



Tropical Landscapes Finance Facility Impact Management Policy

January 2021

SUMMARY

This document sets out the environmental, social and governance (ESG) impact management policy for the Tropical Landscapes Finance Facility (TLFF), which provides long-term finance and grant assistance for sustainable investments in Indonesia. For the purposes of this policy, we are considering impact in eight areas: 1) forest retention; 2) Improved livelihoods; 3) peatland restoration; 4) sustainable supply chains; 5) clean energy; 6) reduced emissions; 7) biodiversity protection; and 8) pollution reduction.

As guided by this document, TLFF manages for impact throughout the investment process, from strategy setting to investment origination and structuring, to portfolio management and exits. Specific KPIs have been developed under each of our eight impact objectives and projects will be monitored and assessed according to performance relative to these as well as to IFC Performance Standards and others where relevant.

This policy will be reviewed on an annual basis to align with changing standards and evolving best practice. We anticipate learning with and from our projects along the way and intend to share knowledge gained through our own journey with the international community.

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1. INTRODUCTION

TLFF was established as a partnership in October 2016 to bring blended long-term private sector finance to projects that stimulate green growth and improve rural livelihoods in Indonesia. The four partners are the ADM Capital Group, BNP Paribas, UN Environment and the World Agroforestry Centre who came together to create financial product that would help drive private sector capital into a development and climate agenda. Consequently, the TLFF launch was supported by several Government of Indonesia (GoI) Ministers.

The **Tropical Landscapes Lending Facility** provides finance through innovative partnerships and structures and blends both grant capital and credit enhancements to support the design. Managed by ADM Capital, with BNPP as structuring partner, the Facility is overseen by an Investment Committee that provides strategic oversight and guidance on investments.

In addition to the long-term and innovative nature of the finance, additionality is secured by the **Tropical Landscapes Grant Fund**, designed to support the knowledge transfer, capacity building, monitoring and technical assistance needed to help communities and smallholders enhance agricultural productivity. The Grant Fund is managed by UN Environment, ICRAF and an Advisory Board, which provides strategic oversight. UN Environment and ICRAF also manage a TLFF Secretariat in Jakarta and host the TLFF Steering Committee, which provides overall oversight.

TLFF seeks competitive risk-adjusted **financial returns** within the goal of increasing private sector investment in sustainable development in Indonesia. In order to facilitate capital market flows into innovative projects with environmental and social benefit, TLFF accesses blended finance products, including credit enhancements and pools of grant capital, to help de-risk lending that is perhaps perceived initially to be riskier or is just outside Business as Usual product. We would argue, however, that in the longer term, investors will perceive that Business Unusual is less risky, in other words, lending that considers profit, people and environment equally, moving away from singularly focused profit maximization that doesn't take into account real cost to people and resources. Until, however, investors are comfortable with the newer structures and approach, TLFF will need to arrange de-risking support.

This ESG Impact Management Policy ensures that the Lending platform's investment team and investment committee can form a balanced view of the anticipated returns, impact and risks of each potential investment.

TLFF partners have expertise in ESG impact management and this expertise will also be provided to project developers, many of whom also need to be encouraged to think differently about project structure. Because of the Business Unusual nature of TLFF, working in partnerships where we can draw on myriad levels of expertise is core to TLFF and reflects its commitment to Sustainable Development Goal (SDG) 17 - Sustainable development through partnerships. Additionally, TLFF strives to make contributions to a number of other SDGs as outlined below. Each one is relevant to how TLFF works to contribute to the GoI's development and climate objectives.

TLFF will contribute to all SDGs and achieve its eight impact objectives through investments largely in:

- a) **Sustainable agriculture and supply chains:** including improved practices by mills, cooperatives, use of technology and innovation (traceability, training, credit, GPS land mapping, monitoring) prompting better farming practices for companies and smallholders.¹
- b) **Clean energy:** Scaling up investment in renewable energy capacity, including solar, wind, environmentally sustainable small hydro, with a focus on access to electricity for marginalized, off-grid communities.²

The facility will ensure that all projects work towards IFC Performance Standards and other sector-specific standards where applicable.

