INITIAL ENVIRONMENTAL EXAMINATION (IEE)
Development Credit Authority (DCA) Tropical Landscape Finance Facility (TLFF) Support

PROGRAM/ACTIVITY DATA

<table>
<thead>
<tr>
<th>Development Objective (DO)</th>
<th>Global Development Priorities of Mutual Interest Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Project Title</td>
<td>DCA - Tropical Landscape Finance Facility (TLFF) Support</td>
</tr>
<tr>
<td>Life of Funding</td>
<td>11 years (from the date of agreement)</td>
</tr>
<tr>
<td>Life of Activity Funding</td>
<td>- Total Subsidy by USAID/Indonesia to this activity is $1,227,935</td>
</tr>
<tr>
<td></td>
<td>- USAID Guarantee Ceiling is $33,250,000 from total portfolio amount $70,000,000</td>
</tr>
<tr>
<td>Current Date</td>
<td>June 14, 2017</td>
</tr>
</tbody>
</table>

IEE Amendment (Y/N): N
If 'YES', Number and Date of Original IEE (Original document)

ENVIRONMENTAL ACTION RECOMMENDED: (Place X where applicable)
Categorical Exclusion: [ ] Negative Determination with Conditions: [X]
Positive Determination: [ ] Deferral: [ ]

ADDITIONAL ELEMENTS: (Place X where applicable)
Conditions: X

SUMMARY OF FINDINGS

A Negative Determination with Conditions in accordance with 22 CFR 216.3(1)(2)(iii) is recommended for this DCA, which will guarantee a loan agreement between the Tropical Landscape Financial Fund (TLFF) to PT Royal Lestari Utama (RLU) in supporting the transformation of RLU to achieve its target as the first Sustainable Rubber Plantation in Indonesia. Naturally, rubber plantation activities are included that are determined to have direct or indirect impact on the natural and physical environment such as land clearing, land preparation, nursery, etc.
1. PURPOSE AND SCOPE

Pursuant to 22 CFR 216.2(a), an environmental analysis is required for new projects, programs, or activities authorized by USAID. This IEE provides the first review of the reasonably foreseeable effects on the environment and recommends a Threshold Decision for the activities under the DCA Loan Portfolio Guarantee that will contribute to the desired result of the Tropical Landscape Financial Fund (TLFF) loan agreement to PT Royal Lestari Utama (RLU) and its subsidiaries: PT Lestari Asri Jaya, PT Multi Kusuma Cemerlang, and PT Wanamukti Wisesa.

This IEE provides a factual basis for a Threshold Decision as to whether an Environmental Assessment or an Environmental Impact Statement is required for the activities managed under this program.

2. BACKGROUND AND DESCRIPTIONS OF ACTIVITIES

2.1 Background

Indonesia has a funding gap in excess of USD 20 billion for projects that support the country’s climate change and development commitments including:

- Electrification – Near-full access to electricity for the 17,000 islands (currently 19% lack access);
- Smallholders – Expanded rural livelihoods, including improved smallholder productivity;
- Land Rehabilitation – Restoring 2 million hectares of peatland by 2020;
- Carbon Emission Savings – Reducing greenhouse gas (“GHG”) emissions, largely from forest fires, by between 29% and 41%.

There are many funding support mechanisms available to fill that gap. The Tropical Landscapes Finance Facility (“TLFF”) is an innovative financial platform with a focus on scale and replicability that will offer long-tenor loans and secure refinancing from capital markets via a long-dated Tropical Landscapes Bond.

The platform consists of:

- Tropical Landscapes Loan Facility, which provides access to long-term credit for commercial projects with measurable environmental and social impact as well as a financial return;
- Tropical Landscapes Grant Fund managed by a Jakarta TLFF Secretariat and the United Nations Office for Project Services to support pipeline development, needed education and other grant funding as well as monitoring and evaluation services to the Loan Facility.

TLFF is a Partnership between the following actors:

- ADM Capital, fund manager;
- ADM Capital Foundation, ESG advisory;
- BNPP, structuring partner;
- UNEP and ICRAF, Secretariat and Grant Fund.
### Leading Partners Information

<table>
<thead>
<tr>
<th>Leading Partners</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADM Capital</td>
<td>Asia Debt Management Capital (&quot;ADM Capital&quot;) is a global investment manager. Currently with USD 1.4 billion in assets under management, ADM Capital has been investing in Indonesia since 1998. ADM Capital is one of the most established players in the private debt space in Asia and manages open and evergreen funds to invest in illiquid debt instruments, including two funds with the IFC.</td>
</tr>
<tr>
<td>ADM Capital Foundation</td>
<td>ADM Capital Foundation (&quot;ADMCF&quot;) was established in 2006 as an impact-driven nonprofit initiative to provide funding and intellectual capital to help address specific forestry, water, air and marine environmental and social challenges. ADMCF is a leader in environmental philanthropy in Asia, with a focus on real impact based on solid research.</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>BNP Paribas is an international financial institution with a presence in 75 countries and more than 185,000 employees. Being Europe’s second largest bank by assets, it is an established financial institution with a long history in Asia.</td>
</tr>
<tr>
<td>UNEP</td>
<td>The United Nations Environment Programme (&quot;UNEP&quot;) is the leading global authority that sets the agenda on environmental issues, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system and serves as an authoritative advocate for the global environment.</td>
</tr>
<tr>
<td>ICRAF</td>
<td>The International Centre for Research in Agroforestry (&quot;ICRAF&quot;), known as World Agroforestry Centre, is recognized as the global leader in agroforestry research and development with six regional offices located in Indonesia, India, Kenya, Malawi, Peru and Cameroon, and conducting research around the developing world.</td>
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</table>

TLFF is the first ever landscape protection and rural livelihood finance program at scale. The key information related to the TLFF funding is presented in the table below:

<table>
<thead>
<tr>
<th>Product Offering</th>
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<tbody>
<tr>
<td></td>
<td>Long-dated debt</td>
</tr>
<tr>
<td></td>
<td>Target return on capital: credit use fee plus upside from financing spread contraction on exit</td>
</tr>
<tr>
<td></td>
<td>Investment term of 10-15 years, average loan holding period 2-3 years</td>
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<td></td>
<td>Exit options: refinancing via long-dated bond program</td>
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<th>Deal Mechanics</th>
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<tr>
<td></td>
<td>Deal size: USD 10-50 million (or IDR equivalent)</td>
</tr>
<tr>
<td></td>
<td>Long-dated tenors: 10-15 years</td>
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<td></td>
<td>Minimum principal equity participation required: 20%</td>
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<table>
<thead>
<tr>
<th>Sector Focus</th>
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<tbody>
<tr>
<td></td>
<td>Renewable energy and rural electrification e.g. off-grid solar, palm oil waste to biogas, mini hydro</td>
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<tr>
<td></td>
<td>Land rehabilitation and rural livelihoods e.g. replanting for smallholders farming cocoa, oil palm, rubber, etc.</td>
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<table>
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<tr>
<th>Geographic Focus</th>
<th>Indonesia</th>
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<tr>
<th>Key Investment Criteria</th>
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<tbody>
<tr>
<td></td>
<td>Core Environmental and Social objectives</td>
</tr>
<tr>
<td></td>
<td>Credit protection via hard collateral or guarantee(s)</td>
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</table>

The Mission plans to use a portion of these funds to support a loan under the TLFF, a fund managed by ADM, to RLU. The loan will support the development of new rubber plantations that combine environmental conservation with sustainable rubber production across 90,000 hectares in currently degraded concession land in Jambi and East Kalimantan provinces. RLU is a joint venture between Michelin and the Indonesian company Barito Pacific. The TLFF will raise the money needed to make the
loan to RLU through a notes issuance, arranged by BNP Paribas. BNP Paribas plans to take a USAID DCA 50% guarantee on the underlying loan and use it to attract a wide range of note holders.

A DCA with ADM Capital meets several of USAID Indonesia's CDCS objectives. First, the intention of the TLFF is to finance land-based economic growth opportunities in high carbon and biodiversity landscapes in Indonesia that align with sustainability standards. This objective aligns with the goals of DO 3, IR 3.2 Marine and Terrestrial Biodiversity Conserved, Sub IR 3.2.1: Sustainable economic values advanced. In the case of the ADM fund with RLU, the loan proceeds will support environmentally sustainable rubber production by smallholder farmers on two concessions covering 90,000 hectares in Jambi and East Kalimantan. These smallholder farmers will be engaged in rubber production that is sustainable because RLU will ensure that the adjacent forest areas located within their concessions are identified, protected, and untouched by rubber cultivation. The concession lands are already degraded, so this will entail planting rubber trees in the degraded lands and protecting the remaining forests, while also ensuring communities in the concessions are gainfully employed and are not incentivized to cut down any adjacent forests.

The concession will also act as a natural buffer to the Bukit Tiga Puluh National Park that it borders, reducing forest encroachment into that national park. A partnership with World Wildlife Fund, which RLU fully financially supports, ensures that the appropriate environmental and social safeguards are in place to prevent smallholder rubber encroachment into forested areas within and outside of their concession and to ensure that high conservation areas within the concession are appropriately retained and managed.

Note that Jambi and East Kalimantan provinces are not one of the current CDCS geographic focus provinces. However, these are the only provinces where RLU holds concessions for the type of sustainable natural rubber plantation they seek to establish in Indonesia. Approval of this activity acknowledges work in the provinces of Jambi and East Kalimantan. The Environment Office (ENV) does not plan to implement additional activities outside of this DCA in Jambi and East Kalimantan.

ENV sees great value in supporting this DCA. It will be the first of many loans issued under the new TLFF and thus will set the stage for far greater investment in sustainable economic growth from the agricultural sector in Indonesia. The TLFF is furthermore a priority of President Jokowi's Office. An early success in this venture will encourage sustainability minded investors and financiers to pursue additional partnerships and provide proof of concept to the Government of Indonesia -- that sustainability can go hand-in-hand with economic growth in a way that improves smallholder livelihoods. In addition, ENV is confident that there will be significant learning from this DCA that can be transferred to other provinces, such as Aceh, Central Kalimantan and Papua, which are priority landscapes for ENV's forestry activities.

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<th>Guarantee Terms</th>
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<tr>
<td>Maximum Authorized Loan Amount</td>
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<tr>
<td>Maximum Cumulative Disbursements</td>
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Amount made under the Loan shall not exceed Seventy Million U.S. Dollars (US $70,000,000). No loan disbursement shall be eligible for coverage under the Guarantee Agreement unless the amount of such disbursement, together with all previous disbursements made under the Loan Agreement, does not exceed Seventy Million U.S. Dollars (US $70,000,000).

Guarantee Percentage Fifty percent of the Guaranteed Party’s net losses of principal only with respect to the Loan, not to exceed the Guarantee Ceiling.

The Borrowers First Loss; USAID Second-Loss Subject to the terms and conditions of this Guarantee Agreement, with respect to any net loss of principal incurred by the Guaranteed Party under the Loan:
(a) The Borrowers shall bear the first Three Million, Five Hundred Thousand U.S Dollars (US$3,500,000) of any net loss of principal incurred by the Guaranteed Party under the Loan (such amount being the “First Loss Amount”).
(b) USAID will guarantee any additional amount of any net loss of principal incurred by the Guaranteed Party under the Loan above the First Loss Amount up to the Guarantee Percentage set out above, but in no event shall it exceed the respective Guarantee Ceiling set out below.
(c) The Guaranteed Party shall bear all additional loss, if any, in excess of the Guarantee Ceiling.

Guarantee Ceiling Thirty Three Million Two Hundred and Fifty Thousand U.S. Dollars (US $33,250,000), which represents USAID’s maximum liability.

First Date for Disbursement of the Loan The first and only disbursement of the Loan must occur by March 31, 2018.

Coverage Expiration Date Eleven years from the date of the Agreement.

2.2 Activity Description

RLU was established under a joint venture between Michelin and Barito in 2015. The partnership’s main objective is to become the industry leader in sustainable rubber plantation in Indonesia. Michelin, as the biggest buyer of the RLU’s product, provides technical assistance to improve the rubber plantation practices into a world class standard by using an environmental sound approach. RLU has established the following targets in Indonesia:

- To be the industry leader in sustainable natural rubber;
- Prevent further illegal deforestation and land burning in 90,000 Ha of forestry through employing more than 16,000 people on the ground;
- Plant and manage only 50% of the concession area, restore biodiversity and reforestation and community partnership program in the remaining area;
- Protect an important catchment area;
- Protect surrounding parks (e.g. Bukit Tiga Puluh National Park and Limau Park);
- Form a forest protection buffer zone, with World Wide Fund (WWF) reserves;
- Partnerships with NGOs, Government, Foundations, and other companies.

RLU consists of three subsidiaries companies: PT. Winayamukti Wisesa (WMW) in Jambi, PT. Lestari Asri Jaya (LAJ) in Jambi, and PT. Multi Kusuma Cemerlang (MKC) in East Kalimantan.

ADM as the Facility Manager of the TLFF and BNP Paribas as the Bank undertook a series of due diligence exercises to determine a variety of potential risks (technical, reputation, etc.). As part of the due diligence activities, USAID together with ADM and BNP Paribas team conducted a joint site visit to carry out an internal environmental due diligence review. In April 2017, USAID Indonesia’s Agricultural Specialist and the Mission Environmental Officer conducted a due diligence review on RLU and the proposed activities under this DCA. The due diligence identified limited environmental impacts that could be relatively easy to address with minimal mitigation measures and thus recommended that in FY 2017, the Mission continue to develop the $70 million, 14 year, 50% Loan Guarantee with the TLFF and RLU to support its sustainable rubber plantation. The due diligence report provided detailed recommendations for mitigation measures to address the potential environmental impacts of the project, and these measures were provided to RLU and ADM. An Environmental Assessment is required to verify the conditions in the field where RLU’s rubber plantation activities are taking place. This exercise will help to determine the future risk for USAID before the DCA Loan Agreement with the TLFF is finalized. The trip to RLU’s site in Jambi also provided a valuable opportunity for USAID to learn in more detail about the RLU’s operation and to specifically look for aspects that may have potential adverse impacts on the environment and human health. Efforts to develop further mitigation and monitoring plan could be also recommended.

Guaranteed Party’s Safeguard

According to the IEE standard languages that apply to the DCA mechanisms, USAID will rely on the guaranteed party’s environmental safeguards that covered the loan. USAID reviewed the guaranteed party’s Environmental Safeguards from ADM Capital Foundation in order to determine whether this safeguard is environmentally sound and compliant with both USG procedures and GOI standards (e.g. 22 CFR 216, ADS 204, MO 204, Indonesia Environmental Law no.32/2009 and Indonesia Environmental Ministry Regulation no. 5/2012). In addition, we have also received the partner’s Environmental safeguard from the BNP Paribas (See Annex 5 and 6).

Based on the desk review and observation in the field, we concluded that both partners have robust policies and procedures to assure that all projects financed by this mechanism are environmentally sound and comply with applicable laws and regulations. USAID have to ensure that ADM as the Facility Manager and BNP Paribas as the Bank have in place for this DCA-supported loan an adequate and effective environmental due diligence process that at a minimum:

- Reliably identifies loan applications of financing decision that may involve support for environmentally sensitive activities and/or activities that require environmental review, licensing or permits under host country environmental regulations.
• Verifies that such reviews are approved and/or permits or licenses are in place prior to loan finalization.
• Verifies that such prospective loan recipient – in this case it is RLU – is aware of its environmental compliance obligations and has adequate capacity and resources to implement those obligations in accordance with GOI environmental policies and procedures.

The Borrower safeguards

As the holding company, Barito has established the Environmental Commitment as its mandatory policy that applies to all of its subsidiary companies, including RLU. This policy was established on March 1, 2015 and commits to the following principles: (i) No deforestation; (ii) No development on peat; (iii) No exploitation of people and local communities; and (iv) Support yield, quality and productivity of rubber and palm (See Annex 4). Several notes regarding the RLU’s safeguard as follows:

a. USAID has confirmed that RLU already obtained valid AMDAL (Environmental Impact Analysis) or UKL/UPL (Environmental Mitigation and Monitoring Plan) documents required by Indonesia Environmental Law no.32/2009 and Indonesia Environmental Ministry Regulation no. 5/2012 for all of their concessions areas. MEO visited RLU office on May 13, 2017 to verify AMDAL or similar safeguard documents and obtain evidence that all documents are in place and meet the requirements.
- UKL/UPL document of Industrial Forest and Transmigration Activity PT. Wanamukti Wisesa in Jambi which was approved by AMDAL Committee on December 19, 1997.
- AMDAL document of Utilization of Timber Products in Plantations (IUPHHK-HT) PT. Lestari Asri Jaya in Jambi which was approved by Jambi Governor on January 11, 2010 (Governor Decree No. 10/Kep.Gub/BLHD/2010).
- AMDAL document of Industrial Forest Concession PT. Barito Pacific Timber in East Kalimantan which was approved by AMDAL Committee on December 31, 1997 (currently operates by PT. MKC as subsidiary of PT. Barito). In addition, RLU has obtained AMDAL approval for its Rubber Factory in Samarinda, East Kalimantan (Mayor of Samarinda Decree No. 660/112/HK-KS/I11/2016).

b. RLU produced the INS (Instructions, Norms, and Standards) document that prescribes Good Agricultural Practices (GAP) and Good Management Practices (GMP) of plantation activities, including pesticide and fertilizer uses and their handling. The INS can serve as a reference document that has been strictly implemented in the field. A rapid check indicates that most of staff is aware of the existence of this document.

c. Michelin, as the main shareholder of RLU, is committed to purchasing around 85% of the rubber produced by RLU. USAID reviewed the Sustainable Rubber Policy of Michelin that shows its commitment to protect the environment and its partner’s operation (See Annex 3). The main commitments of Michelin include (i) respecting people, (ii) protecting the environment, (iii) improving rubber farming practices, (iv) carefully using natural resources, and (v) practicing good government.

d. USAID prepared the matrix to cross check the RLU’s commitment on Responsible Plantation and Forest against the field operational activities. The main principles and sub-principles used in
this matrix are derived from Barito Environmental Policy serving as the company's environment commitment which is applicable to all subsidiaries companies including RLU (see annex 1).

e. RLU has a medium-term plan to obtain relevant certificate that can improve their compliance to international standard (e.g. ISO 9000, ISO 14000, and OSHAS 18000).

f. USAID funding under this DCA will not be used directly to procure or use (including handling, transport, fuel for transport, storage, mixing, loading, application, clean up of spray equipment, and disposal) of pesticides/herbicides. However, this DCA activity will provide guarantee to the loan agreement between the TLFF and RLU to support the development of sustainable rubber plantation. Naturally, a rubber plantation will use herbicide on day-to-day activity on the field to reduce the growth of weed that may affect the rubber trees. USAID observed that RLU already implement good practices on handling and storing of herbicide. The storage is well managed, with very good housekeeping condition and sufficient ventilation; solid floor for spill prevention; and the Material Safety Data Sheet (MSDS) is available in place. USAID also observed that the handling procedure of these materials meets the basic requirement. Appropriate Personal Protecting Equipment (PPE) is available and being used at the storage building and at the field and all operators are well trained in handling this material. Moreover, an emergency eye washes facility in the case of eye contact accident is also available. The herbicide that used by RLU has the following information:

<table>
<thead>
<tr>
<th>Brand name:</th>
<th>PRIMA UP 480 US SYSTEMIC (in the form of brownish yellow water)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Origin:</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Hazardous level:</td>
<td>Formulations may show low to moderate toxicity</td>
</tr>
<tr>
<td>Chemical Name:</td>
<td>Glyphosate, isopropyl amine salt</td>
</tr>
<tr>
<td>CAS Number:</td>
<td>38641-94-0</td>
</tr>
<tr>
<td>U.S. EPA PC Code:</td>
<td>103601</td>
</tr>
<tr>
<td>CA DPR Chem. Code:</td>
<td>1855</td>
</tr>
<tr>
<td>Molecular Weight:</td>
<td>228.18</td>
</tr>
</tbody>
</table>

In addition, RLU implemented the cover crop method to reduce the amount of herbicide they need on the field, and at the same time to minimize erosion.

