17. **Implementation schedule:** An implementation schedule covering all resettlement activities from preparation through implementation, including target dates for the achievement of expected benefits to resettlers and hosts, and implementing the various forms of assistance. The schedule should indicate how the resettlement activities are linked to the implementation of the overall project.
18. **Costs and budget:** Tables showing itemized cost estimates for all resettlement activities, including allowances for inflation, population growth, and other contingencies; timetables for expenditures; sources of funds; and arrangements for timely flow of funds, and funding for resettlement, if any, in areas outside the jurisdiction of the implementing agencies.
19. **Monitoring, evaluation and reporting:** Arrangements for monitoring of resettlement activities by the implementing agency, supplemented by independent monitors to ensure complete and objective information; performance monitoring indicators to measure inputs, outputs, and outcomes for resettlement activities; involvement of the displaced persons in the monitoring process; evaluation of the impact of resettlement for a reasonable period after all resettlement and related development activities have been completed; using the results of resettlement monitoring to guide subsequent implementation.

ANNEX 8 – GUIDANCE ON INDIGENOUS PEOPLES

The Fund recognizes that indigenous peoples in areas where the operations of Portfolio Companies will be implemented comprise social groups distinct from mainstream society, who can include the most marginalized and economically, socially and legally vulnerable community segments in which they reside. Indigenous Peoples are particularly vulnerable in this regard when investment transforms, encroaches upon, or significantly degrades their lands and resources. Indigenous peoples' vulnerable status can limit their capacity to defend their rights to, and interests in lands and natural and cultural resources, and restrict their ability to participate in and benefit from development and thereby place their languages, cultures, religions, spiritual beliefs and institutions under threat.

The IFC Performance Standard requirements for indigenous peoples (Performance Standard 7) apply to any activities supported by the Fund that could affect indigenous peoples. The ESIA conducted by the Portfolio Company in line with the Fund ESG requirements will determine the applicability of the safeguard standard as well as the GCF Indigenous Peoples Policy. The ESMS of the Portfolio Company will need to provide implementation actions and measures necessary to meet and manage such requirements.

For the purposes of the Fund, the definition of indigenous peoples based on the IFC Performance Standard will be adopted to mean people or group of people comprising a distinct social and cultural group with common characteristics of self-identification to a particular cultural group, collective attachment to geographically distinct habitats, adherence to customary institutions, and/or practicing a distinct dialect or language.

The Fund recognizes that indigenous peoples' context and circumstances vary from region to region and from country to country. The indigenous peoples distinct historical and cultural backgrounds and national and regional context will need to be taken into consideration in the ESIA process.

Where a project may have impacts on indigenous peoples, the Portfolio Company will undertake the following measures:

- (a) Identify indigenous peoples' communities within the project area through the ESIA process, particularly those that may be directly or indirectly affected by the subprojects or investments. In certain circumstances, the Portfolio Company may engage and solicit advice from competent professionals to ascertain whether a group is considered as indigenous peoples within the context of the activities.
- (b) Develop an understanding of the social and demographic context of the local population, including indigenous peoples by analyzing key community characteristics, the social and political environment, and local socio-economic factors that impact on the indigenous peoples.
- (c) Identify the nature and assess the extent and magnitude of the potential direct and indirect economic, social, cultural (including cultural heritage), and environmental impacts of the activities on the identified communities of indigenous peoples. This should include an analysis of any existing use by indigenous peoples communities of the degraded landscapes where the activities are proposed, including use of non-tree components or non-timber forest products.
- (d) Undertake meaningful engagement of the affected or potentially affected indigenous peoples and communities to inform them of the activities, its risks and impacts and measures to manage and mitigate the risks and impacts and provide the indigenous peoples with the space to provide their views. The level of community engagement shall be designed following the principles of informed

consultation and participation and/or good faith negotiation as required under relevant safeguard standards and policies.

