

Responsible Commodities Facility – Deforestation and Conversion Free: Finance for soy production in the Cerrado, Brazil (RCF-DCF Project)

Annex 6: Environmental and Social Management System

Prepared for the Green Climate Fund

by Sustainable Investment Management Ltd

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TABLE OF CONTENTS

1	Introduction.....	4
1.1	Organisation & Resources	4
1.2	Project Overview.....	5
1.2.1	The Cerrado.....	5
1.2.2	The RCF-DCF Project	6
2	E&S Risk Assessment	7
2.1	Scope & Approach.....	7
2.2	Categorization.....	8
2.2.1	Inherent risks	8
2.3	Exclusions.....	10
2.4	Management Level	11
2.5	Residual Risk.....	11
2.6	Debtor risk.....	11
2.7	Exposure to Controversies	12
2.8	Project Implementation.....	12
2.8.1	Pre-investment Phase	12
2.8.2	Environmental Screening	13
2.8.3	Contracting.....	13
2.8.4	Post-Investment Phase	13
2.8.5	Exit Phase.....	13
3	Positive Impact Assessment	14
3.1	Qualitative Evaluation.....	14
3.2	Quantitative Indicators.....	14
4	Fund Requirements: RCF-DCF Project.....	17
4.1	Introduction	17
4.1.1	Goal.....	18
4.2	E&S risks	19
4.2.1	Labour and Working conditions.....	19
4.2.2	Resource efficiency and pollution prevention	23
4.2.3	Community health, safety and security	24
4.2.4	Land Acquisition and Involuntary Resettlement.....	25
4.2.5	Biodiversity Conservation and Sustainable Management of Living Natural Resources	25
4.2.6	Indigenous Peoples	26
4.2.7	Cultural Heritage.....	29
4.3	Project and Investee Risk Categorisation	29

4.4	Compliance with existing relevant policies, laws and regulations	30
4.4.1	National and state-level policies	30
4.4.2	Investor policies	30
4.4.3	Labour, land tenure and human rights standards and guidance	30
4.5	Risk management throughout the investment cycle	31
4.5.1	Screening	31
4.5.2	Eligibility criteria	31
4.5.3	Due diligence	36
4.5.4	Farmer approval and contracting	36
4.5.5	Project level compliance monitoring and reporting	36
4.6	Monitoring and reporting	37
4.6.1	SEAH monitoring	38
4.7	Disclosure and transparency	38
4.7.1	Project Manager	39
4.7.2	Aggregators	39
4.7.3	Environmental Advisory Board	39
4.7.4	Farmers	39
4.8	Ethical conduct and safeguards	40
Appendix I	Definition of key terms	42
Appendix II	Alignment with aims, goals, indicators and targets of relevant policy and industry initiatives	43
Appendix III	Schedule of excluded activities	47
Appendix IV:	Indigenous Peoples Planning Framework (IPPF)	48
Appendix V:	Grievance Redress Mechanism	52
Appendix VI:	Stakeholder Engagement Framework	54
Appendix VII:	Operational Routine	55
Appendix VIII:	Eligibility for participation in the RCF-DCF Project - Screening Checklist	57
Appendix IX:	Sub-Project E&S Due Diligence Report Template	60

1 INTRODUCTION

Sustainable Investment Management Ltd (SIM) is an environmental finance advisory firm with the objective to promote the financing of activities that result in positive environmental impacts worldwide.

Responsible Commodities Facility – Deforestation and Conversion Free: Finance for soy production in the Cerrado, Brazil (RCF-DCF Project) is an initiative to promote the production and trading of responsible soy in Brazil, by creating a financially sustainable vehicle to provide incentives to farmers and help meet the growing international demand for zero-deforestation supply chains and regenerative agriculture.

The Environmental and Social Management System (ESMS) helps the company to incorporate social and environmental objectives into its projects through a set of clearly defined and replicable processes. This ensures that SIM has the appropriate policies and procedures in place and that staff and service providers consistently follow them. The ESMS also helps SIM to assess and control the risks to a project and is the key to lasting improvement. The system is fully integrated into all processes of SIM's projects, from the development of the lending rationale until the exit evaluation.

