eco.business Fund

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Environmental, Social and Governance Policy of the eco.business Fund

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Contents

Environmental, Social and Governance Policy

Purpose of the Document

1. This document defines the eco.business Fund's ("the Fund", "EBF") Environmental, Social and Governance (ESG) commitments.

2. The Fund consists of two Sub-Funds:

   a. The eco.business Sub Fund I (EBF LAC): investing into the Latin American and Caribbean regions; and,
   b. The eco.business Sub Fund II (EBF SSA): investing into Sub-Saharan Africa region.

3. This Policy is applicable to both Sub-Funds.

4. The Fund's sustainable investment objective is to support biodiversity conservation, the sustainable use of natural resources and climate change mitigation and adaptation. The Fund focuses on sustainability in four economic sectors: sustainable agriculture and agri-processing, fishery and aquaculture, forestry, and sustainable tourism ("focus sectors").

5. The Fund makes sustainable investments with an environmental objective in accordance with Art. 9 Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). The Fund considers Principal Adverse Impacts of its investment decisions on sustainability factors and integrates sustainability risks into its investment decision-making process and has published respective disclosures on its website, in line with SFDR requirements.

6. The Fund works primarily through local financial institutions ("FIs") but also provides financing to non- financial institutions ("NFIs") via its direct lending activities. In summary, the Fund provides financing to the following Partner Institutions ("PIs"):

   a. **FIs** including but not being limited to commercial banks, microfinance institutions and other non-bank financial institutions like investment companies, investment funds or holding companies that must either finance or be committed to finance the target group.
   b. **NFIs** operating in the focus sectors including but not being limited to projects and companies like producer associations and cooperatives or other entities that can clearly contribute to the Fund's mission.

Fund ESG Commitments

7. The Fund recognizes the importance of effectively managing – i.e., avoiding, minimizing, mitigating, and remedying – ESG risks and impacts associated with its investments and identifying ESG related opportunities.

8. The Fund aims to contribute to the vision of the Kunming-Montreal global biodiversity framework[1] to value, conserve, restore and wisely use biodiversity, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people. The Fund will particularly seek to contribute on the following targets:

[1] 15/4. Kunming-Montreal Global Biodiversity Framework (cbd.int)

a. Target 1: ensure effective management of land and sea use changes,
b. Target 7: reduce pollution to levels that are not harmful to biodiversity,
c. Target 8: minimize the impacts of climate change on biodiversity and build resilience,
d. Target 10: enhance biodiversity and sustainability in agriculture, aquaculture, fisheries and forestry,
e. Target 11: maintain and enhance natural ecosystem contributions, and
f. Target 19: increase financial resources, including public and private resources, to implement biodiversity strategies and action plans.

9. The Fund is committed to respecting human rights as defined by the International Bill of Human Rights, to the Fundamental Conventions of the International Labour Organization (ILO)[2] and to the ten principles on corporate sustainability established by the UN Global Compact.

10. The Fund is committed to promoting good governance, integrity, and transparency standards in its financing/investment activities and to foster principles of good corporate governance in the PIs' ownership and management structures. The governance principles adopted by the Fund are outlined in the Investment Guidelines, Risk Management Policy and Anti-Money Laundering/Counter Terrorism (AML CFT) Policy for investees.

11. The Fund applies the IFC Performance Standards and applicable principles of the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights as reference frameworks for assessing and monitoring the ESG risks associated with its investments.

12. The Fund will not finance any activity included in the Fund's exclusion list (see Annex 1 of this Policy).

13. The Fund will not finance activities with potential significant adverse environmental or social (E&S) risks and/or impacts that are diverse, irreversible, or unprecedented (Category A)[3].

14. NFI Investments will not take place on land that was deforested after 2010[4] or a cut-off date defined by certifications held by the PI, unless the investment aim is to restore degraded or deforested land.

15. In line with the Kunming-Montreal global biodiversity framework, the Fund aims to promote practices that contribute to mitigate climate change and adapt to its impacts. Thus, the Fund will not only finance climate change mitigation and adaptation positive measures but also assess PI exposure to climate change risks as well as PI climate risk management capacity and, where possible, identify opportunities for enhancing the PIs' contribution to climate change mitigation

[2] "ILO Fundamental Conventions" means the conventions stemming from the ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998 and amended in 2022, covering: (i) freedom of association and the right to collective bargaining, (ii) the elimination of forced and compulsory labour, (iii) the abolition of child labour, (iv) the elimination of discrimination in the workplace and (v) a safe and healthy working environment.

[3] A PI is categorized "A" when it could result in potentially significant adverse future environmental and/or social impacts which, at the time of categorization, cannot readily be identified or assessed. A PI is categorized "B" when its potential adverse future environmental and/or social impacts are typically site-specific, and/or readily identified and addressed through mitigation measures. A PI is categorized "C" when it is likely to have minimal or no potential adverse future environmental and/or social impacts. A PI is categorized as "FI" if the financing structure involves the provision of funds through financial intermediaries, which undertake the task of sub-loan appraisal and monitoring.