3. COUNTRY AND ENVIRONMENTAL INFORMATION

3.1 Location Affected

Activities to be guaranteed will be taking place aligned with RLU’s concession areas and its subsidiaries: PT Winayamukti Wisesa (WMW) in Jambi, PT Lestari Asri Jaya (LAJ) in Jambi, and PT Multi Kusuma Cemerlang (MKC) in East Kalimantan.
3.2 National Environmental Policies and Procedures

Environmental Protection and Management Law (No. 32/2009)
The Environmental Protection and Management Law of 2009 established a framework for environmental planning, environmental impact analysis and licensing, and rights, responsibilities and penalties. Designed to supplant previous environmental legislation (No. 23/1997), the Law requires regional governments to formulate environmental protection and management plans (RPPLH) and to conduct strategic environmental assessments (KLHS) to be used as a basis for regional development planning. It also stipulates that activities expected to have an impact on the environment are required to undergo an environmental impact analysis (AMDAL) or to develop an environmental management/environmental monitoring plan (UKL-UPL), depending on the nature of the activity, as a condition for obtaining an environmental license (Izin Lingkungan). An AMDAL is equivalent to an Environmental Impact Statement (EIS) by USG definition and is required following a Positive Determination in an IEE.

Additional requirements for environmental license holders include mandatory, periodic environmental audits and the establishment of dedicated environmental remediation funds. The Law also includes provisions for the management of hazardous and toxic materials as well as hazardous and toxic waste. Rights of communities and NGOs to file legal claims regarding environmental pollution or damage are expanded under the Law, which also imposes harsher administrative and criminal penalties for violators. The implementation of Environmental Protection and Management Law of 2009 is governed by Ministry of Environment Regulation No. 5/2012.

4. EVALUATION OF POTENTIAL ENVIRONMENTAL IMPACTS AND CLIMATE RISKS

4.1 Environmental Impact

Under 22 CFR 216.2(d), the Environmental Procedures define classes of actions that normally have a significant effect on the environment, such as water management projects and large scale agricultural mechanization. These always require a Positive Determination and the preparation of an Environmental Assessment. No such activities are directly planned for projects guaranteed under this DCA.

The DCA guarantee to the TLFF covers the loan agreement between the lenders to RLU. Among the potential projects currently identified for guarantees are small-scale hydro power plants, methane biogas digesters, solar, wind, and installation of renewable energy equipment, which are determined to have direct or indirect impacts on the natural and physical environment. For all these technologies and the accompanying construction, if not based on sound environmental design principles and well implemented, these activities can have negative impacts, such as water source contamination, depletion of water sources, construction debris, standing waste water, noise, soil erosion, impact on neighboring flora, fauna, and human settlements. Conditions to mitigate negative impacts to the environment will be proposed by the borrower in accordance with 22 CFR 216.3(a)(ii) and 22 CFR 216.3(a)(2)(iii).
4.2 Climate Vulnerability Risk

This DCA Project is providing a guarantee to the loan agreement between the TLFF and RLU. In that instance, climate vulnerability risk does not have any direct impact to the DCA process, but indirectly, changes in precipitation patterns and land erosion could significantly affect crop yields from rain-fed agriculture (e.g. rubber, banana, etc.). Rubber trees are relatively more stress tolerant compared to other perennial trees. However, in order to maintain high levels of yield, modern rubber clones tolerant to various stresses are recommended to be cultivated. With respect to those factors, the overall climate vulnerability risk for this project is categorized into low to medium risk (See Annex 2).

Increase in precipitation will impact growth, rubber production, and seedlings survival due to increase of disease incidence and reduced harvest days; while prolonged drought will suppress growth of young trees, prolong senescence period and, hence, latex production. It will also increase fire hazards and risks. On the other side, land clearing phase will change and reshape the landscape of plantation area. If not designed and planned with an environmentally sound approach, it potentially has any adverse impacts to the soil condition such as erosion and soil loss, especially for areas with slopes above 15 degrees.

In general, well designed and operated sustainable rubber plantations provide the opportunity of RLU to reduce climate change risks and promote resilience. In order to reduce those risks, RLU has already been implementing Good Agricultural Practices (GAP) and Good Management Practices (GMP) that take into account measures to address climate risks. These measures are well documented on the NIS (Norm, Instruction, and Standard) handbook developed by Michelin. The measures include the planting of a range of high yielding and stress tolerant clones, use of climate information and weather forecasts in land preparation applying no burning policy, and tree planting. To prevent water shortages during dry season, RLU has built several impounding reservoirs to collect water from run-off and river streams. In addition, RLU already implemented a "terracing" approach on their plantation fields, especially for the areas that have slopes above 15 degrees to minimize the land erosion. Lastly, as a standard practice, RLU also establishes cover crops among newly planted trees to prevent uncontrolled growth of weeds and reduce run-off.

5. RECOMMENDED THRESHOLD DECISIONS AND MITIGATION ACTIONS

5.1. Recommended threshold decisions and conditions

USAID’s investment in the DCA Loan Portfolio Guarantee to the TLFF does not involve reservation of the right to review and approve the loan made by this financial facility to RLU. USAID will provide 50% guarantee on the outstanding principal of the secured loan from the TLFF to RLU, whereas the loan package will be used for internal RLU business activities such as a debt swap for an existing loan with financial institution, an Indonesian state-owned bank (Bank Negara Indonesia, BNI), improve the RLU
Rubber plantation activities include land clearing, nursery facility, waste water treatment plants, agroforestry, etc. They may result in adverse impacts on the natural and physical environment. Negative Determination with Conditions pursuant to 22 CFR 216.3 (a)(2)(iii) is recommended for this DCA activity. USAID will ensure that the guaranteed party has in place a robust environmental due diligence process for DCA-supported loans.

USAID support is providing the guarantee to the TLFF loan. In this case, the management of the TLFF is carried out by ADM Capital, USAID funding will not directly be used by RLU. RLU will use a large portion of the loan to swap their previous loan from BNI; and the rest of the TLFF loan will be used for production and processing improvements.

5.2. Mitigation Actions

5.2.1. Conditions and Mitigation Measures:

The following conditions and mitigation measures are recommended for this activity:

a. The guaranteed party, representing by ADM Capital as the fund manager of the TLFF, will provide USAID with the documented environmental due diligence process that will be applied to prospective DCA-supported loans. These documents will be formally approved by USAID COR/Activity Manager prior to disbursement of any loan funds.

b. USAID/Indonesia will ensure that the guaranteed party has in place for DCA-supported loans an effective environmental due diligence process that at a minimum:
   i. Reliably identifies loan applications or financing decisions that may involve support for environmentally sensitive activities and/or activities that require environmental review, licensing or permits under host country environmental regulations.
   ii. Excludes activities listed in “Limitations” (See Section 6) from DCA credit support.
   iii. Verifies that such reviews are approved and/or permits or licenses are in place prior to loan finalization.
   iv. Verifies that prospective loan recipients are aware of their compliance obligations and have adequate capacity and resources to implement them.

c. The guaranteed party will report on the adequacy and effectiveness of their environmental due diligence process as part of their periodic reporting to USAID/Indonesia.

d. Conditions a., b., and c. above shall be written into the DCA agreements with the TLFF.

e. USAID/Indonesia will verify adequacy and effectiveness of these processes. If USAID/Indonesia determines that one or both of the DCA-supported financial institutions have deficiencies in their processes, then USAID/Indonesia will be committed to providing appropriate training and other capacity building; for instance, providing training to loan officers with standard practices followed by the financial institutions in the areas of environmental risk screening, impact analysis, and promotion of environmentally sustainable projects.

f. USAID funds under this DCA may not be used directly to procure or use (including handling, transport, fuel for transport, storage, mixing, loading, application, clean up of spray equipment, and disposal) of pesticides/herbicides. On the other hand, the guaranteed party will verify whether the loan application that guaranteed by this DCA will be used to support the
procurement or use of pesticides in the future. If so, pesticides will be looked at in the lender’s environmental due diligence process and ensuring appropriate procedures will be in place.

5.2.2. Mitigation, Monitoring, and Evaluation

a. The overall responsibility for environmental monitoring of and reporting on their respective lending activities shall rest with the TLFF and be clearly stated in the DCA agreements with USAID/Indonesia.

b. At least annually, the TLFF will certify to USAID/Indonesia that their DCA-supported activity is in compliance with applicable environmental legal requirements. USAID/Indonesia reserves the right to verify certification to ensure compliance. The TLFF will notify USAID/Indonesia if situations arise that do not allow such certification. Subsequently, USAID should provide training and capacity building in accordance with Section 5.2.1.e. above.

c. The USAID COR/Activity Manager will be responsible for periodically reviewing this DCA implementation of the conditions in Section 5.2.1.b., including periodically reviewing evidence that DCA-supported borrowers are complying with host country environmental requirements. If at any time the project is found to be noncompliant with the IEE, the AOR will immediately notify the MEO who in turn shall notify the Asia Bureau Environmental Officer (BEO).

d. A summary report of Mission’s compliance relative to this IEE will be sent to the BEO on an annual basis, normally in connection with preparation of the Mission’s annual environmental compliance report required pursuant to ADS 203.3.8.5 and 204.3.3.

e. The BEO or his/her designated representative may conduct site visits or request additional information for compliance monitoring purposes to ensure compliance with this IEE, as necessary.

6. Limitations and Revisions

6.1. Limitations

This IEE does not cover the following (and therefore should changes in scope involve any of the issues/activities listed below, a BEO-approved amendment to this IEE shall be required):

- Activities that normally have a significant effect on the environment under §216.2(d)(1) including support project preparation, project feasibility studies, and engineering design; [See http://www.usaid.gov/our_work/environment/compliance/regulations.html]
- Activities involving support to wood processing, industrial enterprises, and regulatory permitting;
- USAID Global Development Alliance (GDA) programs;
- Assistance, procurement, or use of genetically modified organisms (GMOs);
- Procurement or use and/or disposal of Asbestos Containing Materials (ACM) (i.e. piping, roofing, etc.), Polychlorinated Biphenyl’s (PCB) or other hazardous material for construction projects;
- Procurement, use and/or disposal of equipment containing and/or generating low-level radioactive material and wastes.
6.2. Revisions

If during implementation, project activities are considered outside of those described in this document, an amendment shall be submitted. Pursuant to 22 CFR 216.3(a)(9), if new activities are added and/or information becomes available which indicates that activities to be funded by the project might be "major" and the project's effect "significant," this determination will be reviewed and revised by the AOR of the project, and submitted to the MEO and BEO for approval and, if appropriate, an environmental assessment will be prepared.

This IEE shall also be amended when the approved funding level is increased by more than $250,000; and the Life of Funding is extended beyond 6 (six) months.
APPROVAL OF ENVIRONMENTAL ACTION RECOMMENDED
Development Credit Authority (DCA) Tropical Landscape Finance Facility (TLFF) Support

CLEARANCE:

ENV: cleared by email  
Matthew A. Burton  
USAID/Indonesia – Director Environmental Office  

Date: 06/21/2017

MEO: cleared by email  
Putu F. Kurniawan  
USAID/Indonesia – Mission Environmental Officer  

Date: 06/21/2017

RLO: cleared by email  
Randy Ali  
USAID/Philippine – acting Resident Legal Officer  

Date: 06/22/2017

REO: cleared by email  
Aaron Brownell  
USAID/RDMA – Regional Environmental Officer  

Date: 06/26/2017

DDIR:  
Patrick Wilson  
Jon D. Lindborg  
USAID/Indonesia – Deputy Mission Director (Acting)  

Date: 06/27/17

DECISION OF USAID/INDONESIA MISSION DIRECTOR:

APPROVAL:

DIR:  
Erin E. McKee  
Patrick J. Wilson  
USAID/Indonesia – Mission Director (Acting)  

Date: 28 June 2017
DECISION OF THE ASIA BUREAU ENVIRONMENTAL OFFICER
Development Credit Authority (DCA) Tropical Landscape Finance Facility (TLFF) Support

CONCURRENCE:

Acting BEO: [Signature] Date: 7/14/15

John Wilson
Draft IEE TLFF/ADM Capital

Matthew Burton <mburton@usaid.gov>
To: Putu Kurniawan <pkurniawan@usaid.gov>

Putu,

Thanks for the helpful explanation. I clear the revised version.

Regards,
Matt

Sent from my iPhone
[Quoted text hidden]

<draft final IEE DCA ADM Capital_pk_dt_mb.doc>
Hi Putu - is this both a categorical exclusion and a negative determination with conditions? The box for cat ex was marked but the rest of the iEE is focused on the negative determination and conditions. Was the Cat Ex box unintentionally marked? Subject to that, I clear.

[Quoted text hidden]

Randy Ali | USAID
Resident Legal Officer
Philippines
Tel: (632) 301-6619

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Hello Putu,

Thank you for the email and draft IEE on the TLFF/ADM DCA. You did a good job on a complex activity.

I clear with a question / suggestion.

Could a loan go to supporting the procurement/ use of pesticides?

If so, please include that pesticides will be looked at in the lender’s environmental due diligence process and appropriate procedures will be in place.

If not, please list pesticides in the limitations section.

If you have any questions, please let me know.

Many thanks,

Aaron

Sent from my mobile.

[draft final IEE DCA ADM Capital_pk_dt_mb_rlo.doc]

[draft IEE DCA TLFF.pdf]

[annex - draft IEE DCA TLFF.pdf]
Plan to support ADM Capital Loan to Sustainable Rubber Plantation

William Thomas <withomas@usaid.gov>  
To: Putu Kurniawan <pku rniawan@usa id .gov>  
Cc: Aaron Brownell <abrownell@usa id.gov>, William Gibson <wgibson@usa id.gov>  

Putu -  
I have reviewed the draft IEE, and it looks great!  
I suggest you move forward with this pending BEO and REO concurrence.  
Have a nice weekend.  
-- Bill

Bill Thomas, Bureau Environmental Officer, Bureau for Food Security  
United States Agency for International Development  
RRB 2.11-053, 1300 Pennsylvania Avenue, NW, Washington, DC 20523  
202-712-1424  
withomas@usaid.gov
## Annex 1. Environmental Analysis of RLU concession in Jambi