- (e) Undertake the process of free, prior and informed consent (FPIC) following the requirements of the IFC Performance Standards, the GCF Indigenous Peoples Policy, and the relevant national laws and policies. The process for undertaking FPIC, the agreement reached between the affected or likely affected indigenous peoples, and the evidence and outcomes of such process will be agreed upon with the indigenous peoples taking into consideration the preferred and traditional practices of the communities. The documentation of the FPIC shall be prepared as part of the due diligence on the subproject.
- (f) Depending on the nature and scope of the project and the implementation structure, engage consulting services, civil society organization and/or relevant government agencies to assist in mobilizing the communities and to prepare them to participate in project planning where necessary.
- (g) Consult with indigenous peoples present in or having collective attachment to the project area regarding the proposed activities, the project design and implementation arrangements. The consultation process shall also provide space for indigenous peoples to inform the Portfolio Company of their views, either in support of or opposing such activities, and recommendations for how they can participate in the subproject design, decision-making and implementation.
- (h) The stakeholder consultation shall be guided by a consultation strategy outlining how affected indigenous peoples will be consulted and participate throughout the subproject cycle. This consultation strategy shall be integrated into a time-bound plan such as an Indigenous Peoples Plan (or a broader plan containing separate Indigenous Peoples components). The scope and scale of this plan will be commensurate with the potential project risks and impacts. Where the indigenous peoples form the majority of the affected communities, the Indigenous Peoples Plan may be integrated into the project ESMP.

Indigenous Peoples are often closely attached to their lands on which they depend and related natural resources which are traditionally owned or under customary use. While the affected indigenous peoples may not possess legal title to these lands as defined by applicable national laws, their use of these lands including seasonal or cyclical use for their livelihoods, ceremonial and spiritual purposes that define their identity and community can be substantiated and documented.

Indigenous peoples are particularly vulnerable if their land and resources are transformed, encroached upon, or significantly degraded. Activities may undermine indigenous peoples' language use, cultural practices, institutional arrangements, and religious or spiritual beliefs. If the Portfolio Company locates a project on lands traditionally owned by, or under customary use of indigenous peoples, and adverse impacts can be expected, the company will take the following steps:

- (a) Identify and review all property interests and traditional resource uses before purchasing or leasing land;
- (b) Document all efforts undertaken to consider alternative project land areas and affected natural resources and minimize land and natural resources impacts and consider feasible alternative project designs to avoid relocating indigenous peoples from communally held lands and natural resources subject to traditional ownership or under customary use.
- (c) Ensure that affected communities are informed of their land rights under national law including any national law recognizing customary use rights and in a culturally appropriate manner.

- (d) Undertake a gender inclusive assessment documenting affected indigenous peoples' communities resource use and management without prejudicing any indigenous peoples' land claims.
- (e) Offer the affected indigenous peoples' communities compensation, and/or offer culturally appropriate and sustainable development opportunities and benefits sharing and follow due process where their land and natural resources may be commercially developed.
- (f) Consider feasible alternative project designs to avoid relocating indigenous peoples from communally held lands and natural resources subject to traditional ownership or under customary use.
- (g) Avoid undertaking project activities which may impact significantly on critical cultural heritage essential to Indigenous Peoples' identity and/or cultural, ceremonial or spiritual lives. If this is unavoidable obtain affected indigenous peoples' communities free, prior and informed consent.

ANNEX 9 – OUTLINE OF STAKEHOLDER ENGAGEMENT PLAN

As per Annex A of the IFC Performance Standards Guidance Note 1 a comprehensive Stakeholder Engagement Plan should contain the following elements, with scope of level of detailed scaled to fit the needs of the project:

1. **Introduction.** Briefly describe the project including design elements and potential environmental and social issues. Where possible, include maps of the project site and surrounding area.
2. **Regulations and requirements.** Summarize any legal, regulatory or company requirements pertaining to stakeholder engagement applicable to the project. This may involve public consultation and disclosure requirements related to the ESIA process.
3. **Summary of any previous stakeholder engagement activities.** If the company has undertaken any information disclosure and/or consultation to date:
 - Type of information disclosed, in what forms and how it was disseminated.
 - The locations and dates of any meetings undertaken to date.
 - Individuals, groups and/or organizations that have been consulted.
 - Key issues discussed, and key concerns raised.
 - Company response to issues raised, including any commitments or follow-up actions.
 - Process undertaken for documenting these activities and reporting back to stakeholders.
4. **Project Stakeholders.** List the key stakeholder groups who will be informed and consulted about the project. These should include persons or groups who:
 - Are directly and/or indirectly affected by the project.
 - Have interests in the project or Portfolio Company that determine them as stakeholders.
 - Have the potential to influence project outcomes or company operations

