

Stichting andgreen.fund

**Environmental & Social Management System
(ESMS)**

Version 1.0

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1 ENVIRONMENTAL & SOCIAL LENDING POLICY STATEMENT

This Environmental & Social Lending policy (hereinafter: E&S Policy) sets out how the andgreen.fund (hereinafter: the Fund) will integrate environmental and social considerations into its operations and ensure effective delivery of the Fund's overarching objectives, and in the process assist with achieving the Paris climate agreement goals by contributing to the reduction of carbon emissions from Land Use, Land Use Change and Forestry. This E&S Policy statement is a component of the Fund's Environmental & Social Management System (ESMS).

1.1 Scope

The Fund is committed to ensuring that its lending programme aligns the interests of its clients¹ and the communities in which they operate, with the objectives of the Fund and its Contributors and partner financial institutions. In this document the Fund defines standards of environmental (forest protection and environmental stewardship) and social (human rights, including labour and land rights) performance that the Fund's clients must meet in both production and protection aspects of the projects financed by the Fund. The Fund recognises that its clients may not meet these standards at the point of execution of a transaction, and in these situations the Fund will define a timeframe within which full compliance and/or remediation must be achieved. Legal covenants that stipulate the required timeframe for compliance and remediation, and the consequences if this timeframe is not met, will be included in the legally binding transaction documents e.g. loan agreements.

1.2 Implementation of E&S Policy

The Fund implements its E&S Policy through its Environmental & Social Management System (ESMS), and compliance with laws and regulations.

1.2.1 Environmental & Social Management System (ESMS)

The Fund's ESMS is designed to guide its implementation of the environment and social commitments contained in this E&S Policy.

1.2.2 Compliance with Laws, Regulations

The Fund complies with all applicable laws and regulations related to environmental and social aspects of its operations, and it expects its clients and third parties acting on its behalf to do the same. Compliance systems at both Fund and client level are implemented in accordance with the ESMS to promote adherence to all relevant regulatory requirements as well as voluntary commitments and best practice standards.

1.3 Use of Best Practice Standards

¹ Where the Fund finances an intermediary financial institution, Fund requirements relating to clients apply to the ultimate beneficiary of finance i.e. the production company, farmers or smallholder collectives.

The Fund adopts the International Finance Corporation (IFC) Performance Standards as its framework for the management of environmental and social risks and impacts associated with the projects it seeks to finance.

IFC Performance Standards define comprehensive operational requirements related to:

- Assessment and management of environmental and social risks and impacts
- Labour and working conditions
- Resource efficiency and pollution prevention
- Community health, safety, and security
- Land acquisition and involuntary resettlement
- Biodiversity conservation and sustainable management of living natural resources
- Indigenous Peoples (including the use of free, prior and informed consent)
- Cultural heritage

The Fund requires its clients to obtain the free, prior and informed consent of all local communities (not just Indigenous Peoples) with customary rights to land used for both production and conservation components of projects that the Fund finances. For the financing of SMEs including smallholders and smallholder cooperatives, other local or international standards (e.g. RSPO principles & criteria in the case of the palm oil sector), including those developed specifically for smallholders, may be used where the performance standards are equivalent but may be more familiar or better adapted to the scale and intensity of management of the client. Where such alternative standards are applied, the Fund's Investment Advisor must document the rationale for use of the standard in the publicly-available E&S information provided for each transaction (see section in this document on 'External Communications and Reporting').

The IFC Performance Standards may be used in conjunction with relevant best practice standards, guidelines and tools (such as: the Voluntary Guidelines on the Responsible Governance of Tenure, the Sustainable Agriculture Standard, RSPO Principles & Criteria, Forest Stewardship Council Principles & Criteria, the High Carbon Stock Approach Toolkit and the Climate, Community & Biodiversity Standards or other emerging best practice standards) where these provide additional detailed guidance or requirements that support compliance with the IFC Performance Standards.

1.4 Transparency via Regular Reporting

The Fund will include a section on environmental and social risks and impacts in all reports to the Board of Directors, Advisory Board and the Contributors. To the extent permitted by law, the Fund will also inform the Contributors on an ad hoc basis in case of material issues relating to environmental and social incidents in line with the disclosure commitments outlined in the Fund's Lending Guidelines.

