



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG



MINISTERO DELL'AMBIENTE
E DELLA SICUREZZA ENERGETICA

UN 
environment
programme

Training: Environmental and Social (E&S) Risk and Impact Management in Land Use Finance

November 22nd, 2023

UNEP and UNEP-WCMC



Module structure

1

Introduction to risk and impact management

Learners should be able to understand why sustainable land use investments are needed, what issues should be considered, and how to generate impact

2

Responding to key environmental and social risks

Learners should be able to understand the business case for risk management and how to develop a risk management and monitoring framework in screening and post-investment phases

3

Demonstrating positive impacts and leveraging monitoring capabilities

Learners should be able to understand positive impacts that can be generated in this space and which tools and capacities can help with identifying, assessing and monitoring them



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Responding to key environmental and social risks

1. The business case for E&S risk management in land use finance
2. Identifying E&S risks
3. Managing and mitigating E&S risks
4. Monitoring and reporting on E&S risks



Responding to key environmental and social risks

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2. Identifying E&S risks

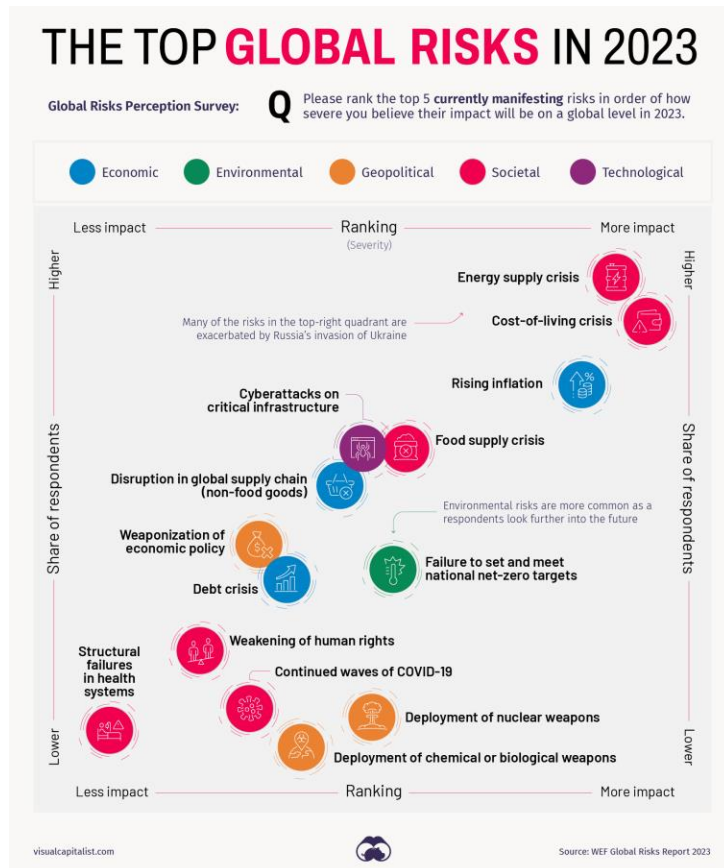
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Environmental and social issues affect business operations

Environmental and social (E&S) risks can be significant drivers of change, and have major impacts on business. WEF ranks them as **some of the most severe risks** that are currently, and will be, faced in the next 2 to 10 years



Global Risks Report 2023



Top 10 Risks

“Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period”

2 years

- 1 Cost of living crisis
- 2 Natural disasters and extreme weather events
- 3 Geoeconomic confrontation
- 4 Failure to mitigate climate change
- 5 Erosion of social cohesion and societal polarization
- 6 Large-scale environmental damage incidents
- 7 Failure of climate-change adaptation
- 8 Widespread cybercrime and cyber insecurity
- 9 Natural resource crises
- 10 Large-scale involuntary migration

10 years

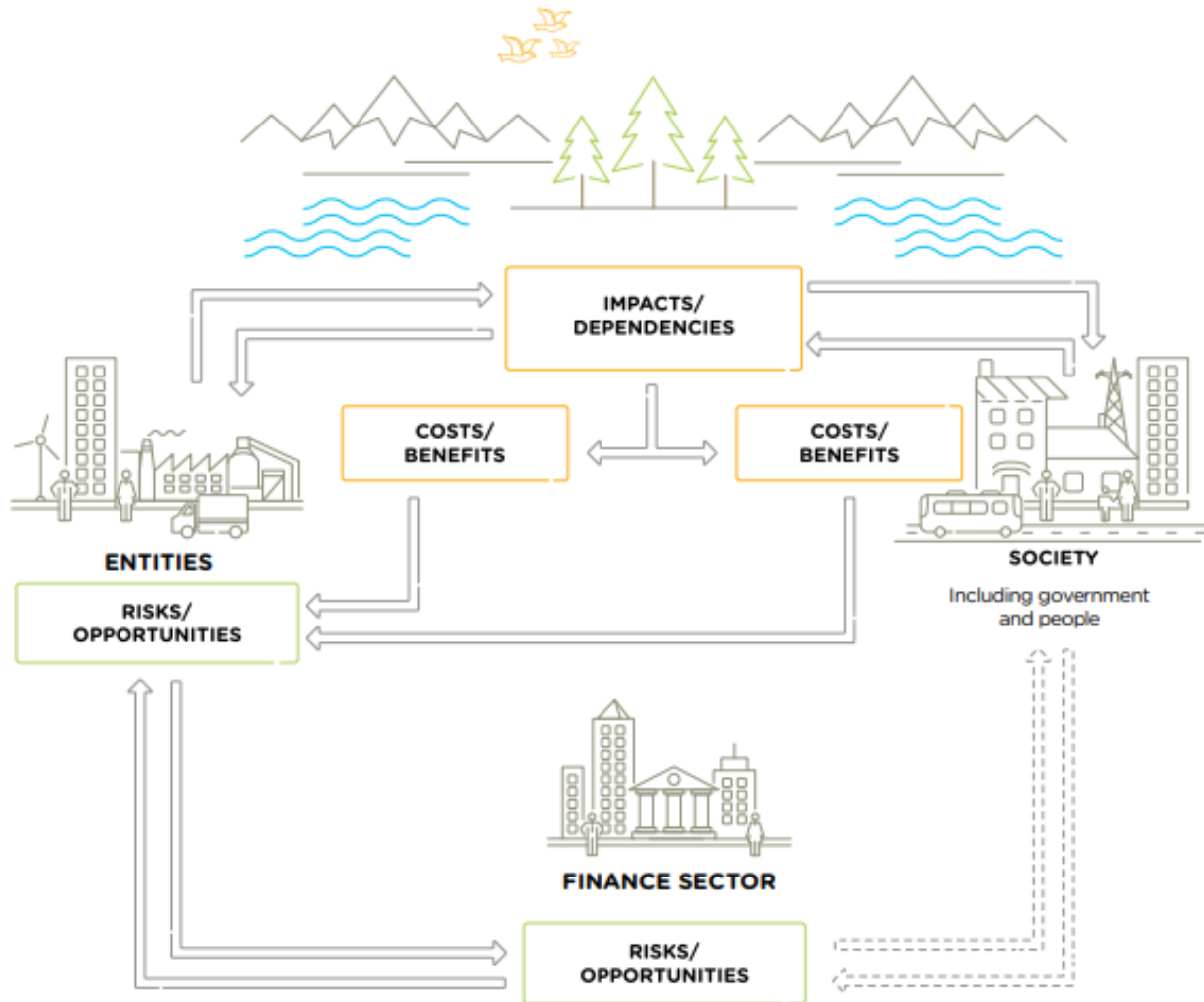
- 1 Failure to mitigate climate change
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- 3 Natural disasters and extreme weather events
- 4 Biodiversity loss and ecosystem collapse
- 5 Large-scale involuntary migration
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- 7 Erosion of social cohesion and societal polarization
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Risk categories

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

Sources: [Visual Capitalist 2023](#) and [World Economic Forum 2023](#)

Land use finance presents environmental and social risks



Source: [NCC Protocol 2016](#)

CM Capital Monitor

Banks have a way to go on human rights: BankTrack

M Mongabay

Companies, big banks are still lagging on deforestation regulations: report

BCG Boston Consulting Group

<https://www.bcg.com/publications/whetting-consume...>

Whetting Consumers' Appetite for Sustainable Foods | BCG

CR Chain Reaction Research

<https://chainreactionresearch.com/the-chain-cracks-l...>

The Chain: Cracks in Financial Institutions' Responsibility ...

11 Jul 2023 — **EU Regulations** In the European Union (EU), FIs have been excluded from accountability and reporting in the **EU Deforestation regulation (EUDR)**, ...

GC Global Canopy

<https://globalcanopy.org/insights>

Beef companies failing to protect human rights

ME Mighty Earth

<https://www.mightyearth.org/jbs>

Deforestation cases linked to JBS beef supply chain harm ...

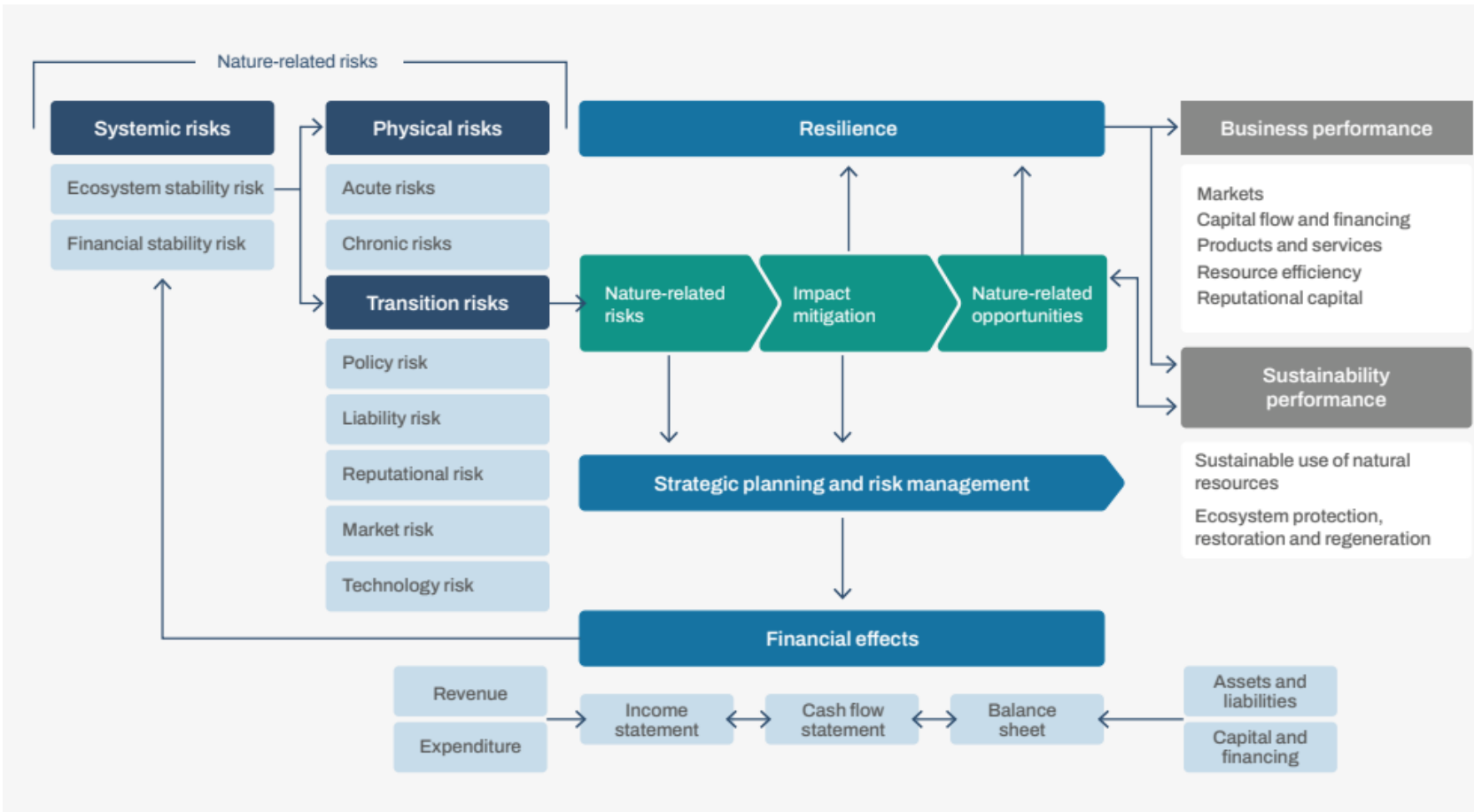
GW Global Witness

Banking on destruction: tracking deforestation in the Brazilian Amazon - and exposing its backers