Examples of potential stakeholders are: affected communities, local organizations, NGOs, government authorities, politicians, other companies, labor unions, academics, religious groups, national environmental and social public sector agencies, the media.
5. **Stakeholder Engagement Program**
 - Summarize the purpose and goals of the program (either project-specific or corporate).
 - Briefly describe what information will be disclosed, in what formats, and the types of methods that will be used to communicate this information to each of the stakeholder groups. Methods used may vary according to target audience, for example: newspapers, posters, radio, television, information centers and exhibitions or other visual displays, brochures, leaflets, posters, non-technical summary documents and reports.
 - Briefly describe the methods that will be used to consult with each of the stakeholder groups. Methods used may vary according to target audience, for example: interviews with stakeholder representatives and key informants; surveys, polls, and questionnaires; public meetings, workshops and/or focus groups with specific groups; participatory methods; other traditional mechanisms for consultation and decision-making.
 - Describe how the views of women and other relevant sub-groups (e.g. minorities, elderly, youth, etc.) will be taken into account during the process.
 - Describe any other engagement activities that will be undertaken, including participatory processes, joint decision-making and/or partnerships undertaken with local communities, NGOs or other project stakeholders. Examples include benefit-sharing programs, stakeholders development initiatives, resettlement and development programs, and/or training and micro-finance programs.

6. **Timetable.** Provide a schedule outlining dates/periodicity and locations where various stakeholder engagement activities, including consultation, disclosure, and partnerships will take place and the date by which such activities will be incorporated into the company's management system (at either the project or corporate level).
7. **Resources and Responsibilities**
 - Indicate what staff and resources will be devoted to managing and implementing the company's Stakeholder Engagement Program.
 - Indicate who within the company will be responsible for carrying out these activities and what budget has been allocated toward these activities.
 - For projects with significant or diverse impacts and multiple stakeholder groups, it is good practice for a company to hire a qualified Stakeholders Liaison Officer(s) to arrange and facilitate these activities at the project and/or corporate level. Integration of the stakeholders liaison function with other core business functions is also important, as is management involvement and oversight.
8. **Grievance Mechanism.** Describe the process by which people affected by the project can bring their grievances to the company for consideration and redress. Indicate who will receive grievances, how and by whom they will be resolved, and how the response will be communicated back to the complainant. Additional guidance on this is provided in Annex 9.
9. **Monitoring and Reporting**
 - Describe any plans to involve project stakeholders (including affected communities) or third-party monitors in the monitoring of project impacts and mitigation programs.
 - Describe how and when the results of stakeholder engagement activities will be reported back to affected communities as well as broader stakeholder groups.
 - Examples include environmental and social assessment reports, company newsletters, annual monitoring reports submitted to lenders, company annual report, company or corporate sustainability report.
10. **Management Functions.** Indicate how stakeholder engagement activities will be integrated into the company's ESMS and with other core business functions.
 - Who will have management oversight for the program
 - Plans for hiring, training and deploying staff to undertake stakeholder engagement work
 - Reporting lines between stakeholders' liaison staff and senior management
 - How the company's stakeholder engagement strategy will be communicated internally
 - What management tools will be used to document, track and manage the process (e.g., stakeholder database, commitments register, etc.)
 - For projects or company operations involving contractors, how the interaction between contractors and local stakeholders will be managed to ensure good relations

ANNEX 10 – GUIDANCE ON GRIEVANCE MECHANISMS

A Grievance Mechanism constitutes the system introduced by the Fund with reference to its operations and in relation to the operations of its Portfolio Companies that affords all stakeholders, in particular project affected individuals and communities, the ability to provide feedback, channel their concerns and, thereby, access information and, where relevant, seek recourse and remedy.

A grievance mechanism at the project level constitutes a critical means for the early identification and remedy of undesirable or unforeseen impacts and other concerns arising out of the execution of the project. Its establishment promotes the affected persons' access to remedy and may facilitate resolution of such concerns and grievances linked to the project environmental and social performance.

Such mechanism is introduced at the very outset of project design. In terms of scope, it concerns the entire operations and should possess a lifespan similar to that of the operations.

The Fund will ensure that a grievance mechanism is introduced at Portfolio Company / subproject level, irrespective of other complementary linkages or access to existing public grievance channels in the country concerned. In order to be effective, it should be designed as a mechanism that is:

- Legitimate and trusted
- Scaled to the risks and potential adverse impacts of the project
- Publicised and accessible, appropriately tailored to all potentially-affected persons and communities and other interested parties, irrespective of their literacy and administrative capacity
- Free of cost for the stakeholders
- Include the anonymity option, where feasible, and guarantee confidential handling of requests, if so requested by the complainant
- Fair, transparent and inclusive, compatible with human rights
- Guided by engagement and dialogue
- Predictable in terms of process
- Timely
- Not impeding access to grievance and resolution on grounds of one's financial ability to seek judicial remedy
- A source of continuous learning for all the stakeholders, including the Fund and its Portfolio Companies

The Portfolio Company will introduce an effective feedback system to the mechanism, informing the affected communities about the project grievance process and its outcomes and reporting regularly to the public on its implementation, while protecting the privacy of individuals. The Portfolio Company will also inform the affected communities of their right to independent judicial recourse in the event that grievances cannot satisfactorily be resolved using the project-specific mechanisms. Resolution of a grievance should be confirmed by way of evidence of the satisfaction of the stakeholder/aggrieved party. It is required that the Portfolio Company diligently documents this process.

