

Environmental and Social Data Sheet

Overview

Project Name:	Arbaro Fund
Project Number:	2013-0216
Country:	Africa, Latin America
Project Description:	A fund combating climate change by investing in forestry and forest conservation projects to sequester and reduce emissions of carbon.
EIA required:	Multi-investment Fund. EIA required for selected investments

Project included in Carbon Footprint Exercise¹: no

(details for projects included are provided in section: "EIB Carbon Footprint Exercise")

The project comprises a minority participation in the Arbaro Fund (The Fund), a new equity-based fund which aims to invest in existing forest plantations and the establishment and management of new plantations. The Fund has a strong commitment to sustainability, being planned in strict compliance with stringent ecological and social standards including FSC certification. Selected investments intend to generate returns through sale of forest-based carbon credits.

The Arbaro Fund's strategy is to target assets in emerging economies with a focus on Latin America and Africa. However, the Fund's pipeline 'longlist' includes a number of prospects which may lie outside this dual region focus. The Fund aims to invest in approximately ten projects ranging in size from 10,000 ha to 20,000 ha.

The Fund's current pipeline includes a range of project types: timber and biomass production, industrial timber production, plantations management, silvopastoral production and REDD+ (carbon credits from forest conservation). When fully invested and implemented, the Fund Manager estimates that the Fund's investments will contribute to the creation of over 5000 jobs and will sequester approximately 65 m t CO₂ eq. (although as noted below, funds are not included in the EIB's annual carbon footprint exercise).

Summary of Environmental and Social Assessment, including key issues and overall conclusion and recommendation

The Fund has an Environmental and Social Governance Policy which articulates the principles and commitments that underpin the Fund's activities, and underline the Fund's active promotion of sustainable development in its full range of activities and investments. The Fund's excluded investment list is consistent with the exclusions of the EIB.

In addition, it has a set of Environmental and Social Governance Guidelines, which are based on the FSC Standard, and are harmonised with the IFC Policy and Performance Standards on Social and Environmental Sustainability and with the EIB's Environmental and Social Standards. These Guidelines outline the ESG Management System of the Fund, and commit to allocating appropriate resources at the Fund level to ensure the proper implementation of the system at all stages.

¹ Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100,000 tons CO₂e/year absolute (gross) or 20,000 tons CO₂e/year relative (net) – both increases and savings.

At individual investment level, the Fund will require its portfolio companies to establish an Environmental and Social Management System, and is explicit about the obligation to ensure that appropriate tools, targets, budgets, resources and timetables for implementation of these, are in place. This System must include at least the following four components:

1. Environmental and Social Policy
2. Environmental and Social Risk and Impact Assessment process
3. Forest Management Plan
4. Monitoring and Assessment System.

The Fund will adopt a set of environmental and social key performance indicators in order to assess its portfolio companies, and it will undertake appropriate follow-up and monitoring of the ESG performance of companies throughout the investment process. In addition, all companies are required to seek Forest Stewardship Council certification.

Relevant Undertakings:

- The Fund shall carefully analyse each new greenfield project and its consequences on the financial model of the Fund during the investment period and report every six months until three years after the plantation establishment. In addition, a clear landownership, social and environmental baseline has to accompany the due diligence process.
- The Fund shall report on an agreed set of key performance indicators which should include area under productive management, employment generation, net carbon sequestration, timber outputs, and status of acquisition or implementation of Forest Stewardship Council certification.

Relevant Conditions in the Technical Description:

The Fund Manager shall use all reasonable endeavours to ensure when it makes Investments that the underlying operating Portfolio Company or project will be obliged to operate, and will be operated in accordance with all applicable EU and national laws and, in particular with respect to:

- Directives 2009/147/EC (Birds); 92/43/EEC (Habitats); Environmental Impact Assessment (EIA) Directive 2011/92/EU; 2001/44/EC (Strategic Environmental Assessment (SEA)); and 96/61/EC (IPPC)

to the extent that such laws and requirements are applicable to the relevant underlying operating Portfolio Company or project.

The General Partner shall also collect and publish the Non-Technical Summary (NTS) of a project's EIA if the project is subject to an EIA according to EU or national legislation in order to ensure compliance with the EIB's Public Disclosure Policy.

Environmental and Social Assessment

Environmental Assessment

Environmental and social impact assessment is not necessary for management of existing plantation forestry assets. However, assessment is likely to be required for establishment of new plantations where they entail land use change.

Concessions over natural forests are excluded from the scope of the Fund. The Fund will support sustainable forestry in several countries where levels of deforestation and forest degradation remain high, and it offers important environmental and climate action benefits,

including improved greenhouse gas sequestration, soil protection and strengthening of supply of a range of raw materials. It is estimated that full implementation of the Fund will lead to the sequestration of approximately 65 m tCO₂.

