



## ANNEX 5: MERCON ACTION PLAN (ESAP) AND ASSOCIATED TARGETS

**Mercon is committed to sourcing coffee for its Vietnam-based business from deforestation-free coffee supply chains by 2027.** To do so, the company will design and gradually roll out the landscape-level traceability system, engage with relevant stakeholders, as well as safeguard MRV mechanisms throughout the first 5 years of the loan.

For the export part of the business, which has very few, if any, influence over the suppliers, Mercon focuses on the risk mitigation approach, applying only NDPE policy. For the vertical supply chains, in addition to mitigating deforestation and human rights risks through the NDPE policy, Mercon will enable the transformation of farming practices by setting up its LIFT landscapes. The company will replicate its LIFT Program experience, incentivizing coffee farmers to become climate resilient as well as adopt good agricultural practices that will benefit their livelihoods in the medium and long term. Mercon will enhance its ESMS to achieve full compliance with the IFC PS during the first three years of the loan tenure.

Figure 1. Expected timeline of NDPE rollout in the exporting business of Mercon. The green colour indicates supply chains compliant with NDPE (compliance verification to take place in 2026).

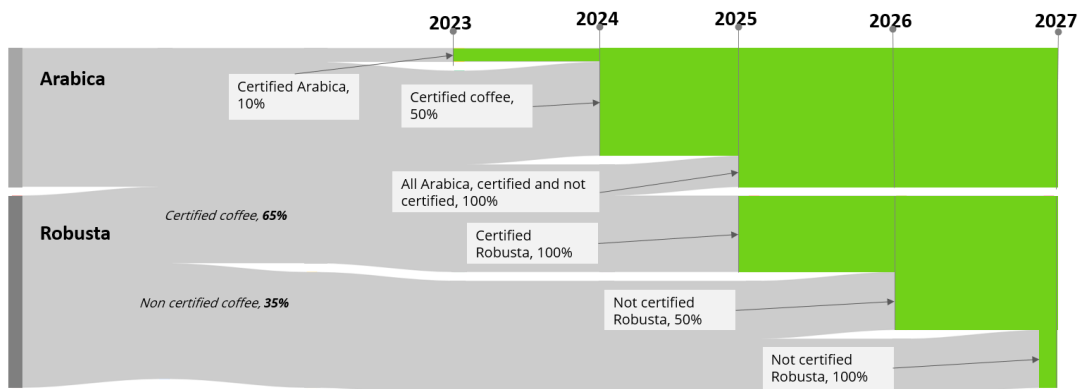
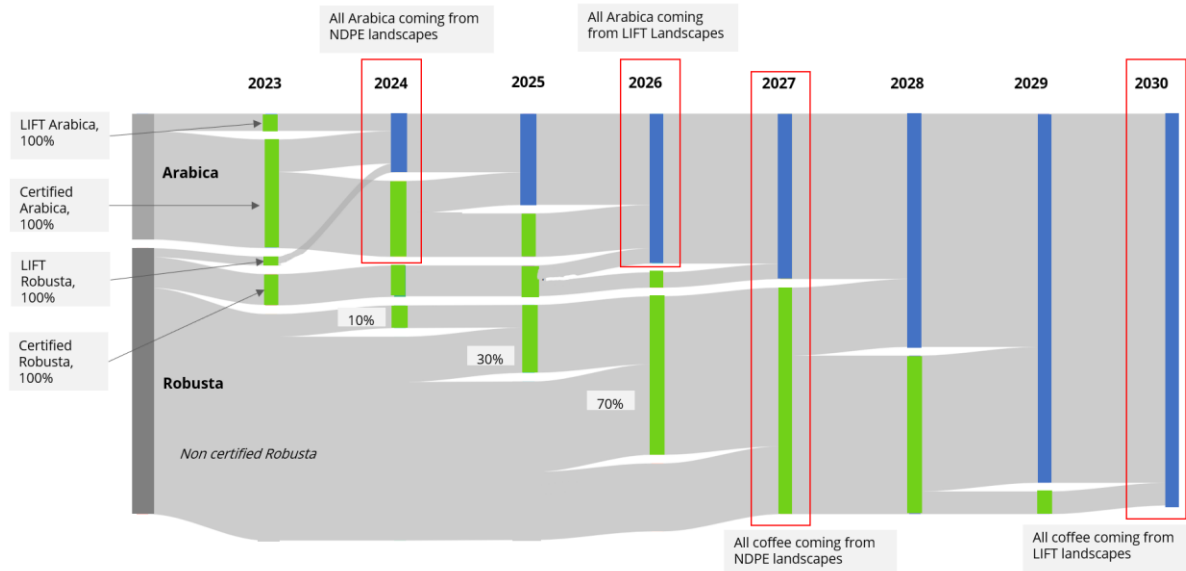




Figure 2. Expected rollout of NDPE and LIFT landscapes in the vertical supply chain of Mercon. The green colour indicates supply chains compliant with NDPE (compliance verification to take place in 2025). The Blue colour represents supply chains that in addition to NDPE, turned into LIFT landscapes.