### Gap Analysis Matrix (with emphasis more on the situation in the RLU’s Concession Area in Jambi)

<table>
<thead>
<tr>
<th>Main Principles</th>
<th>Sub-principles</th>
<th>Observation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Deforestation.</td>
<td>No clearing and development of HCS (High Carbon Stock) and HCV (High Conservation Value).</td>
<td>- RLU has a strong concern for conserving the environment including protected forests. No development activities are carried out by the company in the concession areas designated as protected areas (No-Go Zone). As RLU’s concession is adjoining to the Bukit Tiga Puluh National Park (BTNPN), it also strives to help GOI efforts to protect BTNPN by maintaining the presence of the buffer zone. BTNPN is also recognized as one of mega fauna corridors. According to data provided by RLU, the total protected area (No-Go Zone) including HCV/HCS forests in 2017 is 14,151 Ha (representing 20% of the 71,735 Ha of total concessions area).&lt;br&gt;- Appropriate signboards are already installed on protected zone to identify the HCV/HCS areas.</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Best effort to protect HCS and HCV area and prevent illegal activities.</td>
<td>- Appropriate signboards are already installed in protected zone to identify the HCV/HCS areas.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td>Protection and conservation of flagship species and its habitat.</td>
<td>- Memorandum of Understanding between RLU and TNBT already are being established to conduct joint monitoring and patrol to prevent illegal logging and new encroachers.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Establish an operation unit with 26 rangers to protect HCS and HCV areas from illegal activities.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- The company has already assigned 14,151 Ha (20%) of its concession areas as the protected area or “NO GO ZONE” including conservation forests, riparian corridors, and elephant corridor.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- RLU receives support from WWF to deal with environmental and social issues faced by the company. In addition, WWF also facilitates the establishment of a MoU with BTNPN to prevent illegal poaching and reduce the human-elephant conflict in the “NO GO ZONE”. It has been identified that around 150 elephants are living in this sanctuary, together with Orang Utan, and two Sumatran Tigers.&lt;br&gt;- In 2014, Barito provided WWF to manage around 4000 Ha of its conservation area under its concession in Business Unit 1 and 2 (Sumai Area).&lt;br&gt;- Some parts of RLU’s conservation areas have already been encroached by the community (migrant and indigenous), including the elephant corridor. Through CSR collaboration with WWF, RLU plans to approach those communities to give up the encroached lands in order to protect animals.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td>No burning.</td>
<td>- As part of company’s commitment, RLU has no slash and burning activities during land preparations. RLU has already established a new SOP to prevent/minimize recurring fires within the concession areas. It recently procured a new firefighter truck currently stationed in BL 2 VNamunuku office. Regular training on firefighting activities involving employees are conducted.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td>Progressive improvement of management of existing plantation.</td>
<td>- RLU has already developed GAP/GMP and adopted a sustainability policy for the operation and management throughout the current supply chains to achieve a target yield of 1.7 tons dry rubber/ Ha.&lt;br&gt;- Remilling construction in progress with the first bale expected by May 2017. Some pictures indicate the good housekeeping already implemented around the site. USAID conducted interview to the RLU staff and indicates that they are now moving forward with better procedure and supervision to ensure the quality of the new rubber factory and prevent any issues in term of environmental management.</td>
<td>Confirmed with note</td>
<td></td>
</tr>
<tr>
<td>Main Principles</td>
<td>Sub-principles</td>
<td>Observation</td>
<td>Status</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------</td>
<td>-------------</td>
<td>--------</td>
</tr>
<tr>
<td>Responsible water and waste management.</td>
<td>- CIRAD/Michelin provides technical assistance to achieve a vision of a World class rubber plantation practice</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Efforts are being made to efficiently use and conserve water from different sources such as ground water, river and rainfall. In several areas, RLU built reservoirs in order to store rainwater and rainfall runoff.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- The chemical residues contained in the effluent water coming out from the cup lumps storage house should be managed carefully. It may have adverse impact to the environment, and RLU already planned to improve the waste water treatment facility in the coming year.</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td>No development on peat.</td>
<td>No new development or draining of peat areas regardless of depth</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Best Management Practices for existing plantation of the peat</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Where feasible, explore options for peat restoration by working with expert stakeholders and communities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No exploitation of people and local communities.</td>
<td>Respect for land tenure rights</td>
<td>- RLU has identified around 40,000-50,000 people have encroached the concession areas (only in Jambi site). From the result of an inventory mapping done in 2015, it was identified that there was a potential land conflict covering more than 3000 ha in BU 3 and 4 alone. A complete and comprehensive map is needed to identify the specific location of encroached lands and typology of encroachment. The company will develop a robust strategic action plan to deal with this potential social conflict.</td>
<td>Confirmed</td>
</tr>
<tr>
<td></td>
<td>Respect and recognize the rights of all workers including contract, temporary and migrant workers</td>
<td>- As per March 2017, the total number of employees/workers in Jambi site (direct and indirect) is 2,468 people (permanent staff 159, contract 146, daily-casual 1,538, and piece rate 625). The company claimed to provide all workers with the remuneration in accordance with the government standard. In addition, the company also provides performance based salary and bonus to prevent high turn-over especially for the skilled employees (i.e. rubber tapper). The company is also improving some basic services (e.g. health, housing and education facilities) to its workers and their family members. Some of these services are currently being provided in partnership with the local government.</td>
<td>Confirmed</td>
</tr>
<tr>
<td></td>
<td>Respect the right of indigenous and local communities to give or withhold their Free, Prior, and Informed Consent (FPIC) to operations on lands to which they hold legal, communal or customary rights.</td>
<td>Recently the company starting a new approach to map all the statue of the land within the concession area (e.g. protected area, local communities, infrastructure, plantable, open land, crops, bush, etc.) Peace meal agreements on land for indigenous communities are already started. The company is now realizing the potential engagement with indigenous communities on smallholders rubber production, management of wildlife corridors and protection of cultural heritage. Wide community interest on rubber production, unremarked opportunities for constructive engagement with farmers and communities outside the concessions.</td>
<td>Confirmed</td>
</tr>
<tr>
<td></td>
<td>Resolve all complaints and conflicts though an open, transparent, and consultative process.</td>
<td>A conflict mapping has already been conducted in East Kalimantan site but not in Jambi. Recognizing the huge number of existing encroachers already found within the concession areas in Jambi, it is very crucial that the company develops a strategic plan to deal with this problem taking into account the nature of the encroachments (e.g. migrant vs indigenous; individual vs corporate;</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Main Principles</td>
<td>Sub-principles</td>
<td>Observation</td>
<td>Status</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------</td>
<td>-------------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>Establishment of community development programs.</td>
<td>- RLU has established the CSR Division with around 20 dedicated staff. They are working on land acquisition and CSR program with the following objectives: (i) reduce tension between company and surrounding smallholders; (ii) manage the acquisition process to all the land that has been already encroached or claimed by the community inside the concession area; (iii) improve the traditional plantation done by smallholder farmers to increase their welfare and livelihoods including ways to prevent slash and burn activities and illegal encroachment/poaching inside the protected forest; (iv) develop alternative economic activities for rural communities. During the visit to Paseban and Sungai Karang Villages, we noticed that the local communities and local government officials expressed their expectation that the company should allocate more resources in its CSR programs and business dealing with the local village cooperative.</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Support yield, quality and productivity of rubber and palm.</td>
<td>Implementation and promotion of GAP/GMP to increase yield, quality, and productivity in rubber and palm within the plantation and to the surrounding smallholders.</td>
<td>- RLU claims to have been implementing best in class agronomic technologies, sapling, milling, and responsible supply chain to upgrade its production up to 1.7T/HA. According to Michelin guidance, RLU is maximizing the yield production by planting up to 555 rubber trees per hectare, improving the quality of seedling by using high quality entrance, applying cover crop to reduce soil erosion and reduce the needs of herbicides, and improving the rubber tapping method. Yield data provided by RLU show that the rubber production in Jambi in 2016 is rather low (e.g. only 0.45-1.3 T/ha for 2008-2010 planting year).</td>
<td>Confirmed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The company has a plan in the near future to provide training to rubber smallholders in the surrounding villages to introduce them to several rubber management technologies including the tapping technique to improve the production and quality of rubber produced by them. In the long run, these smallholders will be targeted as the suppliers to RLU’s remilling.</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>
### Annex 2. Climate Risk Screening for DCA TLFF

<table>
<thead>
<tr>
<th>Defined or Anticipated Project Elements</th>
<th>Geographical</th>
<th>Climate Risks</th>
<th>Adaptive Capacity</th>
<th>Climate Risk Rating</th>
<th>How Climate Risks Are Addressed in the Project</th>
<th>Next Steps for Activity Design</th>
<th>Accepted Climate Risks</th>
</tr>
</thead>
</table>
| Production Phase (including but not limited: land clearing, land preparation, nursery phase, planting, immature period, harvesting and processing) | East Kalimantan and Jambi | Precipitation pattern disruption  
- Increase in precipitation will impact growth, rubber production, and seedlings survival due to increase of disease incidence and reduced harvest days. Uncontrolled growth of weeds may adversely impact the growth of young trees.  
- Prolonged drought will suppress growth of young trees, prolong senescence period and hence latex production. It will also increase fire hazards and risks. | Rubber trees are relatively more stress tolerant compared to other perennial trees. However, in order to maintain high levels of yield, modern rubber clones tolerant to various stresses are recommended to be cultivated. | Low to Moderate |  
- RLU has already been implementing Good Agricultural Practice (GAP) and Good Management Practice (GMP) that take into account measures to address climate risks. These measures are well documented on the NIS (Norm, Instruction, and Standard) handbook whose development is led by MICELLS. The measures include the planting of a range of high-yielding and stress tolerant clones, use of climate information and weather forecast in land preparation applying no burning policy, and tree planting.  
- To prevent water shortage during dry season, RLU has built several impounding reservoirs to collect water from run-off and river stream. | The Guaranteed party will ensure that the Borrower will address climate risks into their day-to-day operation. | None |
| Land Erosion and Loss  
Cut and fill activity during land clearing phase will change and reshape the landscape of plantation area. If not designed and planned with environmentally sound approach, it potentially has any adverse impacts to the soil condition such as erosion and soil loss especially for area that has slope above 15 degree. | | | Low to Moderate | - RLU already implemented "Terasering" approach on their plantation field, especially for the areas that have slopes above 15 degree to minimize the land erosion.  
- As a standard practice, RLU also establishes es cover crops among newly planted trees to prevent uncontrolled growth of weeds and reduce run-off. | | |
Annex 3. Michelin Sustainable Natural Rubber Policy
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FOREWORD

Michelin Group Purpose

"Because we believe mobility is essential for human development, we innovate passionately to make it safer, more convenient and environmentally friendly.

We are firmly committed to offering our customers uncompromising quality. That is our priority.

Because we believe in personal fulfillment, we want everyone to have the means to give the best of themselves; we want to turn our differences into an asset.

Proud of our values of respect, we share the same journey for a better way forward for everyone.

*We Care About Giving People A Better Way Forward.*"
As the world leader in tires production and the world’s largest purchaser of natural rubber, the Michelin group strives to ensure a sustainable and responsible management of the natural rubber supply chain.

This document elaborates on the public commitments taken by the Group in 2015. The Group will require from its suppliers involved in producing, processing and marketing natural rubber to comply with this policy.

These commitments arise from the Sustainable Natural Rubber initiative (SNR-i) adopted by the International Rubber Study Group (IRSG), based on a proposal from the Industry Advisory Panel (IAP) during the World Rubber Summit held in Singapore in May 2014 and incorporating its main components.

The Michelin sustainable natural rubber policy hinges on five themes:

1. Section 1: Respecting people
2. Section 2: Protecting the environment
3. Section 3: Improving farming practices
4. Section 4: Carefully using natural resources
5. Section 5: Practicing good governance

1 www.rubberstudy.com
1.1 DEFINITIONS

Natural rubber
Natural rubber is an elastomer or natural polymer, polyisoprene, harvested in the form of latex, drawn off by making incisions into the bark of the rubber tree.

Sustainable development
Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainable natural rubber policy
The Michelin sustainable natural rubber policy covers all the commitments and measures taken by the Group to foster the responsible and sustainable management of natural rubber throughout the value chain.

* The term “rubber” is a commonly used synonym of elastomer.
1.2 A SUSTAINABLE RESOURCE

Natural rubber is, in itself, a sustainable and renewable natural resource, whose cultivation creates positive spin-offs from economic, social and environmental perspectives.

When done properly, the cultivation, harvesting and transformation of natural rubber provides the stakeholders in the supply chain with regular and sustainable revenues, and contributes to the development of rural areas. In addition, the supply chain can enjoy a neutral, and potentially positive, carbon footprint provided the entire supply chain is managed optimally.

Nevertheless, there are risks. The growing world population and the development of mobility solutions will have an impact on the demand for tires and, by extension, natural rubber. If this increase in demand is not addressed wisely, it will inevitably put more pressure on forests, biodiversity and agricultural land.

Our vision is to consider sustainable natural rubber as a natural and responsible way to protect forests with high conservation value and high carbon stock, as well as foster other environmental services. This involves stakeholders in a participatory process of land use, while ensuring satisfactory production yield and improved livelihoods for local communities.
1.3 THE NATURAL RUBBER VALUE CHAIN

The five main groups of stakeholders involved in the value chain are as follows:

**Producers**
The farmers harvest the rubber trees. It is estimated that 85% of the cultivated rubber tree areas in the world are made up of very small farms (average of 3 hectares) directly managed by owner-operators, who generally receive 60-90% of the commercial value of the natural rubber they produce, depending on the country and region.

**Dealers**
Intermediaries who collect and purchase natural rubber from small farms to sell to processing plants.

**Processing plants**
"Remilling" plants who process the raw material (latex or cup lumps) into bales of natural rubber intended for the manufacturing industry.

**Traders**
Brokers buy remilling plant production and sell it mainly to manufacturers.

**Manufacturers**
As the last step in the value chain, manufacturers process the natural rubber and incorporate it into the production of finished or semi-finished products.

In some cases, a stakeholder can be both a producer and/or a dealer, remiller, and even a manufacturer.

---

*HCS: High Carbon Stock / HCV: High Conservation Value / FPIC: Free, Prior and Informed Consent*
Natural Rubber Value Chain

**Production**
- Industrial plantations
- Smallholders: 6 Million farmers - 30 Million people
- Tapping
- Latex collection
- Dealers: 100,000 dealers

**Processing**
- TSR Rubber
- Drying
- Shredding
- Quality Control
- Washing
- NR processors: 500 factories - 100,000 workers

**Logistics**
- SMPT: Michelin Purchasing Center
- Delivery
- Shipping worldwide
- Michelin Tire Factories
Section 1  Respecting people

1.1  PROMOTING CONFLICT RESOLUTION RELATED TO LAND OWNERSHIP

In addition to the applicable national and international rules, the Group recognizes the importance of identifying the possible existence of use rights or customary rights and associated rights from local communities, and in particular indigenous peoples, that might have an influence on land use.

The Group undertakes not to contribute voluntarily, directly or indirectly, to actions which might lead to the illegitimate appropriation of land to the detriment of local communities or populations.

The Group is committed to "free, prior and informed consent" (FPIC) principle of local communities likely to be affected by its operations, especially when setting up or transforming corporate plantations and/or industrial sites. In this regard, it draws on the methodology developed by the UN-REDD Programme Guidelines on Free, Prior and Informed Consent (FPIC) http://www.unredd.net/index.php?option=com_docman&task=doc_download&gid=8717&Itemid=53.

The Group recognizes the rights of forest-dependent peoples and communities to:

- Access forest resources and enjoy a fair share of the benefits from their use or commercial exploitation;
- Have access to adequate farm land to ensure their food supply;
- Receive fair compensation for conservation measures or commercial land use that infringe on their rights and livelihoods.

The Group understands ‘local communities’ to mean groups of people living in a community in a given geographic area, next to one another.

The Group understands ‘free consent’ to mean consent that is free of any manipulation, interference, coercion or intimidation.

The Group understands ‘prior consent’ to mean communicating information to the relevant people in good time and before any final decision is made.

The Group understands ‘informed consent’ to mean involving relevant representative institutions, providing information that is comprehensible (especially as regards language use) and accessible, such as assessments, action plans, project summaries, and any other relevant information.
1.2 Improving Working Conditions and Living Environment

The Group aims to promote the best social practices namely:

- **Complying with and ensuring contractors’ compliance with international standards** as set out in the list of reference documents provided in Attachment.

- **Protecting the health of employees and their family;** contributing to the accessibility and quality of health infrastructures; teaching best work practices (gestures and postures, work schedules, etc.); raising the awareness of workers and their family exposed to genuine risks (water quality, occupational illnesses, endemic or epidemic diseases).

- **Protecting the safety of employees;** ensuring that employees and contractors’ employees use suitable personal protective equipment and collective protective equipment (particularly in remilling plants) and that they are able to work in satisfactory safety conditions.

- **Fighting all forms of discrimination** based on gender, age, ethnicity, religion or national origin (conventions 97, 111 and 143 of the ILO).

- **Prohibiting child labor** in accordance with national law, international law and the recommendations of relevant civil society organizations, as regards agricultural employment (conventions 138 and 182 of the ILO). By drawing on recommendations made by the International Partnership for Cooperation on Child Labor in Agriculture (2007).

- **Encouraging the development of local communities;** fostering the economic and social development of local communities; creating direct or indirect jobs, increasing the employability of the local population, especially by supporting education infrastructures.

- **Promoting decent employment conditions;** promoting adequate working conditions by drawing on the best practices in force in the industry; ensuring that workers have employment contracts and that an employee’s salary is at least equal to the country’s minimum salary for an equivalent job (conventions 100 and 131 of the ILO); ensuring compliance with rest period entitlement.

- **Fostering freedom of association and collective bargaining** in accordance with the provisions of national and international law, and especially those outlined in conventions 87 and 98 of the ILO.

- **Fostering decent living conditions;** ensuring that employees living on site are housed in high-quality infrastructures. Ensuring a minimum livable surface area per worker, access to drinking water and electricity, sanitation system. Access to sufficient sources of food (convention 110 of the ILO).

- **Supporting the development of decent mobility conditions.** When workers live on site, ensuring that an adequate transport system is implemented, enabling employees and their family to access healthcare and education infrastructures.
Section 2  Protecting the environment

2.1 ZERO DEFORESTATION

Keen to protect natural forests, and particularly primary forests and areas of high environmental value likely to be jeopardized by the development of rubber cultivation, the Group advocates a responsible land management policy.

By all reasonable means, the Group ensures that the natural rubber it uses comes exclusively from plantations that fully comply with the "zero deforestation" principles:

- National forest protection laws are observed;
- Primary forests are completely protected and preserved;
- Areas of High Conservation Value (HCV) as defined and audited by the HCV Resource Network (https://www.hcvnetwork.org/) are protected and preserved;
- Areas of High Carbon Stock (HCS) as defined and audited by the HCS Approach Steering Group (http://highcarbonstock.org/) are protected and preserved.

The identification of these areas using participatory mapping and the outlining of suitable management methods are subject to a consultation of all of the stakeholders involved (local communities, scientific, institutional and non-governmental organizations) to ensure economic, social and environmental needs are taken into account and the proposed farming techniques are socially accepted.

Procedures and methodologies are implemented in order to ensure that these areas are not destroyed, developed or damaged.
In clearly identified extreme cases where land development is sought, local, national and international stakeholders must be involved in the decision-making process (like in a peer review panel of the HCV Resource Network and High Carbon Stock Approach Steering Group).

### 2.2 CONTROLLING THE POTENTIAL IMPACT OF RUBBER CULTIVATION ON FAUNA, FLORA AND NATURAL ECOSYSTEMS

The Group works alongside civil society organizations to protect fauna, flora, water and soil and to develop the best land use plans, factoring in the economic, social and environmental needs of the local populations.