With regard to biodiversity, the Policy states that the mitigation hierarchy is applied, and that a precautionary approach is taken to the conservation, management and sustainable use of living natural resources. In line with the EIB's aim to achieve no net loss of biodiversity, it is stated that the Fund's investments will seek to safeguard and where feasible, enhance habitats and the biodiversity they support.

In line with the EIB's Environmental and Social Standards, the Fund will not invest in companies which pursue commercial management or purchase of logging equipment for use in tropical natural forest and/or high conservation value forests, nor any other activities that may lead to clear cutting and/or degradation of such forests.

Where tropical timber exporting countries are concerned, the Fund seeks to invest only in those countries which are positively engaged with the EU's Forest Law Enforcement, Governance and Trade (FLEGT) process. The Guidelines commit the Fund to invest only in countries where a Voluntary Partnership Agreement (VPA) has been signed; or the negotiation process has not been put on hold or actively blocked by the partner country.

At the point of divestment, the Fund will carry out a reputation check on the potential buyer. Exit may not proceed if the potential buyer is involved with activities on the Fund's excluded investment list. The ESG Guidelines state that the Fund will endeavour to the extent possible to select investors that ensure continuity of high ESG standards.

Estimate of Carbon Footprint Exercise

As a Fund, the project is not included in the annual Carbon Footprint accounting exercise of the EIB. However, carbon sequestration is considered a Key Performance Indicator for the Fund, meriting discussion of this important benefit of the Fund.

The Fund Manager has estimated the carbon sequestration potential of the Fund's investments. This is calculated for the total project area (i.e. not prorated for Arbaro's investment share) and full project duration (complete production cycle and not the holding period). The estimates take into account a without-project baseline, corresponding to the biomass in the scenario that would occur in the absence of the project. The biomass present at the starting point of the project is estimated and changes over project duration are estimated according to the most plausible scenario.

Leakage refers to emissions that occur due to a shift of activities (mainly agriculture and livestock) from the inside to the outside of a project area as a result of project implementation. In the Fund model it is estimated as a % of the net CO₂ sequestration.

For the 5 most mature projects in the dealflow pipeline (ie investment volume of USD 75), the sequestration is estimated to amount to 24.5 m tCO₂ eq. When fully invested (200 m USD) the projects supported by the Fund will be expected to generate a carbon sequestration total of approximately 64.7 m tCO₂ eq.

Social Assessment

The Fund's Environmental and Social Governance Policy states that the fund seeks the fair treatment of all stakeholders affected by the Fund's investments, by identifying relevant stakeholders; respecting local communities and indigenous peoples' legal and customary rights over resources, as well as culturally and socially vulnerable sites; and engaging in participatory, fair and transparent decision-making processes.

The ESG Policy also states that the Fund will exclude companies whose activities involve non-resolvable land use conflicts with local communities and/or result in involuntary resettlement of local communities.

Other Environmental and Social Aspects

ESG guidelines are based on the International Finance Corporation (IFC) Policy and Performance Standards on Social and Environmental Sustainability, the related Environmental, Health and Safety Guidelines (EHS Guidelines) and the European Investment Bank's Environmental and Social Standards. In addition, the Funds ESG guidelines are compatible with the United Nations Principles for Responsible Investment (PRI).

General principles of the Fund's ESG guidelines are:

- Finance only business operations that comply with all applicable local and national laws, as well as international conventions and agreements ratified by the host country.
- Operate according to the mitigation hierarchy, seeking to avoid, and where this is not possible, minimize adverse impacts and enhance positive effects on the environment, workers and stakeholders.
- Actively seek for senior level endorsement of, and adherence to ESG guidelines of financed businesses, establishing formal commitments through appropriate ESG policies and practices, targets, budgets and timetables for implementation.
- Integrate its ESG principles early in the planning process of each investment project in order to establish management systems subject to continuous improvement which effectively address ESG risks and realize ESG opportunities.
- Set in place appropriate indicators and realize the follow-up of ESG measures throughout the investment process.
- Promote and work towards the implementation of relevant international best practice standards, particularly FSC and PEFC.

The ESG principles are a fundamental part of the Fund's business operations and compliance will be achieved through the means of an appropriate ESG management system. An effective ESG management system requires ESG principles to be considered from the initial phase of the investment process throughout the project cycle.

To ensure the implementation of ESG tools throughout the investment process, clear budget lines will be set up for:

- A person responsible for Environmental and Social Due Diligence and the implementation and monitoring of ESG guidelines on project level.
- The formulation of an Environmental and Social Action Plan (ESAP) on project level.
- Ongoing and continuous monitoring and reporting on ESG matters.