1.5 Approval and Review

This E&S Policy is approved by the Fund's Board of Directors with the consent of the Advisory Board and will be communicated to all staff members, clients and third parties acting on behalf of the Fund. It will be reviewed regularly as part of the management review of the Fund's ESMS.

Signed

Effective Date

2 ENVIRONMENTAL & SOCIAL MANAGEMENT SYSTEM

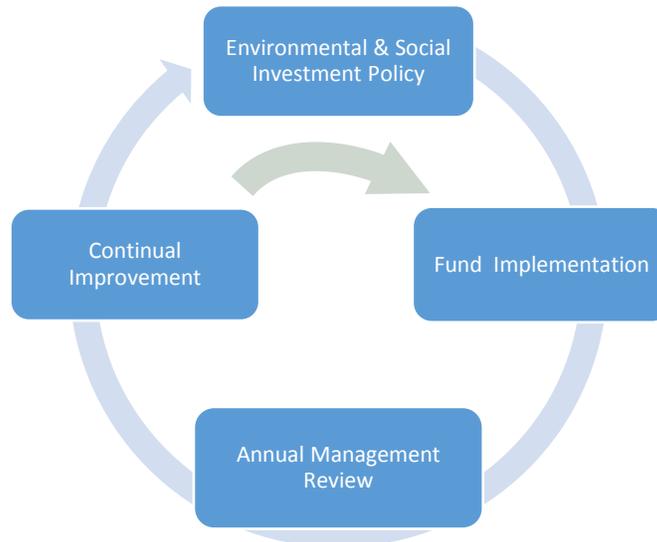
2.1 Introduction to the ESMS

The Fund’s ESMS is designed to help the Investment Advisor, Credit Committee and Board of Directors to systematically identify, manage and report on environmental and social aspects and potential impacts of the Fund’s lending programme and its clients by:

- Ensuring that environmental and social factors are part of the decision making as well as monitoring processes throughout the investment cycle;
- Assisting the client and Investment Advisor to effectively identify and manage environmental and social risks;
- Providing a framework to engage with stakeholders on E&S standards and sustainable business performance that the Fund intends its clients and co-investors to meet;
- Providing a framework to monitor performance, identify areas for preventive or corrective action and ensure a consistent approach to E&S across all lending activities and enable continuous improvement;
- Helping the Fund to capture the value of E&S factors, record the lessons of its experiences and demonstrate this E&S track record to new Contributors or new clients.

The ESMS is based on approaches established in ISO 14001: 2004, *Environmental Management Systems – Specifications with guidance for use*, a globally recognized standard for environmental management systems and incorporates the elements shown in Figure 1, which elements are elaborated upon in this document.

Figure 1 – Fund Environmental & Social Management System



Activities at each stage of the investment cycle should integrate E&S considerations. The Investment Advisor will develop procedures and templates that can be adapted on a project-by-project basis. Key principles to be addressed when developing operating procedures are described below.

2.2 Jurisdictional Eligibility Criteria

Before any potential project can be assessed, a geographic assessment is made to confirm that the said project and its Project Area (see definition in Annex II) is within a jurisdiction approved by the Fund. Fund jurisdictions are approved by the Advisory Board in accordance with the Jurisdictional Eligibility Criteria (“JEC”) (Annex I).

It is the responsibility of the Investment Advisor to maintain a record (list) of Jurisdictions and their status, and only present projects to the Credit Committee which are within Fund-approved jurisdictions.

2.3 Borrower and Co-Investor Compliance

All Fund clients must follow the IFC Performance Standards and submit a Landscape Protection Plan (LPP) as well as making an unconditional written organisational level² policy commitment to zero deforestation, no development of peatlands, and no exploitation (NDPE)³. A Landscape Protection Plan is a comprehensive, long term land use and management plan developed by the prospective client in conjunction with key stakeholders, covering all areas of high carbon stock and high conservation value forest and peatlands within the Project Area (further details on the LPP are provided in Annex II).

Financial Institutions (including investment funds) acting as co-investors, must be a partner institution, or client, of a recognized Development Finance Institution (“DFI”), or in exceptional cases where this is not the case, must demonstrate compliance with the IFC Performance Standards in its lending programme, e.g. through being a signatory to the Equator Principles, or by providing a verification report from a suitably-qualified independent consultant.

