

## **Introduction**

We are a NON profit community foundation designed to pair economic and financial performance with premium social and environmental outcomes, impacts and risk management. We bring local community support to projects, organisations and businesses that conserve the environment and improve peoples' livelihoods whilst also being commercially successful over the long-term. Our focus is on activities that address the major global environmental challenges such as climate change, protection of landscapes, soil and forestry.

Our Environmental Social and Governance (ESG) Principles and Policy apply to all our projects and activities. In order to remain at the forefront of ESG management, this policy will be updated from time to time.

# ESG Principles

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We aim to be best in class in environmental and social performance.

We expect activities we finance to:

- comply with internationally recognised performance standards and certifications as well as local laws and international conventions; conserve natural habitats and wild species;
- apply high ethical standards and operate transparently;
- provide quality employment;
- provide substantive, measurable, positive benefits to people and the environment;

We measure and report on our progress and our contribution to the [UN Sustainable Development Goals](#);

We expect open and constructive engagement with the organisations we invest in;

**We do not take projects from, or support projects or communities involved in, the activities listed in EXCLUDED ACTIVITIES BELOW.**

We also apply these principles to the way we operate.

# ESG Structure and Governance for SRD Managed Projects

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Each project we manage must have its own ESG Annex and Implementation Guidelines, which are tailored to its operations. This ESG Policy, the project specific ESG Annex and Implementation Guidelines comprise the ESG Requirements of the project.

Each project has access to the SRD ESG & Impact policy. Within this policy, one person will be assigned primary responsibility for the ESG performance of each project or major project.

Each project will require the projects to,

1. meet national social and environmental law in their country(ies) of operation;
2. meet the objectives of the 8 IFC's Social and Environmental Performance Standards ([IFC PS](#)) as they are applicable to the investment;
3. meet the SRD ESG requirements across 9 thematic areas (which integrate the IFC standards);
4. comply with issue specific SRD policies; and
5. meet any additional project specific requirements in the Project's ESG Annex.

In general a 'project' refers to the set of activities an SRD managed project is supporting in.

Of the 8 IFC standards, 1-3 will be relevant to all investments, 4 to most (if there are communities affected), 5-7 only in specific circumstances, and 8 rarely.

SRD's ESG Policy, which integrates the IFC PS, places ESG requirements on our projects across 9 thematic areas:

# ESG Policy for SmartAgriIoT Rural Development (SRD) Management projects

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## Standards & Certification

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Projects should aim to,

- secure certification under internationally recognised (or market specific) schemes such as [Marine Stewardship Council](#), Forest Stewardship Council, [Climate, Community and Biodiversity Alliance](#), [Fair Trade](#), organic etc where agricultural/forest derived commodities and products are produced, or harvested from wild or semi-wild landscapes (e.g. coastal or inland fisheries, NTFPs<sup>1</sup>).

Projects must,

- Achieve certification to internationally recognised standards (such as Verified Carbon standard or Clean Development Mechanism) and/or ensure alignment with national and/or international rules on project nesting when verified ecosystem service credits (such as carbon credits) are created for trade.

### *Business Ethics*

Projects must,

- implement a policy that prohibits employees and agents from making or receiving gifts of substance, paying bribes or making facilitation payments. Project, and the organisations we invest in, must be alert to, and not tolerate, money laundering or financing of terrorism;
- identify risks of corruption or criminal activities linked to their activities and develop policies and procedures to mitigate risks;
- Confirm that no key individuals have a criminal record.

#### **1. Environmental & Social Risk and Impact Management:**

.Projects must,

- take account of relevant [IFC Environmental Health and Safety Guidelines](#) in the development of their ESMS;
- build an Environmental, Health and Safety, and Social Management System (ESMS), based on an evaluation of social, health and safety and environmental risks and impacts;
- undertake a security risk assessment and management controls so that any use of force is limited, proportionate and documented in cases where security guards or government security forces are involved, e.g. as park rangers;
- identify any animal welfare issues and include measures to ensure animal welfare in the project's management system where necessary.

#### **2. Environmental & Biodiversity Conservation**

Projects must,

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<sup>1</sup> NTFPs are non-timber forest products e.g. nuts

- drive conservation of natural habitats and wild species of local and international importance as well as those listed as threatened under [IUCN Red List](#)<sup>2</sup>;
- involve no net loss of biodiversity, no conversion or draining of native ecosystems, and no negative impacts on wildlife or high conservation value ecosystems.

### *Human Resources*

Projects must,

- comply with national environmental, social and labour laws and legislation;
- conform with [International Labour Organisation’s Core Conventions](#) on child labour, forced labour, equality, rights of association and the objectives of [IFC Performance Standard 2 on Labour and Working Condition](#);
- provide employment that pays a living wage.<sup>3</sup>

### *Land Acquisition & Resettlement*

Projects must,

- have informed consent from landowners where land is brought into a project. This is in addition to [IFC PS7](#) and [CCB requirements](#) for FPIC where relevant;
- result in no loss of income or livelihood as a result of the project’s use of land or other natural resources.<sup>4</sup>

#### **3. Indigenous Peoples Rights & Interests**

Projects must,

- secure free, prior and informed consent (FPIC) where projects impact land under traditional use by indigenous peoples; affect indigenous peoples’ access to resources; commercialise indigenous knowledge, or where otherwise required through best practice certifications e.g. CCB.

