

Environmental and Social Data Sheet

Overview

Project Name:	Land Degradation Neutrality Fund
Project Number:	2015-0797
Country:	Multi-Regional: Latin America, Asia, ACP states, OCT and South Africa
Project Description:	Cornerstone investment in a fund targeting sustainable land use projects, promoted by the United Nations Convention to Combat Desertification (UNCCD)
EIA required:	Multi-investment Fund: EIA required for selected investments
Project included in Carbon Footprint Exercise ¹ :	no

Environmental and Social Assessment

Land degradation is not a stand-alone issue, but threatens the future sustainability of life on Earth with severe impacts on food security, livelihoods, climate change, biodiversity and ecosystems. Worldwide, approximately two billion hectares of land could benefit from restoration, including about 500 million hectares of abandoned agricultural land. While not all restoration activities would make economic sense, some can deliver significant socio-economic benefits.

The Fund is mission-driven to contribute to the successful implementation of the UNCCD. In order to meet the SDG target 15.3 of achieving a land degradation neutral (LDN) world by 2030, significant amounts of private capital must be attracted to invest in sustainable agriculture, sustainable forestry and land reclamation/rehabilitation. Furthermore, land is also at the heart of many other sustainable development issues such as food security, poverty eradication, gender equality, water availability and biodiversity protection. Managing land wisely addresses all these global challenges.

The Fund aims to invest in sustainable land management and the restoration of about 500 000 ha, focusing in particular on sustainable agriculture and forestry, and land reclamation which are expected to deliver a strong contribution to tackling land degradation.

The Fund will target equity and debt investments in areas at risk of, or affected by, land degradation in countries of Latin America and the Caribbean, Asia, Pacific and Africa, and investments may include projects in three main investment areas: (1) sustainable agriculture; (2) sustainable forest management; (3) sustainable land use projects (biodiversity conservation and environment protection).

A dedicated Technical Assistance Facility will support promising land use activities and build a portfolio of bankable projects, and ensure appropriate implementation of Environment and Social standards at the Fund and portfolio companies' levels.

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.

Luxembourg, 1 December 2017

Environmental and Social Assessment

The Fund manager has been working together and has consulted a variety of stakeholders from international organisations, civil society organisations and potential investors on the Fund's Environmental and Social (E&S) principles and standards, as well as the Environmental and Social Management System (ESMS) of the Fund. The ESMS is part of the Fund's policy framework and is integrated into all aspects of its investment process. The E&S standards to be guiding the risk assessment and mitigation across the Fund's pipeline are clearly spelled out and include the 2012 IFC Performance Standards with the explicit application of Free Prior and Informed Consent (FPIC) on all Indigenous and Forest Communities. In addition, and reflecting the specific nature of LDN Fund, the Fund has committed to application of the principles and practices outlined in the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests (VGGT) as related to land tenure and land use.

For all projects, the role of third-party verified certification will be evaluated, and the Fund will be required to ensure that projects are certified or certifiable as appropriate, particularly for the forestry sector and with regards to palm oil and rubber plantations, if applicable.

In case of large-scale plantations and potential land use changes, the competent national authorities will be consulted and subprojects will undergo specific environmental and social due diligence in accordance with the Bank's Environmental and Social Handbook.

Biodiversity and Ecosystems: With regards to biodiversity, the Fund's Policy states 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, and net gain where possible, the Fund's investment will uphold the mitigation hierarchy, to safeguard and where required, enhance habitats, biodiversity and the ecosystems they support. Specifically, the Fund shall ensure that the portfolio projects:

- (a) do not lead to ecosystem degradation, such as deforestation of primary and secondary forests and the destruction or degradation of peatlands or other ecologically valuable habitats, whether directly or indirectly, and do not cause a net loss of biodiversity, foremost of all fauna and flora species classified as vulnerable to critically endangered on the IUCN Red List of Species;
- (b) do not give rise to changes in land management practices which have negative environmental impacts;
- (c) are, where applicable, implemented on plantations that are managed using modern agro-ecological techniques in order to drive the conversion to sustainable agricultural practices so as to minimise adverse environmental and social outcomes.

Fair Treatment and Benefit Sharing: In particular through the application of VGGT, FPIC where required and the IFC Performance Standards including international best practice, the Fund's Environmental, Social and Governance documentation states that the Fund seeks 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; and engaging in participatory, fair and transparent decision-making processes. In particular, the Fund shall ensure that underlying projects, where applicable, enable small-scale palm oil cultivators operating in existing plantations to be included in the certification system and ensure that they receive their fair share of profits.

The Fund Manager will ensure that the projects do not compromise the tenure rights of land users (i.e. small-scale farmers and indigenous populations) to derive economic benefit and support livelihoods from their activities on the land and should not diminish the provisioning capacity and cultural value of the land.

Luxembourg, 1 December 2017

The Fund will need to appoint community liaison managers, at portfolio project level, to work on stakeholder engagement and local community relations. The Fund will also actively seek to develop relationships with local civil society organisations and other strategic partners that can help to create positive health, educational and economic development outcomes.

Stakeholder Engagement: The Fund has committed to protecting the people's livelihoods and the social fabric of local communities in areas where the Fund's portfolio companies may conduct business. Meaningful involvement of local communities, including consultation and free prior and informed consent of indigenous communities who are directly affected are central in the EIB's social due diligence. Particular emphasis will be applied to the screening of the original public consultation accompanying the granting of the land-use rights to the projects in which the Fund is investing.