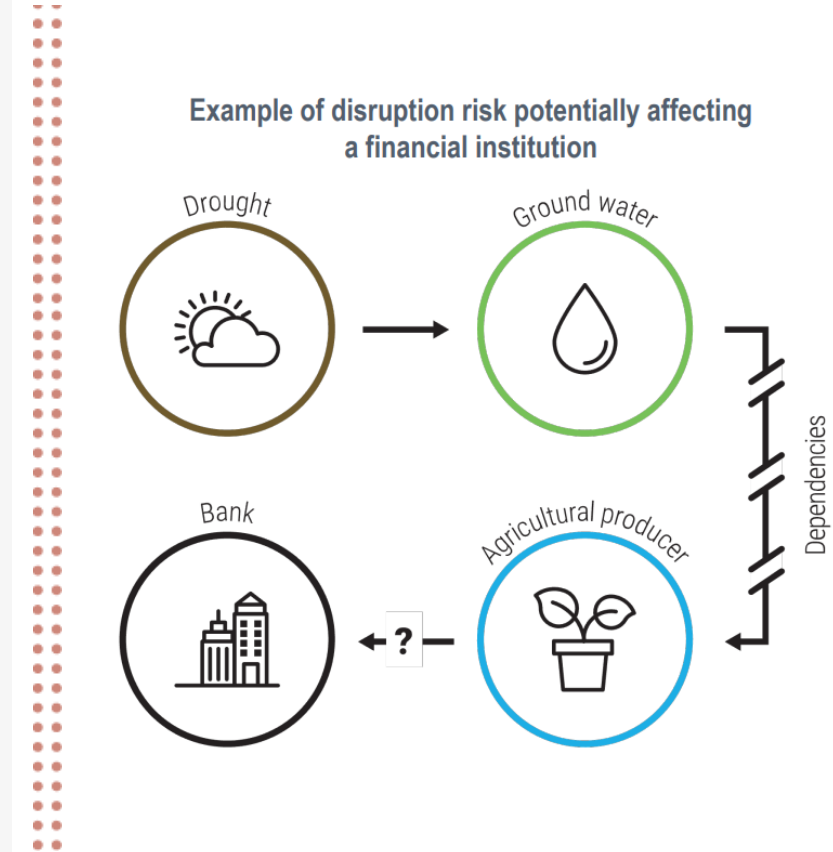
TG The Guardian

Insect decline a threat to fruit crops and food security, scientists warn MPs

Framing environmental and social risks as financial risks



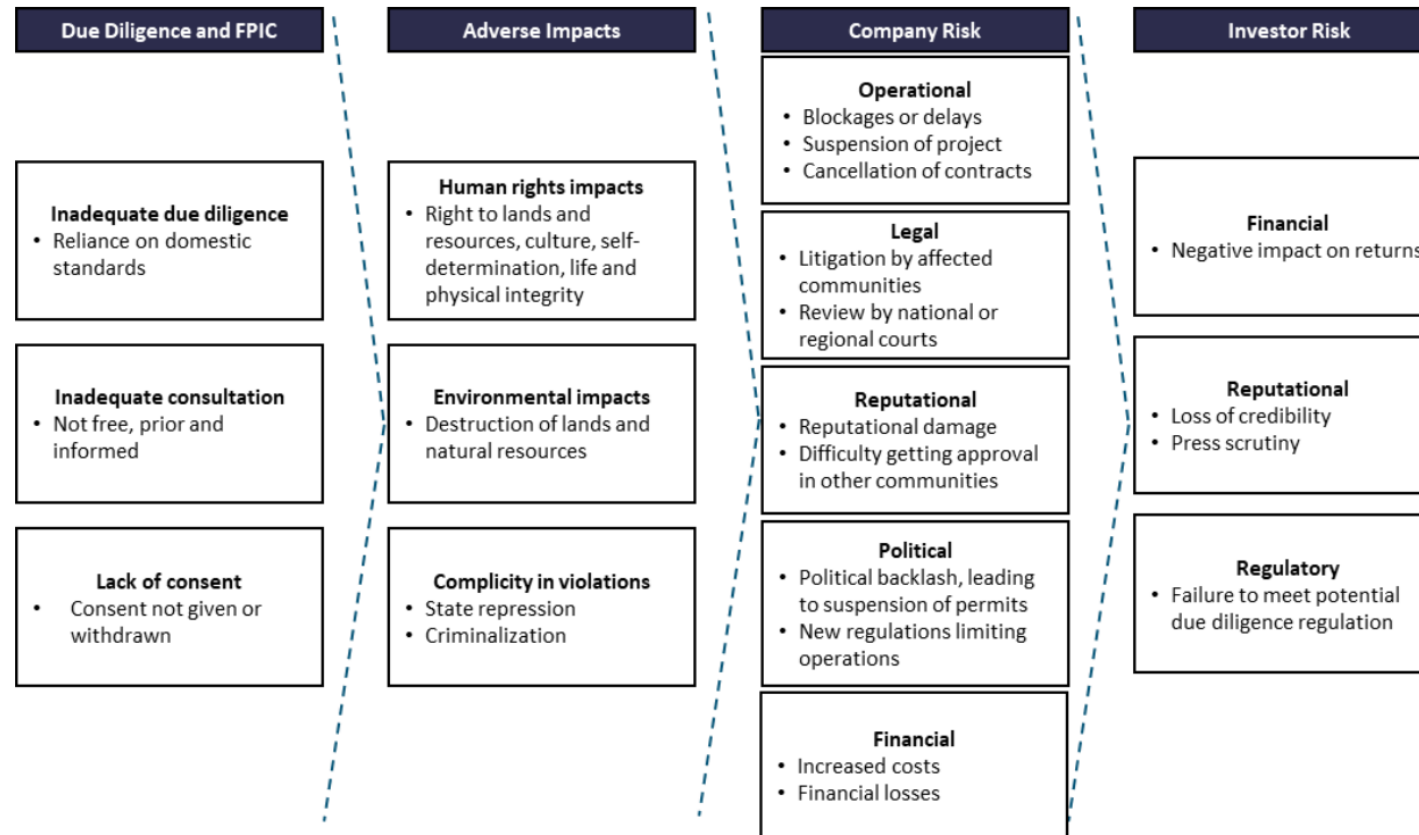
Source: [TNFD 2023](#)



Source: [NCFA and PwC 2018](#)

Framing environmental and social risks as financial risks

Investors need to be aware of issues such as social justice, just transition, and human rights. Below is a worked example on the set of risks stemming from inadequate due diligence and FPIC consultation processes



Source: [Amazon Watch 2023](#)

Environmental and social themes linked to land use

Sector benchmarks and standards such as the GRI, the WBA and the FAIRR Protein Index identify the following areas as some of the **key E&S themes** in land use:



Deforestation and ecosystem conversion



Soil degradation



Climate change



Biodiversity loss



Human rights abuse and exclusion



Water overuse



Pollution

Deforestation and ecosystem conversion from land use change

“Over the period 2000–2018 almost 90% of global deforestation was caused by agricultural expansion, for both cropland and livestock production”

**Reputational
risk**

Financial institutions and companies are under pressure to ensure their activities are deforestation-free.

Case study at
[Global Witness 2022](#)

Reference: [FAO \(2022\). Halting deforestation from agricultural value chains: the role of governments. Rome.](#)



Soil degradation

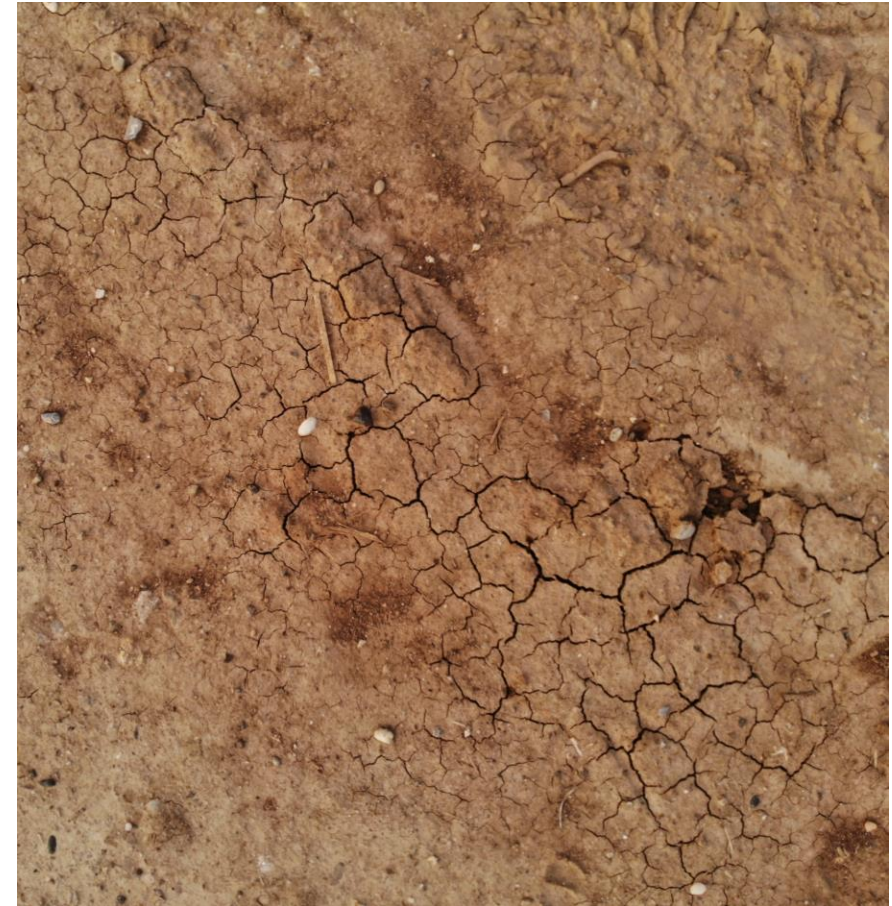
“Today, a third of all soils are degraded due to soil erosion, compaction, chemical pollution and loss of nutrients, and some 80% of all farmland has moderate to severe erosion”

**Reputational
risk**

Financial institutions can be accused of financing companies that are accused of contributing to soil pollution and violating environmental laws

Case study at [Unearthed 2020](#)

Reference: [WWF \(2021\). Bringing it Down to Earth: Nature Risk and Agriculture.](#)



Climate change

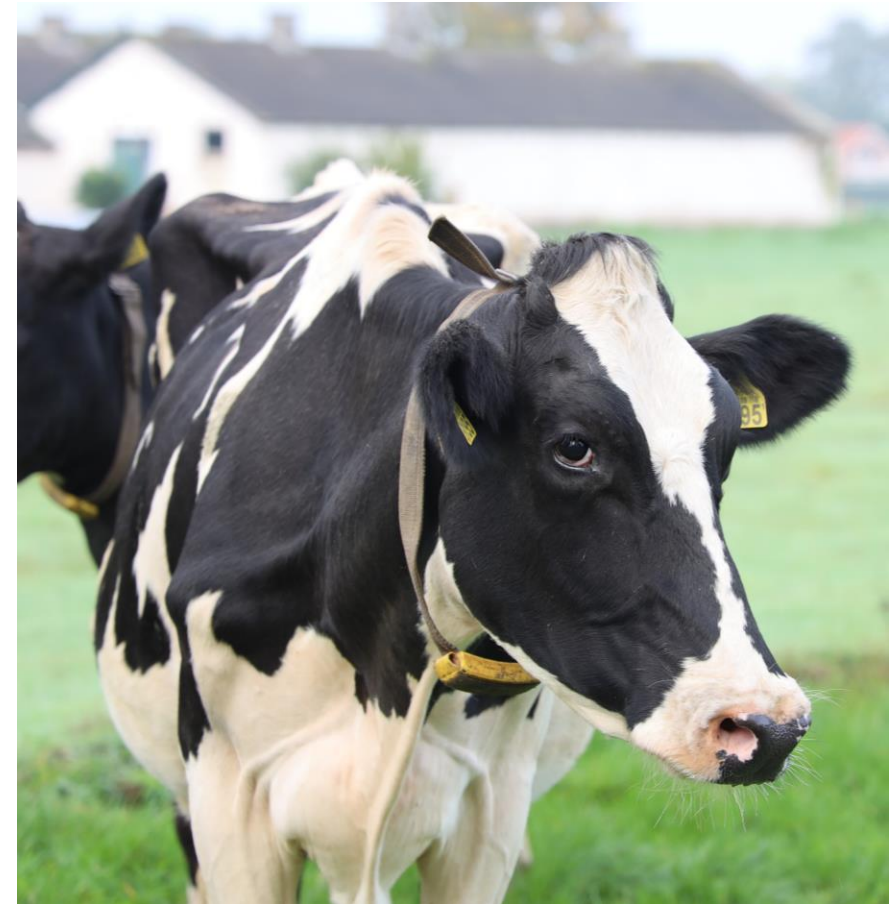
“In 2019, approximately 22% of global GHG emissions came from agriculture, forestry and other land use (AFOLU). ”

Which kind of risk is this?

