

POLICY AND PRINCIPLES

Environmental and Social Governance (ESG)

The Sustainable Commodities Conservation Mechanism (SCCM)
Lestari Capital PTE LTD, Singapore

October 2017



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OUR COMPANY

****Please note this is a living document. We are actively consulting on our policy as we launch the company in 2018. Feedback is welcome: hello@lestaricapital.com****

Lestari Capital facilitates the flow of market-linked finance and broader capital markets to conserve and rehabilitate the world's most highly threatened natural landscapes. We help companies deliver on corporate sustainability commitments in the commodity, land use, transportation and energy sectors, through strengthening and creating efficiencies in environmental finance markets.

Lestari Capital builds upon the experience and expertise of industry leaders from the conservation, land use and climate finance sectors. We work with companies, including producers, manufacturers, retailers and financial institutions to implement sustainability commitments through innovative market-based approaches to reward conservation. We achieve this through aggregating market demand for conservation, ecosystem restoration and greenhouse gas emission reductions, and then delivering this demand to environmental projects on the ground.

As a social and environmental enterprise, we pursue a three-part bottom line. Our environmental targets are pursued through the design of transparent and efficient mechanisms for converting dispersed market demand for conservation, ecological restoration and greenhouse gas emission reductions into financial flows to fund environmental protection on the ground. Our social targets are pursued by engaging with projects that have the consent of local communities affected by or partnering with them, that treat community members as vested partners and that deliver meaningful benefits to them. Our financial targets are achieved through the market efficiencies we leverage. We achieve our business model as a sustainable enterprise when our social, environmental and financial targets are met.

The following describes the principles and policies regarding the Environmental and Social Governance of Lestari Capital. The document serves as a "first principles" guide to how we make decisions and the underlying entrepreneurial philosophy this reflects. It is a statement of our commitment to responsible business practice and our vision for creating shared value in the regions which we operate.

PRINCIPLES

- **On Projects** – we are committed to supporting and promoting projects that:
 - are leading examples of conservation, ecosystem restoration and land use projects that demonstrate verifiable compliance with established norms of best practice in social and environmental performance
 - engage with, support and collaborate productively with communities participating in or affected by the project;
 - have developed transparent, legal and certified means of leveraging climate finance to fund on-going and underlying conservation and ecosystem restoration activities;
 - are developed, contribute to and operate within the context of existing and/or emerging jurisdictional and national programs on climate change, land use and forestry; and



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- are able to provide the potential for delivering certified and verifiable conservation benefits, including those which have not yet achieved certification, but have a clear Environmental and Social Action Plan for certification and work plan towards additional improvement.
- **On Corporate and Market Actors** – we are committed to support and promote actors:
 - who have a demonstrated commitment to meeting or exceeding established certification, supply chain or sustainability pledges (e.g. RSPO, FSC, NDPE) for which conservation and ecosystem restoration initiatives can be leveraged as part of meeting those commitments;
 - who are willing to advance the “greater good” through collaboration and partnership with their competitors and other stakeholders to achieve their sustainability pledges; and
 - who operate up and down the commodity supply chain, including smallholders, large growers, mills, processors & traders, consumer goods manufacturers, retailers and financial institutions.
- **On Governments** – we are committed to supporting government policies:
 - that support the promotion of market based solutions in the land-use sector which directly or indirectly support of Nationally Declared Contributions to the UN Framework Convention on Climate Change, including those taking place at sub-national levels;
 - that advance jurisdictional green-growth strategies to economic development, including support to the creation of solutions for stranded land assets;
 - that promote sustainability, environmental equity, and no deforestation, no exploitation and no peat conversion; and
 - that prioritize the generation of shared value and alternative livelihoods for local communities.

NORMATIVE POLICY

Where project finance is to a market certification authority (e.g. RSPO, FSC or other), the project will meet the ESG requirements and technical specifications of that body (e.g. the Remediation and Compensation Procedures of the RSPO, or RaCP) and conform to the reporting processes required of that body. In addition to this, projects are subject to the following ESG policies of Lestari Capital:

- Every project we support must be a legally registered with the host government at jurisdictional and national levels, and demonstrate secure tenure of the project area¹ in a manner that demonstrates the legal right undertake conservation, ecosystem restoration, greenhouse gas emission reducing, or community forestry activities on the land.
- Every project that we support must have or show potential to comply with the certification of the Climate, Community and Biodiversity Standard² (CCBS) or Plan Vivo³.