Individual investments will strive to achieve a mix of relevant impacts. TLFF will identify, up-front, the key objectives for each investment from among the eight, and then work with local partners to establish appropriate management, monitoring and measurement systems to achieve these, including but not limited to an ESG Action Plan. TLFF has investment and ESG personnel in Jakarta, overseen by the ADM Capital Investment Committee, who help manage TLFF strategic impacts at the portfolio level. It is the intention of TLFF to manage its impact according to the IFC Operating Principles for Impact Management.³

2. TLFF'S IMPACT OBJECTIVES

TLFF exists to support sustainable development in Indonesia and the country's transition to a low-carbon and climate-resilient future. The Facility's purpose is to provide long-term finance for investments that work toward achieving positive impact and benefit for communities and the environment through multiple impact objectives:

- 1) **Forest retention:** Retained canopy cover and natural forests restored
- 2) **Improved rural livelihoods:** Job creation, fair labour and wages, together with better smallholder farming practices, with particular attention paid to gender equality
- 3) **Peatland restoration and rehabilitation:** With no drainage or burning
- 4) **Sustainable supply chains for agricultural companies:** Through sustainable production systems with more mills in the commodity sectors achieving supply chain traceability
- 5) **Clean energy:** Through greater installed capacity for, and access to, clean electricity production
- 6) **Reduced emissions:** Mitigating climate change through forest retention and restoration; sustainable agricultural production systems and clean energy
- 7) **Biodiversity protected:** Through protecting critical habitats and preserving forest connectivity and thereby protecting threatened species
- 8) **Pollution reduction:** In freshwater systems, soil and air

Through these impact objectives, the TLFF aims to support Indonesia to achieve several headline development and climate policy commitments, notably:

- The Sustainable Development Goals (SDGs) 2 (zero hunger), 3 (good health), 6 (clean water), 7 (clean energy), 8 (decent work), 13 (climate action), 15 (life on land), 17 (partnerships);
- The climate targets stated in Indonesia's 'Nationally Determined Contribution' to the United Nations Framework Convention on Climate Change's Paris Agreement;
- The New York Declaration on Forests' Progress Assessment goals 1 (forest loss), 2 (agricultural commodities), 5 (restore forests), 7 (global climate); and

¹ This principally reflects SDG 12 on Responsible Consumption and Production.

² This principally reflects SDG 7 on Affordable and Clean Energy.

³ https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-Investing

- Indonesia's Biodiversity Strategy and Action Plan, 2015-2020, and the Aichi Biodiversity Targets of the Convention on Biological Diversity⁴

3. EXPECTED IMPACT OF EACH INVESTMENT

TLFF Projects should offer both a competitive financial risk-adjusted return and significant ESG impact. As far as possible, TLFF will look beyond the impacts of the immediate investment to help build sustainable supply chains for agricultural products. We believe that given the scale of sustainable development challenges in Indonesia, the resources of government and philanthropy alone are insufficient to achieve lasting ESG impact at scale. Only private sector investment, in tune with government policy and bringing targeted grant assistance, can deliver the transformative impact that the country requires to continue its economic growth in a sustainable manner.

From the perspective of local communities, we believe that we can help foster sustainable development through our own operations and also through our influence with companies in which we invest. TLFF demands good management, corporate governance, respect for the environment, a commitment to decent work, ethical business practices and, of course, compliance with local laws. We believe all of these practices will benefit the local community, as well as ultimately improving business efficiency and performance so that we can achieve the maximum returns for our investors.

From the investors' perspective, we believe that integrating robust impact management into our investment criteria strengthens our investment decision-making process and delivers increased value to investors. We intend to develop investable projects that will offer a competitive return, at a scale large enough to attract institutional investors. This is critical to delivering benefit to communities and the environment in Indonesia. Investments will comply with internationally recognised ESG performance standards and certifications, as well as local laws and international conventions.

The TLFF Investment Team, managed by ADM Capital, sources and analyses transactions, executes and monitors investments, and determines strategic focus areas for future transactions. The team consists of experts bringing experience in leadership, energy and infrastructure investments, structured finance and ESG.

