

Environmental and Social Review Summary (“ESRS”) BlueOrchard Emerging Markets Carbon Impact Fund / 14942-01 – Regional

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- 1. Scope of Environmental and Social Review.** The Environmental and Social (“E&S”) review of the proposed transaction was carried out through desk research, phone calls with BlueOrchard Finance Ltd. (“BO”, “BlueOrchard” or the “Fund Manager”), and a site visit to a mangrove restoration project together with BlueOrchard and Conservation International (“CI”). BlueOrchard is a repeat client to IDB Invest with a traditional focus in microfinance and SME on-lending through Financial Intermediaries (“FIs”). The thematic focus of this project is direct investing with project developers in regenerative forestry with a carbon credit component is a new asset class for BlueOrchard. Given the sensitivities of this project regarding biodiversity, contextual risk, and the proximity of adjacent communities, the operational risk is considered moderate to high. BlueOrchard has a proven track record in E&S management and capacity as detailed below.
- 2. Environmental and Social Categorization and Rationale.** The proposed operation is classified as an FI-2 according to the IIC Sustainability Policy. BlueOrchard will use the IDB Invest funds to invest in projects managed by project developers involved in afforestation/reforestation activities throughout Latin America. The Fund aims to contribute to the resilience of natural ecosystems and enhanced living conditions for local communities, including women, through climate change mitigation and adaptation actions, strengthened biodiversity and effective participation of local communities. The Fund will invest in nature-based, carbon sequestration projects in emerging market countries to generate financial returns and carbon dioxide removal credits for the Fund, according to leading standards. The three main target beneficiaries of the Fund will be natural ecosystems, local communities, and women.

Investments will take place in locations where land has been historically degraded and/or for which there is potential for successful reforestation combined with carbon credit generation. The projects’ investment sizes will range between US\$5 million-US\$20 million and with a likely investment tenor of 15 years. Project size will range up to 20,000 hectares and may generate up to 2,500,000 carbon offsets over the life of the project per US\$100 million invested. Category A sub-projects, per IDB Invest’s definition, will be excluded from the Fund’s financing. The Fund’s Environmental and Social Management System (“ESMS”) has an extensive list of triggers and exclusions which encompass a representative set of Category A-type financing.

The transaction is considered Paris Agreement aligned based on the analysis conducted under the IDB Group Paris Alignment Implementation Approach. The analysis considered the Fund’s commitment and procedures to analyze climate risk in its portfolio.

- 3. Environmental and Social Risks and Impacts.** The main E&S risks of this project are associated with the Fund’s ability to identify and manage the E&S risks related with its investment activities. The Fund’s capacity and management systems in this respect, complemented with support from CI, are considered high. The potential environmental, social, health and safety risks associated with the Fund’s main financing activities are likely to be moderate to high given the project locations, surrounding environment, and adjacent communities. While the specific impacts with individual investments are unknown at the time of funding, risks may relate to land use change, operating in

sensitive biodiverse areas, consultation with affected/participant communities, occupational health and safety, supply chains, and pesticide/chemical use, among others. The Fund will be required to manage these risks through the application of its ESMS, Investment guidelines and procedures, and through due diligence analysis conducted by Conservation International.

- 4. Mitigation Measures.** BlueOrchard has a strong commitment and demonstrated capacity to E&S management, which is consistent with the requirements defined in IIC's Sustainability Policy. The Fund is aligned to Performance Standard 2 on labor issues as has human resources policies, an internal grievance mechanism and a code of conduct that is consistent with IDB Invest's requirements. BlueOrchard's Environmental, Social, and Governance ("ESG") and impact management and measurement framework—B.Impact—is aligned with the Operating Principles for Impact Management—and has been subject to external independent verification since 2020. In the context of this Fund, BlueOrchard has partnered with CI, who will serve as a Fund adviser in all matters pertaining to the evaluation, due diligence and monitoring of ESG and impact issues. In particular, the Fund will draw on CI's expertise in evaluating the project developer and track record in developing certified forestry carbon, assessing the project nuances pertaining to carbon credit type, forestry species, and project location, and evaluate the developer's E&S management across all aspects through with particular attention to land rights, benefit sharing, gender concerns and community consultation. In addition to serving as a conservation organization since 1987, CI has been engaged more recently in providing ESG and impact advisory services to fund managers where natural capital has been a focus. CI has a vested interest in project outcomes where their engagement can enhance the quality of the carbon credit generated, resulting in a price premium paid for by the off taker.