The ESMS is based on a learning by doing approach. This ensures continual improvement through an ongoing process of reviewing, correcting, and improving.

This ESMS has been developed in accordance with the IFC Performance Standards.¹

1.1 ORGANISATION & RESOURCES

Environmental and social issues are the responsibility of the whole SIM team. Environmental and social provisions, including those associated with slave labour, child labour, gender equality and sexual exploitation, abuse and harassment (SEAH) are included in SIM's Code of Ethics, which must be followed by all staff and contracting partners.

The Director of ESG and Compliance oversees the ecosystem of environmental and social issues, however much of the work is also managed and performed by service providers, as listed below:

- Environmental and social due diligence and monitoring – Carried out by SIM and BVRio (Bolsa Verde do Rio de Janeiro – Environmental Exchange of Rio de Janeiro), a non-profit organisation working at the intersection of economic, environmental and social sustainability.
- Independent monitoring – Carried out by Earth Daily Agro, a data and analytics company providing data services, satellite processing, machine learning and actionable insights to customers to track long-term trends, monitor change, and take guided, strategic actions.
- Independent verification – Carried out by ERM-NINT Brasil, the largest ESG research and advisory firm in Latin America, with a +100 staff and local presence in Brazil and Latin America. They are one of the five best environmental and social research houses for investors according to Eitel Independent Research in Responsible Investment - IRRI 2019 – and a pioneer in the green bond market in Brazil.
- Technical Assistance – Carried out by Produzindo Certo, a company which uses an exclusive methodology that identifies the actions necessary for rural properties to produce in balance

¹ <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

with people and the environment. With a multidisciplinary team of sustainability experts and the use of cutting-edge technologies, Produzindo Certo has been a pioneer in providing technical assistance in sustainability for rural producers and in bringing companies closer to their supply chain.

- Environmental Advisory Board (EAB) - The EAB provides strategic input with relation to project operations, expansion plans, and any amendments to a project's environmental governance or criteria.

Annual training is provided for SIM ESG staff to keep them up to date with environmental and social issues and the methods to mitigate risk and monitor, verify, and report findings. New staff receive targeted training to address any gaps. Regular meetings are held with service providers to coordinate activities. E&S costs, including human resources and monitoring, verification and reporting costs, are included in the management fee of the project.

1.2 PROJECT OVERVIEW

1.2.1 The Cerrado

The Cerrado covers 2,039,386 km², making it the second-largest biome in Brazil and South America. It is one of the world's largest and most biologically rich tropical savannahs, with more than 11,000 native plant species, as well as numerous species of mammals, fish, birds, amphibians and reptiles. Located in central Brazil between the Amazon, the Atlantic Forest and the Pantanal, it comprises the following states: Amapá, Bahia, Ceará, Distrito Federal, Goiás, Maranhão, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Pará, Paraná, Piauí, Rondônia, Roraima, São Paulo and Tocantins. It is a highly diverse ecosystem, and Brazil's Forest Reference Emission Levels (FREL) recognise 33 distinct forest phytophysiognomies, with the most abundant being Wooded Savanna.

84% of the Cerrado's territory is on private properties, with only 8% of the biome registered as protected areas. At the same time, 83% of its 25.5 million inhabitants live in urban areas². The biome also includes 216 Indigenous protected territories and has communities from 83 distinct ethnicities. In addition, there are 44 Quilombola protected territories. Quilombolas are the descendants of fugitive slaves whose rights to traditional lands are recognised by the Brazilian Government.³

A large number of the rural private properties are soy farms. Soy farming in the Cerrado generally consists of medium and larger farms (500 ha and more). Farms are typically bordered by other farms. Less than 3% of smallholders cultivate soy⁴. Typically, soy farmers can be divided into the following groups⁵:

- Large land development companies and institutional investors operate fundamentally with a land development model, in most cases focusing on the appreciation of their assets.