A Stakeholder Engagement Plan (SEP) will be a requirement across each project in the Fund's pipeline, whilst a robust application of FPIC, where applicable, with participating communities and evidence thereof will be required. Meaningful consultation and engagement with other relevant stakeholders at the level of each project will additionally be required to be planned for and carried out without discrimination, taking into account differences in risk exposure and the higher sensitivity of the most socially and economically vulnerable and marginalized population groups within the wider project footprint.

Where the application of FPIC is required by all project proponents and their counterparts in the communities participating in the transaction, FPIC is expected to be established through good faith negotiation between the project proponent and the participating communities and to be fully documented as a mutually accepted process between the parties, carrying evidence of agreement between them as the outcome of the negotiations and carried into the relevant MoU at project level, clearly outlining benefit- and risk-sharing provisions. The EIB does not require that FPIC ascribes to unanimity, rather than satisfactory documented evidence is provided of the meaningful engagement of the whole body of a participating community, gender dynamics appropriately addressed in the course of the process.

The EIB will closely monitor the application of FPIC and will focus on the representativeness and legitimacy underpinning the negotiation of and arrival at a collective decision; the concerned communities' capacity to negotiate; verification of freedom from coercion and the cultural appropriateness of the engagement over adequate period of time; that timely information was provided to the communities in a culturally appropriate format; that a mutually accepted process supported the outcome, carrying evidence of consideration of community concerns.

The Fund Manager has committed to the undertaking of FPIC, where required, at the level of each project; however capacity building shall be required at both Fund and project levels in this respect.

Climate Impact: All measures to address land degradation will have significant impact on adaptation and mitigation of climate change as they will increase the resilience of agricultural and forestry systems and reduce GHG emissions and/or increase carbon sinks in soil and vegetation. IPCC estimates that potential carbon sequestration in improved cropland, grassland and forest management ranges from 0.1-3.4 t C/ha/year, depending on ecozone and key practices adopted². However, the Fund shall primarily address land degradation, and climate action impact will account for as second priority.

Capacity of the Fund Manager: Rolling out and effectively applying the Fund's ESMS will require the appropriate capacity and expertise. The requirement for a robust ESMS and the

² Land Use, Land-Use Change and Forestry - IPCC, 2000
(http://www.ipcc.ch/ipccreports/sres/land_use/index.php?idp=171)

Luxembourg, 1 December 2017

accompanying capacity has been addressed to the Fund Manager and this is regarded as a cornerstone for the Fund's success.

The EIB will be carefully monitoring the roll-out and application in practice of the ESMS. This is a specialised and pioneering Fund, and therefore implementing its requirements in practice may be challenging. The Bank will monitor closely the evidence in practice of the Fund Manager's capabilities in this regard.

Monitoring: Project implementation will be monitored with the indicators framework established by the UNCCD for Land Degradation Neutrality, with the view of measuring results in term of degradation avoided, reduced and reversed.

Conclusions and Recommendations

- Within 90 days from the date of the first close and in any case, before the first disbursement, the Fund Manager is required to:

At Fund Level

- Enhance its E&S Management System (ESMS) in order fully to reflect the EIB E&S Standards;
- Strengthen the management team with additional staff: (i) to ensure that capacity gaps in environmental and social issues; and (ii) the sectoral and geographical expertise in forests, agribusiness and financial sectors; are fully filled and that sufficient capacity in these sectors remains at the core management team thereafter;
- Nominate an Environmental and Social Manager, who shall be an experienced senior officer of the Manager having management responsibility, among other things, for ensuring proper operation and maintenance of the Environmental and Social Management System.

Undertakings

The EIB will monitor the operationalization of the Fund's Environmental and Social Management System (ESMS) through relevant reporting requirements for the Fund Manager.

At project level:

- To make available to the EIB any additional information in its possession or which it can reasonably obtain and that the EIB may request concerning environmental or social matters regarding the investee companies;
- Ensure that each investment and implementing entity: (i) complies with the EIB List of Excluded activities and the "Investment guidelines and sector-specific exclusions and restrictions for the Fund's investments"; (ii) has internal procedures to safeguard health and safety among its staff and communities close to its operations, (iii) has an internal grievance procedure, and engages with the local communities in the communities where it operates; and (iv) has adopted and implements the proper employment health and safety standards (OHAS standards).
- To submit to the EIB any Resettlement Action Plan (RAP) to emerge across the Fund's pipeline, including any ex-poste remediation/corrective measures, for review and non-objection;

Luxembourg, 1 December 2017

- To keep (or have kept on behalf of the Fund by the investee company) the relevant documents collected during the due-diligence process, concerning environmental or social matters regarding companies in which the fund has made an investment (especially the documentation used for the due diligence process)
- To appoint community liaison managers, at portfolio project level, to work on stakeholder engagement and local community relations and submit to the EIB upon request: Stakeholder Engagement Plans (SEP) and application of the FPIC processes, Indigenous People's Plans, Fund's due-diligence for selected investments, for review and non-objection.

The Fund Manager and/or the General Partner shall also ensure, when it makes investments, that all underlying operating Portfolio Company or sub-project will be obliged to operate, will be operated in accordance with the national laws, and will be aligned with the principles and standards contained within relevant EU regulations (to the extent that such laws and requirements are applicable to the relevant underlying operating Portfolio Company or sub-project), such as: Directives 79/409/EC (Birds), 92/43/EC (Habitats), 85/337/EC (Environmental Impact Assessment (EIA) as amended by 97/11/EC and 2003/35/EC), 2001/44/EC (Strategic Environmental Assessment [SEA]), and 96/61/EC (IPPC), EC Regulation 2003/2003 relating to fertilizer, as well as the EIB environmental and Social Standards as described in the Bank's Environmental and Social Handbook.

With the above-mentioned conditions, the Fund is acceptable for EIB financing in environmental and social terms.