Guidance: provide a summary on the main commitment, 1 phrase.

Mercon’s commitments related to the implementation of the LPP are reflected in the ESAP:

- A.** Strategic items related to supply chain management which contain a description of the milestones and respective timelines;
- B.** Environmental and social returns, expected to result from the implementation of LPP, with quantitative targets and respective timelines; and
- C.** Environmental and social management (ESMS) improvements are expected to be implemented by Mercon in order to achieve compliance with IFC Performance Standards, with quantitative targets and priority actions.

Mercon will report its progress of LPP implementation using the template to be provided by &Green, adjusted to integrate existing reporting practices of Mercon.

The frequency and the scope are provided below:

REPORTING SCOPE	2023 - 2024	2025 FORWARD
<b>A.</b> Progress on implementation of the strategic items, as per Table 1	2 per year: Self-report by Mercon, and Annual independent audit	Annual independent audit
<b>B.</b> Monitored figures of environmental and social return targets	Annual independent audit	Annual independent audit
<b>C.</b> IFC Performance Standards compliance	Annual independent audit	Annual independent audit



## Definitions

The following definitions will apply:

**Audit period:** standard calendar year from 1 January to 31 December of each year. Review of ESAP items should therefore be performed and reported to &Green by March 31 of each year, corresponding to ESAP activities accomplished in the previous calendar year. The first audit will take place in March 2023 and cover the 2022 calendar year.

**Mercon Landscapes (both NDPE and LIFT):** landscapes that grow coffee sourced or ought by Mercon. These include supplying region plus a buffer of 5 km. The detailed procedure on how to delineate a landscape will be developed as a part of ESAP.

**Cut-off date (related to no-deforestation commitments):** the date after which deforestation renders a given area or production unit non-compliant with no-deforestation commitment. For commodities sourced by Mercon from its NDPE landscapes, the cut-off date will be set as a part of ESAP, in accordance with &Green's Forest and Biodiversity Framework.

**Deforestation free:** Mercon can demonstrate through third-party audits that coffee purchased by the company come from production areas that are in compliance with Mercon's NDPE policy (revised version approved by &Green), or if non-compliant that Mercon has taken action to redress the non-compliance or block the supplier in accordance with the compliance protocol (to be approved by &Green). An overall margin of 5% non-compliance is considered acceptable.

**Deforestation:** loss of forest cover as a result of i) conversion to agriculture or other non-forest land use; ii) conversion to a tree plantation; iii) severe and sustained degradation.

**Disclosure:** all annual third-party audits will be disclosed on &Green's website.

**Forest** (as per national definition<sup>1</sup>): land spanning more than 0.5 hectares with trees higher than 5 meters and a canopy cover of more than 10 percent.

**Minimal level of deforestation:** a small amount of deforestation that is negligible in the context of a given site because of its small area and because it does not significantly affect the conservation values of natural ecosystems and services. Minimal levels of deforestation at the site scale do not necessarily violate no-deforestation.

**Production area:** clearly delineated part of a rural property used for coffee production.

**Remediation and remedy:** the process of providing remedies for a negative impact and the substantive outcomes that can counteract, or make good, the negative impact. These outcomes may take a range of forms such as apologies, restitution, rehabilitation, restoration, financial or non-financial compensation, as well as the prevention of harm through, for example, injunctions or guarantees of non-repetition.

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<sup>1</sup> [FREL](#) 2016.



## Supplier Management Policies

The action plan contains the contractually binding targets with expected deliverables, due dates, and verification methods.

The “*external review report*” refers to the annual external audit of IFC PS compliance, as it is within the scope of IFC Performance Standards. The audit report must contain the assessment of corresponding ESAP items.

Where applicable, approval or consent is required from &Green and/or Sail not to be unreasonably withheld, denied, or delayed.