#### **4. Stakeholder Engagement**

Projects must,

- Have a comprehensive stakeholder engagement process as outlined in [IFC PS1](#).

#### **5. Grievance Mechanisms**

Projects must,

- Have a grievance mechanism that enables problems, concerns or complaints from the workforce, community and other stakeholders to be registered and addressed, drawing on independent mediation if needed.

### *Issue-specific policies*

SRD has a set of issue-specific ESG policies which apply to all projects. Additional policies are developed where issues arise that we consider are potentially applicable to several investments and therefore a policy is warranted. Individual projects may also develop project-specific issue policies.

Policy	Latest Update
Stakeholder Complaints	22/01/2016
Commercial Hunting	02/10/2015

<sup>2</sup> A threatened species includes all those listed as vulnerable (VU), endangered (EN) or critically endangered (CR) in the IUCN Red List. Species such as EDGE species (evolutionarily distinct and globally endangered) are both threatened and of national importance.

<sup>3</sup> A living wage is at least the legal minimum wage and also sufficient to meet basic needs plus some discretionary spending – and opportunities for the workforce to develop their skills and careers.

<sup>4</sup> This does not apply where the livelihoods are based on crime, e.g ivory poaching.

FPIC and Stakeholder Engagement	25/01/2016
Illegal Activity	14/09/2015

## Impacts

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We measure positive environmental and social impacts generated by projects that our projects invest in. We measure positive ESG impacts on the following dimensions so projects should be able to define, measure and report their impacts on the following:

- Climate
- Community
- Conservation

For each project, the specific Key Performance Indicators (KPIs) demonstrating contribution to these impact areas will be defined, at the latest, six months after contracting. Projects must report annually on the agreed KPIs according to the schedule agreed with the Fund. All Project will also provide inputs to SRD impact reporting<sup>5</sup>.

## Policy Implementation

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SmartAgrIoT Rural Development (SRD) implements its ESG policy in line with [the United Nations Guiding Principles on Business and Human Rights](#). Project, and the communities we invest in, must act in a way that respects human rights.

### Environmental and Social Action Plans

Projects may be given time to achieve the above standards through an Environmental and Social Action Plan (ESAP) that forms part of their contract with the project.

The responsibility for ESG performance resides with the organisations we invest in. However, SRD will advise and support investees where possible to design and implement their ESG strategy.

### ESG monitoring and reporting

All projects should monitor the ESG performance of investments quarterly and require them to report immediately any incidents, accidents or adverse media coverage that could affect the project's success or the reputation of the project, SRD, or the investors.

All projects should have a process by which any complaints or grievances relating to its activities can be presented to the management and will be responded to.

### Joint ventures, partnerships and other activities

Where we are involved in collaborative agreements, joint ventures, or partnerships<sup>6</sup> with government or public agencies which have to follow specific ESG guidelines (e.g. national regulations), we will endeavour to ensure these apply ESG principles, policies and procedures compatible with ours. The willingness of an entity to apply equivalent or compatible ESG standards will be a factor considered before entering into any such agreements or partnerships. Any significant discrepancies must be agreed to by the Managing Partners, and eventually put to the Advisory Board of the Fund.

### ESG in the Investment Process

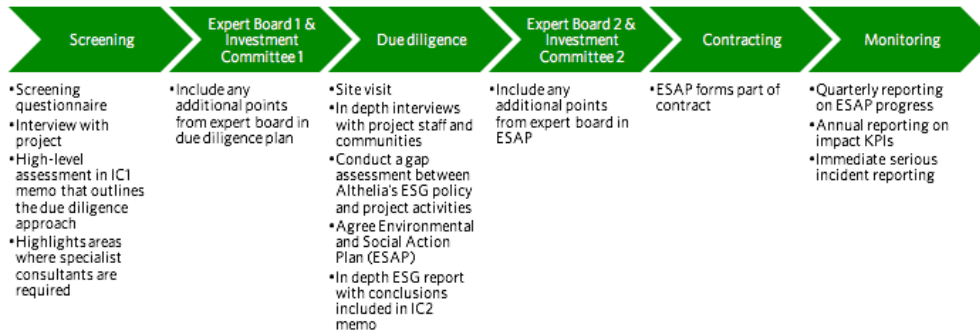
SRD applies a systematic process to ESG due diligence and monitoring as shown in the chart below.

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5. <http://Smartruraldev.org/esg>

<sup>6</sup> This does not include investments.