[4] 2010 was chosen as cut-off date considering availability and quality of satellite images across target markets.

and adaptation through technical assistance.

16. The Fund commits to integrating responsible finance considerations into its financing activities, thus, where relevant, PI alignment with core responsible finance principles[5] will be reviewed.

17. The Fund will assess and consider gender-differentiated risks and impacts to avoid discrimination and inequality against women through its investments, in line with the Fund's gender strategy.

18. The Fund aims to proactively initiate and sustain engagement with relevant stakeholders and is committed to establish and uphold a transparent and accessible grievance mechanism. The Fund commits to promptly address concerns to mitigate potential adverse ESG impacts.

19. The Fund will implement, maintain, and continuously improve its Environmental and Social Management System ("ESMS"). The ESMS will include:
    a. this ESG policy, complemented by procedures, tools and guidance materials.
    b. E&S categorization system[6] (A, B, C and FI-1, FI-2, FI-3)[4] consistent with the equivalent practices of IFC and other development finance institutions.
    c. Well-defined roles and responsibilities and appropriate allocation of resources.
    d. Implementation of the Fund's ESG policy and procedures throughout the investment cycle.

20. In accordance with the ESMS, all prospective investments undergo E&S due diligence by the Fund Advisor. E&S due diligence results, conclusions and recommendations are shared with the Investment Committee and are an element in the Investment Committee's decision making.

21. The Fund will only make an investment in a proposed PI if:
    a. Identified material adverse E&S impacts or risks are sufficiently mitigated or resolved in compliance with the E&S requirements for PIs; or,
    b. The proposed PI has agreed to an E&S action plan to address such material impacts or risks within a time period acceptable to the Fund.

E&S Requirements for Partner Institutions

22. All PIs are required to carry out the lending activities financed by the Fund in compliance with:
    a. Applicable laws and regulations; and,
    b. The Fund's Exclusion List.

23. All PIs are required to carry out the lending activities financed by the Fund in conformance with:
    a. The relevant IFC Performance Standards;
    b. The ILO Fundamental Conventions; and,
    c. Good international industry practice, including World Bank Group EHS guidelines, where applicable.

24. All PIs are required to maintain an external communications mechanism and/or grievance mechanism to receive and address concerns from clients, the public or affected communities.

25. All PIs are required to carry out its internal operations in conformance with applicable labour

[5] Including those set out in international, regional and national frameworks, such as the Client Protection Pathway or the UNEP Finance Initiative's Principles for Responsible Banking.

[6] The assessment of Governance aspects relies on information collected during the credit and AML risk assessments, which are covered by the Fund's Risk Management Policy and AML CFT Policy for investees, respectively.

regulations, ILO Fundamental Conventions and IFC Performance Standard 2.

26. Throughout the financing engagement with EBF, PIs are required to report to the Fund on an annual basis on the E&S performance of the sub-loan portfolio or activities financed by the Fund.

27. The Fund requires FIs to:
    a. Establish and maintain a satisfactory ESMS, incorporating relevant aspects of IFC Performance Standard 1, commensurate with the level of E&S risks of the activities financed by the Fund.
    b. Contribute to an adequate identification and assessment of E&S risks of the prospective sub-loan portfolio, including but not limited to, an assessment of sub-loans E&S management, and labor practices[7] through the FI's ESMS.
    c. Conduct ongoing monitoring of sub-loans.

28. The Fund requires NFIs to:
    a. Medium E&S Risks (Category B) or IFC Performance Standard Triggered Transactions Scope 1[8]: Comply with applicable regulations and conduct the operations financed by the Fund in conformance with applicable IFC Performance Standards.
    b. Low E&S Risks (Category C) or IFC Performance Standard Triggered Transactions Scope 2[9]: Comply with applicable regulations and conduct the operations financed by the Fund in conformance with IFC Performance Standards 1 and 2.

29. Where a PI's ESMS is not fully in line with the Fund's E&S requirements for PIs, the PI will be required to address material gaps as part of an E&S action plan. As the Fund aims to actively support PI's in developing or strengthening their ESMS, when necessary, the Sub-Funds, through their Development Assistance Facilities, will provide support to PIs to improve E&S management capacities.

30. The requirements applicable to an investment by the Fund are based on the version of this Policy that is valid at the time of investment approval for such transaction.

Governance, Accountability, and Reporting

31. The Board of Directors is responsible for defining and approving this ESG Policy and any changes to it. The Board oversees the implementation of the Policy and the ESMS.

32. The Board of Directors and shareholders receive periodic reports from the Fund Advisor on the implementation and effectiveness of the Fund's ESMS and its compliance with this Policy.

33. The Fund will allocate responsibilities and appropriate resources for the effective implementation of this Policy.

[7] The assessment will be understood to cover the applicable requirements of IFC Performance Standard 1 (Assessment and Management of Environmental and Social Risks and Impacts), IFC Performance Standard 2 (Labor and Working Conditions) and ILO Fundamental Conventions that are relevant to the lending activities and target sub-loans of the PI.