**Protecting forest**

On its own plantations, the Group will:

- protect all HCV* and HCS* ecosystems from any party
- not provide incentives to convert natural ecosystems
- prevent the use of all infrastructure for illegal activities
- restore protected areas as required by law.

**Preserving surface water and groundwater**

The Group ensures that its operations related to natural rubber cultivation, harvesting and processing do not have any adverse effect on surface water or groundwater resources.

---

*HCV High Conservation Value
HCS High Carbon Stock
The Group ensures the protection of streams and banks in accordance with national and international legal provisions and best environmental practices. It carries out environmental restoration operations where necessary.

It complies with local legal provisions and community rights related to using water resources.

**Safeguarding peatlands**

The Group refrains from any form of rubber production or drainage activity on any known peatland. These areas are fully protected and preserved as part of an action plan implemented in cooperation with local stakeholders.

The Group understands ‘peatlands’ to mean areas of soil that contains at least 65% of organic material regardless of the depth.
Responsibly managing waste
Wherever possible, the Group implements on its sites a system for the collection, processing and recycling of waste or byproducts generated by farming or industrial operations or by its employees and their families.

Ensuring the conservative use of chemical inputs
Rubber cultivation does not require intensive use of dangerous chemical products. However, the use of chemical products can prove necessary at various phases of production and processing in order to increase the overall efficiency of the process. The Group ensures compliance with stringent rules relating to chemical use and applies the highest standards relating to the use of chemical products (purchasing, transportation, storage, use).

- It refrains from using chemical products that are prohibited by the international Stockholm and Rotterdam conventions, including in countries where these conventions have yet to be adopted;
- It ensures that the risks of polluting water resources with natural or artificial chemical products are controlled;
- It ensures that its employees use suitable personal protective equipment and that authorized chemical products are used correctly (transportation, storage, concentration, manipulation).

The Group encourages and raises the awareness of its suppliers to observe the same principles as regards careful use of chemical inputs.

Reducing odors
Remilling operations can generate odors. At its facilities, the Group goes to great lengths to adopt best practices and the most advanced technology in order to reduce any odors. The Group encourages its suppliers to implement similar solutions.
Section 3  Improving farming practices

3.1  PROMOTING GOOD AGRICULTURAL PRACTICES

The Group actively supports the dissemination of good agricultural practices and every effort is being taken to increase yield per hectare for economic, social and environmental reasons.

Good agricultural practices enable farmers, and particularly small farmers, to cut production costs, improve working conditions and increase revenues over the long term.

Increasing yield per hectare provides a means of keeping up with the global demand for natural rubber without increasing the surface area of cultivated land, thereby reducing land pressure in forested areas and/or on food crops.
3.2 TAKING ACTION TO IMPROVE AGRICULTURAL YIELDS

The Group is committed to increasing the productivity of rubber trees through:
- research programs focusing on the most efficient varieties, rubber tree pests and agricultural technique optimization;
- operational support for the selection of varieties best suited to the environment and incentives to plant high yielding varieties when replanting;
- support for professional training bodies intended to increase the level of expertise of growers and rubber tappers;
- practical training sessions on best rubber cultivation practices intended for groups of growers, cooperatives and suppliers;
- technological transfer and promotion of good agricultural practices (planting density, tapping techniques, intercropping, handling and judicious use of chemical inputs, etc.).

Section 4 Carefully using natural resources

4.1 INCREASING THE MATERIAL EFFICIENCY OF NATURAL RUBBER

In order to meet the growing need for tires without excessively increasing the surface area of land used for rubber cultivation, the Group is committed to pursuing its research efforts to increase the material efficiency, i.e. the quantity of natural rubber used per thousand kilometers traveled.

Several actions are simultaneously being explored:
- Reducing the mass of the average tire;
- Increasing tire durability;
- Developing technologies to progressively eliminate the need for a spare wheel;
- Developing optimized tire management services for large fleets of vehicles ("Michelin Fleet Solutions");
- Developing the concept of airless tires ("Michelin Tweel");
- Using alternative components to natural rubber (biomaterials);
- Developing retreading and regrooving services;
- Recycling or reusing new materials during the production process;
- Recycling or reusing used materials during the production process.
5.1 COMBATING CORRUPTION

The Group refuses all forms of active and passive corruption. It shares the principles outlined in the Michelin Purchasing Principles with its suppliers and their subcontractors.

5.2 INTERACTING WITH STAKEHOLDERS

The Group affirms its commitment to interacting with relevant local stakeholders on a regular basis, be it directly or indirectly, through its own natural rubber operations or those of its suppliers, in accordance with the Group Directive on stakeholder relations.

Information, communication and consultation systems will be put in place based on the recommendations set out in the human rights impact assessments, when they have been conducted.

Grievance mechanisms compliant with the host country’s legislation will be set up to enable local stakeholders to express their point of view independently.

Consulting with international stakeholders

The Group will foster a strong dialogue with its international stakeholders on its natural rubber operations at global level.

At least once every two years, the Group will bring together a panel of international stakeholders for discussions on its policy and its natural rubber operations, as well as outlook for development.

This panel will include a wide range of experts, including suppliers, customers, shareholders, employees, NGOs, and representatives of international organizations and trade unions.

http://purchasing.michelin.com/
5.3 ASSESSING SUPPLIERS

The Group expects its suppliers and their subcontractors to comply with the principles outlined above. Proven non-compliance or, where relevant, failure to apply the mutually agreed improvement programs may result in the suspension of business relations with the relevant suppliers and/or their subcontractor(s). This decision will be subject to collective considerations factoring in all of the resulting consequences, especially as regards economic, social and environmental factors.

The Group carries out independent CSR assessments of its direct suppliers representing at least 80% of its volume of natural rubber purchased.

5.4 TRACEABILITY

The Group has developed and will implement procedures and tools to trace its natural rubber supplies.

The Group will work closely with its suppliers (approved factories) to map its supply chain and overlay it with maps of environmental and social risks zones. Such traceability provides a mean to identify critical areas with high conservation value and high carbon stock as well as social issues and conflicts. The resulting map provides the basis for purchasing decisions by the Group and the development of action plans together with its suppliers whenever necessary.

Rubber supply chains have never been mapped to the approximately 6 million farmers involved globally in natural rubber cultivation. The Group thus cannot yet predict how long the process will take. However, based on the initial results of the pilot started in 2015, the Group targets to achieve this mapping for at least 80% of natural rubber purchased volumes by 2020.

5.5 TRANSPARENCY

Michelin will provide full transparency of its operations, including:

- Publication of the upstream supply chain risk mapping on the purchasing website
- Appointment of a mutually acceptable independent third party to verify that the policy commitments are being implemented and publication of its report on the purchasing website.
- Publication of the Michelin Sustainable Natural Rubber Dashboard on the purchasing website.
REFERENCE DOCUMENTS

In all its upstream operations related to the consumption of natural rubber, the Group is committed to promoting, on its sites, with its suppliers and their subcontractors, the main principles outlined in the international reference documents provided below.

1.1 INTERNATIONAL REFERENCE DOCUMENTS

- United Nations Universal Declaration of Human Rights (UDHR, 1948);
- International Convention on Economic, Social and Cultural Rights (ICESCR, 1966);
- International Convention on Civil and Political Rights (ICCPR, 1966);
- International Convention on the Elimination of Racial Discrimination (ICERD, 1959);
- International Convention on the Elimination of all Forms of Discrimination against Women (CEDAW, 1979);
- Declaration on the Rights of Indigenous People (2007);
- Convention on Biological Diversity (CBD, 1992);
- The Ten Principles of the UN Global Compact (2010) to which Michelin is a signatory;
- UN Guiding Principles on Business and Human Rights (2011);
- Guidelines for Multinational Enterprises (2011);
- The main International Labor Organization conventions:
  - conventions 29 and 105 concerning forced labor;
  - conventions 138 and 182 concerning child labor;
  - conventions 87 and 98 concerning collective bargaining and freedom of association;
  - conventions 100 and 131 concerning equal remuneration and minimum wage;
  - convention 111 concerning discrimination;
  - convention 110 concerning plantations;
  - conventions 97 and 143 concerning migrant workers;
  - convention 141 concerning rural workers' organizations (1975);
  - convention 169 concerning indigenous and tribal peoples (1989);
- United Nations Convention Against Corruption (UNCAC, 2003);
- Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (2012);
- Principles for Responsible Investment in Agriculture and Food Systems endorsed by the Committee on World Food Security (2014);
- United Nations Millennium Development Goals Declaration (2000);
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (1979);

1.2 GROUP REFERENCE DOCUMENTS

The Group CSR reference documents fully apply to the natural rubber approach, in particular:

- Michelin Performance and Responsibility Charter (2002);
- Michelin Code of Ethics;
- Michelin Purchasing Principles (update 20015);
- Anticorruption commitment (DDR, § 6.2.3.b, 2014);
- A better way forward;
- Governance Handbook;
- Safety Charter;
- Group Directive concerning relations with NGOs (2013);
- Group Directive on stakeholder relations (2014);
MICHELIN’S PURCHASING ORGANIZATION
A GLOBAL NETWORK, WITH REPRESENTATIVES IN MORE THAN 27 COUNTRIES

4 PURCHASING DOMAINS
- Raw Materials and Energy
- Natural Rubber
- Industrial Purchases
- Services

4 REGIONS
- Europe
- North America
- South America
- Asia-Pacific
MICHELIN SUSTAINABLE
NATURAL RUBBER

REFERENCE DOCUMENT
2016 EDITION

TO FIND OUT MORE ABOUT

THE MICHELIN PERFORMANCE AND RESPONSIBILITY CHARTER:
"A BETTER WAY FORWARD"
WWW.MICHELIN.COM/CORPORATE

OUR SUPPLIER GUIDELINES
(QUALITY, PURCHASING TERMS AND CONDITIONS, ETC.)
WWW.MICHELIN.COM/PURCHASING

MICHELIN - GROUP PURCHASING DEPARTMENT
23, place des Carmes Déchaux
63040 Clermont-Ferrand Cedex 9 - France
+33 (0)4 73 32 20 00
Annex 4. Barito Group of Companies Responsible Plantation and Forest Policy
In order to implement excellence in plantation management of its rubber and palm operations, Barito Group of Companies through its rubber and palm estates is publishing its environmental and social policy. Beyond its legal obligations, Barito Group is committing to protect forests of High Carbon Stock and High Conservation Values (such as important biodiversity or social values) and respect the rights of workers, communities and indigenous populations. This policy ultimately aims at supporting the implementation of robust land use plans that will allow a sustainable development of the regions in which the company operate.

Barito Group commits to the following principles:

1. **No Deforestation**
   - No clearing and development of High Carbon Stock (HCS) and High Conservation Value (HCV) area
   - Best efforts to protect HCS and HCV area and prevent illegal activities
   - Protection and conservation of flagship species and its habitat
   - No burning
   - Progressive improvement of management of existing plantations to – among others - reduce greenhouse gas (GHG) emissions and impact of chemicals
   - Responsible water management

2. **No Development on Peat**
   - No new development or draining of peat areas regardless of depth
   - Best Management Practices for existing plantations on peat
   - Where feasible, explore options for peat restoration by working with expert stakeholders and communities

3. **No Exploitation of People and Local Communities**
   - Respect for land tenure rights
   - Respect and recognize the rights of all workers including contract, temporary and migrant workers
   - Progressive integration of smallholders into corporate supply chains
   - Respect the rights of indigenous and local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to operations on lands to which they hold legal, communal or customary rights
   - Resolve all complaints and conflicts through an open, transparent and consultative process
   - Establishment of community development programs
4. Support Yield, Quality and Productivity of Rubber and Palm

- Implementation and promotion of Best Management Practices to increase yield, quality and productivity in rubber and palm within the plantation and to the surrounding smallholders

**Implementation**
The policy is effective immediately.

Fully implementing those principles in the field presents a number of challenges and will require innovation, support and time.

To drive continuous progress across its operations, Barito Group will:

- Develop its own action plan.
- Engage with relevant stakeholders and partners to innovate and overcome the challenges that will arise along the implementation journey.
- Provide transparency of its operation and appointing an independent third party to annually verify that the policy commitments are being implemented and publication of its reports.

For any new development, Barito Group will conduct the appropriate environmental and social studies.
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PANDUAN PELAKSANAAN
KERJASAMA PROGRAM COMMUNITY DEVELOPMENT AND ENGAGEMENT
PT. LESTARI ASRI JAYA, PT WANAMUKTI WISESA,
PT MULTI KUSUMA CEMERLANG DAN WWF INDONESIA
PANDUAN PELAKSANAAN
KERJASAMA PROGRAM COMMUNITY DEVELOPMENT AND ENGAGEMENT
PT. LESTARI ASRI JAYA, PT WANAMUKTI WISESA,
PT MULTI KUSUMA CEMERLANG DAN WWF INDONESIA

1. TUJUAN
- Sebagai panduan untuk pelaksanaan program pelibatan dan pemberdayaan masyarakat (community development and engagement) PT Lestari Asri jaya/ PT Wanamukti Wisesa/ PT Multi Kusuma Cemerlang (untuk selanjutnya disebut perusahaan) dengan bekerjasama WWF Indonesia.
- Sebagai panduan untuk mengoptimalkan tujuan program community development and engagement untuk dapat berkontribusi pengembangan perekonomian dan penghidupan masyarakat alternatif dan mengembangkan hubungan harmonis jangka panjang antara perusahaan dan masyarakat.
- Sebagai panduan untuk para petugas CSR PT Lestari Asri Jaya/ PT Wanamukti Wisesa/ PT Multi Kusuma Cemerlang, facilitator WWF dan para pihak yang relevan dalam program.

2. RUANG LINGKUP
Panduan ini diterapkan di desa di seputar wilayah kerja PT Lestari Asri Jaya/ PT Wanamukti Wisesa/ PT Multi Kusuma Cemerlang di Jambi dan Kalimantan Timur.

3. DEFINISI
- Pelibatan masyarakat (community engagement) adalah upaya terencana untuk mengembangkan dan membangun hubungan jangka panjang yang harmonis dan konstruktif antara perusahaan dan masyarakat di sekitar wilayah kerja.
- Demo plot (demonstration plot) merupakan program percontohan pemberdayaan masyarakat yang diharapkan menjadi rintisan awal sekaligus media pembelajaran bagi pihak yang terlibat dalam upaya pengembangan perekonomian masyarakat sasaran.

4. IMPLEMENTASI
- Program yang akan dilaksanakan akan mengacu pada rencana kerja CSR Advisory Board di bidang Sosial dan HAM, rencana kerja operasional di lapangan dan berbagai kebijakan lain perusahaan yang relevan.
- Program Pemberdayaan masyarakat (community development) yang dilakukan akan dirintis dengan membuat demo plot di desa sasaran yang akan dipilih sesuai dengan kebutuhan operasional perusahaan dan hasil kajian bersama antara perusahaan dan WWF Indonesia.
- Secara umum pelaksanaan program pemberdayaan masyarakat meliputi tahapan sebagai berikut:
  A. Fase persiapan
  B. Fase pelaksanaan
  C. Fase monitoring dan evaluasi
  D. Fase persiapan program meliputi:
A. Kajian awal desa yang didapatkan dari berbagai literatur seperti profil desa, dokumen Rencana Jangka Pembangunan Menengah Desa, Rencana Kerja Pemerintah Desa, monografi desa, dan sebagainya
B. Diskusi kelompok terfokus (focus group discussion) mengembangkan visi bersama, menggali masalah dan potensi yang dimiliki desa serta membangun rencana kerja bersama program.
C. Masyarakat sasaran menyusun proposal program dan didampingi oleh fasilitator WWF dan staf CSR yang kemudian akan dikaji oleh manajemen perusahaan untuk persetujuannya
• Fase pelaksanaan
  A. Pelaksanaan pelatihan dan sosialisasi untuk meningkatkan pengetahuan dan ketrampilan yang relevan kelompok masyarakat sasaran dalam pengelolaan program
  B. Pelaksanaan program secara partisipatif bersama masyarakat
• Fase monitoring dan evaluasi
  A. Program akan dimonitoring dan evaluasi secara periodik dan disusun laporannya
  B. Hasil monitoring dan evaluasi akan menjadi referensi untuk upaya perbaikan kualitas program

5. KOORDINASI DAN KOMUNIKASI
• Perusahaan bersama WWF Indonesia mengembangkan, menyusun dan menetapkan rencana kerja program
• Untuk koordinasi pelaksanaan program perusahaan akan diwakili oleh Public Affairs GM dan WWF Indonesia akan diwakili oleh Liaison Officer
• Untuk pelaksanaan teknis di lapangan petugas CSR perusahaan akan berkoordinasi dan bekerjasama secara intensif dengan Fasilitator WWF
• Koordinasi dilakukan oleh perusahaan dan WWF Indonesia sekurang – kurangnya dua minggu satu kali

6. PENDANAAN
• Perusahaan akan menyediakan dana untuk pengembangan program pelibatan dan pemberdayaan masyarakat dan dana operasional pendukung.
• Dana operasional di atas termasuk dana operasional untuk fasilitator WWF yang akan dilaporkan dalam time sheet setiap bulan. Adapun rincian biaya operasional pendukung adalah sebagai berikut:
  a. Biaya transportasi Rp 500.000/bulan
  b. Uang harian untuk makan, akomodasi Rp. 95.000/hari
• WWF Indonesia berkontribusi memberikan gaji para fasilitator

7. LAMPIRAN
Format time sheet

Jambi, 14 Desember 2016

[Signature]
Arifadi Budianto

[Signature]
Rennakdi

Mengetahui,

[Signature]
Meizani Irmadhiany
Annex 5. TLFF Investment Policy and ESG Statement, Standards
Tropical Landscapes Finance Facility

Investment Policy and ESG Statement, Standards

This statement summarizes the criteria to identify and select potential investments for the Tropical Landscapes Finance Facility (TLFF) for Indonesia. The criteria will support the Facility’s main purpose, which is to provide long-term finance for projects that improve livelihoods, with attention paid to gender equality, the alleviation of poverty, and the reduction of greenhouse gas emissions, deforestation and forest degradation as well as development on peat. Projects should offer both a competitive financial risk-adjusted return as well as social and/or environmental impact. Where relevant, TLFF looks beyond the immediate investment to support the development of sustainable supply chains for agricultural products. We believe that given the scale of development and positive environmental outcomes needed in Indonesia, the resources of government and philanthropy alone are insufficient. Only private sector investment, supported by appropriate government policy and targeted grant assistance, can deliver the transformative impact that the country requires to continue its stellar economic growth in a sustainable manner.