² Embrapa, Cerrado, 2023, <https://www.embrapa.br/en/cerrados/colecao-entomologica/bioma-cerrado>

³ Instituto Sociedade População e Natureza, Traditional Peoples and Communities of the Cerrado, 2020, <https://ispn.org.br/biomas/cerrado/povos-e-comunidades-tradicionais-do-cerrado/>

⁴ Albuquerque, Amanda de, Juliano Assunção, Pablo Castro, Natalie Hoover El Rashidy, and Giovanna de Miranda. Smallholders in the Caatinga and the Cerrado: A Baseline Analysis for a Rural Just Transition in Brazil. Rio de Janeiro: Climate Policy Initiative, 2023 <https://www.climatepolicyinitiative.org/wp-content/uploads/2023/02/Smallholders-in-the-Caatinga-and-the-Cerrado.pdf>

⁵https://www.nature.org/content/dam/tnc/nature/en/documents/TNC_IncentivesforSustainableSoyinCerrado_Nov2019.pdf

Acquisition of undervalued and underdeveloped land is particularly attractive to these companies.

- Large agribusiness companies and large family-owned business groups focusing on generating cash flow from agricultural production. They usually own several properties, each spanning tens or even hundreds of thousands of hectares.
- Small family groups and individual soy farmers focusing on agricultural production, usually adopting some form of crop rotation (a second harvest with corn, forage, cotton). This segment represents the majority of the farmers in numbers, but only approximately 30% of the soy producing area. These soy farmers typically own relatively small farms – under 1,000 ha – but will frequently manage several different farms, including rented land.

The Cerrado is under severe threat from agricultural expansion, particularly soy cultivation. Soy farmland has grown from 13 to 44 million hectares between 2000 and 2023, making Brazil the largest global producer. This expansion is a leading driver of deforestation and land conversion. More than half of the Cerrado's native vegetation has already been cleared, leading to biodiversity loss, degraded water systems, and increased vulnerability of farmers to climate risks such as droughts, heatwaves, and shifting rainfall patterns.

Current regulations, including the Brazilian Forest Code, are insufficiently enforced and farmers lack economic incentives to prevent both legal and illegal deforestation.

1.2.2 The RCF-DCF Project

The Responsible Commodities Facility – Deforestation- and Conversion-Free: Finance for soy production in the Cerrado, Brazil (RCF-DCF Project) will scale up sustainable soy production in the Cerrado by providing low-cost financing to farmers who commit to deforestation- and conversion-free (DCF) practices. Soy farmers typically use some form of annual financing to pay for agricultural inputs related to the crop, such as seeds, pesticides, and fertilisers. Farmers with native vegetation in excess of the legal requirements of at least 5% are offered finance at a lower rate of interest, and this difference offsets the opportunity cost of not converting and producing on that land.

Technical assistance will not be included in the initial loan package for farmers, but it will be explored and may be provided for loans issued later, funded with the same funds. Technical assistance would support the transition to regenerative agriculture, including reducing pesticide use by leveraging natural pest management mechanisms. Services providers such as Produzindo Certo will be engaged for these activities.

2 E&S RISK ASSESSMENT

This section provides an overview of the environmental and social risk assessments carried out during the project development stage.

2.1 SCOPE & APPROACH

Environmental risks cover potential negative impacts on the natural environment while social risks cover potential negative impacts on local communities, project stakeholders and the workforce. Governance risks, in this context, are restricted to the governance of E&S risks and include risk of corruption, of child labour, forced labour, strength of the environmental regulations.