Where a complaint is not admissible or relevant, the Portfolio Company will refer the aggrieved parties to the relevant authority or other grievance process. The grievance mechanism should not impede access to independent judicial or administrative remedies outside any project specific context; quite the contrary, it should complement and facilitate access to independent bodies (e.g. Ombudsman).

Portfolio Companies are required to monitor the implementation of the stakeholder engagement plan and the performance of the grievance mechanism. Specific attention needs to be given to grievance mechanisms related to workforce, local affected communities and in particular in case of resettlement or indigenous peoples.

ANNEX 11 – COMPLAINT POLICY OF THE FUND

Rationale

A complaint means any expression of dissatisfaction raised by investees, investors, co-investors or any other directly affected stakeholders (all jointly “Stakeholders”) of the Arbaro Fund SCSp (“the Fund”).

Effective complaint handling offers many practical benefits to the Fund and helps to improve the quality of services. Complaints provide evidence of faulty decisions, poor service delivery or potentially poor communication. In light of this, the Fund makes all the possible efforts to conduct its operations in a manner that avoids such complaints.

Stakeholders should be ensured that their complaints are easy to report, acknowledged and dealt with quickly, fairly and sensitively. In order to preserve and enhance its reputation, the Fund should identify dissatisfied Stakeholders and work out methods of resolving their complaints.

Policy

In order to ensure that complaints are handled properly and resolved promptly while always meeting Stakeholders’ interests, the Fund has set up a Complaints Management Policy whereby:

1. Stakeholders’ are given the opportunity to raise their complaints;
2. Complaints must be answered within three months from their reception;
3. All complaints must be documented and reported.

The Complaints Management Policy shall not impede access to other judicial or administrative remedies that might be available under local law, or substitute for complaints mechanisms provided through specific agreements.

No complainant who, in good faith, reports any dissatisfaction shall suffer any harassment, retaliation or adverse consequence. Any director, officer, service provider, who retaliates against any complainant shall be subject to discipline, potentially including termination of office or contract. This protection from retaliation is not intended to prohibit governance bodies of the Fund from taking disciplinary actions within their usual scope of duties based on valid performance-related factors.

Procedure

All complaints should be notified to the Fund in written form, following one of the following channels:

- a) Communication sent by postal mail at the address:
[Fund address]
- b) Communication sent via email at the address:
[email address created for complaints]

Subject: Complaints – Arbaro Fund SCSp

With a maximum delay of 10 business days after receipt of the complaint, the designated person of contact in the Fund (the “Contact Person”) sends an acknowledgement and informs the complainant of the review action taken. The Contact Person is responsible for the good management of the complaints procedure and is the main contact with complainants throughout the whole process.

All complaints are dealt within a reasonable delay. At all times, one designated staff member (the “Complaints Officer”), will ensure at all times that complaints are treated within the herein described procedure, and escalated without undue delay in accordance with the regulatory and contractual obligations of the Fund as the case may be. The Complaints Officer shall ensure that systemic or recurring complaints are being identified, and that the cause of those complaints is being identified and remedied. The Complaints Officer will also present the lessons learnt at a regular basis to the Board of Managers as well as the actions put in place to avoid/limit complaints in the future.

Complaints received and related reports shall be kept confidential to the extent possible. Confidentiality interests will be balanced with the need to conduct an adequate investigation. Sharing of information in relation to complaints with persons not involved in the investigation or management of the complaints procedure is forbidden.

The investigation intends to analyse the reasons behind each complaint through a fair and independent view on the complaint raised by the complainant. The investigation should aim at reaching an objective assessment of the issue with an account of all the known facts and an assessment of how the matter should be followed up, including whether criminal prosecution or other sanctions are considered appropriate. If determined by the Board of Managers, the Fund shall initiate prosecution and/or apply other sanctions against persons or entities suspected of financial irregularities.

The Complaints Officer remains responsible for managing the investigation process, determining the knowledge and skills required to undertake the investigation, and hiring external advisors if needed.

The key considerations the Complaints Officer takes into account when hiring external experts for investigations are expertise, independence, and impartiality. Those experts will have specific confidentiality requirements.

If the complaint involves the Complaints Officer or a Member of the Board, such individual(s) will not be permitted to participate in the consideration and investigation or determination of the redress of such a complaint.