At the same time, from an investment perspective, we believe that integrating robust ESG standards 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 risk-adjusted 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 environmental, social and governance performance standards and certifications, as well as local laws and international conventions.

In sum, we believe that we can help foster sustainable development through our own operations and also through our influence with companies in which we invest. The investment manager, Asia Debt Management Hong Kong Limited (“ADM Capital”), primarily works in emerging markets and the challenges we face such as environmental degradation, corruption and poor business practices are particularly acute. ADM Capital strives to foster good corporate governance, respect for the environment, responsible labour policies, 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.

Thus, the Tropical Landscapes Loan Fund (TLFF), managed by an ‘Investment Advisory Committee’ will help incentivize companies to achieve higher standards of management and governance. Working with our partner companies to improve environmental and social performance is a critical part of how we add value.

INTRODUCTION

1 The term “livelihood” refers to the full range of means that individuals, families, and communities utilize to make a living, such as wage-based income, agriculture, fishing, trading, logistics and micro services.
This Investment Policy Statement outlines TLFF’s approach to integrating Environmental Social and Governance (ESG) factors into an Investment Risk Management Framework. It serves as guidance for all investments made under the Loan Facility. The policy will be formally reviewed on an annual basis by the TLFF Steering Committee, 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.

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

TLFF’s geographic focus is limited to Indonesia. Projects in the Facility are required to follow industry benchmark standards including first and foremost the International Finance Corporation’s Performance Standards on Environmental and Social Sustainability (IFC PS3), the GRI Sustainability Reporting Framework, the Climate, Community and Biodiversity (CCB) Standard, the ADB’s Environmental and Social Safeguards as well as other standards and certifications where relevant.

TLFF will also reference the ESG and CSR policies of associated institutions, where relevant and applicable, to the assessment of projects during the initial project assessment phase, and during ongoing project evaluation.

The Tropical Landscapes Grant Fund (TLGF) will support knowledge management, capacity building, and technical assistance needed to help communities and smallholders realize their true potential in enhancing agricultural productivity and revitalising communities through sustainable standards and processes. TLGF will be managed by an ‘Grants Advisory Board’, which will provide strategic oversight.

ESG Risk

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 Development Action Plan’.

The ESG-related risks identified and standards applied will vary by industry but the core set of factors will include:

- **Environmental**: Sustainable use of natural resources, pollution, greenhouse gases emitted, conservation of land and water ecosystems, restoration and rehabilitation of forest and peatland, forest canopy retention, protection of biodiversity, on both land and in marine environments.

- **Social**: Human and labour rights, land tenure rights and security, customary rights, improved lives for marginalized rural populations, expanding social benefit more generally, and non-exploitative supply chains. We recognise the importance of ensuring that labour conditions, health and safety guidelines and wages are fair and are not less than those required by local laws.

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3 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](http://www.ifc.org/wps/wcm/connect/Topics_EXT_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards)

4 https://www.globalreporting.org/standards


Governance: Transparency and integrity where there is lack of appropriate access to information and board oversight, decision-making structures, traceability of agricultural or marine commodities and derivative products, and comprehensive reporting.

Ethical Conduct: ADM Capital considers its reputation for integrity and fairness as one of its most valuable and carefully guarded assets.

- 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 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 general public, business associates, governmental and regulatory authorities
- We expect our employees to maintain the confidentiality of information entrusted to them by the company, investors or others involved in any business dealings

TLFF/ADM Capital values the diversity of its employees and is committed to equal opportunity and Proprietary and Confidential fair compensation in all aspects of employment to all employees without regard to sex, race, national origin or religion

ESG Positive Impact and Benefit: TLFF’s Eight Core Objectives

TLFF aims to help promote sustainable economic development in Indonesia while helping the country achieve climate targets stated in its ‘Nationally Determined Contributions’.

The eight core objectives, upon which the facility will report, will include:

1. Forest Retention: Retained canopy cover, reduced land conversion and reduced emissions through use of finance to support better efficiency in the smallholder agriculture sector as well as no deforestation commitments
2. Improved rural livelihoods from better smallholder farming practices as well as access to clean energy and skills-based training for projects, with particular attention paid to gender equality, no child labor and fair labor and wages
3. Peatland restoration and rehabilitation: no drainage or burning – as a result of Loan Fund (TLFF) or Grant Fund (TLGF) activity
4. Sustainable supply chains for agricultural companies, including improved use of certifications by mills, cooperatives, use of technology and innovation (traceability, GPS land mapping, farming practices, monitoring) prompting better farming practices
5. Clean Energy: Scaling up investment in renewable energy capacity, including solar, wind, environmentally sustainable small scale hydro, with a particular focus on access to electricity for marginalized, off-grid communities
6. Reduced emissions from prohibitions on slash and burn in landscapes, by substituting diesel-generated and other polluting electricity generation for renewables
7. Biodiversity Protection and mapping of threatened species
8. Pollution reduction in freshwater systems, reduced air emissions (haze, diesel), reduced soil contamination from better farming practices, reduced chemical use

Each of the objectives will, of course, be relevant to all projects, rather TLFF will identify the key objectives for each investment made and establish appropriate measures, with effective consultation with relevant communities.

ESG Investment Factors for all Companies

http://www4.unfccc.int/Submissions/NDC/Published%20Documents/Indonesia/1/INDC Респуб%20OF%20INDONESIA.pdf
TLFF's objective is to ensure that each of its borrower counterparties should:

- Undertake third-party ESG risk assessments to identify key risk areas and develop ESG Development Plans 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 Development Action Plan
- Work with regulators and auditors in an open and cooperative manner

TLFF Commitments

To ensure that TLFF meets its commitments, outlined above, we should:

- Ensure our personnel understand fully our ESG policy, and are trained in the commitments we have made to social, environmental and governance results as well as strong financial performance
- Establish an ESG management system that promotes thorough ESG due diligence as well as systematic management of ESG issues and toward our Eight Core Objectives through to exit
- Encourage TLFF borrowers to implement an effective ESG management system that adheres to the performance standards as outlined in this document
- Report to the TLFF Steering Committee through the Secretariat, and publish an Annual Report to relevant stakeholders that aggregates ESG results and progress toward our Eight Core Objectives

Guidance notes on commodities

Palm oil

Palm oil is a complicated commodity for investors and financial institutions. On one side, there is a long list of environmental and social factors that pose financial and reputational risk, and lead to questions as to how the industry intends to grow in the future.

Among the challenges the industry faces are the annual haze damaging to public health caused by burning of palm oil lands for replanting, deforestation from land conversion, peat swamp drainage leading to fires and high CO₂ release, destruction of critical habitat and biodiversity, community conflict over land, forced land seizures, use of toxic chemicals and water pollution as a result, and abusive labour practices, among others.

At the same time, however, palm oil has created jobs and provided income for the rural poor in a country where 40% of the population still lives on less than US$2 day¹. Palm oil contributes significantly to Indonesia's economic development and in particular to rural livelihoods, directly employing 4 million people, and indirectly supporting up to 12 million more. Smallholders produce an estimated 40 percent of palm oil, at 10 million tonnes, on 4.4 million hectares and 3.1 million are held by independent producers who receive no company support². Efficiency on these largely 2 hectare plots is low. Still, palm oil is far more efficient in its use of land

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¹ Indonesia Overview, the World Bank https://www.worldbank.org/en/country/indonesia/overview
² SNV, Smallholder palm oil farmers can farm sustainably but external support is necessary http://www.snv.org/update/smallholder-palm-oil-farmers-can-farm-sustainably-external-support-necessary
than other vegetable oils. It is useful across multiple industries and products, and consequently there is high demand from consumers and thus brands. This demand is only expected to increase in future.

The question then becomes, can palm oil be produced in a more sustainable fashion, so that it doesn’t lead to the environmental and social challenges associated with its production outlined above?

TLFF believes this is possible and that major palm oil companies are already headed in this direction, understanding the business and reputational risk to avoiding change and in many cases working under the umbrella of the Roundtable on Sustainable Palm Oil10. We believe, given the benefit of palm oil to rural communities, and indeed the economy, that TLFF-LF should help support this transition. However, this critical change will not come alone, only in partnership with the government, with NGOs, with finance institutions, palm oil companies and smallholder cooperatives. This will require, among others, new policies, broadly applied traceability and fire monitoring systems to be put in place, changes in company procurement strategies, as well as access to finance, agricultural extension services and personal finance training for smallholders.

Rubber

Rubber is a major driver of deforestation in south-east Asia, according to WWF11. Rubber, like other cash crops, is a complicated commodity for investors and financial institutions. As rubber demand and production continue to increase, large consumers, producers, and the international community have become increasingly aware of the negative environmental and social impacts of rubber production. These include but are not limited to a significant loss of natural forest habitat, increase in greenhouse gas emissions, poor labour conditions and increased poverty.

Indonesia’s rubber plantations are mainly dominated by smallholder farmers which make up for 85% of the 3.6 million hectares of land under cultivation, with the remainder split more or less equally between private companies and state plantations12. Total production in 2015 was 12.3 mm tons, leading to a record high global rubber stockpile of 3.4 mm tons at the end of 2015, thus doubling the level from 10 years ago13. Indonesia has the largest area of rubber plantations in the world, but low productivity has held it back from being the largest global producer and exporter. Productivity per hectare is closely driven by the youth of the trees and quality of the clone seedlings, both of which are currently weak in Indonesia.

However, the outlook for the rubber industry is positive; the days of low priced natural rubber seem unlikely to return and there is continuous high demand for natural rubber due to lack of substitutes. There are predictions that the current slump in pricing will move towards a sustained supply deficit from 2019, creating opportunities for companies to expand and invest in natural rubber production and promote sustainable production models14. Indonesia therefore holds the potential to eventually become the world’s largest rubber producer should the key issues of productivity and land fragmentation be addressed. TLFF believes that major rubber companies are already headed towards making natural rubber production sustainable by developing responsibly managed plantations on degraded land with full consent by tenure-holding local communities, particularly under the initiative from rubber producing nations and industry, the Sustainable Natural Rubber Initiative (“SNR-i”), whose voluntary standards cover forest sustainability, water management, labour and human rights. This transition into sustainable practices in production and purchasing of natural rubber, however, will require not only leading rubber traders, but also the joint efforts of government, NGOs, finance institutions, rubber companies and smallholder cooperatives. TLFF aims to work in partnership with these participants to support this transition into sustainable practice in the rubber industry.

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10 http://www.rspo.org/about/sustainable-palm-oil
11 Sustainable Palm Oil: Who is Leading Palm Oil Reform? CLSA Blue Books p.6, Chuyao Lu. Benjamin McCaron authors
15 2015 WWF Report Note
Cocoa

Cocoa production involves relatively less deforestation in Indonesia, versus other crops like oil palm, but the bottom 25% worst cocoa producers by yield who only produce 10% of the world’s cocoa accounted for 40-50% of negative impact, which include deforestation, illegal, soil erosion, misuse of fertilizer and underpaid labourers. Farmers need to use good agricultural practices (“GAP”) such as soil conservation by terracing and mulching, pruning and using shade from other crops, which many cannot afford. Cocoa farmers’ lack of financial access is the biggest root cause. Around 90% of Indonesia’s cocoa output is produced by smallholders who lack the financial support to optimize production capacity, resulting in declining production due to aging trees and diseases. Moreover, because of the recent promising prospects of the palm oil and rubber industries, some cocoa growers have shifted their focus away from cocoa towards palm oil and rubber, causing the current 1.5 million hectares of cocoa plantations to potentially further decline in the coming years.

The Indonesian cocoa sector has experienced tremendous growth in the past 25 years, driven by rapid expansion of smallholder farmer participation. Cocoa plantations in Indonesia cover over 1.5 million hectares, generating over $1.2 billion in export annually. Cocoa production provides the main source of income for over 1.4 million smallholder farmers and their families in Indonesia and they contribute 93% of national production. Cocoa production has been a significant economic driver to Indonesia’s economy and is one of the most important agricultural export products of the country. Finance to fund GAP and rehabilitate land is therefore necessary in order to sustain good quality cocoa that drives export demand and income to support the livelihoods of cocoa smallholder farmers and a major source of Indonesia’s GDP.

To avoid further deforestation and to increase cocoa yield in efforts to keep up with the global cocoa demand, TLFF believes that underperforming cocoa farmers should be provided with better access to finance and training. Leading chocolate companies such as Mars, Ferrero and Hershey have committed to 100% certified cocoa by 2020. Certification bodies have trained farmers on GAP to limit negative environmental impacts caused; KPMG studies prove that certification through bodies such as Rainforest Alliance, UTZ Certified and Fairtrade led to more efficient agrochemical use and conservation of local ecosystems and biodiversity as a result of training. While up from 2% in 2009, by 2015 only 16% of the world’s global chocolate sales used certified cocoa. TLFF views this as a significant step, but there is still a long way to go.

This also means there is significant potential for chocolate companies to step in along with the government, NGOs, finance institutions, smallholder cooperatives to provide access to finance and GAP training to farmers, that would not only reduce negative environmental and social impact, but double or triple cocoa yields.

Coffee

Investing in coffee has been an environmental and ethical dilemma for many investors and financial institutions. While in certain countries, e.g. Indonesia, coffee production causes less deforestation than other crops such as palm oil, discussions around ethical issues, such as the labour and working conditions of coffee growers and the revenue of growers lost along the value chain, have become huge debates in recent years.

96% of the total coffee plantation area in Indonesia is cultivated by smallholder farmers and the remainder is run by private and state-owned companies. Although coffee’s significance to the economy has been dwarfed by palm oil and cocoa, it remains an important income source for an estimated 1.5 million farmers across the country. The biggest problem Indonesia’s coffee plantation market faces is its significantly higher verification costs, driven by having three times as many smallholders and one-third the average output per hectare, versus

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35 Jason Clay, Senior VP of Markets & Food at the WWF http://www.confectionerynews.com/Commodities/Topsy-turvy-Sustainable-cocoa-exports-are-upside-down-says-WWF
other nearby markets like Vietnam. Indonesia’s export base is also declining due to a fast-growing domestic market. These factors increase the cost of producing sustainable coffee and make it challenging to accelerate the certification and verification processes18.

These challenges around Indonesia’s coffee plantations create huge potential for investors to come in and increase farmers’ yields while maintaining a fairly low cost base; investing in improved productivity represents an opportunity to increase farmers’ incomes, to achieve progress towards sustainability goals and to maintain a diversified supply base of green coffee. A farmer training program designed to boost yields would improve farming practices, particularly fertilizer use (both organic and inorganic), tree rejuvenation (e.g. pruning, grafting, new planting) and integrated pest management. As a result, yields could be doubled for over half a million Indonesian smallholders by 202319. With the doubling of yields, the cost of supply-chain led certification / verification could be halved, and other supply chain costs would likely decrease with higher volumes19. TLFF believes that large exporters, such as Nestle, should continue financing certification and verification programs investing in organizing, training farmers to increase yield and certifying and verifying that practices are sustainable. The international coffee industry can play a catalytic role in developing public-private partnerships across industry players, state institutions in coffee consuming countries, and Indonesia’s local private sector. These actors all have a strong interest in maintaining the vitality of Indonesia’s export sector, and a public-private partnership of this kind could help to leverage greater support from the Government of Indonesia in the future18.

**Renewable Energy**

2015 produced a new record for global investment in renewable energy. Global investment in renewable power capacity, at $265.8 billion, was more than double dollar allocations to new coal and gas generation, which was an estimated $130 billion in 2015. Even though 2015 produced a record for overall investment, the sky is far from being entirely blue. Nevertheless, the global emission trend remains worrying, as energy-related emissions are not forecast to peak until the late 2020s, at the earliest21. The ASEAN region faces an expanding population (36% increase between 2014 to 2025) and a minimum 5% pa GDP growth, therefore demand for electricity is expected to rise 4% pa or doubling over 2014 levels. Renewable power is present in most ASEAN countries, but investments in the sector are nascent.

With supportive Government of Indonesia (GoI) initiatives and structural growth to drive Indonesia’s renewable energy demand, TLFF believes sustainable energy in Indonesia can provide the greatest exposure to the ASEAN renewables space in the next decade. Based on current planned government policies and expected market development, the annual installation rates for bioenergy, hydropower and solar PV will be highest by far in Indonesia. Wind, although nascent, will also be an up and coming renewable energy. TLFF fully supports GoI’s initiatives, along with continuous financial investment from the private sector, to help shift the current 6% renewable energy of the total energy mix to 23% by 2025.

**Bioenergy**

- The Government of Indonesia has implemented incentives for electricity production from biogas, biomass and organic waste
- RSPO and ISPO have developed standards for sustainable palm oil production and dealing with related waste by-products e.g. POME, EFBs

**Mini Hydro**

- Majority of mini hydro systems are off-grid and in remote locations, so this is a good source of rural electricity supply that requires relatively minimal capex and is environmentally friendly

**Solar**

- Indonesia gets a good average solar radiation of 4.8kWh per sqm per day, offering distributed and off-grid solar PV applications strong potential

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Coupled with a battery storage solution, solar can provide 24/7 uninterrupted electricity.

**Wind**

- Small (<10kW) to medium (10-100kW) capacity wind power generators would be apt for Indonesia, given low average wind speeds of 3-6 m/s.

**Fisheries**

Fisheries are a critical resource for Indonesia, indeed for all of Asia, which contributes to 85% of global seafood production. It is estimated that 70% of global seafood will be consumed in Asia by 2030. As the global population inches towards nine billion by 2050, there will be even greater demand for seafood, putting fishery resources and food security at risk.

An estimated 95% of the Asian seafood industry is comprised of small and medium-sized businesses (SMBs), and 30% of the seafood produced in Asia is wasted due to inefficient processing and outdated logistical services. We believe that through investment into supply chain efficiencies, value can be created for investors, vulnerable communities, and eco-systems as ESG performance by companies improves.