The topics systematically covered by the ESG risk assessment comprises the following:

- Legal and Regulatory E&S compliance
- Certifications and Standards
- Environmental and Social Assessment and Management
- Pollution Control, Energy and Water use
- Biodiversity Conservation
- Human resources Policies & Procedures
- Health & Safety at work
- Community Health, Safety and Security
- Land Tenure and Land Use Change
- Indigenous Peoples' Rights and interests
- Stakeholder Engagement and Grievance Management
- Gender
- Cultural Heritage

At the development stage, SIM carries out a risk assessment to identify all relevant environmental and social risks and impacts of a project idea. The risk assessment involves a gap analysis based on the International Finance Corporation (IFC) Social and Environmental Performance Standards:

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- Performance Standard 2: Labour and Working Conditions
- Performance Standard 3: Resource Efficiency and Pollution Prevention
- Performance Standard 4: Community Health, Safety, and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
- Performance Standard 7: Indigenous Peoples
- Performance Standard 8: Cultural Heritage

Compliance with national environmental, social, and labour laws and regulations are also assessed.

The ESG risk assessment follows a step approach (developed in the following sections):

1. Categorization
2. Exclusion check

3. Inherent risk
4. Management level
5. Residual risk

2.2 CATEGORIZATION

SIM categorizes the projects it develops based on their inherent risk using IFC risk categorization⁶. Categorization occurs early in the development process but can be revised during the assessment and due diligence process. The categories can be found in Table 1.

Table 1. IFC Risk Categorization

Category	Description
A	Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
B	Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
C	Business activities with minimal or no adverse environmental or social risks and/or impacts.
FI	<p>Business activities involving investments in financial institutions (FIs) or through delivery mechanisms involving financial intermediation. This category is further divided into:</p> <p>FI-1: when an FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.</p> <p>FI-2: when an FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.</p> <p>FI-3: when an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.</p>

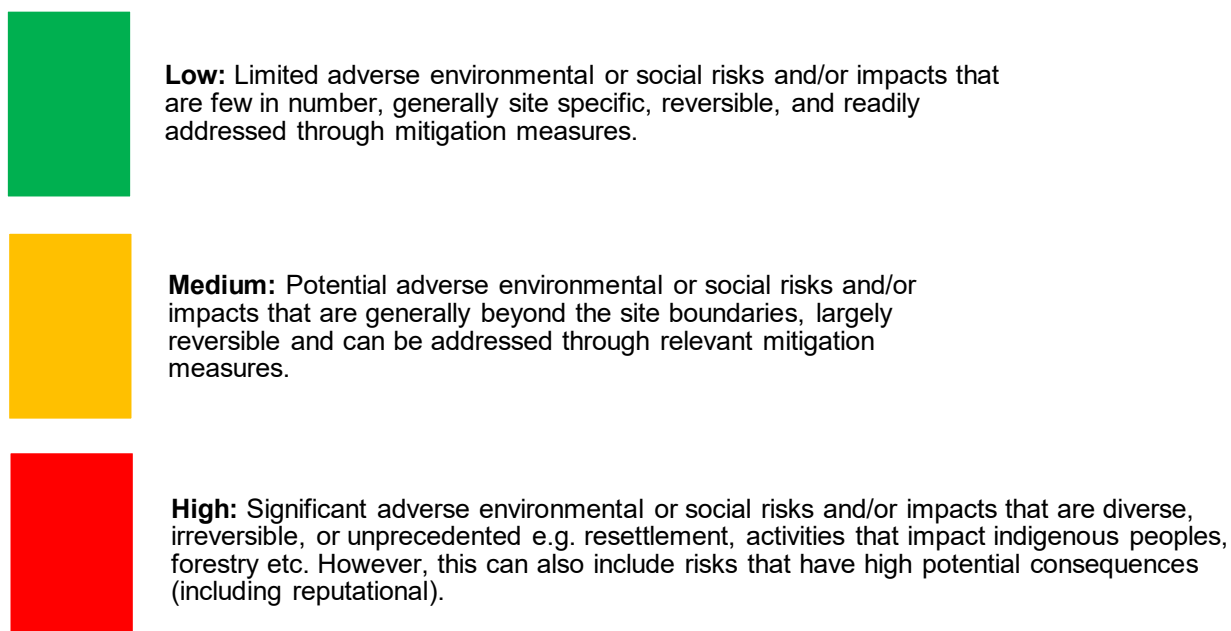
SIM's objective is to promote the financing of activities that result in positive environmental impacts worldwide. Therefore, SIM does not develop or invest in projects with a Category A because they generate unmitigable negative impacts. Instead, SIM focuses on projects with a Category B or FI-2 rating.