BlueOrchard has developed together with CI an updated ESMS that will apply to all sub-investments within the Fund. The ESMS defines the various stages, activities, and roles and responsibilities from pre-due diligence and opportunity identification through to closing, supervision and impact monitoring. The assessment of ESG issues occurs within an integrated management framework, which also includes matters related to impact. CI plays a leading role at the pre-assessment and due diligence stage in reviewing project documentation and assessing red flags. The Fund's ESG and Impact Guidelines manual provides the (i) principles; (ii) standards; (iii) criteria; and (iv) prohibited activities specifics against which each sub-project is evaluated. These four pillars are mapped to topics of E&S management, labor rights, gender equality, protection of natural resources, community rights, land rights, biodiversity risks, carbon risks, and overall governance. Within each of these thematic areas, the Fund has mapped more specific guidance in accordance with the International Finance Corporation ("IFC") Performance Standards (1-8) and CI's own E&S safeguards, which also apply in full. Each investee company is also required to implement a grievance mechanism to attend to both internal and external complaints.

The application of the Fund's policies, guidelines and procedures and the resulting documentation produced is fed into a proprietary ESG and Impact Scorecard, which calculates a non-financial risk rating. This score combined with the accompanying due diligence report is presented to the Fund's Impact Committee., which includes members of the ESG and Impact areas. The committee will approve any specific Environmental and Social Action Plan ("ESAP") defined and the monitoring plan that will apply to the life of the project. Technical assistance represents a significant element of additionality to the Fund's investment process. Through partnership with a European Development Financial Institution ("DFI"), the Fund will have access to a US\$2 million technical assistance fund, which can be used for pre-investment studies (biodiversity, feasibility, community consultation, etc.), identified ESAP items where necessary, or particular advisory projects that can deliver certain additional benefits, but are not mandatory per the Fund's policy requirements.

The Fund will be required to ensure that all investments comply with IDB Invest’s Exclusion List, applicable E&S local laws, and the IDB Invest Environmental and Social Guidelines, including the IFC Performance Standards (“IFC PS”). These requirements are reflected in the draft ESMS to be implemented by the Fund and will be approved by the Board prior to closing. The verification of implementation and continuous improvement of the Fund’s ESMS, specifically for LAC, are included in the ESAP. In addition to minor enhancements to the ESMS, submission of the first three investments and general project reporting, the Fund will be required to implement an external grievance mechanism available on its website.

5. Environmental and Social Action Plan (“ESAP”):

Activity	Description	Deliverable	Delivery Date
PS1: Assessment and Management of Environmental and Social Risks and Impacts			
Environmental and Social Assessment and Management System	Approval of the BO Impact and ESG Procedures (components of the ESMS) by the BO Impact Steering Committee	Evidence of approval	At disbursement
	Apply the procedures as defined in the Impact and ESG Procedures to systematically identify and mitigate climate risk in the Fund’s investments.	Climate risk procedures application within each due diligence	With each sub-investment
Review of the first three transactions	Assessment of the first three transactions to be reviewed and commented at pre-investment and due diligence stage. The Fund will share (i) its pre-visit documentation assessment; (ii) the E&S categorization; and (iii) the draft and final proposed action plan. IDB Invest reserves the right to accompany the Fund along with CI in the due diligence of these first three operations, for which the field visit schedule and agenda is requested.	Pre-due diligence analysis Field visit schedule and agenda Environmental and Social Due Diligence (“ESDD”) analysis and action plan	Upon each transaction report
Reporting of grievances received at project level	Enhance the reporting of grievances by project developers to ensure the Fund is informed of any material grievances raised at the project level in a timely manner. Investee companies will report periodically on grievances and actions taken.	Updated guidance and procedures for attending the complaints received	3 months after disbursement or prior to first investment

6. Contact Information For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email divulgacionpublica@iadb.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.