At the same time, fish is one of the main sources of protein for people in Asia. For decades, fisheries and marine ecosystems have been facing overexploitation and degradation due to poor management, destructive fishing methods, overfishing and illegal fishing. The business strategies needed to restore fishery resources are now well understood and there is a new generation of Indonesian business partners who are keen. We are convinced that financial investment into seafood supply chains will help drive fisheries towards sustainability and we are committed to pioneering this new approach.

We are seeing the government environment change in Indonesia and there are prospects developing for better managed fisheries coupled with investment that can help reinforce the change. We are keen to understand and support development goals in fisheries and promote long-term resource security through private sector investment into the fisheries supply chain, which delivers marine-based environmental and social impacts.

- **Principles**: We seek for-profit companies with strong commitment and company ethos to sustainability and socio-economic impact. Companies need to be ultimately willing to deliver improvements upstream.
- **Impact**: We seek to improve the overall quality and sustainability of the value chain with a focus on reduction in wastage. ESG principles and minimum criteria for improvements will be applied and used to deliver improvements.

**New Markets**

The market for sustainable seafood is growing rapidly, at global scale, creating new demand for motivated Asia seafood suppliers who can efficiently meet higher standards.

**Better Economics**

New cost-effective strategies for improved storage and processing of marine catch can improve the sustainability of the Asian seafood supply chain, creating incentives for better companies and benefitting local communities.

**Technology Catalysts**

Affordable technologies such as small-scale solar cooled storage and remote monitoring of sensitive marine ecosystems can lower processing costs and support more stable and traceable sources of supply.

**Lower Country Risk**

Important Asian marine nations such as Indonesia have improved their capacity for marine policy implementation. There is more commitment to supporting fishing communities and enhanced enforcement of fishing limits has the potential to mitigate risks to the marine sector.

**Specialist Investors, Sustainable Goals**
Many skilled providers of growth capital in emerging markets, both mainstream and impact-oriented, have learned the value of good ESG performance in global supply chains. The best opportunities in the Asian marine sector benefit from a natural business synergy between market opportunities and ESG capacity.

**General Investment Approach of ADM Capital/TLFF**

**ADM Capital/TLFF’s Investment process involves two key stages:**

(a) **Preliminary Due Diligence / Concept Note**
Prior to making any investment, the investment team will conduct preliminary due diligence on the following five key investment criteria (the “**General Investment Criteria**”):

- Collateral available for the investment;
- Cash flow and profitability projections demonstrating the obligor’s ability to satisfy in full all obligations when due and payable;
- Accounting and financial due diligence to the satisfaction of ADM Capital/TLFF;
- Legal and regulatory due diligence; and
- Employment, environmental and social due diligence.

During this initial stage of preliminary due diligence, ADM Capital/TLFF staff will screen investments for excluded activities set out in **Annex A**

(b) **Reviewing and Shaping the Transaction**
After the proposed transaction obtains approval from the investment advisory committee to proceed to formal due diligence, a closer review of the environmental, social and ethical standards may be conducted based on guidelines such as the checklist of guidelines available upon request. Professional environmental, social and governance consultants may also be engaged to provide a written report of compliance with IFC’s eight Performance Standards, relevant corporate and other DFI standards as required by the transaction.

1. **IFC Performance Standards (IFC PS) For Project Management**

As per IFC Performance Standards, an **Environmental/Social Category** (B or C) will be assigned to each investment. For TLFF purposes, Category A transactions are excluded:

- **Category B:** activities for which the environmental & social impacts can be readily predicted, prevented and/or mitigated. Typically does not need a detailed expert appraisal, but ADM Capital should take active steps to verify the company’s environmental, health & safety (EHS) and social status and conformity with IFC’s applicable requirements. Expert second opinion or limited review may be advisable.
- **Category C:** activities which typically have little or no environmental impact.

Additionally, the eight IFC Performance Standards will be applied across our portfolio of projects, where relevant:

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts, establishes the importance of:

- integrated assessment to identify the environmental and social impacts, risks, and opportunities of projects
- effective community engagement through disclosure of project-related information and consultation with local communities on matters that directly affect them
- the client’s management of environmental and social performance throughout the life of the project

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27 www.ifc.org/ifcest/enviro.nsf/Content/PerformanceStandards
Performance Standard 2: Labour and Working Conditions

- To promote the fair treatment, non-discrimination and equal opportunity of workers
- To establish, maintain, and improve the worker-management relationship
- To promote compliance with national employment and labour laws
- To protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client supply chain
- To promote safe and healthy working conditions, and the health of workers
- To avoid the use of forced labour

Performance Standard 3: Resource Efficiency and Pollution Prevention

- To avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities
- To promote more sustainable use of resources, including energy and water
- To reduce project-related GHG emissions

Performance Standard 4: Community Health, Safety, and Security

- To anticipate and avoid adverse impacts on the health and safety of the affected community
- To ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles

Performance Standard 5: Land Acquisition and Involuntary Resettlement

- To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs
- To avoid forced eviction
- To anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use by (i) providing compensation for loss of assets at replacement cost and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected
- To improve, or restore the livelihoods and standards of living of displaced persons
- To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure at resettlement sites

Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

- To protect and conserve biodiversity
- To maintain the benefits from ecosystem services
- To promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities

Performance Standard 7: Indigenous Peoples

- To ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples
- To anticipate and avoid adverse impacts of projects on communities of Indigenous Peoples, or when avoidance is not possible, to minimize and/or compensate for such impacts
- To respect and preserve the culture, knowledge, and practices of Indigenous Peoples

Performance Standard 8: Cultural Heritage
• To protect cultural heritage from the adverse impacts of project activities and support its preservation
• To promote the equitable sharing of benefits from the use of cultural heritage

2. Adhering to Relevant Company ESG and CSR policies

TLFF will reference the ESG and CSR policies of associated institutions, where relevant and applicable, to the assessment of projects during the initial project assessment phase, and during ongoing project evaluation. Of particular relevance will be the BNP Paribas sector policy statements in three key sectors where TLFF will have exposure:


3. Improving 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:

b) OECD Guidelines for Multinational Enterprises
c) The range of internationally certifiable environmental, social and quality standards issued by the International Organization for Standardization ("ISO")
d) Internationally recognised standards on health and safety including the ILO guidelines for occupational safety and health

e) Relevant and credible standards as demonstrated by independent verification or certification such as the Forestry Stewardship Council certification, the Marine Stewardship Council certification, the Principles and Criteria of the Roundtable on Sustainable Palm Oil (RSPO) and the Indonesian Sustainable Palm Oil System (ISPO)
f) G20/OECD international standards of good corporate governance

h) The FAO voluntary guidelines on the responsible governance of tenure of land, fisheries and forests in the context of national food security

i) The FAO Code of Conduct for Responsible Fisheries

j) The WWF 2050 Key Performance Criteria

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23 These can be found in the BNP Paribas Responsible Investment Policy: http://docfinder.is.bnpparibas-ip.com/api/files/A115BC32-DS75-48FS-8303-60D1F0D12BF
26 https://www.iso.org/home.html
28 https://www.fsc.org
29 https://www.msc.org
30 http://www.rspo.org/key-documents
32 http://www.oecdf.org/corporate/principles corporate governance.htm
33 http://www.adt.org/documents/safeguard policy statement

11
k) The Consumer Goods Forum and Sustainability Pillar 2010 resolutions regarding deforestation and refrigeration
l) The relevant World Bank Group Agribusiness/Food production EHS Guidelines
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)
o) [illegible]
p) The FAO, IFAD, UNCTAD and World Bank Principles for Responsible Agricultural Investment (PRAI)

Monitoring and Impact Assessment

TLFF provides finance to projects that generate positive impact and benefit for communities and the environment through eight core objectives: No deforestation commitments, peatland restoration and rehabilitation, biodiversity protection, improved rural livelihoods, sustainable supply chains, provision of clean energy, reduced emissions and pollution reduction.

TLFF is committed to ensuring compliance with the relevant standards for each transaction and for monitoring to the eight core ESG objectives, which we believe will deliver desired impact. Both the borrower and TLFF have duties with regard to monitoring, assessment and reporting. The scope and periodicity will be commensurate with the project’s risks and impacts. Borrowers are required to implement agreed upon 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 progress of implementation of 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

TLFF 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:

1. conduct periodic site visits for projects with challenging environmental or social impacts
2. conduct supervision with detailed review by TLFF ESG specialists or consultants for projects with significant adverse social or environmental impacts;
3. review the periodic monitoring reports submitted by borrowers/clients to ensure that adverse impacts and risks are mitigated as planned and as agreed
4. work with borrowers to rectify to the extent possible any failures to comply with ESG commitments, as canvassed in the legal agreements and action plans
5. Prepare a project completion report that assesses whether the impact and desired outcomes have been reached, as well as any non-compliance

http://www.fao.org/docrep/meeting/003/a3139ny/k3130c00111tm
http://unctad.org/en/ Pages/ DAE/G-30/PRAI.aspx
Annex A

Exclusion List

1. TLFF/ADM Capital 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/herbicides\(^{41}\), ozone depleting substances\(^{42}\), PCBs\(^{43}\), wildlife or products regulated under CITES\(^{44}\) and transboundary movements of waste prohibited under international law\(^{45}\).

   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 munitions\(^{46}\), including without limitation of the following 6 types of weapons: anti-personnel mines\(^{47}\), cluster bombs\(^{48}\), nuclear weapons\(^{49}\), chemical weapons\(^{50}\), biological weapons\(^{51}\), and depleted uranium ammunition\(^{52}\), (including

\(^{41}\) Reference documents include EU Regulation (EEC) No 2458/92 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 Restrict or not Approved by Governments; Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; WHO Classification of Pesticides by Hazard.

\(^{42}\) Ozone Depleting Substances (ODS): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicised ‘ozone holes’. The Montreal Protocol lists ODS 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 participating countries and phase out target dates, is available from IFC or EBRD.

\(^{43}\) PCBs: Polychlorinated biphenyls: a group of highly toxic chemicals. PCBs are likely to be found in old-filled electrical transformers, capacitors and switchgear dating from 1953-1985.


\(^{46}\) This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity considered is ancillary to a project sponsor's primary operations.

\(^{47}\) 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.

\(^{48}\) 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 clusterbombs.

\(^{49}\) A nuclear weapon is any device which is capable of releasing nuclear energy in an uncontrolled manner and which has a group of characteristics 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 fissile as well as upgrading and maintenance of these products.

\(^{50}\) 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.

\(^{51}\) Biological weapons are microorganisms 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.

\(^{52}\) 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.disresearch.nl).
the research, development or technical applications relating to electronic data programs or solutions which are specifically aimed at such activities.

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 unboned asbestos fibers.

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 heritages.

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 forests.

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 resource.

c) Shipment of oil or other hazardous substances in tankers which do not comply with International Maritime Organization (IMO) requirements.

r) Production or activities involving harmful or exploitative forms of forced labour/harmful child labour.

s) Ozone depleting substances.

t) Endangered or protected wildlife or wildlife products.

u) Agroforestry development on peatlands.

2. During the term of an Investment, TLFF/ADM Capital becomes aware of any Investment with substantial involvement in an activity specified on the Exclusion List, ADM Capital will take

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53 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%.

54 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.

55 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 136. No single hull tanker over 25 years old should be used.

56 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.
appropriate action (including consultation with the investment counterparty to remedy this issue, consultation with stakeholders, divestment etc).

3. **United Nations:** In addition, ADM Capital 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 conventions\(^5\) and such involvement could be known to ADM Capital 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/ADM Capital exclusions list from time to time.**

\(^5\) 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 110 and 111) (www.iolo.org).
Annex 6. BNP Paribas Agriculture Sector Policy
Agriculture is one of the most important sectors in the world in terms of employment and GDP and provides a livelihood to millions of people in both developed and developing countries. Investing in agriculture is one of the most effective strategies for reducing hunger and promoting sustainability. However, if not managed properly, agriculture development can have several adverse impacts on local communities, ecosystems and climate change.

BNP Paribas has defined the present sector policy to take into account the above-mentioned considerations and to establish consistent rules for the Group’s worldwide activities, to provide financial products and services to companies and projects in the agriculture sector in a balanced and responsible manner. BNP Paribas encourages Agriculture Companies and Projects to adopt and operate in line with industry best sustainability practices.

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</tr>
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</tr>
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<td>01/08/2015</td>
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<td>Elisa VACHERAND, Laurence PESSEZ</td>
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<tr>
<td>Validated by</td>
<td>Michel KONCZATY</td>
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¹ “BNP Paribas” or the “Bank” or the “Group” means BNP Paribas SA and all its direct or indirect subsidiaries that may be fully or proportionally consolidated, and all its organisational, operational or functional entities, jointly or separately.

² An “Employee” is a natural person who works within the Bank in France, on a permanent or temporary basis, within the scope of an employment contract, secondment, loan of personnel or corporate office, or works within the Bank in another country in equivalent circumstances. For the application of this policy, temporary employees and interns are considered to be employees.
### SUMMARY

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PREAMBLE

As part of its commitment to corporate social responsibility, BNP Paribas has developed a policy regarding its investment and financing activities for the agriculture sector.

With 6% of the world’s GDP and 30% of the employment, agriculture is a key sector in today’s economies. Its importance is going to grow in the next decades: the global demand for agricultural commodities and food will increase as the world population is expected to approach 9 billion by 2050, with a major contribution of developing countries. In addition, the supply of agricultural goods could be threatened by the adverse impacts of climate change.

Agriculture is a major source of income and provides a livelihood to millions of people in both developed and developing countries. Globally there are around half a billion smallholder farmers growing half of the world’s food needs on plots smaller than two hectares. Investing in agriculture is one of the most effective strategies for reducing hunger and promoting sustainability.

Technical and scientific evolutions have brought new agricultural practices. The business takes different forms from rain-fed farming to hydro culture, from small scale to large farms, from GMO based to artisanal agriculture.

If not managed properly, agriculture development can have several adverse impacts on local communities, ecosystems and climate change. These environmental and social issues can be tackled by a sustainable growth in the sector that is highly dependent on farming practices.

BNP Paribas identifies the following key environmental and social stakes linked to the agriculture sector:

- Ecosystem and biodiversity
- Water use and water pollution, GHG emissions, use of agrochemicals
- Working conditions and human rights
- Health and safety
- Land tenure and local community rights
- Global food security
- Food safety and traceability
- Animal welfare

BNP Paribas is committed to support the real economy and therefore provides extensive financial products and services to the agriculture sector especially to companies, large or small, showing a high level of responsibility and committed to feed the people with healthy and safe products without threatening the food supply of future generations.

The following sector policy reflects BNP Paribas’ commitment to support the development of sustainable practices taking into consideration the key issues mentioned above.

This policy comes in addition to existing agriculture related documents published by BNP Paribas as part of its commitment to corporate social responsibility: two policies concerning Palm oil & Wood Pulp, and a public disclosure concerning “Goods and activities on exclusion list”.

BNP Paribas is convinced that responsible companies and sustainability practices should be supported. Such support can bring long-term benefits to its customers and to the society at large.

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3 World Bank and FAO 2012 data
1 OBJECTIVE

This policy defines a set of rules regarding the management of financial products and services provided by BNP Paribas' entities. The objective of this policy is to address some major environmental, social and governance issues of the agriculture sectors and to establish guidelines to conduct business in a responsible manner.

2 SCOPE

2.1 GEOGRAPHY

Worldwide.

2.2 DEFINITIONS

Agriculture is the science or practice of farming, including cultivation of the soil for the growing of crops and the rearing of animals to provide food and non-food products.

Agricultural products refer to products issued from the cultivation of the soil (culture), the forest management (forestry) and from farm animals rearing.

Agricultural products can be food related (grains, vegetables, fruits, honey, meat, eggs, milk...) or non-food related (cotton, rubber, wool, timber...).

Agricultural commodities refer to agricultural, horticultural, viticultural, and dairy products; livestock and the products of livestock; the products of poultry and bee raising; the products of forestry; and other commodities that are exchanged on a derivatives market.

2.3 ACTIVITIES

Agriculture activities covered in this policy are production of seeds/grains, farming, origination & collection operations and/or primary processing of agricultural products as defined below:

- Production of seeds/grains covers the selection and multiplication of seeds/grains for the purpose of distribution, storage or sale;
- Farming covers the cultivation of soil, production of crops and raising of livestock and poultry (breeding, feeding, and general care) and forest management (forestry);
- Origination & Collection operations cover the sourcing, the transport and storage logistics of agricultural products from where they are produced to a point where they are stored or undergo primary transformation. This includes activities of Physical agricultural products merchants and traders;
- Primary processing is the first transformation of raw agricultural products - e.g. oil crushing, cocoa grinding, sugar extraction, milk drying and slaughtering.

Agriculture activities not covered in this policy:

- Manufacturers or distributors of agricultural machinery, pesticides and fertilizers;
- Manufacturers of processed food and beverage (secondary or further processed products, packaged food)
- Retailers of food and beverage;
- Fish, seafood and aquatic products;
- Palm oil and wood pulp related activities (please refer to their dedicated sector policies).
2.4 Businesses

This policy covers:
- Agriculture projects (defined hereunder as “Projects”): new and/or significant expansion of existing agriculture related activities (production of seeds, farming, origination & collection operations and/or primary processing)
- Agriculture companies (defined hereunder as “Companies”): companies for which agriculture-related activities (production of seeds, farming, origination & collection operations and/or primary processing) represent a significant part of their overall activities
- Activities of financial intermediaries (including traders) that do not take possession of a physical commodity are covered in section 3.4.1.

2.5 BNP Paribas activities

Entities of BNP Paribas Group: this policy applies to all branches, subsidiaries and joint ventures in which BNP Paribas has the operational control. If BNP Paribas establishes new joint ventures in which it has a minority stake, it will strive to include these standards as part of the joint venture agreement.