2.2.1 Inherent risks

⁶ <https://www.ifc.org/en/what-we-do/sector-expertise/sustainability/policies-and-standards/environmental-and-social-categorization>

Inherent risk refers to the level of risk a project or process presents before any risk controls or mitigation strategies are implemented. Assessing inherent ESG risk is an important aspect of ESG analysis to understand the fundamental risk exposure of a project and develop strategies to manage and mitigate these risks effectively. The level of inherent risk characterized by the nature of the operations and their location is ranked as follows for each of the risk topics mentioned below.

Figure 2. Categorization of inherent risks



SIM's work in the agricultural and commodities sectors typically has the following inherent risks:

Environmental Risks:

- **Deforestation and removal of native vegetation:** This can have significant environmental impacts, including loss of biodiversity, greenhouse gas (GHG) emissions, and the loss of ecosystem services.
- **Soil Degradation:** Agricultural activities can lead to soil erosion, depletion of nutrients, and contamination from agrichemicals, posing risks to soil health and long-term agricultural productivity.
- **Fertilizer and pesticide use:** Have the potential to pollute water and soil, disrupt ecosystems, and contribute to climate change. Excessive fertilizer use can lead to nutrient runoff, contaminating water bodies and causing algal blooms. Pesticides, while controlling pests, can also harm beneficial insects, birds, fish, and other wildlife, as well as contaminate food sources.

Social Risks:

- **Labour:** There could potentially be impacts on the working conditions, particularly the terms of employment, worker's organisation, non-discrimination, equal opportunity, child labour, and forced labour of direct, contracted and third-party workers, and sexual exploitation, abuse, harassment.

- Land tenure and Indigenous communities: A lack of clear land-use agreements that respect traditional rights can lead to land grabbing. Where impacts on indigenous communities are possible, an Indigenous Peoples Planning Framework must be completed as part of the inherent risk analysis. A template of this framework can be found in Appendix 1.

2.3 EXCLUSIONS

SIM and its projects will not invest in an entity that has an interest in a subsidiary or joint venture with substantial involvement in any of the following projects:

1. 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, ozone depleting substances, PCB's, wildlife or products regulated under CITES and transboundary movement of waste prohibited under international law.
2. Production or trade in weapons and munitions.
3. Gambling, casinos and equivalent enterprises.
4. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
5. Production or trade in unbonded asbestos fibres.
6. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, or blast fishing.
7. Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage
8. Trading in endangered or protected wildlife or wildlife products.
9. Agricultural development on peatlands.
10. Hunting and trade of bushmeat.
11. Production or activities involving harmful or exploitative forms of forced labour (all work or service, not voluntarily performed, extracted from an individual under threat of force or penalty), and harmful child labour (employment of children that is economically exploitive, 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, moral, or social development).
12. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
13. Production or activities which may potentially affect remote groups with limited external contact, also known as peoples "in voluntary isolation", "isolated peoples" or "in initial contact".

SIM and its projects will also not participate or invest in an investment if such participation or investment would cause SIM to become involved in violations of the human rights specified by the United Nations' Universal Declaration of Human Rights, and labour rights as specified by the United Nations/International Labour Organisation core conventions on 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 (Convention 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 100 and 111).

Other investments may be added to this exclusion list in new versions of this ESMS.