¹ In each country this may be defined differently, but should embody the basic fundamental rights and securities of similar concessions observed in Indonesia, including the use of village forestry initiatives (hutan desa or hutan adat), licensed ecosystem restoration concessions (ERCs) and carbon sequestration and utilization concessions (PAN/RAPs)

² <http://www.climate-standards.org>

³ <http://www.planvivo.org>



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Where a project has not yet been certified, an Environmental and Social Action Plan (ESAP) must be in place detailing a timeline, budget and plan to achieve certification.

- As part of achieving certification, every project we support must also provide details of the project Environmental and Social Management System⁵ (ESMS) in place (commensurate with scale and resources of the project), or demonstrate a time bound plan for how the ESMS will be developed. The project must also demonstrate how the ESMS is guided by IFC Environmental Health and Safety Guidelines⁶ and the Equator Principles⁷.
- The ESMS should include:
 - a clear and transparent process for screening and categorizing types of environmental and social risks and potential negative impacts,
 - a robust process for conducting and overseeing environmental and social impact assessments,
 - a process for implementing risk mitigation measures of environmental and social impacts, in line with a clear management plan for mitigating identified impacts,
 - A clear organizational chart describing responsibilities for implementing the ESMS
 - An internal system for monitoring implementation of environmental and social management plans,
 - A mechanism for disclosing and communicating environmental and social assessments in a way which can be used for reporting on both conservation outcomes and responses to grievances/complaints.
- Every project, in designing its ESMS to conform with best practices of CCBS or Plan Vivo, will be required to demonstrate that project design was undertaken according to the principles of Free, Prior and Informed Consent (FPIC) of local communities and stakeholders within and surrounding the project area, and that such consent has been obtained from communities wishing to participate in the project. Such a process and the resulting community participation in the project should respect the rights of indigenous people, their cultural heritage, and ensure no impact to the traditional use of land or the commercialization of indigenous knowledge without documented consent. Lestari Capital requires that projects provide a clear mechanism for communities or other stakeholders to communicate grievances and seek timely redress and/or reconciliation, ideally involving a 3rd party.
- We are committed to only supporting projects that protect the rights of workers. This should also include conforming to the ILO's core conventions on child labor, forced labor, equality and the rights of association. Where a project offers employment to either external actors or local community members,

⁴ <http://www.v-c-s.org>

⁵ http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_esms-general

⁶ http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

⁷ <http://www.equator-principles.com>



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it will provide at least a living wage alongside other benefits and alternative livelihood or co-benefits generated by the project activity.

- Projects should be designed to limit pollution and ensure efficient use of natural resources,
- Project activities must not result in loss of biodiversity, the conversion of ecosystems, or cause the draining of peatland areas. Projects must demonstrate through their design, implementation and monitoring, how they contribute to conservation of threatened, protected or endemic species.
- Where the physical resettlement of people is undertaken as part of the project, this must be carried out in accordance with the IFC unless it is legally required by jurisdictional or national law, or required by the terms of the concessionary license, wherein such relocation should be governed and undertaken by the government itself, and not the project actor.

LIMITS, SUSPENSIONS, TERMINATIONS AND EXCLUSIONS

- Projects which are found to be in violation of this ESG policy will be engaged, offered technical assistance by Lestari Capital, and placed on a credible timeline by which the project will demonstrate the identified non-compliance have been satisfactorily addressed.
- Grounds for suspending or terminating long-term SCCM financing agreements (Environmental Finance Agreement) include:
 - gross violation of any element of the ESG policy relating to community welfare, agreed grievance procedures, respect for community rights and/or customary practices, or in violation of the expressed consent provided by communities through FPIC;
 - failure to maintain certification under the CCBS, Plan Vivo or VCS (unless otherwise substituted under a new, approved standard established in the future) and cannot restore certification within 6 months; or
 - is found to have committed willful financial misconduct.
- Lestari Capital will not approve the financing of any project found to include:
 - the obstruction of legal or customary community rights or the unwilling and/or illegal physical relocation of individuals or communities;
 - activities in violation of the terms of the concessionary license or land tenure type established for the development of the project, including:
 - forest/land clearance;
 - commercial production of timber or another agro-commodity (with the exception of community-level activities which are part of either a socio-economic engagement by the project or otherwise approved by the project and community partnership);
 - production of illegal products as defined by national/jurisdictional government law, regulation or international agreements; and



- wildlife trafficking or the hunting of wild animals which are covered under CITES.
- Working conditions for which evidence exists of:
 - forced labor or child labor; and
 - conditions of employment by a project which provide earnings below a living wage.