4. MANAGING RISK

As core to our investment philosophy, ESG considerations are fully integrated into decision-making throughout the TLFF investment life-cycle.

We believe ESG factors can have material impact on long-term financial performance of projects and companies. Poorly managed risks can lead to inefficiencies, operational disruption, litigation, regulatory change and reputational damage. Therefore, we believe that supplementing traditional financial analysis with a review of ESG-related management practices and performance is prudent and is in line with fiduciary responsibility to optimize investor returns. We do not, however, believe in automatically excluding a potential investee on ESG grounds but instead, being aware of the ESG risks, making informed decisions, initiating ESG engagement with the potential investee and then introducing a clear, managed, ESG Action Plan.

⁴https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Indonesia%20First/First%20NDC%20Indonesia_submitted%20to%20UNFCCC%20Set_November%20%202016.pdf. This principally reflects SDG 13 on Climate Action.

Compliance with existing good practice standards and guidelines

TLFF's geographic focus is primarily Indonesia. Projects in the Facility will refer to industry benchmark standards including first and foremost the International Finance Corporation's Performance Standards on Environmental and Social Sustainability⁵. On tenure issues, TLFF will also be guided by Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT).⁶ TLFF will also be guided by other standards and certifications as relevant, such as the Climate, Community and Biodiversity (CCB) Standard⁷, and the ADB's Environmental and Social Safeguards, as appropriate and depending on the transaction or any co-investors and their requirements⁸.

Where relevant, TLFF will take guidance from the International Capital Market Association (ICMA) green, social and sustainability bonds principles and guidelines⁹.

TLFF will also be guided by the relevant and applicable policies of partners. These include the BNP Paribas sector policy statements in three key sectors where TLFF will have exposure¹⁰:

- Agriculture: https://group.bnpparibas/uploads/file/position_paper_soft_commodities_format_corporate_financial.pdf
- Palm Oil: https://group.bnpparibas/uploads/file/csr_sector_policy_palm_oil.pdf
- Wood pulp and paper: https://group.bnpparibas/uploads/file/csr_sector_policy_wood_pulp.pdf

In addition, TLFF takes note of numerous international initiatives in agriculture and seafood supply chains, that may take the form of conventions, directives, standards, recommendations or guidelines.

Compliance with existing and relevant policies, laws and regulations in Indonesia

Projects, will need to comply with all applicable national and jurisdictional policies, laws and regulations, related to environmental, social and governance aspects of operations.

Risk management during the investment cycle

From origination to an investment decision being made, all TLFF projects will be subjected to the following risk management (and impact optimization) procedures¹¹:

1. Screening - The purpose of ESG screening is to ensure exclusion of projects with business activities countering any of the fund's core objectives and protect fund partners from reputational risk (see Annex 1 for a schedule of excluded activities). Screening will also guide TLFF in selecting projects for investment that are likely to significantly contribute to achieving the impact objectives of the Facility through assessment of impact potential against KPIs. TLFF has developed an impact and ESG toolkit that provides a systematic initial

⁵ IFC Performance standards can be found here:

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards

⁶ <http://www.fao.org/3/i2801e/i2801e.pdf>

⁷ <http://www.climate-standards.org/ccb-standards/>

⁸ ADB Safeguard Policy Statement: <https://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf>

⁹ <https://www.icmagroup.org/sustainable-finance/the-principles/>

¹⁰ These can be found in the BNP Paribas Responsible Investment Policy: <http://docfinder.is.bnpparibas-ip.com/api/files/A115BC32-D579-48F5-83D3-8D1D50BFD128>

¹¹ Subject to operational feasibility adjustments for smallholder operations

assessment of potential project impacts and risks in the project pipeline. Projects are categorized by probability and scale of ESG risks and impacts, with particular attention to potential carbon savings. Categorisation of project ESG impact and risk potential, serves to inform the level of required ESG action planning, the applicable KPI's for the project and the monitoring required.