2.4 Investment screening and E&S categorization

Robust screening will contribute to a more efficient due diligence process. Screening processes should cover:

² This requirement also applies equally to large corporates, SMEs and smallholder collectives

³ 1. No Deforestation = no development of High Carbon Stock (HCS) Forests as defined by the HCS Approach Toolkit, no development of High Conservation Value (HCV) Areas, no open burning for land preparation, progressively reduce greenhouse gas (GHG) emissions on existing plantations 2. No Development on Peat = no development on peat regardless of depth, adopt Best Management Practices for existing plantations on peat, where feasible explore options for peat restoration by working with expert stakeholders and communities 3. No Exploitation of People and Local Communities = respect and support the Universal Declaration of Human Rights, respect and recognize the rights of all workers including contract, temporary and migrant workers, facilitate the inclusion of smallholders into the supply chain, respect customary and legal land tenure rights, respect the rights of indigenous and local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to operations on lands to which they hold legal, communal or customary rights, resolve all complaints and conflicts through an open, transparent and consultative process.

- (i) identification of any project characteristics or client activities that breach the Fund’s Lending Guidelines, exclusion list or may generate reputational risk for the Fund and its Contributors;
- (ii) evaluation of the client’s operating location and related stakeholder risks for the Fund;
- (iii) identification of key E&S risks/impacts and landscape-level protection opportunities;
- (iv) categorisation of E&S risks/impacts; and
- (v) due diligence planning and budget preparation.

The risks/impacts identification process should be carried out by, or in conjunction with, E&S specialists, and followed by a categorization process that identifies and scores risks and impacts (covering both voluntary commitments, best practice standards and legal requirements) based on considerations such as:

- Scale, intensity and irreversibility of potential risks/impacts
- Presence of customary or informal tenure claims
- Government/regulatory support for proposed E&S requirements
- Proximity to areas of environmental or social value or sensitivity
- The ability to influence clients and enforce debt covenants

Figure 1: The Fund’s categorisation matrix for projects

Category	Description	ESMS requirement
Category A	A Proposed Investment is classified as Category A if it is likely to have significant potential for adverse social or environmental impacts that are large scale, diverse, irreversible, unprecedented or unknown. Agricultural operations in areas of high conservation value, high carbon stocks or areas subject to customary land claims that are not certified under a recognized international sustainability standard, would normally be considered Category A projects.	An investment classified as Category A will require the client to undertake a Social and Environmental Impact Assessment, gap analysis against the IFC Performance Standards, and prepare an E&S Action Plan defining the steps to be taken to achieve compliance with IFC Performance Standards, and to make these available to the Fund team for review prior to an investment decision being taken. The Assessment should examine the potential negative and positive social and environmental impacts of the proposed activity and recommend measures needed to prevent, minimize, mitigate, or compensate for adverse impacts while improving social and environmental performance. Appropriate legal covenants will be included in the loan agreements to ensure that the client is committed to implement the Action Plan and achieve full compliance within a specified timeframe.

Category B	A Proposed Investment is classified as Category B if it shows potential for adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and addressable through mitigation measures. Agricultural operations in areas of high conservation value, high carbon stocks or areas subject to customary land claims that are certified under a recognized international sustainability standard (e.g. RSPO) would normally be considered Category B projects.	An investment classified as Category B will require the client to undertake a gap analysis against the IFC Performance Standards and prepare an E&S Action Plan defining the steps to be taken to achieve compliance with IFC Performance Standards, and to make these available to the Fund team for review prior to an investment decision being taken. Appropriate legal covenants will be included in the loan agreements to ensure that the client is committed to implement the Action Plan and achieve full compliance within a specified timeframe.
Category C	A Proposed Investment is classified as Category C if there is minimal or no adverse social or environmental impacts and minimal or no adverse reputational risks. Agricultural operations not located in areas of high conservation value, high carbon stocks or areas subject to customary land claims would normally be considered Category C projects.	An investment classified as Category C will require the client to undertake a gap analysis against the IFC Performance Standards and prepare an E&S Action Plan defining the steps to be taken to achieve compliance with IFC Performance Standards and to make these available to the Fund team for review prior to an investment decision being taken. Appropriate legal covenants will be included in the loan agreements to ensure that the client is committed to implement the Action Plan and achieve full compliance within a specified timeframe.