2.4 MANAGEMENT LEVEL

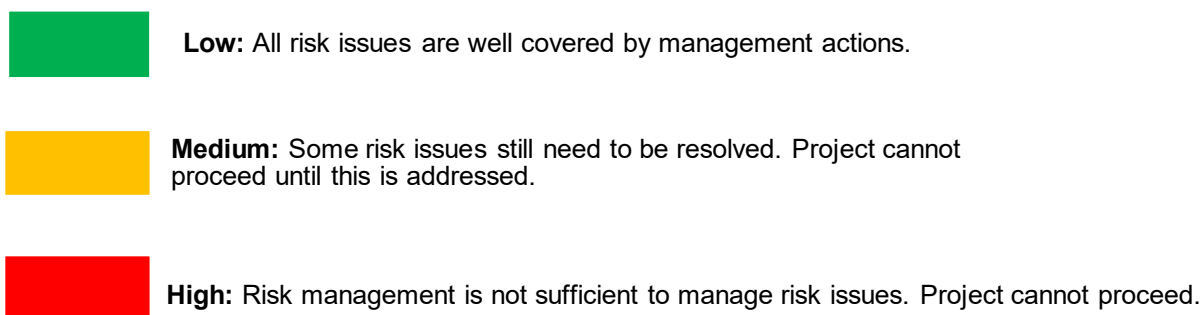
For new projects, an assessment is made of the ability to manage inherent risk through a mitigation hierarchy. This uses the following mechanism to address any potential negative impacts: anticipate and avoid, or where avoidance is not possible, minimise, and, where residual impacts remain, compensate/offset for risks and impacts.

2.5 RESIDUAL RISK

Residual risk refers to the remaining risk that exists after all possible control measures and mitigation strategies have been implemented to address potential environmental and social impacts. It represents the risk that cannot be fully eliminated but can be managed and monitored through proactive measures.

The final ESG risk assessment is a combination of the assessment of the inherent risk (the nature of activities, scope and nature of ESG risks, and the context) and the ability to manage risk through the mitigation hierarchy and the capacity.

Figure 3. Residual Risk Level



2.6 DEBTOR RISK

Projects that are category B and have a low residual risk level proceed to implementation. SIM creates eligibility criteria for its debtors for each project based on the final risk assessments. Compliance of an investee with the criteria is binary, and if any of the criteria are not met then a loan is not made.

2.7 EXPOSURE TO CONTROVERSIES

With the objective of promoting the financing of activities that result in positive environmental impacts worldwide, SIM's reputation is linked to environmental, social or governance issues. SIM has developed a robust framework for prevention, identification and management of reputational risk and severe controversies.

Firstly, SIM's communications team carry out permanent monitoring of reputational issues. This includes all potential/real reputational issues linked to investments, investors, and to other stakeholders around investments. We also collaborate with investors to share information.

Any controversies are verified and assessed in terms of severity (nature of harm and number of people concerned), recurrence (company's track record) and magnitude (isolated event or systemic issue) as well as any response given (quality of dialogue, proactive investigation, collaboration with authorities, measures taken to prevent and repair, etc.). This results in a classification of high or low concern. Potential investees with low concern controversies are still eligible for financing from SIM projects, while those with high concern are excluded. An audit trail is kept for all assessments.

2.8 PROJECT IMPLEMENTATION

At the project implementation stage, SIM follows the following processes to ensure that the results of the E&S Assessment are embedded in the project.

2.8.1 Pre-investment Phase

2.8.1.1 *Climate assessment*

At the development stage of projects, SIM carries out a climate assessment to understand the unique national and/or regional level climate vulnerability, the climate change impacts of the project, and any climate adaptation/mitigation solutions. This is to ensure that the climate assessment is systematically embedded throughout SIM's investment processes.

Climate assessments aim to identify the biggest climate risks now and in the future. This involves analysing changes in weather patterns and climate-related hazards and extremes, along with changes in exposure and vulnerability.