2. Categorisation - As per IFC Performance Standards, an ESG risk and impact potential category will be assigned to each investment.
3. Due Diligence – Once screened and categorized, potentially eligible project will be subjected to a comprehensive and thorough ESG (in conjunction with financial, legal and technical) due diligence process.
4. ESG action planning - In line with the IFC Performance Standard requirement for an 'Environmental and Social Assessment and Management System', project-level ESG Action Plans should be developed and informed by the assessments conducted during due diligence. Third-party audits may be required in order to ensure full and correct implementation of ESG action plans and quality of impact reporting.

5. DEMONSTRATING IMPACT

To demonstrate achievement of TLFF's impact objectives a Facility-level ESG impact framework will allow partners, projects and other stakeholders to comprehensively assess ESG impacts of the TLFF against pre-established baselines. The TLFF ESG impact framework comprises a hierarchical structure of , impact objectives, areas and key performance indicators (KPIs). The ESG impact framework is summarized in Table 1 below. Facility level KPI's have been developed per impact objective to reflect and contribute to the high-level policy commitments made by industry and the Government of Indonesia (see Section 2).

Table 1 Environmental, social and governance impact framework for the Tropical Landscapes Finance Facility

Impact Objective	Impact Area	Key Performance Indicator (KPI)	Relevant SDG indicators
1. Forest retention	Retained canopy cover	1.1.a Area of High Conservation Value (HCV)-High Carbon Stock (HCS) forest conserved, or 1.1b Area of Critical Habitat conserved	15.1.1 15.1.2
	Natural forests restored	1.2a Gross increase in area of natural forest cover within boundaries of funded projects, and/or 1.2b Natural forest area under active management for restoration objectives within boundaries of funded projects	15.2.1
2. Improved rural livelihoods	Employment (with attention to gender equity)	2.1 % increase in employment rates (with salary above the national norm) disaggregated by gender	2.3.2

Impact Objective	Impact Area	Key Performance Indicator (KPI)	Relevant SDG indicators
	Better smallholder farming practices (with attention to gender equity)	2.2a % farmers included in supply chains of funded projects, disaggregated by gender, and/or 2.2b % farmers adopted/implementing best management practices in sustainable agriculture/forest protection, disaggregated by gender	2.3.1 2.3.2 3.1
3. Peatland restoration and rehabilitation	Peatland restoration and rehabilitation	3.1 Area of degraded peatland restored within concessions of funded projects	15.3.1 2.4.1 15.3.1
4. Sustainable supply chains for agricultural companies	Improved ability to effectively track supply chains	4.1 % smallholder farms linked to supply chain tracking (defined by project)	15.2.1 15.9.1
	Sustainable agricultural production systems achieved	4.2 Agricultural area covered by sustainable production systems (to be defined per project)	2.4.1
5. Clean energy	Installed capacity of clean energy	5.1 Actual amount of renewable energy generating capacity operational by financial year end and an estimate for the total amount of generating capacity expected to be operational on completion of the project (in MW/h)	7.a.1 7.b.1
	Total electricity produced	5.2 Actual amount of renewable energy generated in the financial year reported as well as an estimate for the total amount of renewable energy generated over the lifetime of the asset (in MW/h)	7.a.1 7.b.1
	Access to clean energy	5.3 People with improved, or first-time access to clean energy	7.1.1 7.1.2 7.2.1
6. Reduced emissions	Climate change mitigation contributions from forest retention and restoration	6.1 Annual tonnes of avoided CO ₂ emissions from reduced natural deforestation/forest degradation, and Annual tonnes of CO ₂ sequestered by natural forests	15.2.1
	Climate change mitigation contributions from changes in agricultural production systems	6.2 Annual tonnes of avoided GHG emissions from farms, and Annual tonnes of CO ₂ sequestered by farms	13.b.1