Financial institutions can downgrade the creditworthiness of their loan portfolios due to policy changes aimed at cutting emissions from the AFOLU sector

Case study at [Manifest Climate 2022](#)

Reference: [IPCC. Climate Change Synthesis Report. Geneva, 2023.](#)



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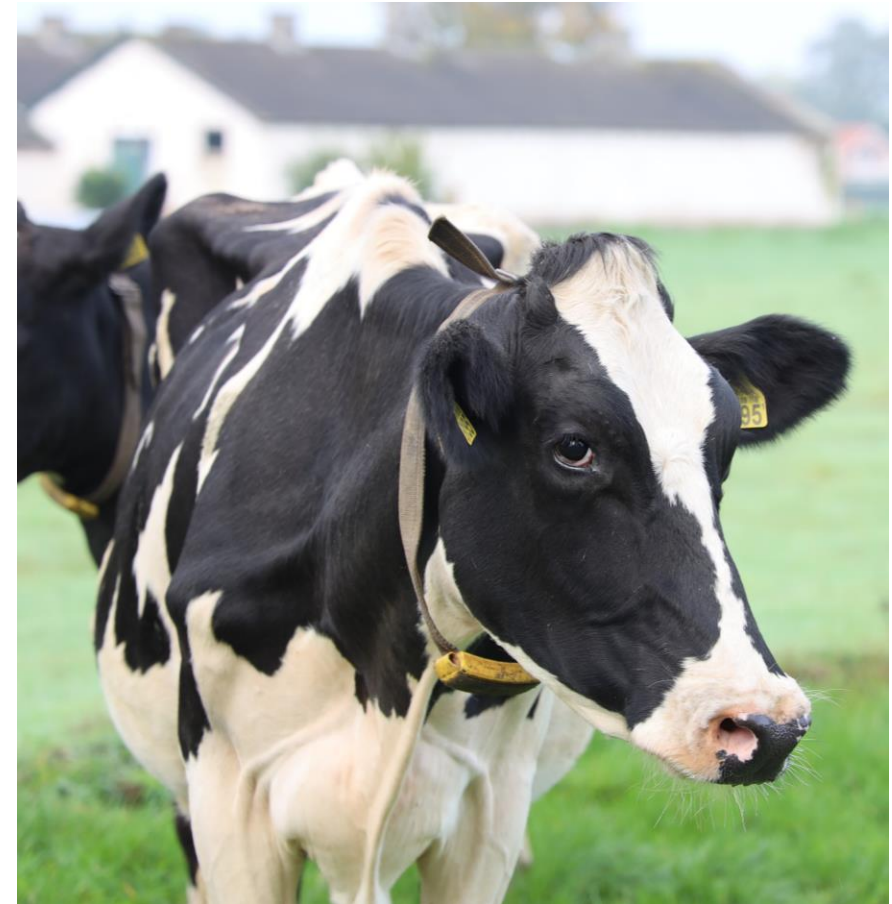
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**Transition
risk**

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Case study at [Manifest Climate 2022](#)

Reference: [IPCC. Climate Change Synthesis Report. Geneva, 2023.](#)



Biodiversity loss

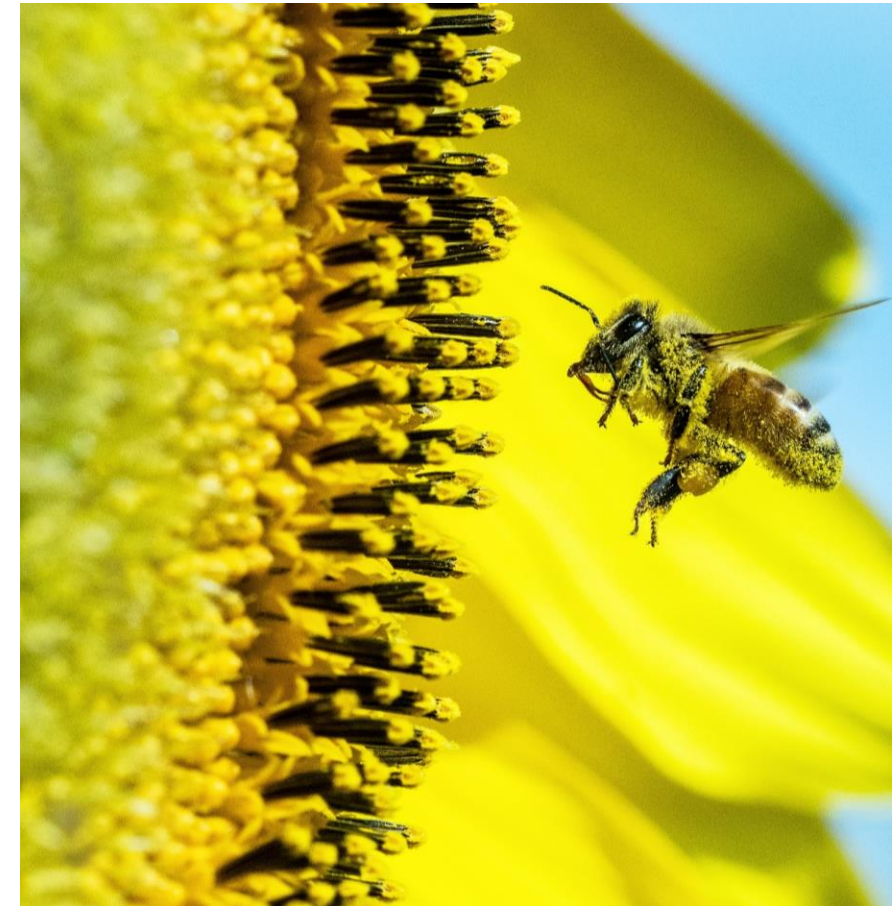
“The populations of mammals, birds, fish, reptiles and amphibians, for example, declined by 69% between 1970 and 2018.”

**Physical
risk**

Financial institutions' portfolios comprise securities from issuers that are highly dependent on ecosystem services and biodiversity loss

Case study at [INSPIRE 2022](#)

References: [WBA \(2023\). Food and Agriculture Benchmark Methodology](#)



Human rights abuse and social exclusion

“Worldwide, 70% of child labour is found in the agriculture sector, which is also at high risk of forced labour and human trafficking (i.e. high seasonal, migrant and informal economy workforce)”

Which kind of risk is this?

Lack of social inclusion considerations into project design might lead to blockages, community relations issues, violations of rights, contract cancellations or project suspension

Case study at [Yale Environment 2022](#)



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Water overuse

“50% of stocks listed in the four major US stock indices are in industries with medium or high water-related risks. 69% of equities listed globally face around \$300 billion dollars of corporate value at risk, and billions more in stranded assets”

Which kind of risk is this?

The agriculture, beverage and food segment of MSCI All Companies World Index showed a larger dependency on water security than the Index as a whole

Case study at [CISL 2023](#)

References: [Ceres \(2022\). Finance Must Tackle the Growing Water Crisis. Here's How.](#)



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Pollution

“Adverse impacts of pesticides have been observed on bees, bird populations, aquatic organisms, and biodiversity. Adverse impacts of fertilizers include nutrient losses to the environment, drinking water contamination and eutrophication”

**Transition
risk**

Financial institutions can be affected by policy changes such as the EU Farm to Fork strategy and their impacts on listed fertiliser companies

Case study at
[CISL 2022](#)

References: [UNEP \(2022\). Environmental and Health Impacts of Pesticides and Fertilizers and Ways of Minimizing Them.](#)



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Before delving into risk identification

Understand the **external and internal context** of your organisation to help set a fund objective in line with your risk appetite

- **External context** includes *international frameworks, regulatory developments, consumer preferences*
- **Internal context** includes *understanding existing risk processes and institutional priorities*

According to the fund objective and geographies of operation, define the **scope** of the risk assessment required

Establish **temporal boundaries** for the risk assessment

Scope of risk assessment



The breadth

what is included: sectors, geographies, value chain...



The depth

the level of granularity: fund level, individual transactions...



The lens of analysis

qualitative / semi-quantitative or quantitative approach

External context: extensive environmental and social standards



Source: [World Bank Environmental and Social Framework 2017](#)



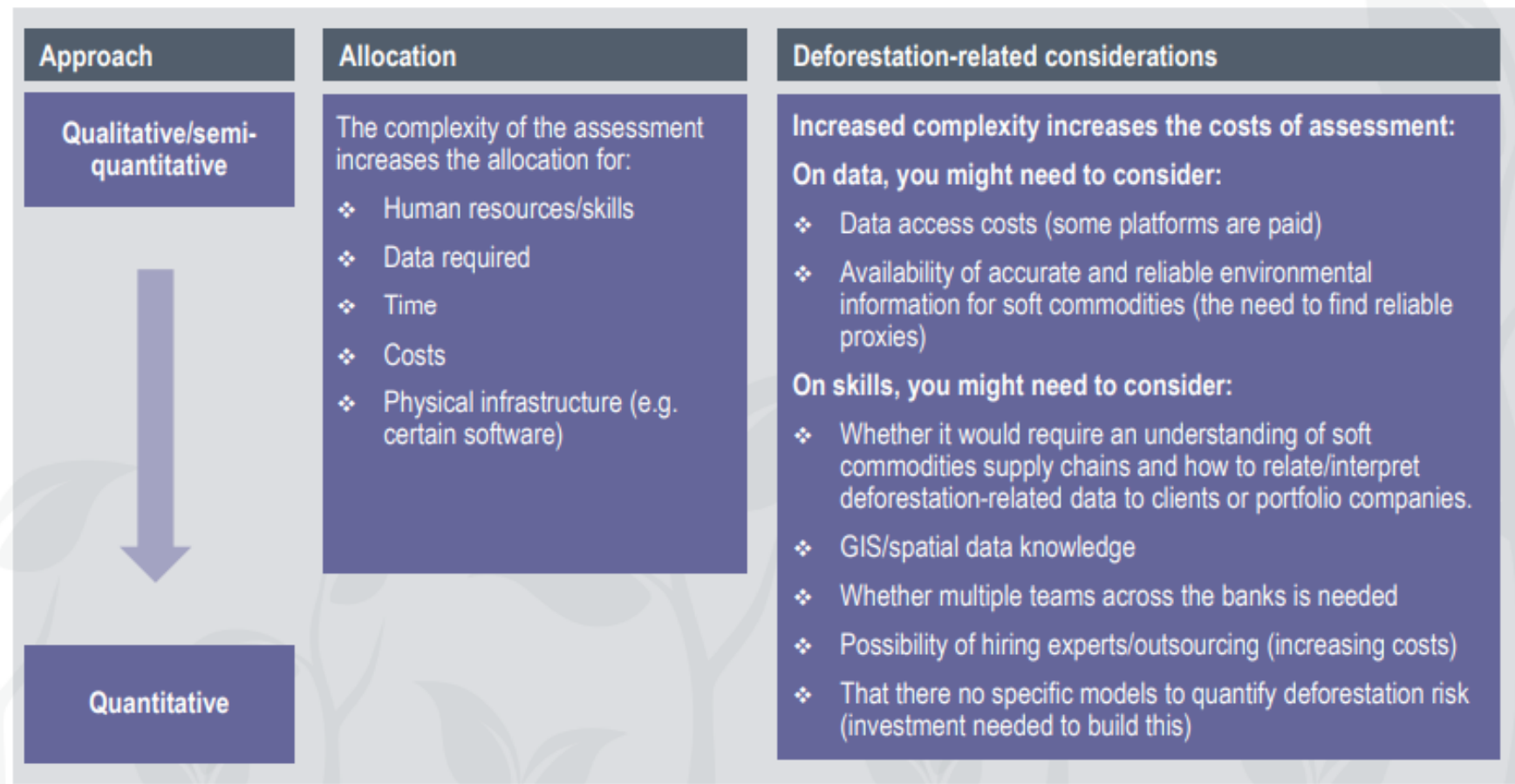
Source: [UNEP Environmental and Social Sustainability Framework 2020](#)



Source: [IFC Performance Standards 2021](#)

Internal context: costs, data, and internal capacity

It is important to perform a risk assessment **in line with your data availability, investments, and internal capacities**. The complexity of risk assessment will increase the level of detail required, at greater cost.



Internal context: identifying risks by investment area

As discussed in the previous section, there is a series of **impacts and dependencies that drive risk** across land use sectors and investments (forestry, agriculture, restoration)

Important to assess dependencies on nature to ensure underpinning investments are not at risk – then invest in nature recovery to mitigate this risk.

SASB Sectors	Dependencies		Impacts					
	Soil quality	Water	Land use	Water use	Pollution			
			Land use	Water use	Air pollution	Solid waste pollution	Soil pollution	Water pollution
1 Agricultural products and tobacco	High	High	High	High	Low	Low	High	High
2 Consumer goods	Low	Low	Low	High	Moderate	Low	Moderate	Moderate
3 Extractives and minerals processing	Low	Moderate	High	High	High	High	Moderate	High
4 Financials	Low	Low	Low	Low	Low	Low	Low	Low
5 Food and beverage (ex. agriculture and tobacco)	Low	Moderate	Low	High	Low	Moderate	Low	Low
6 Health care	Low	High	Low	High	Low	Moderate	High	High
7 Infrastructure (ex. utilities and generators)	Low	High	High	Low	Low	High	Low	Low
8 Renewable resources and alternative energy	Low	High	Low	High	Low	Low	High	High
9 Resource transformation	Low	Low	Low	High	Moderate	High	High	High
10 Services	Low	Low	Low	Moderate	Low	Low	Moderate	High
11 Technology and communications	Low	Low	Low	Low	Low	Low	High	High
12 Transportation	Low	Low	Moderate	High	Moderate	Moderate	High	High
13 Utilities and electricity generators	High	High	High	High	High	High	High	High

Source: [TNFD 2023](#) from [ENCORE](#) data (supply chain data is not considered)

TNFD's LEAP framework

L Locate Interface with Nature

E Evaluate Dependencies & Impacts

A Assess Material Risks & Opportunities

P Prepare To Respond & Report

Engagement with affected stakeholders

L1 Business footprint

Where are our direct assets and operations, and our related value chain (upstream and downstream) activities?

