



Luxembourg, 24 November 2023

Environmental and Social Completion Sheet (ESCS)

Overview

Project Name:	Arbaro Fund
Project Number:	2013-0216
Country:	Africa, Latin America
Project Description:	A fund investing in sustainable forestry, forest conservation, agro-forestry and value-chain projects to mitigate climate change and enhance ecosystems' resilience.

Summary of Environmental and Social Assessment at Completion

The Arbaro Fund invested in a diversified forest portfolio, managing eight projects in five Latin American and two Sub-Saharan African countries, in accordance with its investment strategy. Due to Covid-19 pandemic, which coincided with the Fund's fundraising period and reduced investors' appetite for new investments, the final size of the Fund reached about 55% of the initial target. As a consequence, the original Fund's impact targets have been reduced in proportion to the final fund size.

As of Q4 2022, the fund's portfolio companies covered about 32,000 ha with improved and sustainable forest/land management practices, targeting to reach about 54,000 ha by the maturity of the Fund in Q3 2033. This led to about 7.5 million tCO_{2-eq} sequestered until Q4 2022 and to about 11 million tCO_{2-eq} to be sequestered by the end of the Fund's life (Q3 2023).

EIB notes the following Environmental and Social performance and key outcomes at Project Completion.

The Fund and its Portfolio Companies follow the safeguards, approaches and undertakings listed in the Environmental and Social Data Sheet issued at appraisal stage. The Fund follows its Environmental and Social Management System (ESMS), including its Environmental and Social Governance Policy and Guidelines framed on the IFC performance standards, EIB Environmental and Social Standards and FSC certification standards.

At Portfolio Company level, as part of its due diligence, implementation and monitoring processes, the Fund has followed its investment strategy, deploying independent third-party experts to conduct Environmental and Social Impact Assessments (ESIA), gap assessments and draft environmental and social action plans (ESAPs). The ESAPs, which are contractually binding to the Portfolio Companies as included in the legal agreements, include the preparation and implementation of the companies' ESMS.

Environmental and social risks of each portfolio company have been identified in the ESIA. Mitigation strategies have been put in place to counter any negative impacts. ESIA were carried out for all Fund investments and were duly submitted to EIB. These reports are public and can be accessed through <https://www.arbaro-advisors.com/investments/>

There have been no grievances at fund level. During public consultations with stakeholders, there were questions and opinions shared by the public in relation to some of the Fund's pipeline investments. The questions were in relation to the projects' potential negative impacts as described in the ESIA. Questions were answered and mitigation measures for negative impacts included in the ESAP to be implemented in each portfolio company.

At fund level, the ESMS has undergone a review twice. At Portfolio Companies level, the ESMS has been implemented for the companies invested prior to 2022 and is being updated from time to time. For Portfolio Companies invested in 2022, the ESAP is being implemented as per the



Luxembourg, 24 November 2023

Fund's ESMS according to the targets set up therein. Any deviations from the fund's ESG requirements and specific ESAPs identified at portfolio companies' level have been carefully analysed by the Fund manager and the respective portfolio companies. Analysis of the root causes of such misalignments were conducted and measures were taken to improve the application of the specific ESAPs. The companies have adjusted their policies, procedures, and practises, including by holding trainings and enhancing their ESG capacities.

In line with the Fund's investment policy, all Fund's Portfolio Companies are certified by Forest Stewardship Council (FSC) or in course for FSC certification (roadmap) and are required to follow the stringent ESG requirements of the Fund. Each project has been assessed for climate change vulnerability as part of project due diligence, and findings, if any, considered in project set-up / planning.

The Fund's investments in establishment and sustainable management of forest plantations sequesters carbon from the atmosphere contributing to climate change mitigation. About 7.5 million tCO_{2-eq} have been sequestered until Q4 2022 by the Fund's portfolio companies through deployment of sustainable forest management practices. Projects producing carbon credits are VCS certified or in course for VCS certification (roadmap).

The Fund's investments in active and sustainable forest management reduces pressure on natural forests through the production of wood from alternative sources. They also contribute to climate change adaptation through regulation of climate and water cycles, landscape diversification, soil restoration, and to protection of natural forests and other habitats with high conservation values in the project areas. As of Q4 2022, the annual forest growth at Fund level was about 640 000 m³/year and about 11 000 ha were brought under protection and biodiversity conservation by the Fund's investments.

Furthermore, the generation of revenues and formal employment increases resilience of the local population by providing alternative sources of income and reducing their dependency on climate-sensitive economic activities. For example, in 2022, over 4 000 people have been trained by the Fund's portfolio companies to further develop technical skills, strengthen health and safety capacities, create wellbeing, and improve the environmental and social performance. By the end of 2022, the Fund's Portfolio Companies employed a total of 2,868 full time equivalent (FTE) persons, of which, some 677 FTE (23.6% of total employment) were women. The Fund requires that a gender assessment followed by a gender action plan is undertaken in each Portfolio Company. Many of the Portfolio Companies are still in the early phases of executing their business plans, and increased provision of employment should be expected as the Portfolio Companies grow.

Summary opinion of Environmental and Social aspects at completion:

EIB opinion is based on the quarterly and annual progress reports received from the Fund Manager. The conclusion is that the Fund's investments have been implemented in line with EIB Environmental and Social Standards applicable at the time of appraisal.