Impact Objective	Impact Area	Key Performance Indicator (KPI)	Relevant SDG indicators
	Climate change mitigation contributions from clean energy	6.3 Annual tonnes of avoided GHG emissions from clean energy	13.b.1
7. Biodiversity protection	Biodiversity protected	7.1 Area of Critical Habitat protected within concessions of funded projects	15.1.2
	Connectivity preserved	7.2 Area of ecologically viable connected forest increased	15.1.2
8. Pollution reduction	Pollution reduction in freshwater systems and soil	8.1a Concentration of selected pesticides, nitrate and phosphorus in groundwater and surface water. 8.1b Concentration of Biological Oxygen Demand (BOD ₅) in surface water. 8.1c Increase in area of agricultural land under better farming practices	6.3.2
	Reduced air emissions from haze and diesel	8.2a Area of land under fire management practice, and/or 8.2b Area of burned land 8.2c Number of farms using low pollutant fuels	3.9.1 15.2.1

TLFF offers long-term finance and grants to its projects. Substantial impacts are expected to have accrued before exiting the projects. If impacts have yet to accrue, TLFF will endeavor to lock in a commitment to sustaining the drivers of impact with the management team and new investors.

6. MONITORING AND EVALUATION

TLFF provides finance to projects that generate positive impact and benefit for communities and the environment through multiple impact pathways.

TLFF is committed to ensuring compliance with the relevant standards for each transaction and for monitoring to the KPIs of the eight core ESG objectives, which we believe will deliver desired impact. Both the borrower and TLFF have duties regarding monitoring and evaluation. The scope and periodicity will be commensurate with the project's risks and impacts. Borrowers are required to implement agreed upon ESG Action Plans and remain in compliance with agreed performance standards or safeguards as provided in the legal agreements, as well as to submit periodic monitoring reports on their implementation performance. This includes:

1. establish and maintain procedures to monitor the implementation progress of ESG action plans
2. verify the compliance with agreed measures and their progress toward intended outcomes
3. document and disclose monitoring results and identify necessary corrective and preventive actions in the periodic monitoring reports
4. follow up on these actions to ensure progress toward the desired outcomes

5. retain qualified and experienced external experts or qualified NGOs to verify monitoring information where there are deemed to be significant impacts and risks
6. submit monitoring reports on standards or measures as agreed with TLFF
7. collect, compile and submit information on relevant Facility level KPIs, in addition to any project-level indicators of ESG impact

ADM Capital as the facility manager will monitor projects on an ongoing basis until a project completion report is issued and will carry out the following monitoring actions to supervise implementation:

- conduct periodic site visits for projects with challenging environmental or social impacts
- conduct supervision with detailed review by ESG specialists or consultants for projects with significant adverse social or environmental impacts;
- review the periodic monitoring reports submitted by borrowers/clients to ensure that adverse impacts and risks are mitigated as planned and as agreed
- work with borrowers to rectify to the extent possible any failures to comply with ESG commitments, as covenanted in the legal agreements and action plans
- aggregate project-level information and combine it with facility level information as part of ongoing monitoring against ESG FPIs (Table 1) and to inform periodic impact reporting

7. ETHICAL CONDUCT

TLFF considers its reputation, and that of its associated partners, for integrity and fairness as critically important.

- We insist on honesty and integrity in all aspects of our business operations
- We strive to avoid conflicts of interest, and to act lawfully and ethically
- We expect our employees and partner employees to practice the highest moral and ethical standards in all their business activities. This includes honesty and integrity when working with other company employees, the public, business associates, governmental and regulatory authorities
- We expect our employees and partner employees to maintain the confidentiality of information entrusted to them by the company, investors or others involved in any business dealings.
- We value diversity and are committed to equal opportunity and fair compensation in all aspects of employment s without regard to gender, race, national origin, religion or sexual orientation.

TLFF commitments

To ensure that TLFF meets its ESG impact management commitments, we will:

- Ensure TLFF project personnel understand fully our impact management policy, and that they are trained in the commitments we have made.
- Establish an impact management system that promotes thorough due diligence as well as systematic impact management through to exit.
- Encourage TLLF project partners to implement an effective impact management system that adheres to the Performance Standards as outlined in this document.