The Contact Person shall respond to the complainant in writing no later than two months from the receipt of the complaint, by post or e-mail. The answer shall contain any required information or opinion judged useful to address the complaint in accordance the general principle of information transparency.

If the complainant does not receive an answer or receives an unsatisfactory answer from the Contact Person within two months from first addressing the complaint, the complainant is entitled to contact the Complaints Officer, at the same addresses provided in this document.

If within a delay of one month from the day on which the complaint was addressed to the Complaints Officer the complainant does not receive an answer or receives an unsatisfactory answer, the complainant may refer the request to Board of Managers. In this case, the Contact Person will be responsible for ensuring that the complaint is received by the Board of Managers.

Reporting and record keeping (after resolution of the complaint)

The Complaints Officer is in charge of maintaining the Complaints Report whose objective is to keep a record of all useful information in order to achieve good tracking of complaints.

Before 1 March of each year and each pre-scheduled meeting of the Board of Directors, the Complaints Officer shall present a Complaints Report to the Board of Directors with an analysis of the complaints activity of the previous year or period.

All records of complaints shall be maintained by the Complaints Officer, as anonymised to the extent necessary, and will be kept for a minimum period of 5 years.

Complainants have the right to remain anonymous throughout the investigation process. In this case complainants should be aware that they will not receive any notice regarding the status and outcome of investigations and will not be contacted by the Contact Person.

Complainants who have disclosed their identities when lodging their complaints have given their express consent to receive notifications regarding the status of investigations, to be contacted by the Contact Person, the Complaints Officer, or any or several members of the Board of Managers, in case further information is required, and to receive an answer to the complaint.

ANNEX 12 – CONTENTS OF ES REPORTS

Example of contents for annual report on ES performance

- Name of the responsible Environmental and Social Officer
- Status / changes in ESMS over the past period
- Status of FSC certification including total hectares and certified hectares
- List of major and minor corrective actions and observations from last annual FSC audit
- Summary of progress on environmental and social challenges
- Difficulties and/or constraints related to the implementation of ESMS
- Status of contractor management and monitoring
- Environmental and social trainings undertaken / planned
- Any emergencies occurred
- Incident and accident statistics (including comparison to previous years)
- Fire statistics
- Status of environmental and social performance to date, implementation of ESMS and agreed ESAP (if applicable)
- Any improvements in performance with a clear environmental benefit (e.g. energy savings, reducing (hazardous) waste, certification of relevant management systems)
- Any improvements in performance with a clear social benefit (e.g. improvements in labour conditions, community and/or socio-economic development programs)
- For companies with CO₂ equivalent emissions exceeding 25,000 metric tons annually, emissions in accordance with requirements set out in IFC Performance Standard 3
- Status of outgrower and community programmes
- Status of third-party timber sourcing (amount of timber and methods to ensure legality)
- List of any environmental and social relevant audits and studies carried out internally or externally
- Brief description of NGO or CSO collaboration
- Grievance and complaints statistics with comparison to previous years. Brief description of common themes and most significant cases
- If applicable number of employees affected by retrenchment and copy of retrenchment plan
- Confirmation that none of the Excluded Activities have been, or are intended to be, undertaken
- Summary of qualified external and any internal ESIA undertaken and reference to qualification of external expert undertaking assessment if applicable
- Allocated and utilised budget for environmental and social matters
- Media attention to the project
- Use of pesticides

Example of contents for annual report on development effects

- Direct employment (FTEs) and split by permanent / contractors
- Female direct employment (FTEs)
 - of which Board members (FTEs)
 - of which CEO (FTEs)
 - of which senior management (FTEs)
 - of which middle management (FTEs)
 - of which junior / other worker - skilled (FTEs)
 - of which junior / other worker - unskilled (FTEs)
- Total part-time direct employment (FTEs) and share of women
- Youth direct employment (FTEs, 25 years old and under)
- Total wage bill (USD)
- Staff turnover (%)
- Revenue (USD)
- EBITDA (USD)
- Total expenditure on goods and services / COGS (USD) and share of domestic
- Corporate income taxes (USD)
- Other taxes and government fees (USD)
- Total sales (cubic meters and USD)
- Domestic sales (USD)
- Gross value added (USD)
- Farmers reached (#) and share of women
- Revenue to local communities (USD)
- Area of forest under management (ha)
- Hectares planted (ha)
- Buffer zones (ha)
- Protected area (ha)
- Listed species directly benefitting from protected habitat (#)
- Fire breaks created or maintained (km)
- Access roads created or maintained (km)