Table 1. Strategic targets on supplier management policies enhancements

#	SYSTEM/SCALE CHANGES	TARGETS	DUE DATE	VERIFICATION DURING THE LOAN PERIOD
1	Physical climate change assessment	<p>With the support of an external consultant, conduct a physical climate risk assessment that covers the landscapes of the current and potential interest of Mercon in terms of sourcing both Arabica and Robusta, focusing on the timeframes of 8-10 years and aligning the scope with risk management procedures of Mercon. Identify the impacts of the production patterns in terms of financial risks. Include analysis of social, political, economic, and demographic information to give a full sense of what climate change will mean. Identify opportunities and priorities to be addressed through LIFT Landscapes. &amp;Green will provide technical assistance to conduct the research. The ToR for the service will be approved by &amp;Green.</p> <p><b>Deliverables:</b> Physical climate change assessment of coffee production regions of Vietnam.</p>	07/2023	External review report on progress, as per work plan.
2	Guidelines for managing the biodiversity risks in the LIFT Landscapes	<p>With the support of an external consultant, conduct an assessment of biodiversity-related risks in the landscapes of the current and potential interest of Mercon, following the Forest &amp; Biodiversity Framework of &amp;Green Fund. Define the landscape and provide guidelines on how to delineate the landscapes (both NDPE and LIFT). Assess the amount of forest that can be protected in each of the landscapes, and its quality in terms of integrity and degradation. Classify the forests in terms of their relevance for biodiversity conservation. Assess the potential amount of producers to be reached and set the targets for forest protection (<b>these will become contractually binding</b>). Identify the areas of high and substantiate risks and define the guidelines to mitigate the risks. Identify the proxies to monitor and mitigate the risks. The Tor for the service and selection of the qualified consultant will be approved by &amp;Green.</p> <p><b>Deliverables:</b></p> <ol style="list-style-type: none"> <li>Biodiversity and forest-related risks assessment report in the landscape of Mercon interests, following the Forest &amp; Biodiversity framework of &amp;Green.</li> <li>Guidelines on mitigating biodiversity-related risks that will make part of internal policies (e.g. social and environmental risk assessment) and LIFT Landscapes monitoring.</li> <li>Maps of Mercon landscapes, with the amount and quality of forests subject to protection in each.</li> <li>Targets for forest protection aligned with the rollout of NDPE and LIFT landscapes.</li> </ol>	07/2023	External review report on progress, as per work plan.
3	Guidelines for assessing and monitoring human rights-related risks in the NDPE landscapes	<p>With the support of an external consultant, develop a methodology to assess and monitor human rights-related risks, in line with NDPE Policy of &amp;Green and IFC PS, in the landscapes of Mercon. Provide MRV framework for the human rights component of the NDPE landscapes. &amp;Green will provide technical assistance to conduct the research. The Tor for the service and selection of the qualified consultant will be approved by &amp;Green.</p> <p><b>Deliverables:</b></p> <ol style="list-style-type: none"> <li>Methodology on human rights assessment in the landscapes of Mercon.</li> </ol>	07/2023	External review report on progress, as per work plan.



#	SYSTEM/SCALE CHANGES	TARGETS	DUE DATE	VERIFICATION DURING THE LOAN PERIOD
		2. MRV framework to monitor human rights components in the landscapes of Mercon.		
4	Study on benefits for farmers to participate in LIFT Landscapes	<p>Develop an assessment of the potential benefits for farmers to participate in the LIFT Landscapes. Consider other landscape players, including competitors, that may maximise such benefits. Test it with a representative amount of relevant stakeholders. Approve the feasibility of integrating the benefits in the LIFT Landscapes rollout strategy.</p> <p><b>Deliverables:</b></p> <ol style="list-style-type: none"> <li>1. Report on the conducted study of the benefits of participating in LIFT Landscapes.</li> </ol>	07/2023	External review report on progress, as per work plan.
5	LIFT Landscapes concept	<p>Using the outcomes of the studies and assessments 1 to 5, develop a technical and commercial concept of LIFT Landscapes, that includes, but is not limited to, the following features:</p> <ol style="list-style-type: none"> <li>1. <i>Which parameters are used to define a landscape geographically and what is the process.</i> This includes also the parameters of quantity/quality of LIFT model farms necessary in each LIFT Landscape.</li> <li>2. <i>Which adaptation climate adaptation measures will be promoted within the LIFT Landscapes, and how the impact of these will be monitored.</i></li> <li>3. <i>Which benefits, both short-term and mid-term, will be featured by LIFT model farms to raise the interest of farmers in the LIFT Landscapes.</i></li> <li>4. <i>How the owners of LIFT model farms (i.e. local opinion makers) will be selected in the new landscapes.</i></li> <li>5. <i>Which types of landscape cooperation with other actors may be feasible in order to scale up LIFT Landscapes.</i></li> <li>6. <i>What is the communication plan to scale up the LIFT Landscapes.</i></li> </ol> <p><b>Deliverables:</b> The concept of the LIFT Landscape addressing the above-mentioned items.</p>	10/2023	External review report on progress, as per work plan.
6	Roll out the plan for LIFT Landscapes	<p>Detail the planned rollout of each type of Landscape, following the initial concept per the LPP.</p> <p><b>Deliverables:</b> For each of the Landscapes, a timeline with a list of the landscapes and verifiable milestones to be addressed every year. <b>These will become the targets of the transaction.</b></p>	10/2023	External review report on progress, as per work plan.
7	Application of the NDPE Policy	Apply the NDPE Landscapes policy as per LPP and timeline.	12/2023	External review report on progress, as per work plan. Initial external review of NDPE compliance in 2025.