TLFF expectations

TLFF's expectation is that each of its project partners should:

- Undertake third-party risk assessments to identify key risk areas and develop an ESG Action Plan for mitigation of identified risks.
- Operate in compliance with all applicable local and national laws, including but not limited to laws covering environmental impacts (including permitting and zoning), labour rights, social issues, corporate governance and those intended to prevent extortion, bribery, corruption and financial crime.
- Adopt and implement policies to prevent extortion, bribery, fraud, corruption and financial crime, with zero tolerance, in accordance with local law and international best practice.
- Implement appropriate management systems that ensure a systematic approach to ESG risk assessment, addressing relevant risks, monitoring and reporting.
- Work in partnership with TLFF toward improved environmental and social standards.
- Ensure continuous compliance with required items included in the ESG Action Plan.
- Work with regulators and auditors in an open and cooperative manner.

8. REVIEW AND EXTERNAL VERIFICATION

This policy will be reviewed by TLFF's Board on an annual basis to align with changing standards and evolving best practice. We anticipate learning with and from our projects along the way and intend to share knowledge gained through our own journey with the international community.

TLFF will also consider undertaking an external verification of the implementation of the policy, in line with evolving good practice for implementing the Operating Principles for Impact Management.

Annex 1: TLFF Exclusion List

1. **TLFF will not participate or invest in any Investment in an entity that, at the time of such investment, has a controlling interest in a subsidiary or joint venture with substantial involvement in, or would cause the Partnership to become substantially involved in:**
 - a) Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides¹², ozone depleting substances¹³, PCBs¹⁴, wildlife or products regulated under CITES¹⁵ and transboundary movements of waste prohibited under international law.¹⁶
 - b) Activities in the nuclear fuel production cycle (uranium mining, production, enrichment, storage or transport of nuclear fuels) and production of or trade in radioactive materials. This does not apply to: (i) the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC/EBRD consider the radioactive source to be trivial and/or adequately shielded.
 - c) Production of or trade in weapons and munitions¹⁷, including without limitation of the following 6 types of weapons: anti-personnel mines¹⁸, cluster bombs¹⁹, nuclear weapons²⁰, chemical weapons²¹, biological weapons²² and depleted uranium ammunition²³, (including the research, development or technical applications relating to electronic data programs or solutions which are specifically aimed at such activities).

¹² Reference documents include EU Regulation (EEC) No 2455/92 Concerning the Export and Import of Certain Dangerous Chemicals, as amended; UN Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; WHO Classification of Pesticides by Hazard

¹³ Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicised 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from IFC or EBRD

¹⁴ PCBs: Polychlorinated biphenyls—a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

¹⁵ CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. The lists of CITES protected species are available at www.cites.org/eng/app/index.shtml.

¹⁶ Reference to documents are: Regulation (EC) No 1013/2006 of 14 June 2006 on shipments of waste; Decision C(2001) 107/Final of the OECD Council concerning the revision of Decision C(92)39/Final on the control of transboundary movements of wastes destined for recovery operations; Basel Convention of 22 March 1989 on the control of transboundary movements of hazardous wastes and their disposal.

¹⁷ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

¹⁸ Anti-personnel mines are mines that are designed to be exploded by the presence, proximity or contact of a person and that will incapacitate, injure or kill one or more persons (Source: Ottawa Convention/ Convention on The Prohibition of The Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and On Their Destruction). Investment restriction applies to production and sale of fuzes and complete products.

¹⁹ We follow the definition of the Cluster Munition Convention: a conventional munition that is designed to disperse or release explosive submunitions each weighing less than 20 kilograms, and includes those explosive submunitions. Investment restriction applies to production and sale of warheads, submunitions, modified containers and complete cluster bombs.

²⁰ A nuclear weapon is any device which is capable of releasing nuclear energy in an uncontrolled manner and which has a group of characteristics that are appropriate for use for warlike purposes. Defined in line with the Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean. Investment restriction applies to production and sale of nuclear warheads and nuclear missiles as well as upgrading and maintenance of these products.

²¹ Chemical weapons are chemicals that have the power to kill or cause other forms of harm through poisoning and/or munitions designed to use these substances as weapons. Defined in line with the UN Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction.

²² Biological weapons are microbiological or biological substances in quantities not consistent with peaceful use and/or munitions designed to use these substances as weapons. Defined in line with the UN Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxic Weapons and on their Destruction.