**ESG Investment Process**



## *ESG Procedure for New Projects*

- SRD will identify an ESG specialist (the “new project’s ESG specialist”) to be responsible for ESG for each new project. This will be done during the fundraising phase since the ESG specialist will be responsible for developing the specific ESG policy annex and procedures for the new project. Depending on the scale of the new project this may require the hiring of an additional staff member to the ESG. All specialists will sit within this with ‘dotted line’ reporting to the relevant new project manager.
- The new project’s ESG specialist will conduct a review of appropriate, available, and internationally recognised standards for all commodities expected to be produced by the new project’s portfolio. The ESG Policy for the new project will include clear requirements for certification including naming particular standards where particular standards are deemed to be preferable to SRD (e.g. within SRD Climate Fund all carbon credits produced need to be certified by both VCS and CCB).
- The new project’s ESG specialist will develop a specific ESG policy annex for the project to be applied to all investments alongside the platform-level policy which includes:
  - any recommendations or requirements for specific certifications,
  - an identification of the ‘high’ ESG risks that are relevant for the new project and guidance on avoiding or mitigating these impacts,
  - a clear outline of all reporting requirements, both ESG and impact reporting.
- The new project’s ESG specialist, alongside the project development, will develop ESG procedures for the new project.
- There should be a procedure that outlines the deal development and on-boarding process. At a minimum this should include the following ESG requirements:
  - Early stage ESG screening for high ESG risks (pre-IC1 Screening),
  - Involvement of the ESG specialist at all stages – screening, due diligence and decision making – to ensure ESG is embedded in the development of every deal,
  - Development of an ESAP, where required, which is included in the financing contract.
- There should be a process that outlines the deal management post-investment. At a minimum this should include the following ESG requirements:
  - Monitoring by the ESG until the ESAP requirements are completed.
  - On-going annual ESG monitoring.

## *SRD ESG performance*

As a small organisation our main ESG impacts are through the way in which we manage community land. However, we manage our own activities to minimise negative impacts and support positive change, for example:

- Environmental management of our office space, e.g. recycling, energy and water efficiency,
- Encouraging cycling or walking to work and use of public transport by providing cycle storage, showers, and no parking spaces,
- Monitoring and offsetting our CO<sub>2</sub> emissions, which are primarily from air travel.
- Encouraging and supporting employee volunteering e.g. through providing charity days for members or employees each year for the purposes of volunteering with a registered charity,
- A commitment to developing the skills and experience of our workforce and to an open consultative culture.

# Excluded activities

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A project and any of its intermediary vehicles (including portfolio companies) will not finance any activity involving:

- (a) Any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- (b) Forced labour<sup>7</sup> or child labour<sup>8</sup>.

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<sup>7</sup> Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by the relevant ILO Conventions and Core Labour Standards.

- (c) Wild animals and plants or their products not in conformance with CITES<sup>9</sup>
- (d) Commercial hunting<sup>10</sup>
- (e) Significant<sup>11</sup> conversion or degradation of Critical Habitat.<sup>12</sup>
- (f) Drift net fishing in the marine environment using nets in excess of 2.5 km in length
- (g) Or any of the following:
  - I. exploration or production of fossil fuels (oil, gas, coal);
  - II. weapons and munitions;
  - III. radioactive materials;<sup>13</sup>
  - IV. gambling, casinos and equivalent enterprises;
  - V. pornography or prostitution;
  - VI. manufacture and/or production of tobacco products;
  - VII. production of, or trade in, landmines and cluster munitions;
  - VIII. hazardous materials such unbounded asbestos fibres and products containing PCBs<sup>14</sup>;
  - IX. cross-border trade in waste and waste products unless compliant with the Basel Convention and the underlying regulations;
  - X. pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances<sup>15</sup> and other hazardous substances subject to international phase-outs or bans.
- (h) Project will not invest in any project located in countries that are under trade sanctions by the UN, USA or EU.

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<sup>8</sup> Employees may only be taken if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age will apply.

<sup>9</sup> CITES: Convention on International Trade in Endangered Species or Wild Fauna and Flora.

<sup>10</sup> Commercial hunting includes sport, trophy, industrial and any other hunting to generate commercial profits.

<sup>11</sup> Significant conversion or degradation means the (1) elimination or severe diminution of the integrity of a habitat caused by a major, long-term change in land or water use; or (2) modification of a habitat that substantially reduces the habitat's ability to maintain viable population of its native species.

<sup>12</sup> Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species or as defined in any national legislation; areas having special significance for endemic or restricted-range species; sites that are critical for the survival of migratory species; areas supporting globally significant concentrations or numbers of individuals of congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes or provide key ecosystem services; and areas having biodiversity of significant social, economic or cultural importance to local communities. Primary Forest or forests of High Conservation Value will be considered Critical Habitats.

<sup>13</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any other equipment where the radioactive source is trivial and/or adequately shielded.

<sup>14</sup> 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.

<sup>15</sup> Ozone Depleting Substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in "holes in the ozone layer". The Montreal Protocol lists ODS and their target reduction and phase-out dates.