L2 Nature interface

Which biomes and ecosystems do these activities interface with?

What is the current integrity and importance of the ecosystems at each location?

L3 Priority location identification

At **which** locations does our organisation and its value chain(s) operate in high integrity ecosystems, areas of rapid decline in ecosystem integrity, areas of high biodiversity importance, areas of water stress and/or areas with potential significant dependencies or impacts?

L4 Sector identification

What sectors, business units, value chains or asset classes are interfacing with nature in these priority locations?

E1 ID of relevant environmental assets and ecosystem services

What are our business processes and activities at each priority location? What environmental assets and ecosystem services do we have a dependency or impact on at each priority location?

E2 ID of dependencies and impacts

What are our nature-related dependencies and impacts across our business at each priority location?

E3 Dependency analysis

What is the size and scale of our dependencies on nature in each priority location?

E4 Impact analysis

What is the size and scale of our nature impacts in each priority location?

A1 Risk and opportunity ID

What are the corresponding risks and opportunities for our business?

A2 Existing risk mitigation and risk and opportunity management

What existing risk mitigation and risk and opportunity management approaches are we already applying?

A3 Additional risk mitigation and risk and opportunity management

What additional risk mitigation and risk and opportunity management actions should we consider?

A4 Risk and opportunity materiality assessment

Which risks and opportunities are material and should be disclosed in line with the TNFD disclosure recommendations?

Strategy & resource allocation

P1 Strategy and resource allocation

What strategy and resource allocation decisions should be made as a result of this analysis?

P2 Performance measurement

How will we set targets and define and measure progress?

Disclosure actions

P3 Reporting

What will we disclose in line with the TNFD disclosure recommendations?

P4 Presentation

Where and how do we present our nature-related disclosures?

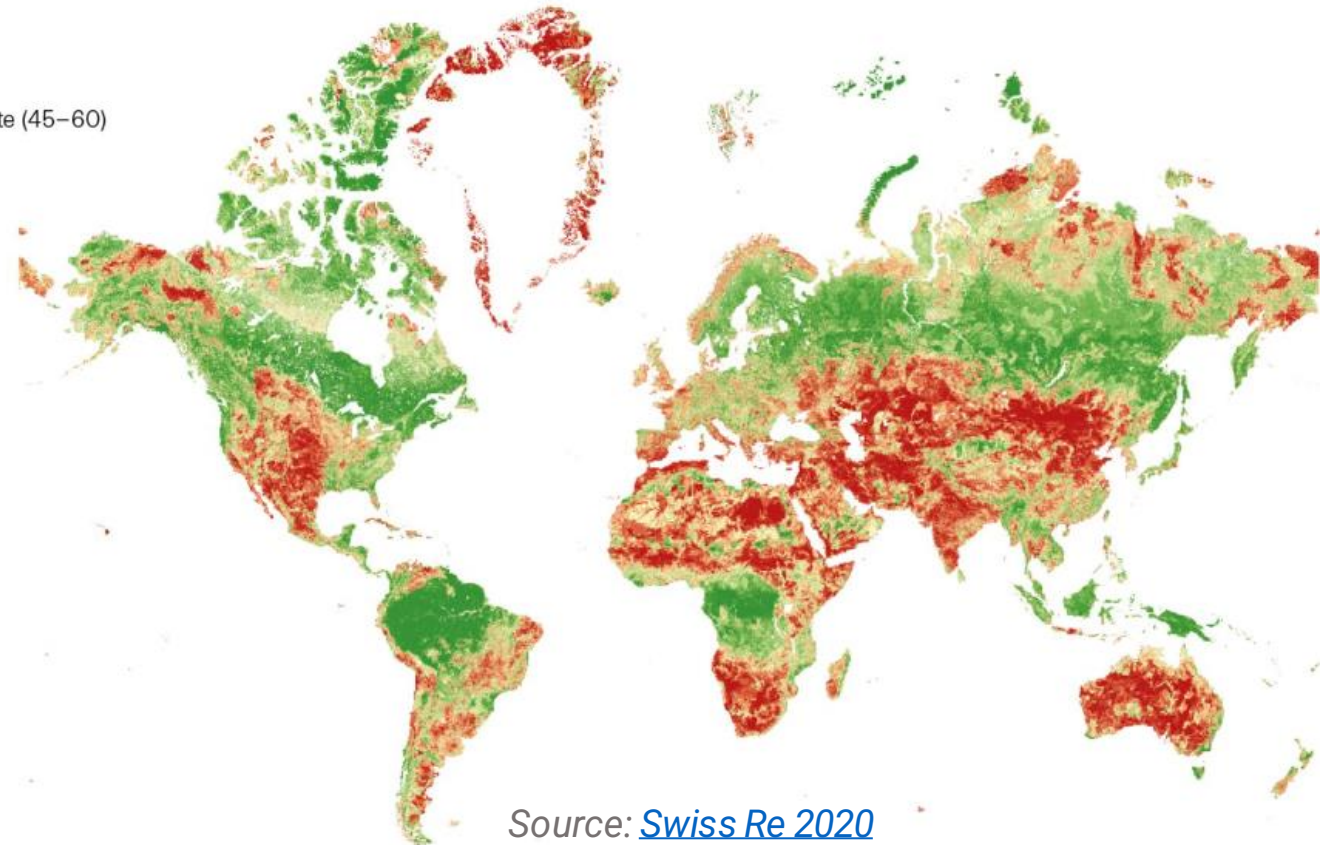
Review and repeat

TNFD's LEAP framework sets a structure that financial actors can use to identify, assess, respond to and disclose their nature-related issues

Identifying risks through spatial data: biodiversity and ES

Funds should know where their investments are located and should look to integrate **geospatial insights** into their risk assessments. If your investments are in biodiversity-rich areas, it might be useful to look at maps that show the extent to which specific areas **depend on biodiversity and ecosystem services** (*biodiversity loss risk*)

Biodiversity & Ecosystem Services (BES) Index



Source: [Swiss Re 2020](#)

Identifying risks through spatial data: Indigenous lands

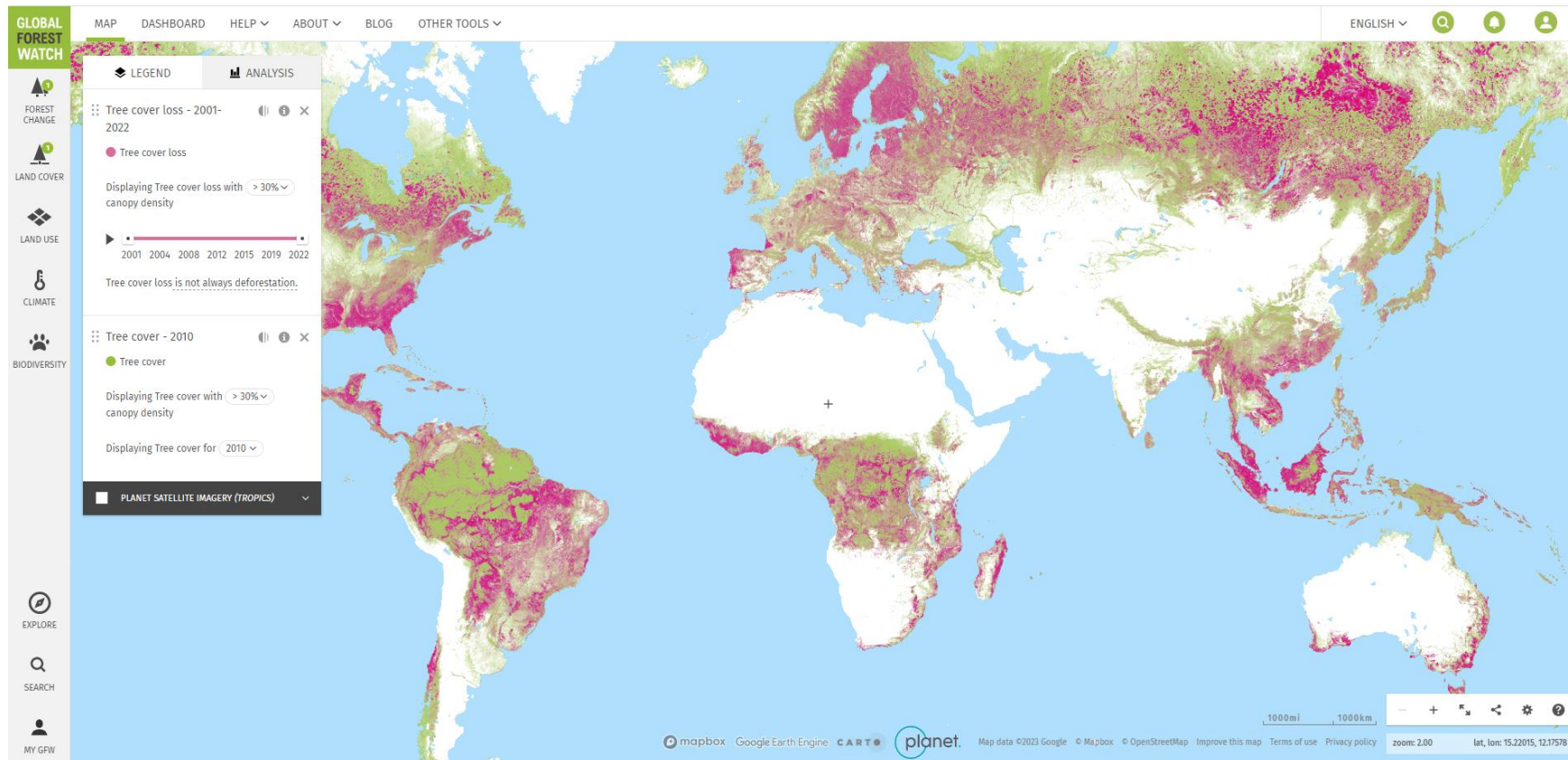
- ICCAs: **Territories and areas** conserved by indigenous peoples and local communities
- = cultures, actions and values, but which brings together a global community with a **shared vision to secure their natural heritage**



Source: [ICCA registry](#). The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Identifying risks through spatial data: forest loss

If your investments are in forest-rich areas or around them, it might be useful to look at maps that show the extent to which specific areas **have been historically affected by tree cover loss** to assess *deforestation risk*

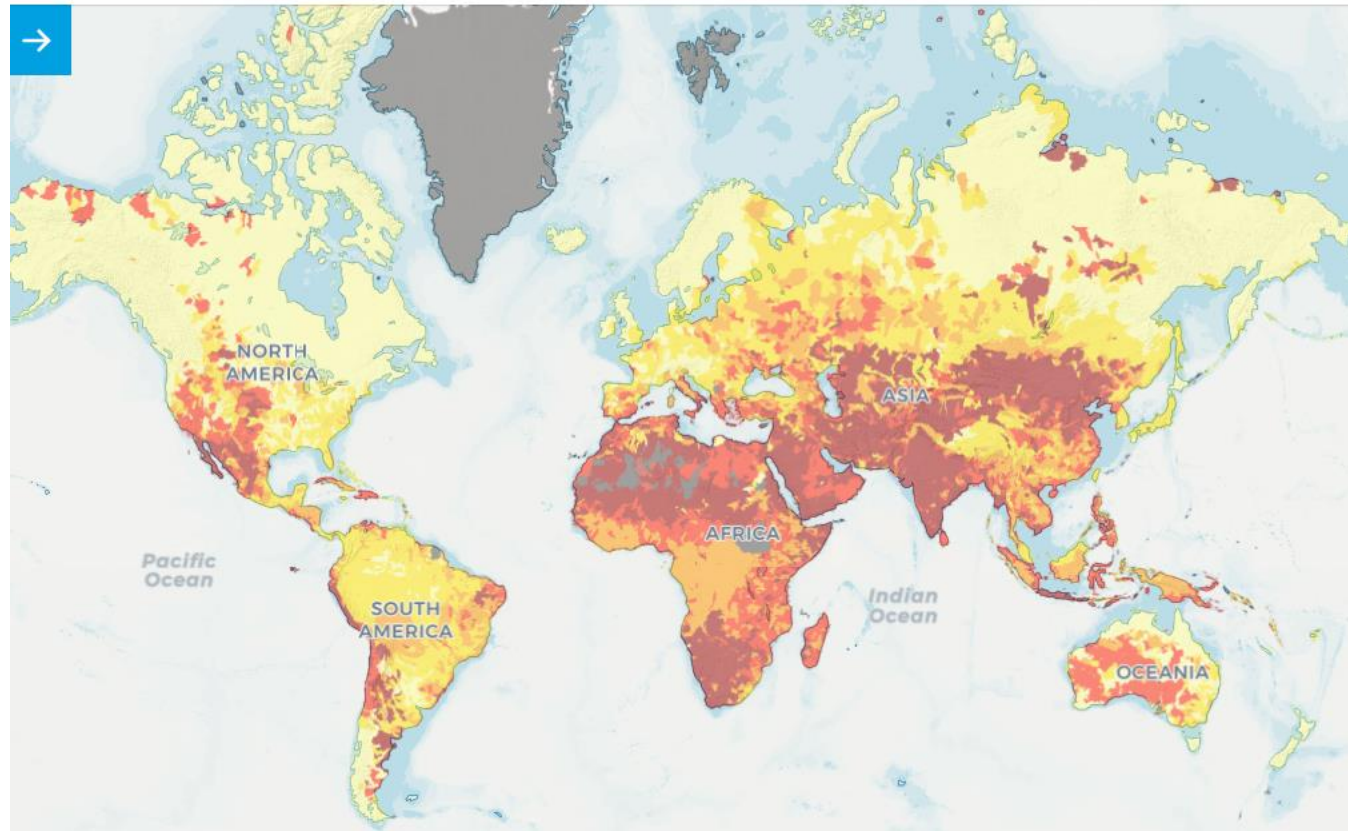


Source: [Global Forest Watch 2023](#)