²³ Depleted uranium is used to enable projectiles to penetrate armour-plating, for example. The radioactive charge remains active long after the military conflict is over and so – usually slowly – results in civilian casualties over longer periods of time. Defined by external consultants (www.dsresearch.nl).

- d) Production of or trade in alcoholic beverages (excluding beer and wine; including the research, development or technical applications relating to electronic data programs or solutions which are specifically aimed at such activities).
- e) Production of or trade in tobacco (including the research, development or technical applications relating to electronic data programs or solutions which are specifically aimed at such activities)
- f) Gambling, casinos and equivalent enterprises (including the research, development or technical applications relating to electronic data programs or solutions which are specifically aimed at such activities)
- g) Production of or trade in or use of unbonded asbestos fibers²⁴
- h) Enterprises involved in human cloning for reproductive purposes, and only with respect to any enterprise involved in (i) human cloning for research or therapeutic purposes, or (ii) genetically modified organisms (GMOs), where appropriate control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or GMOs exists
- i) Pornography (including the research, development or technical applications relating to electronic data programs or solutions which are specifically aimed at such activities)
- j) Enterprises involved in, or in the research, development or technical applications relating to, illegal: (i) entry into electronic data networks; or (ii) downloading electronic data
- k) Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage,²⁵
- l) Commercial logging operations for use in primary tropical moist forest
- m) Production of or trade in wood or other forestry products other than from sustainably managed forests²⁶
- n) Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit
- o) Unsustainable fishing methods such as drift net fishing, using nets in excess of 2.5 km in length, or blast fishing
- p) Unsustainable fishing where it is seen to excessively burden local fishing resource²⁷
- q) Shipment of oil or other hazardous substances in tankers which do not comply with International Maritime Organization (IMO) requirements²⁸
- r) Production or activities involving harmful or exploitative forms of forced labour/harmful child labour²⁹
- s) Ozone depleting substances
- t) Trading in endangered or protected wildlife or wildlife products
- u) Agricultural development on peatlands

²⁴ In countries that are not EU Member States, EU accession or EU candidate countries, this does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is <20%

²⁵ Relevant international conventions include, without limitation: Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention); Convention on Wetlands of International Importance, especially as Waterfowl Habitat (Ramsar Convention); Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention); World Heritage Convention; Convention on Biological Diversity.

²⁶ According to the FAO definition, Sustainable forest management addresses forest degradation and deforestation while increasing direct benefits to people and the environment. At the social level, sustainable forest management contributes to livelihoods, income generation and employment. At the environmental level it contributes to ecosystem services such as carbon sequestration and water, soil and biodiversity conservation (<http://www.fao.org/forestry/sfm/en/>)

²⁷ Sustainable development of fisheries takes its cue from SDG14, Conserve and sustainably use the oceans, seas and marine resources for sustainable development (<https://sustainabledevelopment.un.org/sdg14>)

²⁸ This includes: tankers which do not have all required MARPOL SOLAS certificates (including, without limitation, ISM Code compliance); tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU); and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used.

²⁹ Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. Harmful child labour means the employment of children that is economically exploitative, 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.

2. If during the term of an Investment, TLFF becomes aware of any Investment with substantial involvement in an activity specified on the Exclusion List, TLFF will take **appropriate action** (including consultation with the investment counterparty to remedy this issue, consultation with stakeholders, divestment etc.)
3. **United Nations:** In addition, TLFF will not participate or invest in an Investment if such participation or investment would cause TLFF to become involved in violations of the human rights that are specified by the United Nations' Universal Declaration of Human Rights, and labour rights as specified by the United Nations/International Labour Organisation (ILO) core conventions³⁰ and such involvement could be known to TLFF with reasonable commercial effort.
4. **When financing micro-finance activities, we will also apply the following additional exclusions:**
 - a) 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.
 - b) Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
5. **Other Investments may be added to the TLFF exclusions list from time to time.**

³⁰ The eight ILO Core Conventions cover subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining (Conventions 87 and 98), the elimination of all forms of forced or compulsory labour (Conventions 29 and 105), the effective abolition of child labour (Conventions 138 and 182) and the elimination of discrimination in respect of employment and occupation (Conventions 100 and 111) (www.ilo.org).

