

Sustainability-related disclosure: statement on sustainable investment objective



Introduction

This statement is published by the eco.business Fund (EBF, “the Fund”) on its website in accordance with Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR, “the Regulation”). Its purpose is to provide transparency on the promotion of environmental or social characteristics and, as applicable to EBF, of sustainable investments¹ on websites.

Additional publicly available documents that are related to and complementing this statement include:

- Periodic reports (including Annual Impact Report) and information published on the [EBF website](#)
- [EBF statement on consideration of principal adverse impacts on sustainability factors](#) (March 2021) in accordance with Article 4 of the Regulation
- [EBF statement on integration of sustainability risks](#) (March 2021) in accordance with Article 3 of the Regulation
- Finance in Motion’s² (“the Advisor”) [Disclosure statement to the Operating Principles for Impact Management](#)

This statement is made on 9th March 2021 in reference to the calendar year 2020.

¹ The Regulation defines ‘sustainable investment’ as, “an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”.

² Finance in Motion serves as EBF’s Advisor.

Sustainable investment objective of the financial product

EBF is an impact fund that aims to promote business and consumption practices that contribute to biodiversity conservation, to the sustainable use of natural resources and to mitigate climate change and adapt to its impacts. In pursuing an explicit sustainable (environmental) investment objective³, the EBF therefore falls within the scope of Art. 9 of the SFDR. EBF further strives for systemic impact by raising awareness on protecting biodiversity and conserving natural resources and by developing the capacity of local institutions to successfully deliver conservation finance, increase its demand, and build an enabling environment for a greener economy.

The entire EBF portfolio is dedicated to this environmental investment objective, requiring each investment to work towards making contributions to it.

EBF's activities have been mapped towards the Sustainable Development Goals (SDGs) at SDG target level, based on which eight have been selected as core SDGs. For more information on EBF's contributions towards these SDGs, please refer to the Fund's [website](#).

No index has been designated as a reference benchmark. Details on how the continued effort of attaining the environmental impact objective is ensured are provided in the below described sections on investment strategy and monitoring approach.

(Investment) Strategy to attain sustainable investment objective

Investment strategy. The investment strategy of the Fund focuses primarily on providing debt financing to financial intermediaries in Latin America and the Caribbean ("LAC") and in sub-Saharan Africa ("SSA") ("the target regions")⁴. The Fund's activities focus on those economic sectors that are highly consumptive of natural resources – and affected by climate change. These especially include agriculture, forestry, fisheries and aquaculture, and sustainable tourism. The strategic approach of providing dedicated finance through financial intermediaries has been shown as particularly effective in building outreach, strengthening local systems, and creating impact at scale as financial institutions play a vital role in mainstreaming sustainable lending practices. For its investments through financial intermediaries, EBF provides its partner institutions with dedicated financing for on-lending through loans ("sub-loans") to businesses or producers ("end-borrowers"), in line with contractually agreed, EBF-specific use-of-proceeds requirements.

To a smaller extent, the Fund also directly provides debt to:

³ In the following, the terms "sustainable investment objective" and "positive/environmental impact objective" shall be used interchangeably.

⁴ The Fund serves the two regions via two separate sub-funds.

- businesses or projects that implement sustainable practices and are aligned with the Fund’s mission.
- to real-sector intermediaries, such as commodity buyers or aggregators that have made credible sustainable sourcing commitments (SSA only).

The Fund is closely monitoring international standards and developments on sustainable finance in general and biodiversity specifically and is increasing preparations to align its agenda with the developments of the European Union's Taxonomy for Sustainable Finance.

By financing through financial or real sector intermediaries, EBF is increasing access to finance for sustainable business practices. Activities that are considered riskier, less profitable, or simply unviable, such as agriculture or forestry, are typically underfinanced. To help close this gap, EBF is providing long-term financing to financial institutions to grow their loan portfolio of sustainable activities in the Fund’s priority sectors. Similarly, by working with real sector intermediaries, the Fund can support downstream players in channelling additional financing to their suppliers that have or are looking to produce in a more environmentally sustainable manner.

The Fund’s direct investments aim to enable businesses to implement sustainable practices that are aligned with the Fund’s mission and can have a demonstrative effect on the entire sector so that financed measures are more likely to be implemented in the future by other players in the sector. In this way, EBF is helping to set an example for others in its target regions and open the way for future similar projects.