Identifying risks through spatial data: water risk

If your investments involve substantial water use, it might be useful to look at maps that show the extent to which specific areas are exposed to **physical risks, as well as regulatory and reputational risks** (*overall water risk*)

AQUEDUCT WATER RISK ATLAS



Overall Water Risk

Low (0-1) Low - Medium (1-2) Medium-high (2-3) High (3-4) Extremely high (4-5)

■ No data

Source: [WRI 2023](#)

Example: SRIF

Here is an extract of UNEP
Safeguard and Risks Identification Framework

Appendix D. Environmental and social safeguards (SRIF)

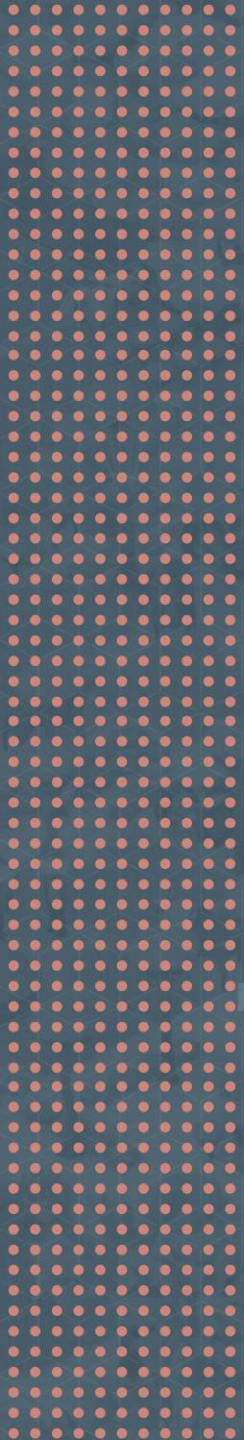
Safeguard Risk Identification Form (SRIF)

Section 1: Project Overview

Identification	
Project Title	<i>Development, Review and Update of National Implementation Plans (NIPs) under the Stockholm Convention (SC) on Persistent Organic Pollutants (POPs)- addendum countries to project 10285</i>
Managing Division	<i>Economy Division</i>
Type/Location	
Region	<i>Asia</i>
List Countries	<i>Laos PDR, Maldives</i>
Project Description	<i>The project main objective is to enable participating countries to implement the Stockholm Convention through the development, review, update and submission of the National Implementation Plan (NIP) to the Conference of the Parties of the Stockholm Convention (COP)</i>
Relevant Subprogrammes	<i>N/A</i>
Estimated duration of project	<i>44 months</i>
Estimated cost of the project	<i>USD\$ 626,600</i>
Name of the UNEP project manager responsible	<i>Mr. Ludovic Bernaudat/Mr. Jitendra Sharma</i>
Funding Source(s)	<i>GEF</i>
Executing/Implementing partner(s)	<i>Stockholm and Basel Conventions Regional Centre, China</i>
SRIF submission version	<i>N/A</i>
Safeguard-related reports prepared so far	<ul style="list-style-type: none"> • <i>Feasibility report []</i> • <i>Gender Action Plan []</i> • <i>Stakeholder Engagement Plan []</i> • <i>Safeguard risk assessment or impact assessment []</i> • <i>ES Management Plan or Framework []</i> • <i>Indigenous Peoples Plan []</i> • <i>Cultural Heritage Plan []</i> • <i>Others _____</i>
<i>(Please attach the documents or provide the hyperlinks)</i>	



5-min break



Responding to key environmental and social risks

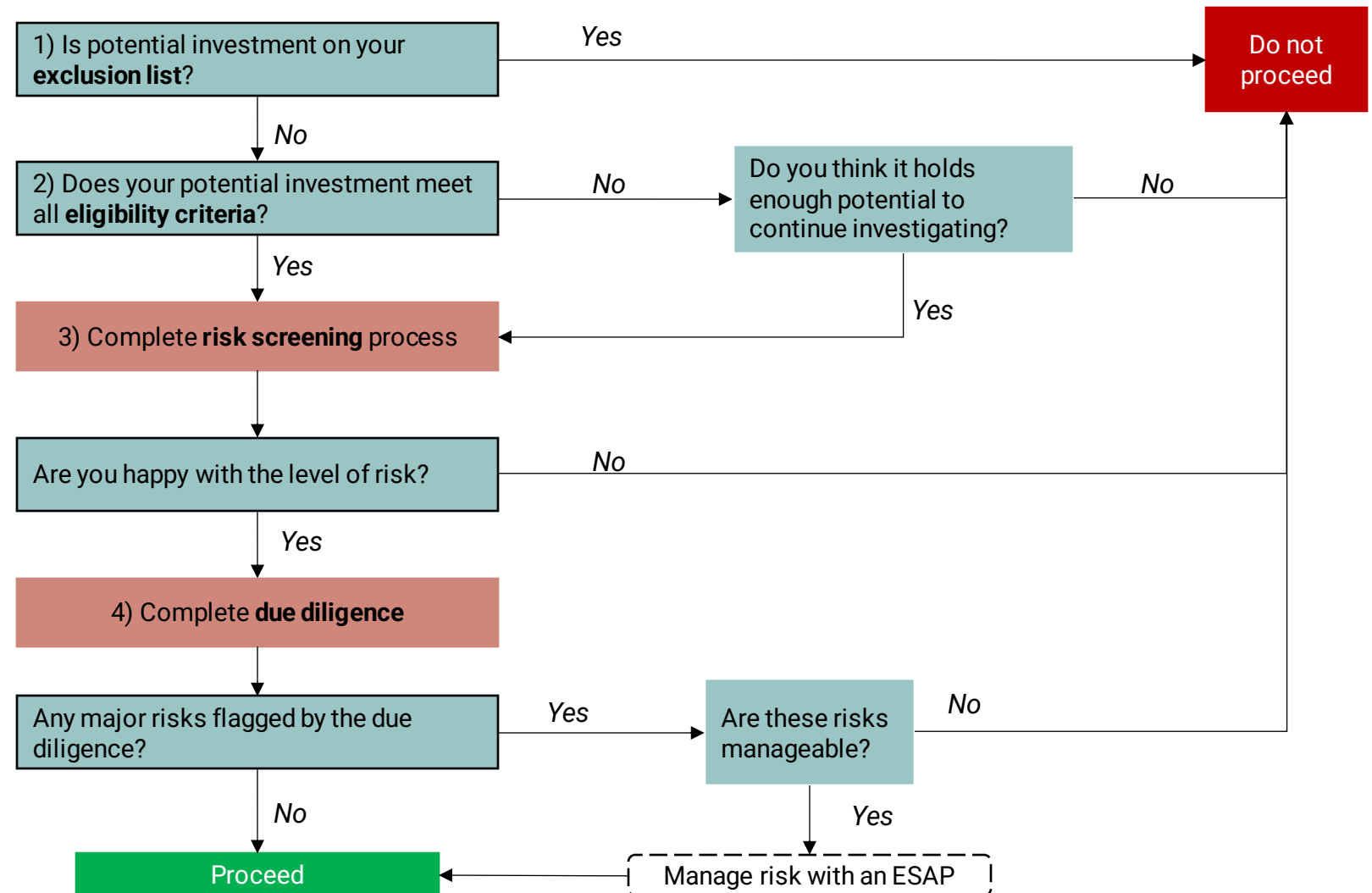
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How risk assessment fits into the investment process

When screening deals, impact funds should keep in mind the following illustrative **investment process flowchart**.

We will discuss these stages in the next slides.



Step 1. Exclusion lists set no-go areas for investments

Funds specialising in land use investments have varying approaches to exclusion lists. They can be:

- Determined by providers of **concessional funds**
- Developed **internally**, depending on fund's objective and risk appetite
 - Based on compliance with national laws and international conventions, sustainable certifications and/or share of revenues from certain activities
- Adapted from **generic** exclusion lists, not tailored particularly to the land use sector (e.g. weapons)

BLUE ECONOMY EXAMPLE

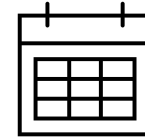


Step 2. Eligibility criteria define the investment universe

Eligibility criteria set **minimum criteria for investment** – and will also be determined either internally or by concessional funding sources

Setting the bar too high in eligibility criteria for investees may prevent funds from engaging with clients where they could have a good impact, if more support would be given (**screen in vs. screen out**)

Differing levels of resourcing and capability across small and large players in their target geographies should also be accounted for (e.g. IFC PS 6)



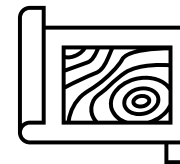
Cutoff date for deforestation- and conversion-free portfolio



Compliance with national and international laws



Land tenure established



No negative impact on protected areas



Avoidance of impacts on protected species

Examples of investment selection approaches



“Eligible projects should focus on at least one of the first two objectives (**Forest Protection and reforestation, and Sustainable Agriculture**) of the funds E&S Impact Framework and always contribute to the third (**Improved Rural Livelihoods**).”

Source: [AGRI3 2020](#)

4.3 RCF eligibility criteria

Farmers must meet the RCF Eligibility Criteria to be able to join the programme. Eligibility Criteria for the RCF Cerrado Programme 1 are:

a) Criteria related to the area of cultivation:

Land use – the area of cultivation must comply with the following conditions:

- i) The cultivated area to be financed must have been deforested before January 1, 2020; and
- ii) as long as the Producer participates in the Programme, there should be no opening of new areas of native vegetation in the Programme Area.

Compliance with the Forest Code:

- i) Farmland must be registered with the Cadastro Ambiental Rural (CAR)
- ii) The farm area must not overlap with conservation units, indigenous reservations, and community lands (including quilombos)
- iii) The farm must contain and maintain the required areas of Legal Reserve, Areas of Permanent Protection (APPs) and any excess of native vegetation, determined by the Forest Code or have formally adhered to a Programme of Environmental Regularization (PRA) established by the state environmental agency.

b) Criteria related to the Farmer

Land title: Farmers must have unquestionable right to use the land, be it as land title, land lease agreement or another legally recognised form of land tenure (e.g. 'posse').

Legal compliance: Farmers must demonstrate that they and their farms do not contravene any environmental or legal requirements, such as:

- i) environmental embargoes,
- ii) labour legislation (including slave and child labour),
- iii) Soy Moratorium (if applicable), and
- iv) internationally accepted rules for the use of agrochemicals.

Source: [RCF 2023](#)

Eligibility criteria

Spotlight on: Cutoff dates

A cutoff date is the date after which deforestation or conversion renders a production area **non-compliant** with commitments (e.g. no deforestation/conversion ***since when?***)

A policy or commitment related to deforestation or conversion **cannot be interpreted, monitored, or reported** on without a cutoff date

Inclusion of cutoff dates **in purchasing contracts and supplier codes** allows for clear communication to suppliers/clients



Eligibility criteria

Spotlight on: Cutoff dates

Cutoff dates must be in the past; that is, prior to the issuance of a policy or commitment (**2020 is recommended** as latest cutoff date for no-deforestation)

If a cutoff date exists or is commonly used in a given commodity or location (through regulation or certification), investors should use this date to support **aligned action and stronger market signals**

Timing of the cutoff within a year can be selected based on regular clearance cycles or other considerations

RCF Assessment of Cutoff Dates

ProTerra	2008
Climate Bonds Initiative	2010
FSC	1994 (2020)
RSPO	2009/2015/ 2018/2020
RTRS	2016
NY Declaration on Forests	2020
UN SDG	2020
AFI Guidance	Jan 2020
UK Soy Manifesto	Jan 2020
French Soy Manifesto	Jan 2020
British Retail Consortium	Jan 2020
Forest Positive Coalition	Jan 2020
Responsible Commodities Facility	Jan 2020
Salmon industry suppliers	Aug 2020
EU DR	Dec 2020

Ref: Slide by Pedro Moura Costa, ESKEN webinar

Eligibility criteria Spotlight on: Gender

Gender-smart land use finance **strengthens investment performance and delivers sustainable land use outcomes** while promoting gender equality and women's economic empowerment






A fund focusing on livelihoods within the context of land use might decide to set gender-related eligibility criteria, identifying clients that meet one or more of the **2X Challenge** criteria



	Criteria	Threshold ³	
1	Entrepreneurship	1A. Share of women ownership <i>OR</i>	51%
		1B. Business founded by a woman	Yes/No
	OR		
2	Leadership	2A. Share of women in senior management ¹ <i>OR</i>	30%
		2B. Share of women on the Board or Investment Committee ¹	30%
	OR		
3	Employment	3A. Share of women in the workforce ¹ <i>AND</i>	30% - 50% ²
		3B. One "quality" indicator beyond compliance	Yes/No
	OR		
4	Consumption	4. Product or service specifically or disproportionately benefits women	Yes/No
5	Investments through Financial Intermediaries (FIs) ³	5A. <i>On-Lending facilities</i> : Percent of the Investor/FI loan proceeds or percent of FI's portfolio supporting businesses that meet direct criteria ¹ <i>OR</i>	30%
		5B. <i>Funds</i> : Percent of portfolio companies that meet the direct criteria ¹	30%

Source: [2X Challenge 2023](#)

Eligibility criteria Spotlight on: Gender

	GESI Scale	Definition	Relevance For TLGF
	Gender Negative	Inadvertently exploits or exacerbates existing inequalities	No partnership possible
	Gender Blind	Does no gender analysis, does not attempt to differentiate between men and women's roles, nor does it attempt to address gender equalities	To be considered for partnerships
	Gender Neutral	Interventions neither reinforce existing gender inequalities nor contribute to more equal societies	Desirable entry stage
	Gender Sensitive	Acknowledges and accommodates some gender differences in pursuit of development outcomes. This approach may attempt to actively redress existing gender inequalities (sometimes also called a gender inclusive approach)	Expected for all projects by the end of the grant period.
	Gender Transformative	Identifies and challenges unequal social norms, actively attempts to address social inequalities and attempts to contribute to the redefinition of women and men's gender roles	Achievable by some projects by the end of the grant period.