Financial products & services: this policy applies to all products and services provided by BNP Paribas (lending, guarantees, debt and equity capital markets, advisory, finance-related/exclusive hedging and trading activities, ancillary services, etc.). It covers all new clients and transactions. Agreements with agriculture companies that predate this policy will be reviewed accordingly upon their renewal or as they are due for review. However, this policy does not apply to activities of professional equipment leasing or securities custody.

3 Rules and Standards

BNP Paribas expects agriculture companies to comply with local laws and with licensing agreements as well as with international conventions ratified by the countries in which they are registered and/or operate.

As part of its internal compliance process, BNP Paribas implements strengthened control measures on clients and transactions to identify, inter alia, governance risks (including corruption).

In addition to the compliance with these regulations and standards, this policy sets specific criteria to be met by agriculture projects and companies.

The policy applies to agriculture projects and companies as defined in section 2. Depending on their size, agriculture projects/companies will be assessed with a different number of criteria. Larger projects/companies will be assessed on all the criteria listed in the policy while small projects/companies will be exempted from some specific criteria, marked with an asterisk in the text.

Criteria are split into mandatory requirements and evaluation criteria.

Mandatory requirements are to be understood as sine qua non: those have to be met without exception before BNP Paribas considers providing financial products and services to agriculture projects or companies.

In addition to these mandatory requirements, evaluation criteria have been identified to develop the analysis performed by BNP Paribas on agriculture Projects and Companies. BNP Paribas also reserves its right to request additional information or decline its involvement even if the mandatory requirements are met.

BNP Paribas has adopted the Equator Principles (EPRs), a financial industry benchmark for determining, assessing and managing environmental and social risks in projects. In addition to mandatory requirements and evaluation criteria set by this Policy, BNP Paribas will thus also apply the EPRs to lending and advisory mandates related to agriculture projects, in line with the EPRs application scope detailed in the official text.
3.1 AGRICULTURE PROJECTS

3.1.1 Mandatory requirements

BNP Paribas will only provide financial products or services to Agriculture projects that:

3.1.1.1 Requirements for all agriculture projects

**General Environmental Management**
- Have a water management plan.

**Ecosystems and Biodiversity**
- Are not located on:
  - UNESCO World Heritage Sites
  - Wetlands on the Ramsar list
  - Alliance for Zero Extinction sites
  - IUCN Category I-IV areas
  - Peat lands

- Do not involve the trade of any plant or animal species or products governed by the Convention on International Trade in Endangered Species of Wild Fauna or Flora (CITES) not authorized by a CITES permit.

**Working Conditions & Human rights**
- Do not use child or forced labor;
- Have a grievance mechanism in place through which workers' concerns can be raised and addressed;
- Respect the right of workers to organize in a trade union or ensure workers' interest and voice are heard within the company;
- Do not discriminate against employees and applicant for employment.

Moreover:
- Have a Human Resources policy or a Code of Conduct.

**Health & Safety**
- Have a health and safety management plan.

**Land tenure and local communities rights**
- Have a policy in place to obtain the Free, Prior and Informed Consent (FPIC) of the local communities and have a grievance mechanism in place through which local communities' concerns can be raised and addressed;
- Do not engage in land grabbing practices.

**Food Safety and traceability**
- Have a policy on food safety and traceability covering their suppliers and their own operations.

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5 (*) for large projects only
6 International Labor Organization (ILO) Conventions C138 Minimum Age (1973), C182 Worst Forms of Child Labor (1999), and C29 Forced Labor (1930)
7 ILO Convention C87 Freedom of Association and Protection of the Right to Organize (1948) and C98 Right to Organize and Collective Bargaining (1949)
8 ILO Convention C100 Equal Remuneration (1961) and C111 Discrimination (Employment and Occupation) (1958)
Additional requirements for Farming projects

In addition to the requirements applying to all agriculture projects, BNP Paribas will only provide financial products or services to farming projects that:

**Ecosystems and Biodiversity**
- Conduct a High Conservation Value HCV assessment or equivalent before developing a project, especially on Key Biodiversity Areas;
- For projects located in High Conservation Value Forest (HCVF): do not adversely impact HCVF areas, in a manner that would result in the irremediable loss of one or more of the six High Conservation Values;
- For projects located in High Conservation Value (HCV) areas: do not adversely impact HCV areas, in a manner that would result in the irremediable loss of one or more of the six High Conservation Values. *

**Agrochemicals**
- Do not use the following products, except in exceptional cases:
  - Substances that have been banned under the Stockholm Convention on Persistent Organic Pollutants (POPs);
  - Substances listed in Annex III of the Rotterdam Convention;
  - Pesticides categorized as WHO Class 1A or 1B
- Have a policy to minimize the use of pesticides and fertilizers (incl. Paraquat).

Additional requirements for Projects related to livestock or poultry

In addition to the requirements applying to all agriculture projects, BNP Paribas will only provide financial products or services to livestock or poultry projects that:

**Animal welfare**
- Comply with or plan to achieve compliance with the IFC’s Good Practice Note on Improving Animal Welfare in Livestock Operations.
3.1.2 Evaluation criteria

BNP Paribas will also carry out an analysis of the proposed agriculture project. The following evaluation criteria will be considered as key areas of due diligence. BNP Paribas will therefore determine whether Agriculture projects:

3.1.2.1 Criteria for all agriculture projects

General Environmental Management
- Have obtained or plan to obtain ISO 14001 or equivalent certification, within a 5 year period;
- Put in place measures to monitor and reduce Greenhouse Gas (GHG) emissions including CO₂ (carbon dioxide) and CH₄ (methane), energy consumption, waste generation and disposal and to ensure soil integrity.*

Working conditions and human rights* 
- Provide workers training program on environmental risks and social issues.

Health and safety
- Have obtained or plan to obtain OHSAS 18001 or equivalent certification, within a five-year period;
- Have a health & safety management plan which includes measures to avoid and reduce hazards.

Global food security*
- Minimize food wastage during harvesting, storage and transport.

Food safety and traceability
- Have obtained or plan to obtain ISO 22000 certification (which is based on HACCP Principles), or equivalent food safety management certification, within a 5 years period

Additional criteria for Farming projects

In addition to the criteria applying to all agriculture projects, BNP Paribas will determine whether the farming projects:

General Environmental Management
- Take measures to minimize water use (e.g. for irrigation) and monitor impacts on water availability for other users, particularly in water stressed areas;
- Put in place measures to avoid soil salinization;
- Manage their effluents to minimize water pollution.

Ecosystems and biodiversity
- Implement Polyculture systems to protect biodiversity;
- Integrate High Carbon Stock (HCS) analysis when developing new farming projects, and work with the relevant experts in that field.*

Soil Integrity*
- Put in place measures to maintain soil integrity and fertility.

Agrochemicals
- Implement an Integrated Pest Management Plan;
- Do not use or plan to eliminate pesticides included in the SIN List from their operations.
Global food security*
- Avoid and minimize the potential adverse impacts on local subsistence agriculture when developing a new farming project (by the introduction of new crops or the replacement of existing local crops, for biofuel production or any other type of non-subistence farming activity).

Additional criteria for Projects related to livestock and poultry

In addition to the criteria applying to all agriculture projects, BNP Paribas will determine whether the livestock and poultry projects:

Animal welfare
- Implement the "Business Benchmark on Farm Animal Welfare" recommended policies and management systems.\(^9\)

\(^9\) Detailed description can be found at www.bbifaw.com
3.2 AGRICULTURE COMPANIES

3.2.1 Mandatory requirements

BNP Paribas will only provide financial products or services to agriculture companies which:

3.2.1.1 All agriculture companies

General environmental management

- Have a water Management Plan and disclose water consumption.

Ecosystem and biodiversity

- Are not involved in the trade of any plant or animal species or products governed by the Convention on International Trade in Endangered Species of Wild Fauna or Flora (CITES) not authorized by a CITES permit.

Working conditions and human rights

- Do not use child or forced labor;
- Have a grievance mechanism in place through which workers' concerns can be raised and addressed;
- Respect the right of workers to organize in a trade union or ensure workers' interest and voice can be heard within the company;
- Do not discriminate against employees and applicant for employment.

Moreover:

- Have a Human Resources policy or a Code of Conduct.

Health & Safety

- Have a policy in place to protect worker's health and safety conditions and disclose health and safety track record.

Land tenure and local communities rights

- Have a policy in place to obtain the Free, Prior and Informed Consent (FPIC) of the local communities impacted by new agriculture projects and have a grievance mechanism in place through which local communities' concerns can be raised and addressed;
- Do not engage in Land grabbing practices.

Food Safety and traceability

- Have a policy on food safety and traceability covering their sourcing and own operations.

Additional requirements for Farming activities

In addition to the requirement applying to all agriculture companies, BNP Paribas will only provide financial products or services to companies that:

Ecosystem and biodiversity

- Do not develop new farming projects in the following protected areas:

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10 (*) for large companies only
11 ILO conventions C138 Minimum Age (1972); C182 Worst Forms of Child Labor (1999); C29 Forced Labor (1930)
12 ILO convention C98 Right of Association and Protection of the Right to Organize Convention (1948) and C100 Right to Organize and Collective Bargaining (1949)
13 ILO Conventions C100 Equal Remuneration (1951) and C111 Discrimination (employment and occupation) (1958)
AGRICULTURE SECTOR POLICY

- UNESCO World Heritage Sites
- Wetlands on the Ramsar list
- Alliance for Zero Extinction sites
- IUCN Category I-IV areas
- Peatlands
- Conduct a High Conservation Value (HCV) assessment or equivalent prior to developing new farming projects, especially on Key Biodiversity Areas, and commit to not adversely impact HCV areas in a manner that would result in the irremediable loss of one or more of the six High Conservation Values. *

Agrochemicals

- Do not use the following products, except in exceptional cases:
  - Substances that have been banned under the Stockholm Convention on Persistent Organic Pollutants (POPs);
  - Substances listed in Annex III of the Rotterdam Convention;
  - Pesticides categorized as WHO Class 1A or 1B
- Have a policy to minimize the use of pesticides and fertilizers (incl. Paraquat).

3.2.1.2 Physical agricultural products merchants and traders

BNP Paribas will only provide financial products or services to physical agricultural products merchants and traders which:

Food Safety and traceability
- Have a policy on food safety and traceability covering their sourcing and their own operations
3.2.2 Evaluation criteria

BNP Paribas will also carry out an analysis of the considered Agriculture companies. The following evaluation criteria will be considered as key areas of due diligence. BNP Paribas will therefore assess whether companies:

3.2.2.1 Criteria for all agriculture companies

General environmental management
- Have obtained or plan to obtain ISO 14001 certification, or equivalent certification, within a five year period;
- Put in place measures to monitor and reduce GHG emissions including CO₂ (carbon dioxide) and CH₄ (methane), energy consumption, waste generation and disposal, and to ensure soil integrity;*
- Publish externally audit annual environmental and social reports;*
- Have been regularly and repeatedly criticized for their environmental, social and governance performance on material issues, and whether actions have been taken to address them;
- Engage in sustainable initiatives as listed in section 3.3.*

Working conditions and human rights
- Have a policy in place covering maximum working hours;
- Provide workers training program on environmental risks and social issues.*

Health and Safety
- Have obtained or plan to obtain OHSAS 18001 certification or equivalent certification, within a five year period;
- Have a health and safety policy which includes measures to avoid and reduce hazards, in particular through the training of workers.

Global food security*
- Engage and cooperate with small-scale producers:
  - Provide training on improved growing techniques and on health and safety issues including agrochemicals use;
  - Agree on fair market practices, e.g. fair and transparent terms of trade, quality requirements, pricing structure and access to dispute resolution mechanisms.
- Minimize food wastage during harvesting, storages and transport.

Food Safety and traceability
- Have or plan to obtain ISO 22 000 certification (which is based on HACCP Principles), or equivalent food safety management certification, within a five-year period.

Additional criteria for Farming activities

In addition to the criteria applying to all agriculture companies, BNP Paribas will determine whether the farming companies:

Ecosystem and biodiversity*
- Integrate High Carbon Stock (HCS) analysis when developing new farming projects, and work with the relevant experts in that field.

Agrochemicals
- Implement an Integrated Pest Management plan for their farming operations;
- Do not use or plan to eliminate the use of pesticides included in the SIN List for their operations.
Global food security*  
  - Avoid and minimize the potential adverse impacts on local subsistence agriculture when developing a new farming project (by the introduction of new crops or the replacement of existing local crops, for biofuel production or any other type of non-subsistence farming activity).

Additional criteria for Livestock and poultry activities

In addition to the criteria applying to all agriculture companies, BNP Paribas will determine whether companies, for their livestock and poultry activities:

Animal Welfare
  - Operate in line with the IFC’s Good Practice Note on Improving Animal Welfare in Livestock Operations, in particular adopt good management practices on animal husbandry, housing systems, genetics and breed selection;
  - Implement the “Business Benchmark on Farm Animal Welfare” recommended policies and management systems*.

3.2.2.2 Criteria for seeds/grains producing companies

Food safety and security
  - Can demonstrate the quality and safety of their seeds/grains;
  - Provide transparent and comprehensive information on the seeds/grains usage and on the consequences of their use, especially for products in which gene technology is incorporated (GMOS).

3.2.2.3 Criteria for physical agricultural products merchants and traders

Supply Chain Governance and Traceability
  - Set up policies to source or trade agricultural products from companies that do not contradict the mandatory requirements listed in section 3.2.1 of this policy.

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* detailed description can be found at www.bbfow.com
3.3 Good Industry Practices

BNP Paribas also encourages agriculture companies to follow internationally recognized best practices on the key environmental, social and societal stakes of the agriculture sector. The Group encourages companies, depending on their activities:

- To adhere to the FAO Voluntary Guidelines on the responsible Governance of tenure.
- To follow the FAO-OECD Guidance for Responsible Agricultural Supply Chains.
- To comply with World Bank Group Environmental, Health and Safety Guidelines both general and specific to the Agribusiness and Food production sectors.
- To become an active member of Global G.A.P and comply with SAN Standards.
- To implement the IFC Good Practice Note on Improving Animal Welfare in Livestock Operations.
- To follow the CEO Water Mandate Corporate Water Disclosure Guidelines.\(^{15}\)
- To comply with the CGF Responsible Soy Sourcing Guidelines.
- Agricultural commodities producers are encouraged to have their crop fields or plantations certified against the RTRS, BCI, Bonsucro or UTZ (as defined in section 8) principles and standards by 2020. In particular, cattle farmers are encouraged to have their production systems certified against the SCPS Standards (SAN) by 2020.
- Agricultural commodities primary processors and traders are encouraged to set up policies requiring that their suppliers become certified against the RTRS, BCI, Bonsucro, UTZ or SCPS principles and standards by 2020.
- Forest managers and processors of timber products are encouraged to have their forest concessions certified against the Forest Stewardship Council (FSC) or the Program for the Endorsement of Forest Certification (PEFC) standard by 2020.

Moreover, BNP Paribas is signatory of the Banking Environment Initiative (BEI) & Consumer Goods Forum (CGF)’s ‘Soft Commodities’ Compact, a unique, client-led initiative that aims to mobilize the banking industry as a whole to help transform soft commodity supply chains, thereby helping clients to achieve Zero net deforestation by 2020.

3.4 Specific position on agriculture commodities

BNP Paribas supports economic development, placing priority to investments in companies and projects with demonstrated utility.

Certain investment products raise questions as to their impact on agricultural commodities prices and thus their impact on the world’s most exposed populations.

To make a positive contribution to establishing a stable long-term relationship between physical and financial commodities markets, BNP Paribas has adopted measures to ensure that its financial instruments do not contribute to destabilization of the agricultural commodities market.

3.4.1 Corporate clients

The Group offers solutions for its corporate clients (agriculture products manufacturers, producers or merchants) to protect themselves against unforeseeable changes in the economic environment and the world markets, in particular hedging solutions against the risk of price volatility of physical commodities.

3.4.2 Individual and institutional investors

Given the fact that questions are raised about the impact of investment products containing agricultural commodity prices as underlying, BNP Paribas has made a commitment not to offer individual and institutional investors BNP Paribas internal funds containing exposure to agricultural commodities.
4 GROUP-LEVEL IMPLEMENTATION MECHANISMS

Result of the evaluation according to the present policy will provide elements for decision making by BNP Paribas. As and when necessary, an ad hoc senior management committee shall examine these results. If required, BNP Paribas may request complementary due diligence before concluding on the acceptability of the transaction.

When necessary, BNP Paribas will engage an external expert to undertake the analysis required by this policy. Operational tools and awareness workshops are rolled out to ensure that Group’s staff is able to implement this CSR sector policy.

4.1 FINANCIAL PRODUCTS AND SERVICES

The information related to the above requirements will be obtained from the agriculture clients by BNP Paribas’ client relationship managers.

BNP Paribas will review regularly the performance of agriculture companies against the policy. If BNP Paribas becomes aware that a client operates outside the requirements of the policy, a dialogue will be engaged with the client in order to find an acceptable solution to improve the situation in a timely manner. If this dialogue is unfruitful BNP Paribas may decide not to pursue any new business with such client and will place existing business under review or exclusion, taking into account existing contractual agreements.

4.2 ASSET MANAGEMENT

This policy applies to all BNP Paribas entities managing proprietary assets and third party assets.

External asset managers are actively monitored and strongly encouraged to implement similar standards.

BNP Paribas Investment Partners joined the Principles for Responsible Investment (PRI)\(^5\) initiative in 2006. It acknowledges that, in its fiduciary role, environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios. The Group encourages other investors to adopt the Principles.

5 POLICY DISCLOSURE AND FOLLOW-UP

BNP Paribas’ stakeholders will be informed of the existence and the content of this policy. Such policy will be posted on BNP Paribas’ website. Furthermore a copy will be provided to BNP Paribas’ clients and potential clients as part of the due diligence process or upon discussion of any financial services to be provided subsequent to the official release date of this policy.

BNP Paribas will review this policy regularly and, in the light of the prevailing circumstances, it may update it to make sure it is in continued alliance with national and international regulations and best practices.