Investee selection. Investees of the Fund are referred to as “partner institutions” (PIs). Selection is guided based on a comprehensive set of eligibility requirements, as defined in the Fund’s Investment Guidelines. Linked to the Fund’s environmental objective, these include commitment to internationally recognized environmental, social, and governance (ESG) standards, principles of good corporate governance as well as potential to reach EBF’s target group.

Use of proceeds. Detailed use-of-proceeds criteria are being applied for both investments through financial and real sector intermediaries as well as direct investments. With regards to the environmental impact, these use-of-proceeds requirements include that EBF end-borrowers must either hold an EBF-eligible sustainability certification or implement a sustainable business practice included on the Fund’s “Green List”:

- Voluntary sustainability certification (VSC): Directing lending to businesses and producers that hold internationally recognized sustainability standards constitutes a cost-effective approach to financing sustainable production, as the monitoring and verification of sustainable practices is led by certified and independent bodies. It also enables the Fund to deliver deeper analysis of the benefits of its investments and draw upon the standards’ own work on impact measurement. The Fund has selected a set of sustainability standards to be eligible for EBF financing based on a comprehensive review and assessment of their requirements. In SSA, the EBF can also engage in strategic partnerships with commodity traders or other real-sector intermediaries that are focused

on improving sustainable sourcing within their value chains through standards or programs that seek to verify the sustainability of suppliers of raw materials and/or third-party producers.

- Green List: This region-specific list contains production practices eligible for EBF investment based on comprehensive screening and assessment of their respective positive impact on sustainability, such as, the purchase and installation of water-saving drip or micro-sprinkler irrigation systems or the renewal or establishment of cocoa plantations and shade-grown coffee under agroforestry systems.

In exceptional cases, the Fund can also finance investments which are not covered by either of the two options described above but are contributing to the Fund's mission.

Technical assistance. The Fund complements its investment activities with tailored technical assistance through the EBF Development Facilities. This has shown to be particularly effective in delivering transformational benefits for partners and local stakeholders and includes running diagnostics on environmental and social management systems (ESMS); conducting farm surveys; piloting cutting-edge tools for environmental monitoring; increasing awareness of the importance of sustainable production practices in the financial sector and among the public; and support for an overall expansion of PI's green portfolios.

No significant harm to the sustainable investment objective

EBF places a priority on effective management – i.e. avoiding, minimizing and mitigating – of E&S risks and impacts associated with its investments. Key factors include, but are not necessarily limited to, pollution prevention and control; protection of biodiversity; natural habitats and cultural heritage; occupational and community health and safety; labor standards and working conditions; indigenous peoples' rights; involuntary resettlement; gender equality; and human rights. To that end, EBF maintains, implements and continuously improves an Environmental and Social Management System (ESMS). The ESMS includes the EBF's Environmental and Social Policy, the Fund's Exclusion List and detailed E&S procedures.

The Fund requires its PIs to carry out their activities (for direct investments) or to use proceeds (for financial or real sector intermediaries) in compliance with the region-specific EBF Exclusion List⁵. The EBF Exclusion Lists are aligned to those of the Development Finance Institution shareholders of the Fund and prohibits financing activities with inherent or elevated sustainability risk, such as activities involving child and forced labor, pesticides/herbicides subject to international bans, logging operations in primary tropical moist forest, among others.

Equally, PIs must carry out activities in compliance with national law, and in a manner consistent with the relevant IFC Performance Standards and the International Labour Organization's core labor standards.

⁵ See Annex 1 of the EBF Environmental & Social Policy.

EBF is committed to actively promoting good governance, integrity and transparency standards in its financing/investment activities, including in the selection of PIs.

For more details, please refer to [EBF's statement on the integration of principal adverse impact](#).

Monitoring of sustainable investment objective

Assessing the Fund's impact is of great importance as it demonstrates progress towards the Fund's environmental objectives and providing insights and learnings that inform the EBF's strategy. Impact is continuously monitored through a set of key positive impact indicators (see below), combining different data sources and assessment methodologies.