Annex 2: Initiatives to improve supply chains

Turning to the agriculture and seafood supply chains, TLFF refers to the following international standards and initiatives that may take the form of conventions, directives, standards, recommendations or guidelines. We encourage borrowers, where appropriate, to make progress over time work towards achieving and maintaining them:

- a) The UN Declaration of Human Rights and the Guiding Principles on Business and Human Rights: implementing the United Nations 'Protect, Respect and Remedy' Framework³¹
- b) OECD Guidelines for Multinational Enterprises³²
- c) The range of internationally certifiable environmental, social and quality standards issued by the International Organization for Standardization ("ISO")³³
- d) Internationally recognised standards on health and safety including the ILO guidelines for occupational safety and health³⁴
- e) Relevant and credible standards as demonstrated by independent verification or certification such as the Forestry Stewardship Council certification³⁵, the Marine Stewardship Council certification³⁶, the Principles and Criteria of the Roundtable on Sustainable Palm Oil (RSPO)³⁷ and the Indonesian Sustainable Palm Oil System (ISPO)³⁸
- f) G20/OECD International standards of good corporate governance³⁹
- g) The ADB's Safeguard policies. The operational policies of the Asian Development Bank (ADB) include three safeguard policies: The *Involuntary Resettlement Policy* (1995), the *Policy on Indigenous Peoples* (1998), and the *Environment Policy* (2002)⁴⁰
- h) The FAO Voluntary guidelines on the responsible governance of tenure of land, fisheries and forests in the context of national food security⁴¹
- i) The FAO Code of Conduct for Responsible Fisheries⁴²
- j) The WWF 2050 Key Performance Criteria⁴³
- k) The Consumer Goods Forum and Sustainability Pillar 2010 resolutions regarding deforestation and refrigeration⁴⁴
- l) The relevant World Bank Group Agribusiness/Food production EHS Guidelines⁴⁵
- m) The FAO Agreement to Promote Compliance with International Conservation and Management Measures by Fishing Vessels on the High Seas
- n) The UN General Assembly Resolutions pertaining to sustainable fisheries (including ban of driftnets)⁴⁶
- o) The FAO, IFAD, UNCTAD and World Bank Principles for Responsible Agricultural Investment (PRAI)⁴⁷

³¹ http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

³² <https://www.oecd.org/corporate/mne/48004323.pdf>

³³ <https://www.iso.org/home.html>

³⁴ <http://www.ilo.org/declaration/lang--en/index.htm>

³⁵ <https://www.fsc.org>

³⁶ <https://www.msc.org>

³⁷ <http://www.rspo.org/key-documents>

³⁸ <http://www.ispo-org.or.id/index.php?lang=en>

³⁹ <http://www.oecd.org/corporate/principles-corporate-governance.htm>, <https://www.oecd.org/corporate/mne/48004323.pdf>

⁴⁰ <https://www.adb.org/documents/safeguard-policy-statement>

⁴¹ http://www.fao.org/fileadmin/user_upload/nr/land_tenure/pdf/VG_en_Final_March_2012.pdf

⁴² <http://www.fao.org/fishery/code/en>

⁴³ <http://wwf.panda.org/?224370/The-2050-Criteria-Guide-to-Responsible-Investment-in-Agricultural-Forest-and-Seafood-Commodities>

⁴⁴ <http://www.theconsumergoodsforum.com/sustainability-strategic-focus/sustainability-resolutions/deforestation-resolution>

⁴⁵

http://www.ifc.org/wps/wcm/connect/region__ext_content/ifc_external_corporate_site/east+asia+and+the+pacific/resources/ifc+performance+standards+and+the+world+bank+group+environmental+health+and+safety+guidelines

⁴⁶ <http://www.fao.org/docrep/meeting/003/x3130m/X3130E00.HTM>

⁴⁷ <http://unctad.org/en/Pages/DIAE/G-20/PRAI.aspx>