Case Study

In its November 2022 Operational Guidelines document, the TLGF includes the **Gender, Environment, and Social Inclusion (GESI) scale** to assess whether prospective clients are eligible to receive funding.

Step 3. Risk mitigation in the risk screening phase

Screening is a **first high-level check** of whether the investment fits eligibility criteria and fund objectives

Screening

How would this investment fit our goals and theory of change?

? Due Diligence

How can risks of greater concern be accounted for and mitigated?

Transaction

How can long-term impact of investment be guaranteed?

Deal

As part of the screening process, funds should **rate risks** and identify which ones require more management and mitigation

Risk screening also allows to **highlight areas where more work is needed** by investee

Internal context: scoring material risks

Low risk: minimal or no adverse environmental and social risks and impacts.

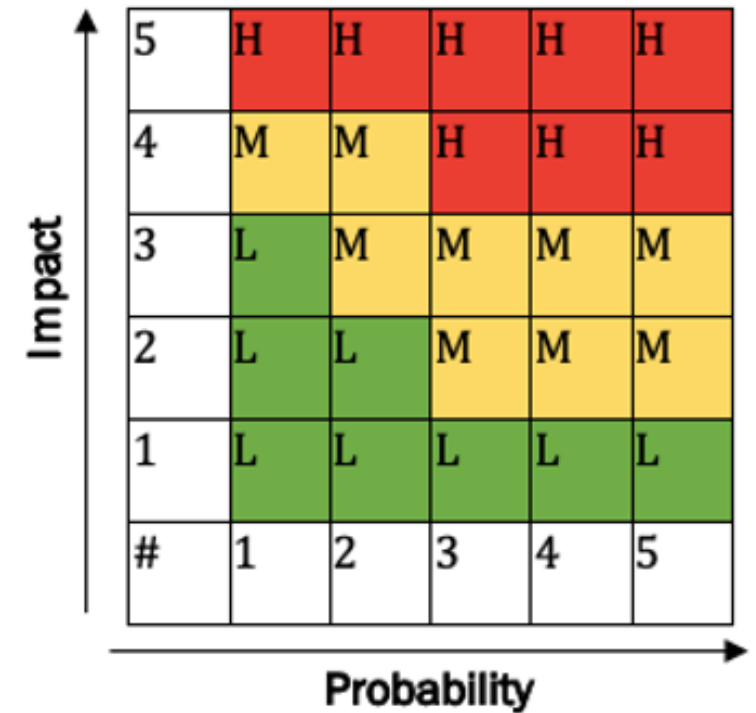
⇒ Do not require further environmental and social analysis or management measures basic assessment

Moderate risk: potential adverse environmental and social risks and impact that are limited in scale, are not unprecedented or irreversible, and are general limited to the program or project area

⇒ Require targeted environmental and social analysis and application of recognized good international practice.

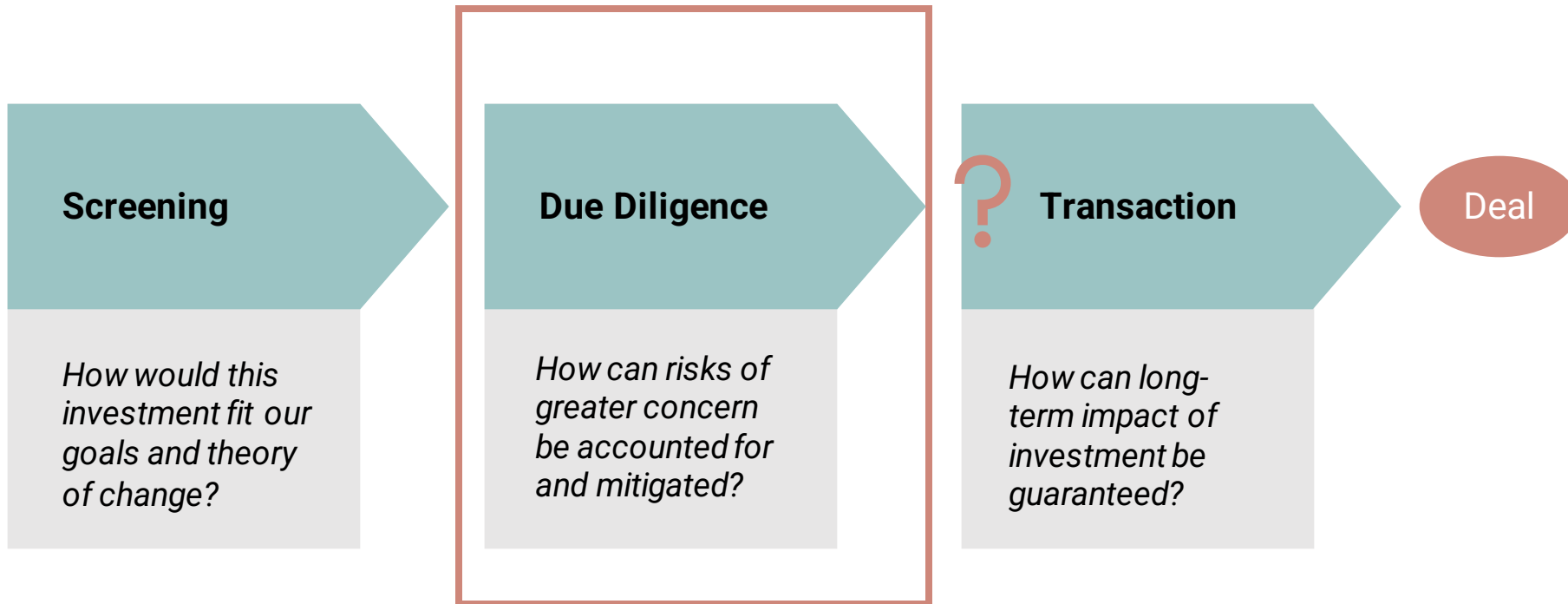
High risk: significant adverse environmental and social impact that are irreversible, cumulative or unprecedented and/or which raise significant concerns among potentially affected communities and individuals. May contribute to cumulative impacts.

⇒ Require comprehensive forms of environmental and social assessment such as ESIA (Env and Soc Impact Assessment) to evaluate whether to proceed with deal



Step 4. Risk mitigation in the due diligence phase

Issues flagged as of greater concern during risk screening, should undergo a further round of controls, defined as **due diligence**



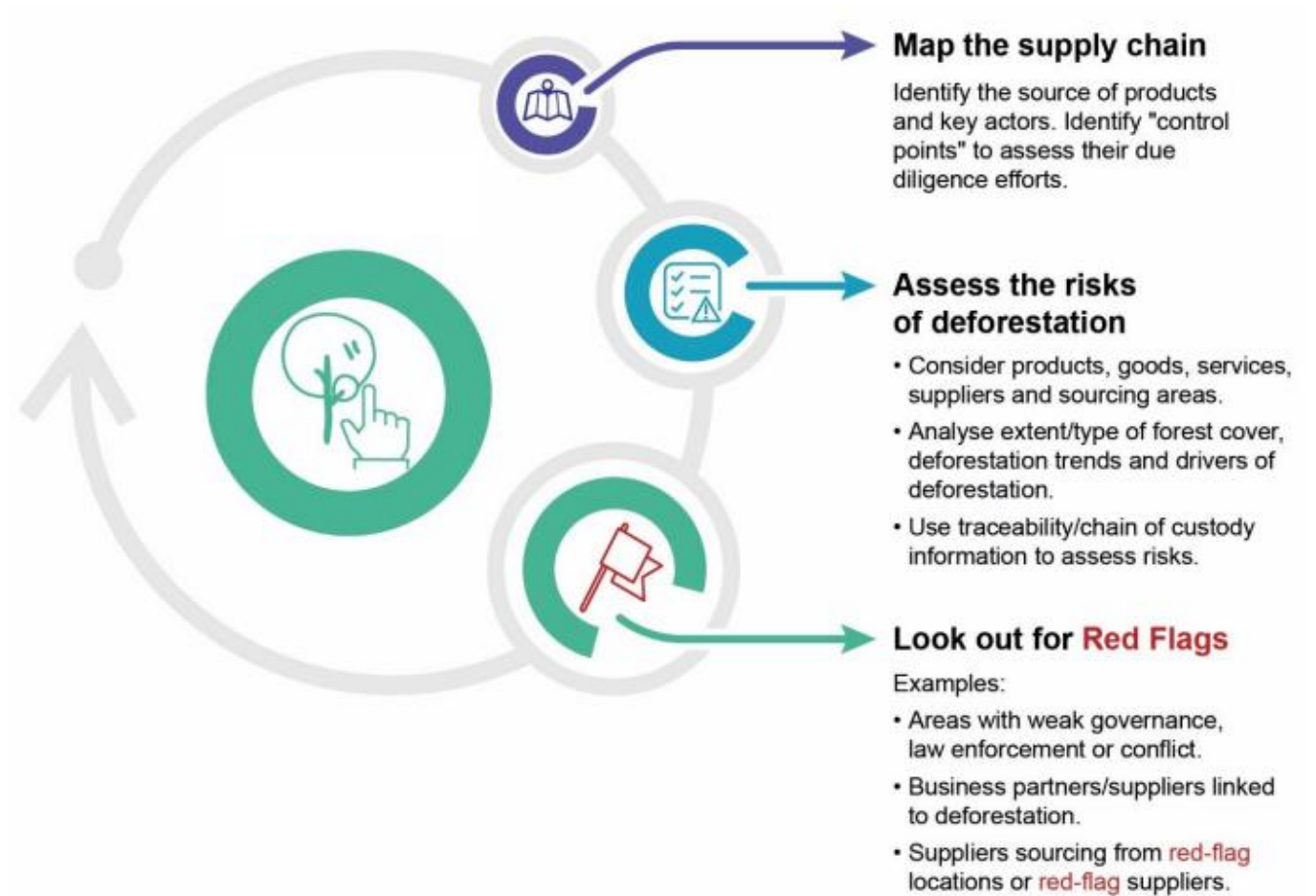
Approach is **highly tailored** to the fund / deal

Thorough checks require appropriate levels of **team capacity**

Who should carry out the process and **scope** need to be defined

Field visit is important to do a reality check on: team capacity to deliver, baseline (where we start), partners and stakeholders, and intended impacts