2.5 Due Diligence

In addition to conducting, or ensuring via partner financial institutions, it has access to comprehensive financial, commercial, technical and legal due diligence, the Fund will assess E&S aspects of the prospective client and project.

This due diligence assessment will cover:

- (i) A gap analysis of compliance with IFC Performance Standards or, for SME projects, the best practice standard selected by the Fund for the project;
- (ii) Preparation of an E&S Action Plan to address gaps identified;
- (iii) Review of the Landscape Protection Plan⁴ (“LPP”), including status and timeframe for the social consultation process;
- (iv) confirmation of the project’s E&S risk categorisation;
- (v) evaluation of the company’s commitment, capacity and track record; and
- (vi) costing E&S compliance and incorporation of costs into financial models.

⁴ The LPP covers the proposed protection component of the project and is to be prepared by the Fund client. LPP criteria are set out in Annex II.

Where required, the Fund will engage third-party experts to assist with the due diligence assessment.

E&S Action Plans should document an agreed timetable and activities to be taken by the Fund client to bring its operations into full compliance with IFC Performance Standards.

2.6 Investment decisions

The Fund will ensure that all investment decisions are supported by appropriate due diligence documentation, including an E&S section in all Credit Committee (“CC”) Credit Proposals. There is an E&S expert on the Credit Committee, and this expert is required to approve the E&S aspects of the Credit Proposal, financial model, and covenants in the Term Sheet addressing E&S. The dedicated CC member(s) responsible for E&S assessment will provide clear guidance to the Investment Advisor on additional E&S terms to include in transaction documents, and may stipulate conditions precedent that need to be fulfilled by the client prior to a transaction proceeding.

2.7 Transaction documents

Ensuring that appropriate E&S representations, warranties and covenants are incorporated into transaction documents (e.g. loan agreements) is crucial.

E&S terms should cover preventive and corrective action to be taken by the client (including the contents of the E&S Action Plan), its specific commitments under the LPP, ongoing E&S obligations (such as maintaining compliance with IFC Performance Standards and the list of excluded activities), conditions for disbursement of follow-on capital linked to E&S action plan and LPP milestones, and consequences for breaches of key covenants (e.g. an E&S termination clause) along with remedy clauses. The Fund should develop a set of standard E&S terms and conditions, which can be adapted to each investment based on the findings of due diligence. These should include reference to the Finance Exclusion List of activities.

2.8 Ownership and Monitoring

Continued engagement with clients following execution of a financial agreement is key to ensuring that E&S management is integrated into client operations, and that LPP and E&S Action Plans are effectively implemented, E&S risk mitigation and value creation opportunities are realized and that there is regular monitoring and reporting on material events such as serious accidents involving or affecting clients (e.g. fatalities) and other E&S-related developments that have occurred in the reporting period that could affect the implementation of the ESMS and the E&S performance of clients. Where appropriate⁵, clients should adopt their own ESMS and this should be monitored and reported on to the Fund’s Board of Directors by the Investment Advisor.

The Fund aims to monitor the environmental and social performance of the project through a two-pronged Monitoring Protocol System (MPS):

⁵ SMEs including smallholder cooperatives may be exempted where monitoring and supervision of performance is deemed by the investment committee to be adequate to ensure compliance

1) Satellite-based Monitoring of Project Area

As part of the financial agreement, the client may be required to undertake periodic satellite-based monitoring of the project area (as defined in the LPP, Annex II) based on the interpretation of satellite imagery of suitable resolution, and the preparation of maps, area and condition statements, and a written report with an analysis of any differences with images taken immediately prior to transaction execution. Satellite image interpretation may require ground-based survey.

2) Third party verification of E&S performance within Project Area

On a periodic basis the client will agree to undergo a review of compliance against IFC Performance Standards (or, for SME projects, the best practice standard selected by the Fund for the project), a review of progress against LPP milestones, and to produce a written report.

3 ROLES, RESPONSIBILITIES AND ORGANISATIONAL CAPACITY

The Investment Advisor is responsible for all aspects of ESMS implementation as well as Fund-level reporting and disclosure to the Board of Directors, the Advisory Board, Contributors and other stakeholders.

The Investment Advisor will employ specific E&S management expertise. This person(s) must be a specialist that can act as a resource to the wider Fund team, as well as provide E&S related advice and support to clients as required. They should have experience in successfully managing a Fund E&S management system and engaging with clients around E&S management.