6 DISCLAIMERS

In order to comply with regulations and to implement the principles defined in its internal procedures and sector policies, BNP Paribas does its best to gather information, particularly from agriculture companies, on their sustainability policies and practices. BNP Paribas relies on the information gathered from concerned companies and its partners. However, it depends on the quality, accuracy and up-to-datedness of the information.

\(^5\) http://www.unpri.org/
# 7 GLOSSARY

The following definitions apply in this policy:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agrochemical</strong></td>
<td>A chemical substance used in agricultural production systems to maintain soil fertility (compost or fertilizer), control weeds (herbicide), combat pests (insecticides, fungicides, nematicides, rodenticides, etc.) or stimulate growth.</td>
</tr>
<tr>
<td><strong>Alliance for Zero Extinction sites (AZE)</strong></td>
<td>The AZE is a joint initiative of worldwide biodiversity conservation organizations, which aims to prevent extinctions by identifying and safeguarding key sites, each one of which is the last remaining refuge of one or more Endangered (EN) or Critically Endangered (CR) species. AZE sites contain &gt;95% of the known global population of a given EN or CR species, or &gt;95% of the population for one life history segment (e.g., breeding or wintering) of the EN or CR species. It also has distinctive features and definable boundaries. For the above reasons, the loss of an AZE site would result in the extinction of a species in the wild. <a href="http://www.zeroextinction.org/index.html">http://www.zeroextinction.org/index.html</a></td>
</tr>
<tr>
<td><strong>Biofuel</strong></td>
<td>A type of energy derived from renewable plant and animal materials. Examples of biofuels include ethanol (often made from corn in the United States and sugarcane in Brazil), biodiesel (vegetable oils and liquid animal fats), green diesel (derived from algae and other plant sources) and biogas (methane derived from animal manure and other digested organic material).</td>
</tr>
<tr>
<td><strong>Distributors</strong></td>
<td>Distributors sell agricultural inputs (fertilizers, farm equipment...) to agriculture companies.</td>
</tr>
<tr>
<td><strong>Forest</strong></td>
<td>Land spanning more than 0.5 hectares with trees higher than 5 meters and a canopy cover of more than 10 percent, or trees able to reach these thresholds in situ. It does not include land that is predominantly under agricultural or urban land use. Source: FAO <a href="http://www.fao.org/docrep/014/am665e/am665e00.pdf">http://www.fao.org/docrep/014/am665e/am665e00.pdf</a></td>
</tr>
<tr>
<td><strong>Free, Prior and Informed Consent (FPIC)</strong></td>
<td>Free, prior and informed consent (FPIC) refers to the rights of local communities, particularly indigenous peoples, to participate in decision making about issues impacting them. The principle of FPIC within international development is most clearly stated in the United Nations Declaration on the Rights of Indigenous Peoples (UNDIPR). Article 10 states: “Indigenous peoples shall not be forcibly removed from their lands or territories. No relocation shall take place without the free, prior and informed consent of the indigenous peoples concerned and after agreement on just and fair compensation and, where possible, with the option of return.”</td>
</tr>
<tr>
<td><strong>HACCP (Hazard analysis and critical control points) Principles</strong></td>
<td>HACCP is a systematic preventive approach to food safety and biological, chemical, and physical hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safe level. Principle 1 - Conduct a Hazard Analysis Principle 2 - Identify the Critical Control Points Principle 3 - Establish Critical Limits Principle 4 - Monitor Critical Control Points Principle 5 - Establish Corrective Action Principle 6 – Verification Principle 7 - Recordkeeping The HACCP system can be used at all stages of a food chain, from food production and preparation processes including packaging, distribution, etc.</td>
</tr>
</tbody>
</table>
### High Carbon Stock (HCS) Forests

HCS forest definitions have been developed since 2011 through multi-stakeholder field-based research in Indonesia and Africa, with the aim of developing a pragmatic and strong operational method to identify land that is forest and should be conserved, and land that is degraded and can be developed. HCS forests are those identified as High, Medium, Low Density and Regenerating forests under the following vegetation strata characteristics:

- **High Density Forest**: Remnant forest of advanced secondary forest close to primary condition
- **Medium Density Forest**: Remnant forest but more disturbed than High Density Forest
- **Low Density Forest**: Appears to be remnant forest but is highly disturbed and recovering
- **Regenerating Forest**: Mostly young regrowth forest but with occasional patches of older forest.
- **Young Scrub**: Recently cleared areas with some woody regrowth and grass-like ground cover
- **Cleared/Open Land**: Very recently cleared land with mostly grass or crops and few non-crop woody plants.
- **Young Scrub and Cleared/Open Land areas may be developed.**

At the time of writing, multi-stakeholder research and pilot studies are underway across a number of geographies to refine the methodology and identify HCS areas that can and should be protected.

### High Conservation Value (HCV)

High Conservation Value areas are critical areas in a landscape which need to be appropriately managed in order to maintain or enhance High Conservation Values. The HCV approach is a cornerstone of many global sustainability standards, including FSC, RSPO, TRS, some carbon schemes and many sourcing and investment policies.

There are six main types of High Conservation Values areas:

- **HCV 1 Areas** containing globally regionally or nationally significant concentrations of biodiversity values (e.g. endemism, endangered species, refugia).
- **HCV 2** Globally regionally or nationally significant large landscape-level areas where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance.
- **HCV 3 Areas** that are in or contain rare threatened or endangered ecosystems.
- **HCV 4 Areas** that provide basic ecosystem services in critical situations (e.g. watershed protection, erosion control).
- **HCV 5 Areas** fundamental to meeting basic needs of local communities (e.g. subsistence health).
- **HCV 5 Areas** critical to local communities’ traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with local communities).

### IFC’s Good Practice Note on Improving Animal Welfare in Livestock Operations

This Note is part of the IFC’s commitment to provide enhanced support to its clients in the development of a responsible and forward-looking approach to livestock operations to, among other things, help producers access and maintain entry into high quality and value market segments. It also provides guidance on a range of approaches to animal welfare. It covers traditional livestock production (dairy, beef, broiler chickens, layer chickens, pigs, and ducks) and aquaculture in intensive and extensive systems (although this policy does not apply to aquaculture).


### Integrated Pest Management (IPM)

A long-term prevention strategy to combat pests, involving a combination of techniques, such as biological control (use of beneficial insects or microbes), use of crop-resistant varieties and the use of alternative agricultural practices (spraying, fertilizing or pruning). The objective of IPM is to make conditions less favorable for pest development. Pesticides are used only when the damage caused by pests is greater than the level that the farmer...
### IUCN (International Union for Conservation of Nature) I-IV

IUCN protected area management categories classify protected areas according to their management objectives. The categories are recognized by international bodies such as the United Nations and by many national governments as the global standard for defining and recording protected areas and as such are increasingly being incorporated into government legislation.

- Ia Strict Nature Reserve
- Ib Wilderness Area
- II National Park
- III Natural Monument or Feature
- IV Habitat/Species Management Area

### Key Biodiversity Areas

KBAs incorporate information from the IUCN Red List of Threatened Species, BirdLife International's Important Bird Areas, Plantlife International's Important Plant Areas, IUCN’s Important Sites for Freshwater Biodiversity, and sites identified by the Alliance for Zero Extinction. KBAs are identified at the national, sub-national or regional level by local stakeholders using the two globally standard criteria of vulnerability and irreplaceability, and therefore must contain:

- One or more globally threatened species;
- One or more endemic species which are globally restricted to the site or surrounding region;
- Significant concentrations of a species (e.g. important migratory stops, nesting sites, nurseries or breeding areas); and/or
- Globally significant examples of unique habitat types and species assemblages.

For more information:

[http://www.biodiversity-a-z.org/content/key-biodiversity-areas-kba](http://www.biodiversity-a-z.org/content/key-biodiversity-areas-kba)

### Land grabbing

Contentious issue of large-scale land acquisitions concerning the buying or leasing of large pieces of land in developing countries, by domestic and transnational companies, governments, and individuals.

### Management Plan

A management plan summarizes the commitment of a company or project to address and mitigate the identified risks and impacts of its operations (through avoidance, minimization, and compensation/offset), as well as to monitor and improve its performance. Management plans are usually translated into operational procedures.

### Origination operations

Supply chain services and commodity management between producers and suppliers.

Originators usually provide producers with liquidity and physical asset base and storage capacity to improve commodity flow into key markets.

### Paraquat

Paraquat is the trade name for one of the most widely used herbicides. It is quick-acting and non-selective, killing green plant tissue on contact. It is toxic to animals and human beings, and linked to development of Parkinson’s disease. In the United States, paraquat is classified as "restricted use", which means that it can be used by licensed applicators only. In the European Union, paraquat has been forbidden since 2007.

### Peat lands

A soil that contains at least 65% organic material, is at least 50 cm in depth, covers an area of at least 1 ha, and is acidic in nature (Driessen, 1978; Wöstien & Ritzema, 2001).

### Physical agricultural products merchants and traders

Link between producers and industries: agriculture commodity traders offer services to both sellers and buyers (which may be other traders/merchants), and may provide integrated logistics and distribution required for purchase and delivery of the right product at the right time, and managing the risks involved.

### Polyculture

Agriculture using multiple crops in the same space, in imitation of the diversity of natural ecosystems, and avoiding large stands of single crops, or monoculture. It includes multi-

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Group Corporate Social Responsibility

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cropping, intercropping, companion planting, beneficial weeds, and alley cropping.

Polyculture, though it often requires more labor, has several advantages over monoculture:

- The diversity of crops avoids the susceptibility of monocultures to disease.
- The greater variety of crops provides habitat for more species, increasing local biodiversity. This is one example of reconciling ecology, or accommodating biodiversity within human landscapes. It is also a function of a biological pest control program.

**Rotterdam Convention**

Multilateral treaty to promote shared responsibilities in relation to importation of hazardous chemicals.

The objectives are to promote shared responsibility and cooperative efforts among Parties in the international trade of certain hazardous chemicals in order to protect human health and the environment from potential harm and to contribute to the environmentally sound use of those hazardous chemicals.

The chemicals listed in Annex III include pesticides and industrial chemicals that have been banned or severely restricted for health or environmental reasons by two or more Parties and which the Conference of the Parties has decided to subject to the Prior Informed Consent (PIC) procedure.

There are a total of 47 chemicals listed in Annex III, 33 are pesticides (including 4 severely hazardous pesticide formulations) and 14 industrial chemicals.

**SIN List**

The Substitute It Now (SIN) List has been developed by the International Chemical Secretariat (ChemSec). This list is a database of chemicals identified as Substances of Very High Concern based on the criteria established by the EU chemicals regulation REACH.

The full list can be found at [http://sinlist.chemsec.org](http://sinlist.chemsec.org)

**Soil salinization**

Following irrigation, the water added to the soil is used by the crop or evaporates directly from the moist soil. The salt contained in this irrigation water is left behind in the soil and accumulates, leading to soil salinization unless it is removed or dissolved. Soil salinization can have dramatic consequences, through the reduction of soil fertility, and is considered as a major source of desertification worldwide.

Source: [http://www.fao.org/docrep/r4082e/r4082e08.htm#7.2.2soil salinity](http://www.fao.org/docrep/r4082e/r4082e08.htm#7.2.2soil salinity)

**Stockholm Convention on Persistent Organic Pollutants**

A global treaty to protect human health and the environment from chemicals that remain intact in the environment for long periods, become widely distributed geographically, accumulate in the fatty tissue of humans and wildlife, and have harmful impacts on human health or on the environment.

Exposure to Persistent Organic Pollutants (POPs) can lead to serious health effects including certain cancers, birth defects, dysfunctional immune and reproductive systems, greater susceptibility to disease and damages to the central and peripheral nervous systems.


**Traceability**

The ability to follow the movement of a food through specified stage(s) of production, processing and distribution. The traceability/product tracing tool should be able to identify at any specified stage of the food chain (from production to distribution) from where the food came (one step back) and to where the food went (one step forward), as appropriate to the objectives of the food inspection and certification system.

(Codex Alimentarius Commission, CAC 2006).
<table>
<thead>
<tr>
<th>UNESCO World Heritage Sites</th>
<th>Designated cultural and natural heritage areas around the world that are considered of outstanding value to humanity and which are listed under the World Heritage Convention. <a href="http://whc.unesco.org/en/list">http://whc.unesco.org/en/list</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wetlands on the Ramsar List</td>
<td>These wetlands are defined as “Sites containing representative, rare or unique wetland types” or “Sites of international importance for conserving biological diversity” listed in the Convention on Wetlands adopted in Ramsar, Iran in 1971 (<a href="http://www.ramsar.org/">http://www.ramsar.org/</a>).</td>
</tr>
<tr>
<td>WHO Class Ia or Ib</td>
<td>Correspond to the pesticides that pose the greatest risks to human health according to the World Health Organization’s Recommended Classification of Pesticides. Hazard class Ia being “extremely hazardous” and Ii being “highly hazardous”. (<a href="http://www.who.int/ipcs/publications/pesticides_hazard/en/">http://www.who.int/ipcs/publications/pesticides_hazard/en/</a>)</td>
</tr>
<tr>
<td>World Bank Group’s Agribusiness and Food Production EHS Guidelines</td>
<td>Technical reference documents with general and industry-specific examples of good international industry practices. The Environmental, Health, and Safety (EHS) Guidelines contain the performance levels and measures that are generally considered to be achievable at reasonable costs by existing technology. <a href="http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/ehsguidelines">http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/ehsguidelines</a></td>
</tr>
</tbody>
</table>
| Zero net deforestation | The Banking Environment Initiative follows the Consumer Goods Forum’s explanation of “zero net deforestation”, itself derived from WWF’s guidance:  
- “Zero net deforestation” can be distinguished from “zero deforestation”, which means no deforestation anywhere.  
- ‘Zero net deforestation’ acknowledges that some forest loss could be offset by forest restoration. ‘Zero net deforestation’ is not synonymous with a total prohibition on forest clearing. Rather, it leaves room for change in the configuration of the land-use mosaic, provided the net quantity, quality and carbon density of forests is maintained. It recognizes that, in some circumstances, conversion of forests in one site may contribute to the sustainable development and conservation of the wider landscape (e.g. reducing livestock grazing in a protected area may require conversion of forest areas in the buffer zone to provide farmland to local communities).  
- However, “zero net deforestation” is not achieved through the conversion of primary or natural forests into fast growing plantations. Such conversion would count as deforestation in assessing progress against the target.  
Approaches to implementing a “zero net deforestation” policy should prioritize avoiding the conversion of forests with a High Conservation Value (HCV)¹ or that are considered to be High Carbon Stocks (HCS)².  
1. Please see [http://www.tcfnetwork.org/](http://www.tcfnetwork.org/) for a working definition of HCV  
2. Please see [http://www.greenpeace.org/international/global/international/briefings/forests/2013/HCS-Briefing-1013.pdf](http://www.greenpeace.org/international/global/international/briefings/forests/2013/HCS-Briefing-1013.pdf) for a working definition of HCS |

Definitions above are likely to change over time. We will monitor international developments and continue to follow internationally recognized conventions where possible.
## 8 SECTORIAL STANDARDS AND CERTIFICATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCI</td>
<td>Better Cotton Initiative. A voluntary program that aims to reduce the amount of water and chemicals used to grow cotton and improve social and economic benefits for cotton farmers, small and large, worldwide. <a href="http://bettercotton.org/">http://bettercotton.org/</a></td>
</tr>
<tr>
<td>Bonsucro</td>
<td>Former Better Sugarcane Initiative. An initiative of the WWF. Bonsucro is a group of sugarcane retailers, investors, traders, producers and NGOs who seek to create international standards that define sustainable sugarcane cultivation. <a href="http://www.bonsucro.com">www.bonsucro.com</a></td>
</tr>
<tr>
<td>Global G.A.P</td>
<td>Good Agricultural Practice. Private sector body that sets voluntary standards for the certification of agricultural products around the globe. The aim is to establish a standard for Good Agricultural Practice <a href="http://www.globalgap.org/">www.globalgap.org</a></td>
</tr>
<tr>
<td>GRSB</td>
<td>Global Roundtable for Sustainable Beef. Multi-stakeholder initiative developed to advance continuous improvement in sustainability of the global beef value chain through leadership, science and multi-stakeholder engagement and collaboration. <a href="http://grsbeef.org">http://grsbeef.org</a></td>
</tr>
<tr>
<td>RTRS</td>
<td>Round Table on Responsible Soy association. Requirements to halt conversion of areas with high conservation value, to promote best management practices, to ensure fair working conditions, and to respect land tenure claims. <a href="http://www.responsiblesoy.org">www.responsiblesoy.org</a></td>
</tr>
<tr>
<td>SAN</td>
<td>Sustainable Agriculture Network Standards. Promotion of efficient and productive agriculture, biodiversity conservation and sustainable community development through 10 social and environmental standards. <a href="http://san.org">http://san.org</a></td>
</tr>
<tr>
<td>SCPS</td>
<td>Standards Cattle Production Systems. Standard created by SAN. It includes 5 principles and 36 additional criteria dedicated to the following topics: 1. Integrated cattle management system 2. Sustainable range and pasture management 3. Animal welfare 4. Reducing the carbon footprint 5. Additional environmental requirements for cattle farms Additionally, the current SAN standards on water protection and waste management are being adapted and strengthened for cattle farms. <a href="http://www.san.org/biblioteca/docs/SAN-5-4-1-Standard_for_Sustainable_Cattle_Production_Systems.pdf">http://www.san.org/biblioteca/docs/SAN-5-4-1-Standard_for_Sustainable_Cattle_Production_Systems.pdf</a></td>
</tr>
<tr>
<td>UTZ Certified</td>
<td>Coffee, Cocoa, Tea certifications. UTZ Certified is a foundation for the worldwide implementation of a standard for responsible coffee, cocoa, tea and rooibos farming and sourcing. UTZ certified cooperatives, estate farms and producer groups comply with the Code of Conduct for the respective products. This Code is a set of criteria for sustainable and professional coffee growing, which includes socially and environmentally appropriate coffee growing practices, and efficient farm management. UTZ Certified products are traceable from grower to end product manufacturers. <a href="https://www.utzcertified.org/">https://www.utzcertified.org/</a></td>
</tr>
</tbody>
</table>