[8] IFC Performance Standard Triggered Transactions Scope 1: Project finance loans or project-related corporate loans with an amount equal to or higher than USD 5,000,000 (or its equivalent in any other currency) or transactions where the total project costs are equal to or higher than USD 10,000,000 (or its equivalent in any other currency), provided that the transaction has a tenor of 36 months or more.

[9] IFC Performance Standard Triggered Transactions Scope 2: Corporate loans that are not project related with an amount equal to or higher than USD 5,000,000 (or its equivalent in any other currency) and which has a tenor of 36 months or more (including revolving facilities).

34. The Fund makes relevant ESG information available to the public via its website:
    a. The Fund's ESG Policy;
    b. Regulatory disclosures, particularly in relation to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR).

35. The Fund maintains a Complaints Mechanism to enable third parties to raise any concerns about EBF's compliance with this Policy and/or the E&S impact of the Fund's investments:
    a. The Board of Directors designates one of its members, the Complaints Officer, to ensure that complaints are handled and treated in accordance with the Complaints Management Policy and escalated without undue delay in accordance with the regulatory and contractual obligations of the Fund.
    b. The Complaints Mechanism can be accessed via the Fund's public website, where the process for submitting and handling complaints is described (www.ecobusiness.fund/en/complaints).
    c. Effective handling of complaints from third parties underpins continuous improvement of the Fund's ESMS, thus, no complainant who, in good faith, reports any dissatisfaction shall suffer any harassment, retaliation or adverse consequences.

36. This Policy will be subject to review by the Advisor every two years.

Annex 1 – Exclusion List

Partner Institutions (PIs), their Sub Borrowers or Direct Borrowers of the Fund shall not use the Loans or the proceeds from Loans or any part thereof to invest in any company or advance funds to any person who is engaged in any of the following activities:

Exclusions

1. Production or trade in any product or activity subject to national or international phase-out or prohibition regulations or to an international ban, for example
   - i) certain pharmaceuticals, pesticides, herbicides and other toxic substances (under the Rotterdam Convention, Stockholm Convention and WHO "Pharmaceuticals: Restrictions in Use and Availability"),
   - ii) ozone depleting substances (under the Montreal Protocol),
   - iii) protected wildlife or wildlife products (under CITES / Washington Convention)
   - iv) prohibited transboundary trade in waste (under the Basel Convention).
2. Investments which could be associated with the destruction[1] or significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with international standards).
3. Production or trade in munitions, weapons and critical components thereof (nuclear weapons and radioactive ammunition, biological and chemical weapons of mass destruction, cluster bombs, anti-personnel mines, enriched uranium).
4. Production or trade in alcoholic beverages (excluding beer and wine).[2]
5. Production or trade in tobacco.[2]
6. Gambling, casinos and equivalent enterprises.[2]
7. Production or trade in radioactive material. This does not apply to the procurement of medical equipment, quality control equipment or other application for which the radioactive source is insignificant and/or adequately shielded.
8. Production or trade in unbound asbestos. This does not apply to the purchase or use of cement linings with bound asbestos and an asbestos content of less than 20%.
9. Destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 km.
10. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
11. Prospection, exploration and mining extraction of coal; the production of gas by carbonisation of coal, transport and storage infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities fired with coal, as well as associated stub lines.

[1] "Destruction" means (i) the destruction or severe deterioration of the integrity of an area caused by a major and prolonged change in the use of land or water, or (ii) the alteration of a habitat which leads to the inability of the affected area to perform its function.

[2] This does not apply to PIs who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a PI's primary operations.

12. Prospection, exploration and extraction of oil (upstream), transport and storage infrastructure for crude oil, oil terminals and oil harbours as well as refineries.

13. Prospection, exploration and extraction of natural gas (upstream), new construction of natural gas grids and pipelines, vessels for the laying of natural gas pipelines, LNG liquefying terminals as well as production facilities for grey hydrogen (steam reforming of fossil fuels, without the use of Carbon Capture Systems).

14. Extraction of peat and electricity generation from peat.

All Financial Intermediaries (FIs), except those engaged in activities specified below*, must apply the following exclusions, in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor[3]/child labor.[4]
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

* When investing in **microfinance** activities, FIs will apply the following items in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor[3]/child labor.[4]
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

* **Trade finance projects**, given the nature of the transactions, FIs will apply the following items in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor[3]/ child labor[4].

Supplementary Requirements

In selected sectors, the Fund ties its direct financial commitment for new projects to the following qualitative conditions:

1. Outside OECD high income countries, large agricultural or forestry enterprises producing palm oil or wood must either comply with recognised international certification systems (RSPO or FSC) or equivalent regulations to ensure sustainable cultivation conditions or must be in the process of achieving compliance.
2. Large dam and hydropower projects use the recommendations of the World Commission on Dams (WCD) as orientation.[5]

[3] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[4] Child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

[5] Dams with a height of at least 15 meters measured from the foundation or dams with a height between 5 and 15 meters with a reservoir volume of more than 3 million cubic meters.