All members of the Credit Committee, the Investment Advisor team and relevant consultants will receive training in the ESMS and relevant legal requirements (e.g. anti-bribery and corruption legislation that applies to the Fund's investment programme). Representatives from the Board of Directors, Credit Committee and Investment Advisor who are engaging with clients should have sufficient understanding of and experience with E&S matters and regulatory requirements. Where this is not the case, e.g. for a specific scenario which requires a particular expertise, capacity building should be provided and/or external expertise brought in.

4 EXTERNAL COMMUNICATIONS & REPORTING

The Fund should systematically identify and engage with relevant stakeholders as well as participating in initiatives and developing partnerships which it believes support enhanced ESMS implementation. This engagement may involve communities, industry groups, government agencies, policy fora, as well as civil society organisations and social enterprises. Where appropriate⁶, the Fund will seek to ensure that this level of external engagement is replicated at client level.

⁶ SMEs including smallholder cooperatives may be exempted where monitoring and supervision of performance is deemed by the Credit Committee to be adequate to ensure compliance

The Fund will report on progress with ESMS implementation and performance in its quarterly and annual reports. Reporting to the Fund’s Board of Directors and Contributors should incorporate the following information:

- Update on the implementation of the ESMS.
- For each client: the E&S performance standards applied to the transaction, a summary of E&S risks, impacts and opportunities identified during due diligence, a summary of all E&S components of loan agreements including LPP commitments and E&S Action Plans, the E&S risk rating assigned to the client, and a judgement regarding the quality of the client’s E&S management systems or ability to manage its E&S risks.
- An update of progress during the reporting period, including milestones achieved (particularly those in the LPP and E&S action plans), challenges encountered, responses to challenges, and performance indicators that are being tracked.
- A summary of the priority actions for the following year.
- The Investment Advisor’s role in helping clients achieve milestones.
- Discussion of incidents or accidents that occurred in clients over the reporting period, and whether/how these were appropriately reported, investigated and mitigated, and how further incidents were prevented, including evidence to substantiate this.
- E&S-related developments that have occurred in the reporting period that could affect the implementation of the ESMS and the E&S performance of clients.
- Initiatives the company has undertaken to share best practice with peers.

The Investment Advisor must inform the Board of Directors of any material breach of loan covenants within 5 business days of becoming aware of breaches, and all breaches are to be documented in the semi-annual Covenant Breach Memorandum (as described in Lending Guidelines).

The Fund will make LPPs, E&S action plans and quarterly E&S progress reports publicly available. Public versions of these documents may be edited to ensure compliance with the Fund’s confidentiality commitments⁷.

5 MONITORING AND EVALUATION OF FUND IMPACT

The Investment Advisor will collect baseline financial, environmental and social data during due diligence, at the time of deal execution and on an ongoing basis for all Fund borrowers in order to enable measurement and reporting against the KPIs.

⁷ In carrying out its mission, the Fund receives from its borrowers and other parties information that is not publicly available for the purpose of enabling the Fund to assess financing opportunities, and to monitor and evaluate existing investments; the confidentiality of which the Fund has a duty to respect. In addition, consistent with restrictions imposed by banking laws, the Fund does not disclose information that would violate such law, such as the financial, business, proprietary or other non-public information provided to the Fund by its borrowers, service providers or other third parties. The confidentiality clause will not limit access to information regarding social or environmental impacts of a project where the Fund is directly or indirectly involved in financial transactions.

On a 5-yearly basis the Fund aims to complete a detailed impact assessment by a third party which will evaluate the performance of the Fund and its portfolio of projects against the Fund's impact objectives.

The Investment Advisor will also manage periodic ESMS performance reviews to assess the continued relevance and efficacy of the system and to make adjustments and improvements.

ANNEX I: JURISDICTIONAL ELIGIBILITY CRITERIA

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A.	Purpose and Scope
B.	Jurisdictional Eligibility Criteria
C.	Assessment and Approval Process

A. Purpose and Scope

The andgreen.fund (hereinafter: the Fund) shall invest exclusively in projects located in jurisdictions where the authorities demonstrate commitment to, and are making progress on, reducing deforestation. The purpose of the *Jurisdiction Eligibility Criteria* (“**JEC**”) and the *Jurisdictional eligibility assessment and approval process* is therefore to help the Fund select jurisdictions where it can invest.