## Environmental and Social Returns

Mercon commits to achieving expected environmental and social returns through the implementation of the ESAP. The quantitative targets related to the ESAP items are presented in Table 2, with the contractually binding targets highlighted in green. The framework to monitor, report and verify the KPIs will be provided in the MRV framework. The targets are estimated with the final figures to be set during 2023 along with the MRV framework, thus the verification of the targets is applicable from 2025 on.

Table 2. ESAP: Targets on Environmental and Social Returns

KPI	TARGET	UNIT	BSL 2022	2023	2024	2025	2026	2027	2028	2029	2030
1. Forest Conserved	Purchase and source coffee from NDPE Landscapes of Mercon, with a total area of forest as per target	ha	0	63,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000
2. Size of productive area in LIFT Landscapes with climate adaptation measures	The size of the productive area within LIFT Landscape that adopted adaptation measures in agricultural practices	ha	0	0	900	1,200	1,800	2,400	3,000	3600,	4,000
3. Coffee suppliers benefitted (socially included) through participating in LIFT Landscapes	The number of coffee suppliers within LIFT Landscapes	n farmers	100	600	1,200	2,400	4,000	6,000	9,000	12,000	15,000



## Compliance with IFC Performance Standards

Mercon commits to increasing its IFC PS compliance levels year-on-year and achieving a minimum of 90% compliance with all applicable Performance Standards three years after signing the loan agreement. Mercon will complete the priority actions in 2023 and 2024 as per Table 3 (no % target in a specific year means that the audit will verify considerable progress on the item, which must be completed by the verification procedure). Other recommended actions, derived from the ERM IFC PS gaps assessments, are provided in the IFC PS Compliance Matrix and serve as guidance for the company in its compliance processes.

The audit will comprise a full review of Mercon's compliance against the IFC PS, resulting in an updated IFC PS compliance matrix.

Mercon will provide annual review reports for the years 2023-2024 and share deliverables of IFC's ESAP applicable to Vietnam operations, followed by biannual reports until the end of the loan period.

*Table 3. ESAP: Targets on IFC PS Compliance*

*Guidance: for required actions on material risks, provide IDs of respective actions from the IFC PS matrix.*

THEME	TARGET		2023	2023	2024	2025	2026	2027	2028	2029	2030
IFC PS1: ESMS	90% by the year 2025	PS1-03 , PS1-15, PS1-51	70%		80%	90%	90%	90%	90%	90%	90%
IFC PS2: Health, safety, labour	90% by the year 2025		70%		80%	90%	90%	90%	90%	90%	90%
IFC PS3: Water, air, land	90% by the year 2025	PS3-07	70%		80%	90%	90%	90%	90%	90%	90%
IFC PS4: Communities	90% by the year 2025		70%		80%	90%	90%	90%	90%	90%	90%
IFC PS5: Displacement	n/a		70%		80%	90%					
IFC PS6: Biodiversity	90% by the year 2025	&Green's Forest & Biodiversity Framework	0%		70%	90%	90%	90%	90%	90%	90%
IFC PS7: Indigenous Peoples	n/a										
IFC PS8: Cultural Heritage	n/a										