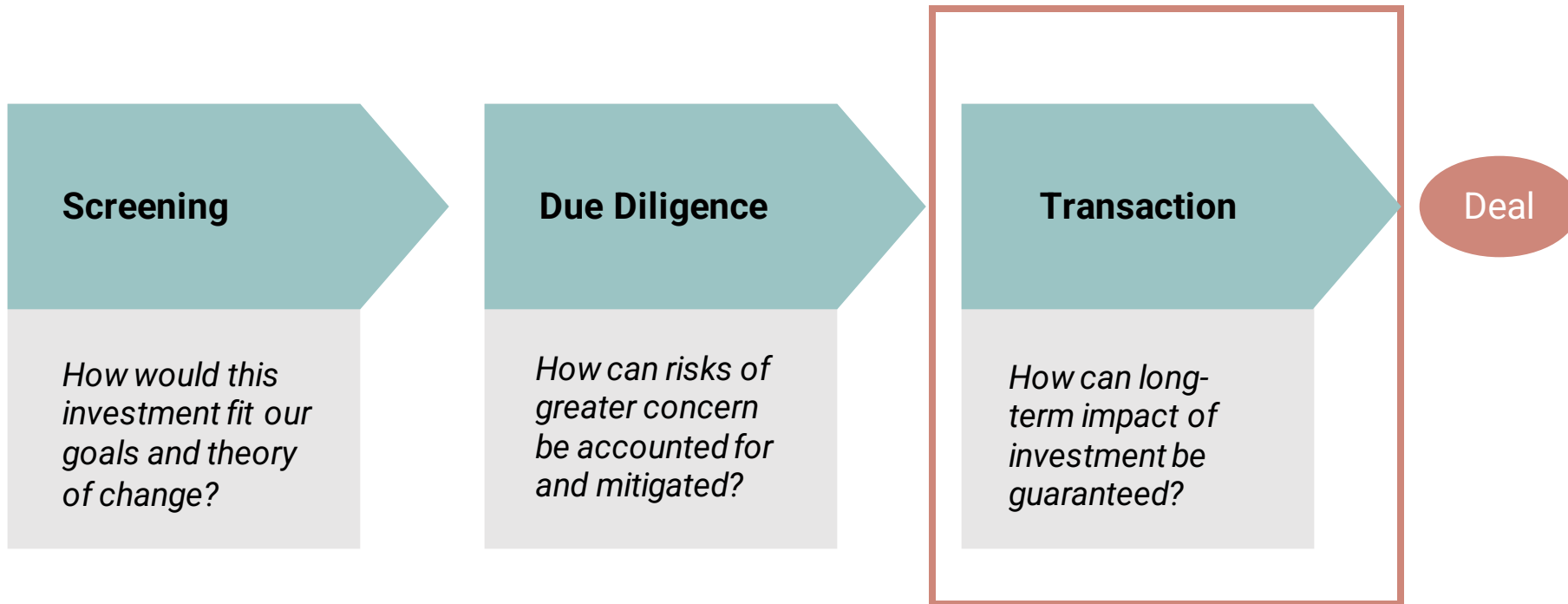
Example of guidance on due diligence: deforestation



Sources: [Deforestation-Free Finance 2023](#); [FAO and OECD 2023](#)

Step 5. Risk mitigation at the transaction phase - ESAP

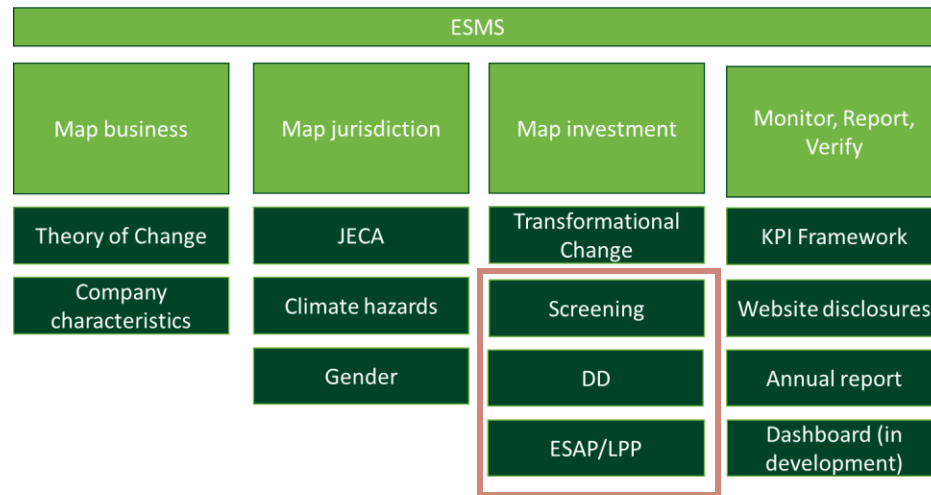
Before finalising a transaction, the fund should ensure that **long-term impact is safeguarded**. At this stage, investees can be supported to put an **Environmental and Social Action Plan (ESAP)** in place, to ensure the investee will **mitigate risks over the course of the investment** and help the deal to progress



An **ESAP** allows the fund to:

- Specify how an investee will **strengthen safeguards** or other policies over course of investment
- Invest in deals that have **great potential for positive impact** but need support to avoid generating E&S risks
- Have **legal recourse** if improvements are not made, thus mitigating risks

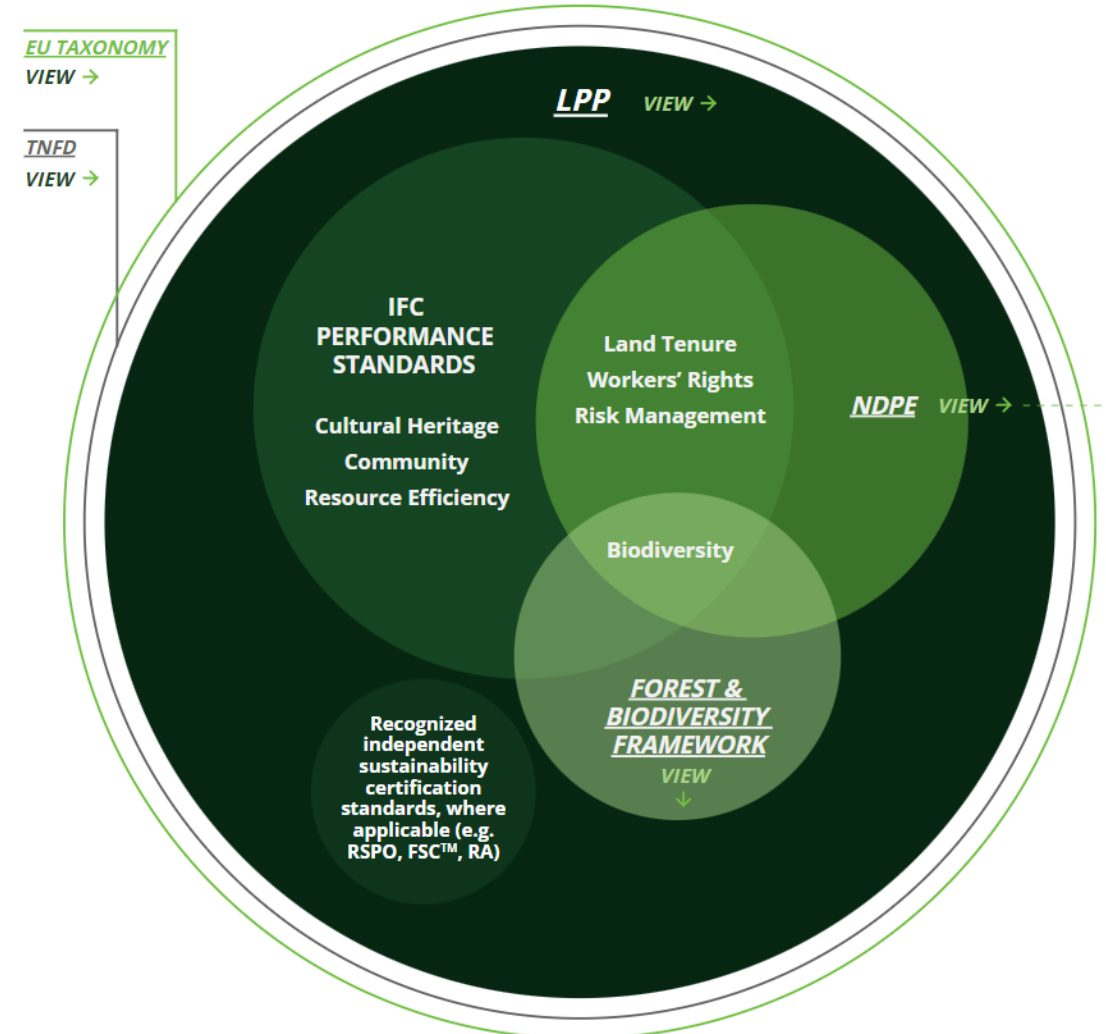
A fund's example of risk screening and due diligence: &Green



Screening requires a mix of geospatial data (e.g. Protected Areas), information on regulatory compliance (e.g. IFC, Human Rights), best standards assessment (e.g. NDPE, certifications) and risk categorisation

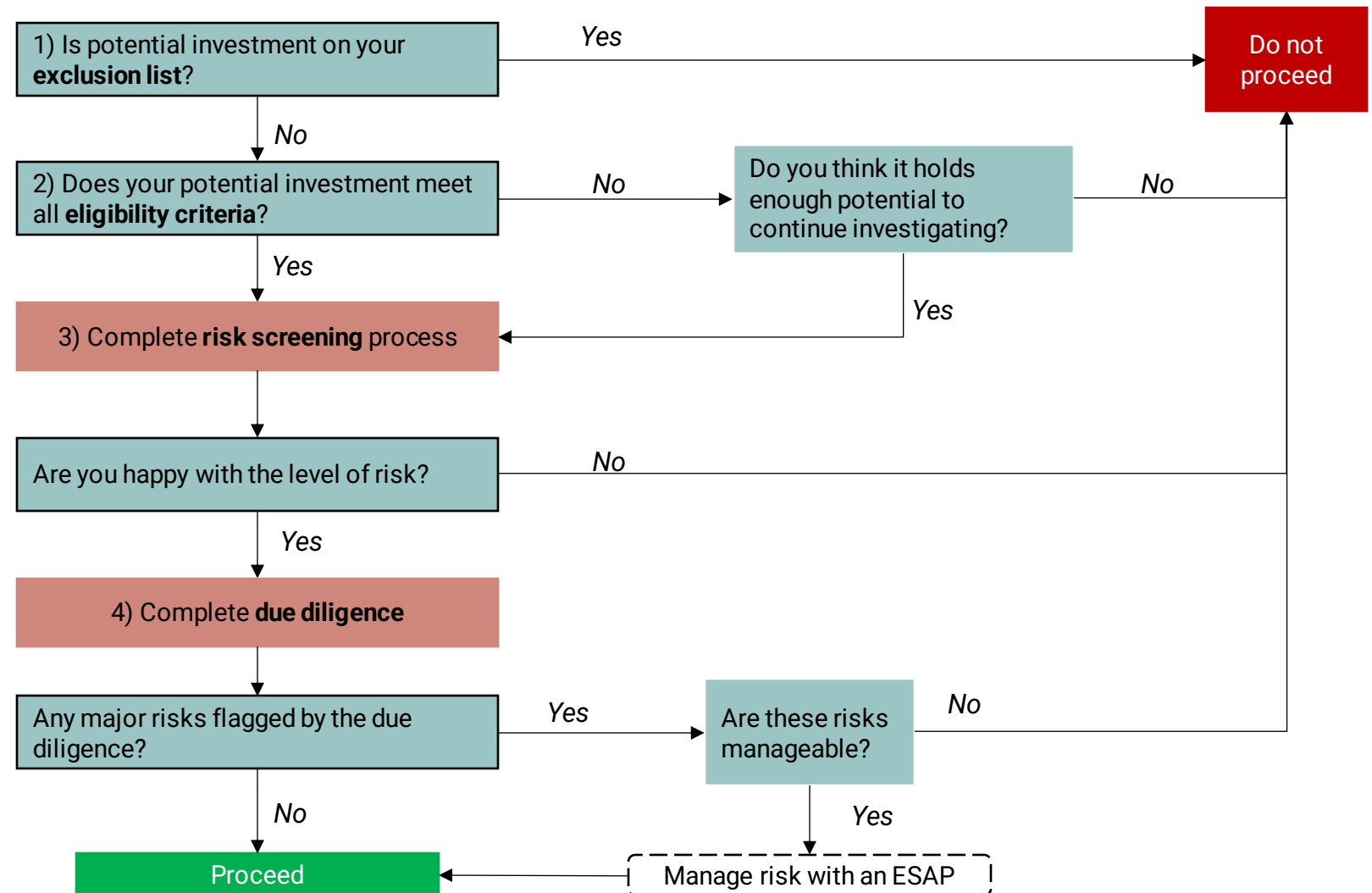
Due diligence is performed by external consultants on focus areas of risks identified by screening process

Information is inputted in a **landscape protection plan (LPP)** laying out direction of investment overtime. Attached to LPP are **ESAPs** – conditions that the client agrees to meet to continue receive funding



How risk assessment fits into the investment process

When screening deals, impact funds should keep in mind the following illustrative investment process flowchart.





Open to audience | **Would anyone like to give an example of a risk management process that they have developed (or helped to develop) for a fund or facility?**

.....
How do you manage gender issues, deforestation cut off dates, and risk mitigation?