The term “jurisdiction” refers to a national or sub-national administrative unit, with national or sub-national governance structures endowed with the requisite political and decision-making authority to sustainably manage, preserve and monitor forest and/or peatland natural resources. The approach recognizes that within a sub-national unit, there may be areas under the decision-making authority of the national/federal government, in which case the jurisdictional authority will be expected to engage actively with the national/federal level to facilitate the needed actions.

Each Fund project must be assessed and approved in accordance with a two-step assessment:

- 1) Firstly, jurisdictions in which the Fund may invest must be approved by the Advisory Board (“**AB**”) and fulfil the JEC as defined in this document;
- 2) Secondly, each potential project must be approved by the Board of Directors based on a recommendation from the Credit Committee (“**CC**”), which shall conduct an assessment in accordance with the Lending Guidelines and the Environmental & Social requirements as laid out in the Environmental & Social Management Systems (“**ESMS**”).

B. Jurisdictional Eligibility Criteria

The Fund shall invest exclusively in projects located in jurisdictions that fulfil the JEC, as assessed and approved by the AB.

The JEC shall be the same for all jurisdictions in which the Fund invests. However, the interpretation of the five criteria of the JEC will be tailored to the specific jurisdiction. For Least Developed Countries (“**LDCs**”), there will be additional flexibility in defining the jurisdictions and assessing eligibility⁸.

Specifically, the fulfilment of criteria 1 and 2 is obligatory when a jurisdiction is assessed for the first time. Furthermore, work also needs to have started on criteria 3, 4 and 5. Work in progress

⁸ The Board of Directors (“**BoD**”) should seek advice from AB prior to initiating a JEC assessment in a new LDC jurisdiction.

can be verified, e.g. by official government plans (official drafts sufficient if publicly available/under consultation), (draft) policies, approved legislation, budgetary allocations, and implementation of existing policies/regulations.

For subsequent assessments, measurable progress must have been achieved in respect of criteria 3, 4 and 5.

The five criteria of the JEC are:

Criterion 1 – Scope:

The amount and quality of forest and/or peatland potential of the jurisdiction is such that it could be classified as significant and highly relevant from a global perspective on environmental conservation and climate change mitigation grounds.

Criterion 2 – Ambition and strategy:

A clear quantitative target against historic rates of gross deforestation⁹, which also reflects or goes further than established national targets, and a feasible strategy to reduce deforestation, and as relevant, forest and peatland degradation and restoration, within a specified timeframe, adopted and approved for the jurisdiction. Strategy development should have included an inclusive multi-stakeholder consultation process and the strategy should include quantified and time bound milestones towards reduced deforestation, and a plan for strengthening the enabling environment.

Criterion 3 – Progress:

Timely progress towards milestones of the strategy, including implementation of key policies, and measurably on a trajectory towards the targets for reduced deforestation. This criterion builds on criterion 2, and asks for documentation on progress pertaining to ambition and strategy as per targets set for the jurisdiction.

A combination of the following indicators can be used to assess this progress:

- Is the jurisdiction keeping to the quantified, time-bound targets as per the official strategy?
- Is there a progress report(s) prepared and made public by the jurisdiction?
- Is there verifiable improvement in the enabling environment, i.e. a combination of improvements on any of the following;
 - o Enhanced legal and regulatory framework – including but not limited to tenure and land use planning and, where applicable, national/subnational linkages
 - o Strengthened capacity in terms of number of qualified staff, essential systems, and operational resources (support staff, civil works, goods and services)
 - o Actual vs planned budgetary allocations to support implementation of the official strategy

Criterion 4 – Monitoring, reporting and verification (“MRV”):

A transparent system is operational at relevant jurisdictional level for monitoring, measuring, reporting and verifying reductions in deforestation and, where relevant, forest and peat degradation

⁹ Based on national forest definitions for native forests (excluding harvesting from tree plantations)..

and restoration, against an established baseline. The system is linked to an annual reporting schedule with full transparency and openness to undergo independent verification.

Progress on this criterion can be measured with a combination of the following indicators

- A forest monitoring system to measure results against the baseline in a consistent manner, building on or being integrated with the national forest monitoring system
- Regular progress reports that are publicly available and contain quantitative data measuring change against baselines;
- Requests for independent verification have been granted without unreasonable delays.