Data sources. The Fund draws on the following data sources:

- (Internal) Fund-level data: Covering a range of data points at the Fund and portfolio level, allowing monitoring of the Fund's overall activities related to resource mobilization, financing, and technical assistance.
- PI reporting: Contractually agreed reporting on a set of predefined indicators, submitted by the PIs to the Fund on a regular basis, utilized for continuous monitoring of use-of-proceeds.
- Fund studies: Studies conducted, usually with support of the Fund's Development Facility.
- Third party data and technical parameters: Parameters on environmental impacts (e.g. CO₂ storage) that are derived from third-party evidence (academia and international organizations).
- On-site visits and continuous engagement: Site visits facilitated through the Advisor's staff operating from several offices across the region, facilitating continuous exchange with PIs, and the incorporation of on-the-ground knowledge of market needs into investment strategies.

Assessment Methodologies. For a large proportion of its monitoring, EBF utilizes first-hand data, such as from PI's reporting or EBF's own, internal Fund monitoring data. In order to assess and monitor its environmental impact contribution, the Fund applies the following methodologies:

- Modelling: For a set of indicators, the Fund combines first-hand information from PI reports with technical parameters derived from third-party evidence (e.g. academic studies, statistics by international organizations). For example, to assess absolute CO₂ storage in agroforestry systems financed by the Fund, parameters were calculated considering different production systems, agro-climatic zones, shade tree species, and crop varieties. As per the recommendations of the IPCC, long-term sequestration parameters are used to factor in the fact that plantations are regularly renovated and that the age of trees and therefore their biomass content varies from plot to plot. These sequestration factors are combined with the PI reported number of hectares per sub-borrower to arrive at the overall absolute CO₂ storage estimation. The use-of-proceeds criteria – voluntary sustainability certification (as per prior selection by the Fund) or sustainable business practice as identified through the Fund's region-specific Green Lists – also play a key role in assessing the environmental impact. For example, some VSCs require the implementation of

specific land management practices, such as no soil tillage, or the reduced usage of herbicides. In combination with PI reporting on hectares under management and crops financed, these impact claims allow for estimations to be made with regards to environmental benefits supported through the Fund.

- Quantitative and qualitative studies: Periodically, the Fund, mostly through the Development Facilities, is conducting on-the-ground studies for a deeper understanding of the contribution to environmental impact.

Methodologies as well as parameters used are reviewed and updated as required on a regular basis.

Due diligence on underlying assets (concerning environmental objectives of the Fund). Assessing the potential of an investment to contribute to the positive impact objective follows a two-step approach in the pre-investment phase:

- During pre-screening, the investee's alignment with the Fund's requirements is assessed. This relates to minimum requirements regarding capacities to manage and monitor environmental impact, as per the Fund's Issue Document and region-specific Investment Guidelines.
- During the due diligence phase, the investment's alignment with the Fund's impact objective is reviewed taking into consideration different elements such as potential outreach to the target group, the investee's capacity to deliver the expected impact, and the Fund's specific impact contribution.

Positive impact indicators and reporting. In order to measure the positive impact of its activities, EBF has identified a set a set of indicators. These have been selected based on the [Fund's Theory of Change](#) and include:

- Hectares of farmland under sustainable management
- Tons of absolute CO₂ stored by agroforestry activities
- Hectares of land where low or no-till practices are supported
- Hectares of soil erosion avoided
- M³ of water saved
- Liters of herbicides avoided
- M³ of liquid waste treaded or recycled
- Number of jobs supported

Impact results towards these indicators are reported on a regular basis, including through the Fund's annual Impact Report and on the Fund website.

For **more information** on monitoring approach and results please see:

- The EBF [Annual Impact Report 2018](#) and [Annual Impact Report 2019](#)
- The EBF [Impact Framework](#)
- The EBF [website](#) [Impact Subpage]

- The Advisor's [Disclosure statement to the Operating Principles for Impact Management](#)

Engagement policies and positive impact management

Engagement with PIs is an integral component of the Fund's investment process and central to managing its positive development impact. EBF considers itself a long-term partner to its PIs in line with its target to sustainably strengthen the green/conservation finance capacities in the local investment environments of its target regions. This engagement includes (but is not necessarily limited to) the provision of tailored technical assistance to train PI staff, enhance a PI's capacities to assess and monitor environmental impacts, build awareness for conservation finance, and offer assistance to end-clients to enhance and integrate sustainable business practices.

In addition, engagement with PIs takes place on a continuous basis, facilitated through the Advisor's presence in the target regions as well as through regular reporting requirements, and through the networking and platform building efforts of the Fund, which contribute to knowledge sharing and scaling up of good practices among and across PIs.