Responding to key environmental and social risks

1. The business case for E&S risk management in land use finance
2. Identifying E&S risks
3. Managing and mitigating E&S risks
- 4. Monitoring and reporting on E&S risks**



The importance of monitoring systems

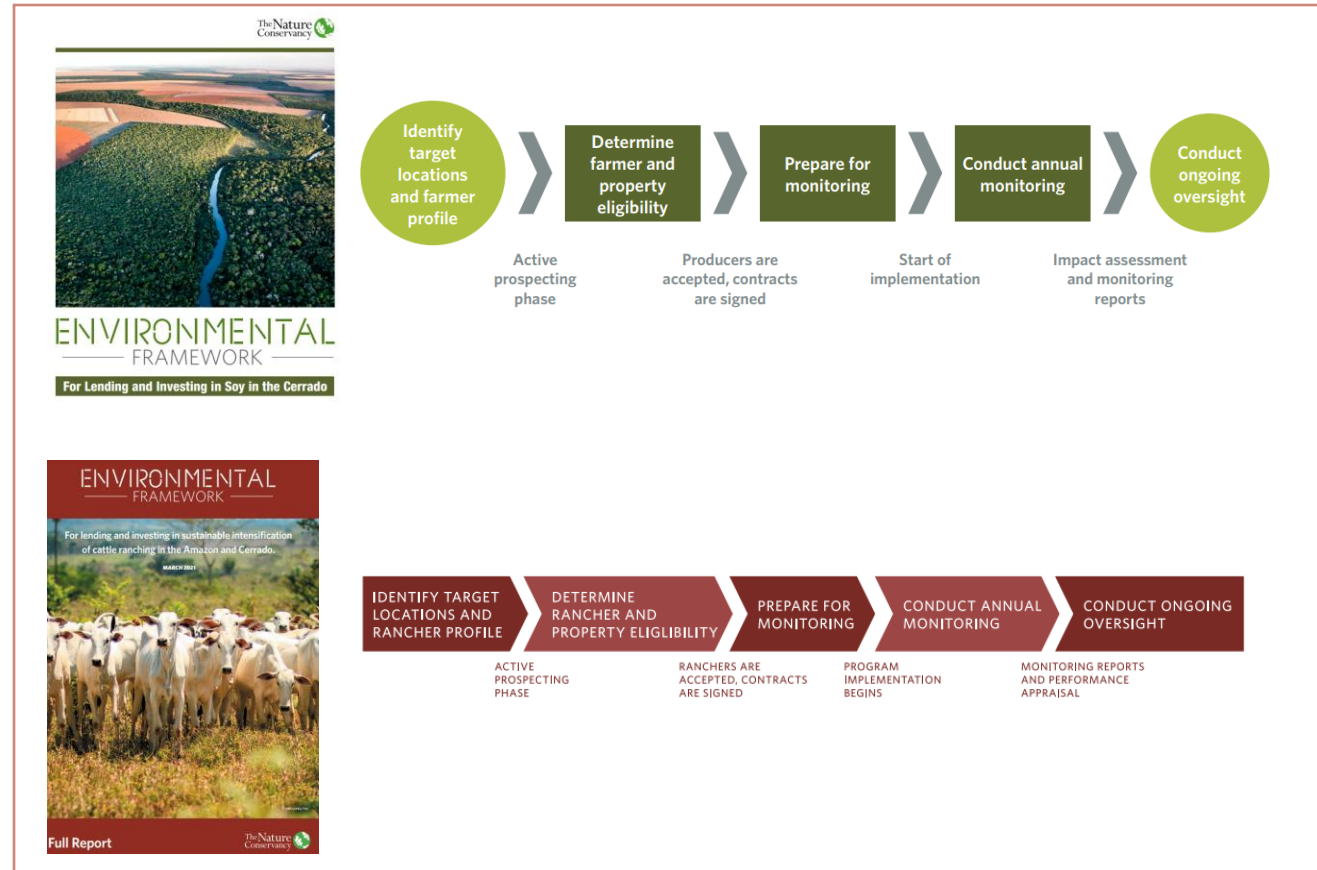
Monitoring refers to the systematic collection of data on specific (*risk and impact*) indicators to evaluate and document how implementation is progressing, and which targets are being met.

Appropriate **monitoring systems** will support:

- Assessing continued compliance with E&S eligibility criteria
- Implementation of ESAPs
- Identification of emerging risks
- Impact measurement and reporting

Monitoring **begins before an investor disburses resources** - during risk screening – and continues throughout the tenure of the transaction.

Example: Monitoring in soy and beef investments



Source: [TNC 2020](#) and [2021](#)

Monitoring E&S risks: some relevant data sources

Tool	Relevant Datapoint	Geography	Source
CDP Climate, Water and Forests	Water/deforestation/conversion policies, traceability, certification, and human rights	Global	Company questionnaire
Forest 500 / ZSL SPOTT / Forest IQ	Deforestation/conversion policies, traceability, certification, and human rights	Global	Publicly available data, media coverage
Trase	Deforestation/conversion traceability, risk exposure	Selected countries	Publicly available data, maps
RepRisk	Known incidents of deforestation/conversion and human rights abuses	Global	Media and AI/big data
Global Forest Watch	Data on recent and historic deforestation, as well as active fires and protected areas	Global	Publicly available data
Mapbiomas	Annual maps of land cover and land use (also data on water, soils, vegetation...)	Selected countries	Publicly available data
EJAtlas	Socio-environmental conflicts related to projects and extractive activities	Global	Publicly available data, media coverage, maps
WWF Water and Biodiversity Risk Filter	Geospatial assessment of water/biodiversity risks	Global	Publicly available data, maps
IBAT	Hosts and maintains three key global biodiversity datasets (IUCN Red List, Protected Planet, KBA)	Global	Publicly available data (also paid-for services), maps

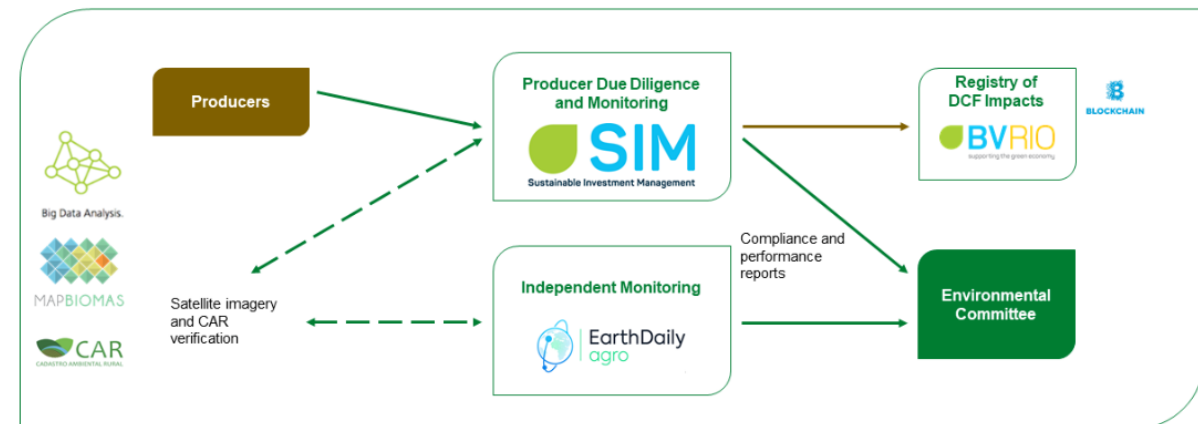
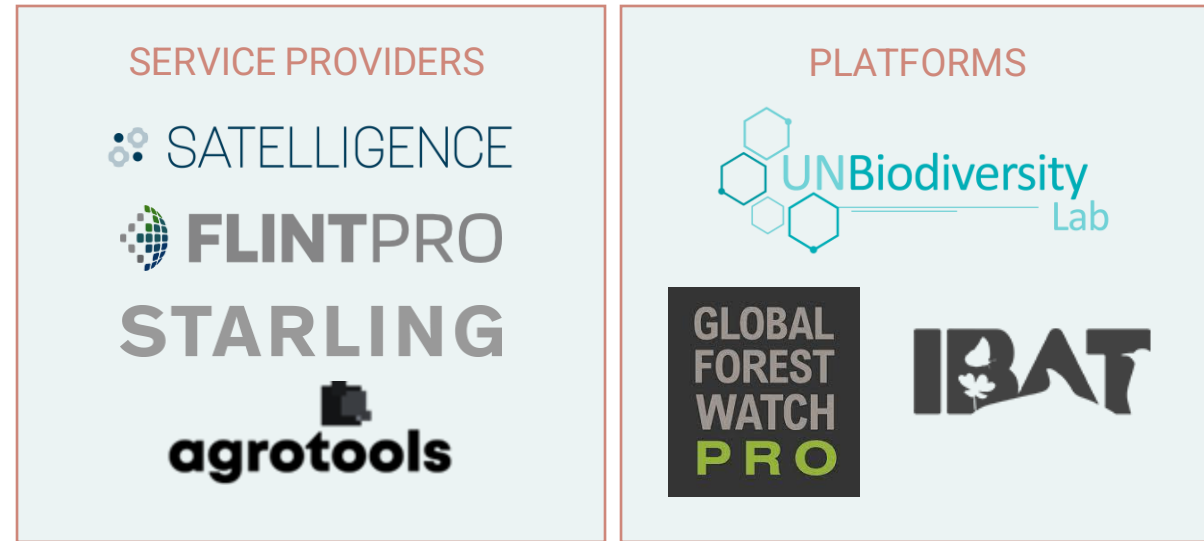
Monitoring E&S risks: geospatial data

Geospatial information is powerful to support land-use risk assessment and monitoring. On-the-ground visits are also required with respect to certain indicators.

Costs should be weighed against fund's objectives and scope of risk assessment

There are several options of **service providers and applications** available in the market, some of which are free

Building **in-house capacity** to work with geospatial data is also an option



Source: [RCF 2023](#)

Monitoring allows engagement with clients on performance

Compliance with eligibility and performance criteria can be evaluated through a sound monitoring system.

Based on performance, investors can use data from monitoring to respond to E&S risks and **engage with clients**

If clients do not comply with established policies, **funds can undertake targeted actions** – including **corrective action plans**.

These could include:

- Establishing exclusion conditions or ‘continuous improvements towards compliance’ conditions
- Reconsidering timescales within contractual agreements

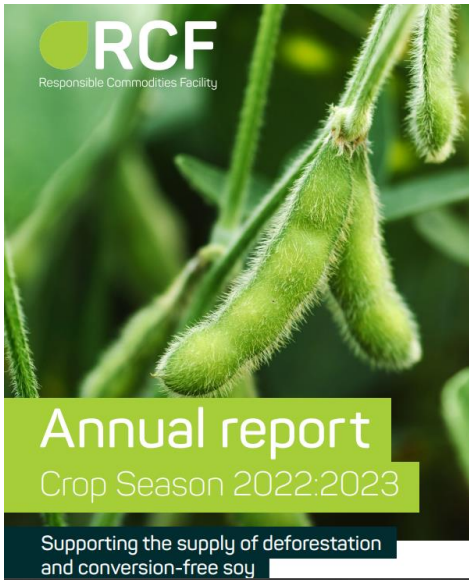
Phase	Reach	Core Environmental Requirements	Additional Elements
Eligibility Pre-Loan	All farms owned or operated by borrower	<ul style="list-style-type: none"> • No outstanding IBAMA sanctions/embargos on the candidate producer or target property • No overlapping with Conservation Units and/or Indigenous Territories • CAR registration • No slave labor • Soy Moratorium compliance if the property is in the Legal Amazon 	<ul style="list-style-type: none"> • Cross-Farm Applicability: the reference date for no-conversion (January 2018) should be applied to all properties
	Financed property only	<ul style="list-style-type: none"> • No conversion of native vegetation after the reference date (January 2018) • Attention to predicted water stress • Evidence of undisputed land title 	<ul style="list-style-type: none"> • Located in a High Conservation Impact Area • No Land Conflicts associated with either the candidate producer or the target property, as registered in the CTP database or evidenced in other due diligence
Requirements Post-Loan	All farms owned or operated by borrower	<ul style="list-style-type: none"> • Continued compliance with pre-loan requirements • Valid environmental licenses and permits • Legal and Forest Code compliance 	<ul style="list-style-type: none"> • No conversion of native vegetation on other properties owned or operated by the producer
	Financed property only	<ul style="list-style-type: none"> • No conversion of native vegetation on the property during financing tenure 	<ul style="list-style-type: none"> • Continued compliance with specific additional elements pre-deal requirements • Valid environmental licenses and permits • Continued lack of Land Conflicts • Evidence of applying Good Practices • Compliant with applicable IFC Performance Standards

Source: [TNC 2020](#) and [2021](#)

Reporting material E&S risks annually

In annual reports, investors should assess the investee's performance and overall compliance with E&S contractual obligations. The report can include:

- Overview of **compliance with E&S eligibility criteria**
- Information on relevant **responses to non-compliance**
- Information on emerging risks
- For high-risk projects, **disaggregated information on risks and risk management**





Poll | What risk monitoring techniques would you be comfortable using, or have you already used?



Q&A

Summary and key messages

E&S risk management across sectors is fundamental to **drive internal processes and respond to external challenges**. In the land use space, this is extremely relevant – considering its many challenges and opportunities

When setting a sustainable land use fund, **common issues** to account for are ecosystem conversion, climate change, soil degradation, human rights abuse and exclusion, water overuse and pollution

Risk assessment is an **integral part of the investment process**. Risk management and mitigation can be implemented through an initial risk screening, a more detailed round of due diligence, and in the transaction phase.

Monitoring risks post-investment can occur through various available **datasets, geospatial information and field visits**.



Next: Demonstrating positive impacts and monitoring capabilities



An impact fund or facility should have a clear E&S risk management framework, to ensure that fund objectives are met and various sources of financial risk are addressed. In this module, we looked at how a fund can decide to go about setting up such framework. The next one will deep-dive into impact creation.



Module 3 will cover:

- An introduction to impact strategies and setting positive impact indicators
- Key tools that can help identification, assessment, monitoring and reporting of land use impacts
- Considerations on internal capacities and resources that are needed to maximise outcomes



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Thank you!

Next Session: Module 3

When: November 29th, 2023