Criterion 5 – Social and environmental safeguards:

In accordance with the Cancun Agreement, at the national level, the appropriate policies and legal and regulatory frameworks (including relevant safeguards) are in place to mitigate the social and environmental risks associated with implementing the strategy.

Progress on this criterion can be measured as progress towards implementation of the Cancun Agreement.

Interpretation of the JEC

The interpretation of the JEC is applied to the local context. Interpretation of the JEC 1-5 is therefore jurisdiction-specific, and will be developed by the Investment Advisor (“**IA**”) for each jurisdiction.

The initial *Jurisdictional assessment report* for any jurisdiction will create localized indicators – which serve as the baseline – and targets on which the regular bi-annual reassessments (or other *ad hoc* assessments requested by the AB) are to be based.

C. Assessment and Approval Process

The JEC assessment and approval process comprises the following steps:

- ***Jurisdictional eligibility assessments*** will be prepared by the IA. These assessments must be approved by the AB, which normally meets twice a year;
- The IA will produce a ***Jurisdictional assessment report*** for each jurisdiction. Multiple jurisdictions may be covered within the same report as long as each is independently measured against the same criteria;
- The Jurisdictional assessment report will verify that an inclusive multi-stakeholder consultation process has taken place when developing the strategy described under Criterion 2 above.
- The Jurisdictional assessment report will be based on desk research and analysis performed by the IA. The report should focus where possible on quantitative, relevant information; with the main document being less than five pages in length.
- The IA submits the report to the Board of Directors (“**BoD**”), who will forward the report to the AB, without providing an assessment of or recommendations related to the content of the report.

- Based on the report, the AB will provide binding advice to the BoD as to whether the jurisdictional eligibility assessment by the IA is approved;
- The Fund may transact in a jurisdiction only after the BoD has received written approval of the Jurisdictional eligibility assessments from the Chair of the AB;
- The AB will provide binding advice to the BoD within 30 days of the Board meeting during which it was discussed;
- All successful Jurisdictional assessment reports submitted to the AB will be published on the Fund's website after the AB's decision, including a short explanation in the event of a change in the decision of the AB from previous decisions on a particular jurisdiction;
- The IA will manage queries from the public related to these public reports. However, the AB is responsible for providing any formal public response if required;
- Every two years the jurisdictional eligibility assessment report will be updated by the IA and re-submitted, via the BoD, to the AB for its binding advice. Material issues related to the JEC may warrant an earlier reassessment. The IA may initiate on its own initiative, and the AB may request, via the BoD, a reassessment if there is cause to believe that material changes have occurred, affecting the eligibility of the jurisdiction.
- In the event of a non-approval of the eligibility of a jurisdiction, all further investment into that jurisdiction for that year are suspended.
- Potential transactions for which the IA can provide a Term Sheet for a project that was approved (and signed off) for Due Diligence by a representative member of the Credit Committee, prior to the updated jurisdictional assessment (in a situation where the previous eligibility assessment resulted in approval) may still be executed, subject to further project approval.
- In the event of a non-approval of the eligibility of the jurisdiction, a new assessment can be made the following 6 months, for AB approval, if the policy environment in the jurisdiction has improved.
- Re-assessments are only required if there is an interest by the IA to initiate negotiations for new investments.

ANNEX II: LANDSCAPE PROTECTION PLAN CRITERIA

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A. Purpose and Scope of the Landscape Protection Plan

A Landscape Protection Plan (“LPP”) is a comprehensive, long term land use and management plan developed by the prospective client in conjunction with key stakeholders covering all areas of high carbon stock and high conservation value forest and peatlands within the Project Area as defined in section below, and valid throughout the Project Duration¹⁰. The LPP should include a plan for obtaining the free, prior & informed consent of Indigenous Peoples and local communities for all activities proposed where these may affect customary rights. .

The submission of a detailed Landscape Protection Plan is a pre-condition to the Fund’s participation in a transaction and the implementation of clearly defined milestones contained within the plan will be included amongst the environmental and social covenants of the loan agreement.

The Project Area encompasses, as appropriate:

- The area likely to be affected by: (i) the project and the business’ activities and facilities that are directly owned, operated or managed (including by contractors) and that are a component of the project (ii) impacts from unplanned but predictable developments caused by the project that may occur later or at a different location; and (iii) indirect project impacts on biodiversity or on ecosystem services upon which Affected Communities’ livelihoods are dependent.
- Associated facilities, which are facilities that are not funded as part of the project but that would not have been constructed or expanded if the project did not exist and without which the project would not be viable.

The Landscape Protection Plan will:

- Document the stakeholder consultation¹¹ and engagement process to be or already undertaken, including a clear rationale for choice of process and timeframe for completion;
- Describe an immediately operational grievance mechanism directed at local stakeholders, with the Fund level grievance mechanism for referral.
- Provide detailed mapping of the Project Area;
- Identify potential causes of deforestation, forest and peat degradation and biodiversity¹² loss in the Project Area;
- Describe the baseline scenario for the Project Area over the Project Duration;

¹⁰ The ‘Project Duration’ is defined as the term of the credit facility provided to the project by the Fund.

¹¹ Including any Free, Prior & Informed Consent process where applicable

¹² Biodiversity’ is defined as the variability among living organisms from all sources including, inter alia, terrestrial, marine & other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystem

- Describe the goals¹³ in terms of sustainable land use planning and management, and HCV¹⁴/HCS¹⁵ protection;
- Define quantitative targets in terms of hectares of forest and/or peatland conservation¹⁶ and restoration¹⁷ (adjusted for forest condition¹⁸);
- Outline interventions that each stakeholder will take to ensure the effective long term protection and/or sustainable use of areas of conservation importance;
- Demonstrate how the proposed investments and associated protection measures will realize more forest and peatland protection than if the investment had not taken place, and describe the measures to be taken to mitigate leakage¹⁹;
- Define a budget detailing the human and financial resources required for implementation;
- Identify milestones that can be used to monitor implementation;
- Include a forest monitoring and MRV programme.

B. Key LPP Approval Criteria

Beyond the main goal of demonstrating and replicating models for productive, deforestation production models, investments of the Fund also aim to maximize the project's direct positive environmental impacts. This will be assessed in terms of relevance, quantity, quality and effectiveness:

Relevance refers to the relative significance, in terms of conservation value and carbon stocks, of the proposed protection and restoration areas within the LPP.

Quantity refers to the extent of protection that can be attributed to the project. Both on- and off-concession (or farm) protection can contribute towards the PP ratio.

Quality refers to the condition of areas to be protected (to be estimated quantitatively using proxies such as forest cover and species richness) and the likely improvements in condition that are achievable during the project lifecycle must also be taken into account.

Effectiveness refers to the likelihood that the proposed measures identified in the LPP will be effective and sustainable over the long term.

¹³ specific, measurable, achievable, realistic and time-bound covering the protection and restoration of all HCV and HCS areas

¹⁴ The High Conservation Value criteria are based on those defined by the High Conservation Value (HCV) Resource Network <http://hcvnetwork.org/>

¹⁵ The High Carbon Stock criteria are based on those defined by the HCS and HCS+ merger process <http://highcarbonstock.org/agreement-on-unified-approach-to-implementing-no-deforestation-commitments/>

¹⁶ Defined as: The protection, care, management and maintenance of ecosystems, habitats, wildlife species and populations, within or outside of their natural environments, in order to safeguard the natural conditions for their long-term permanence (IUCN).

¹⁷ Defined as: Restoration is to work towards the re-establishment of the presumed structure, productivity and species diversity of the forest originally present at a site (adapted from UNEP World Conservation Monitoring Center).

¹⁸ See reference below to Quality under the section on PP ratio

¹⁹ Leakage is displaced negative impacts e.g. deforestation outside the project area caused either directly or indirectly as a result of the project.

Inclusion of the Supply Chain

In order to maximise positive social impacts, the Fund will seek to finance projects that seek the inclusion of third party suppliers, in particular smallholders, as beneficiaries of the project eg as suppliers of agricultural commodities, inputs or related goods and services.

Measurement, Reporting, Verification (MRV)

In the first two years following transaction execution, the plan proponent (the Fund client) should submit biannual reports on progress against the LPP milestones to the Fund, after which reporting is to be on an annual basis. The plan proponent shall obtain annual third party verification of progress against LPP milestones.