2.8.1.2 *Assessing national and/or regional level climate vulnerability*

Various tools are used to assess the national and/or regional climate vulnerability of each project. These tools include:

- Think Hazard for the assessment of natural hazards⁷
- The Notre Dame Global Adaptation initiative for vulnerability to climate change⁸
- World Bank Climate and Disaster Risk Screening Tools⁹
- WWF Water Risk Filter¹⁰
- Climate Analytics¹¹

⁷ <https://thinkhazard.org/en/>

⁸ <https://gain.nd.edu/>

⁹ <https://climatescreeningtools.worldbank.org/>

¹⁰ <https://riskfilter.org/water/home>

¹¹ <https://climateanalytics.org/tools>

- IPCC Interactive Atlas¹²
- Country specific maps, for example MapBiomass¹³ and TerraBrasilis¹⁴ for Brazil.

The results are used to identify any climate risks such as physical risks, extreme weather conditions, health risks, and geological risks.

2.8.1.3 Climate Change Impact

A specific climate change impact analysis based on IPCC scenarios is then carried out for project activities that will take place in specific locations. For example, the impacts on soy farming in the state of Mato Grosso.

2.8.1.4 Solutions

Based on the results of the analysis, appropriate climate adaptation/mitigation solutions can be derived specific to the local context. These solutions help to inform what environmental requirements are necessary for the project to have a positive climate mitigation and/or climate adaptation impact.

2.8.2 Environmental Screening

Once a project has been developed, an environmental screening protocol is designed in order to be able to quickly identify suitable participants in the project. This typically includes a set of eligibility criteria that must be met.

2.8.3 Contracting

During the contracting phase it is important to include ESG related items in any agreements. This is in order to make the environmental and social commitments made by the investee legally binding.

2.8.4 Post-Investment Phase

This phase consists of monitoring and reporting of the eligibility criteria to ensure that the investee continues to meet the environmental and social commitments agreed to in the agreements that have been signed.

Any non-compliance found during monitoring is investigated by SIM's senior management team and if confirmed, appropriate actions will be taken, as per the legal contracts.

2.8.5 Exit Phase

For SIM projects involving loans to participants, a planned exit occurs when the loan is repaid. The aim is that sustainability objectives of a project become embedded into participant activities during the course of a project, causing impacts to continue after the lifetime of the project. SIM will continue to monitor participants after the end of a project in order to track impacts over the long term.

Where an exit is due to a default on a loan it is important to understand the effect on the impacts generated by the project and whether there is anything that can be done to promote maintenance of

¹² <https://interactive-atlas.ipcc.ch/>

¹³ <https://brasil.mapbiomas.org/en/>

¹⁴ <https://terrabrasilis.dpi.inpe.br/>

the impacts with the participant. SIM will continue to monitor participants after the default in order to track impacts over the long term.

3 POSITIVE IMPACT ASSESSMENT

A positive impact assessment is important because it demonstrates not only that a project avoids harm, but also that it actively delivers measurable benefits in environmental and social dimensions. To assess the success of a project, SIM uses several types of indicators, both qualitative and quantitative.

3.1 QUALITATIVE EVALUATION

To demonstrate the positive impact of objectives in a non-numerical way, SIM carries out a qualitative evaluation of the project.

A qualitative evaluation is a method of assessment that focuses on understanding the experiences, perspectives, and opinions of participants in the project. This allows SIM to gain contextual understanding of why a project is successful or unsuccessful, or how different factors contribute to outcomes.

Data, in the form of themes, examples, and causal links can be used to produce brief case studies which elaborate on the success or failure of a project. A simple scoring system (high/medium/low positive impact) is also used to allow easy comparison of projects.

3.2 QUANTITATIVE INDICATORS

To demonstrate the positive impact of a project, an impact framework of KPIs and methods of monitoring progress towards KPIs has been developed. The KPIs chosen are those that reflect and contribute to the targets and indicators of the SDGs, NDC and various industry initiatives. The impact framework allows partners and third-party stakeholders to comprehensively assess positive E&S impacts against pre-established baselines. Indicators typically used by SIM are listed below:

Indicator: Climate Mitigation
Scope
Climate change mitigation interventions seek to reduce the release of greenhouse gas emissions or to increase the capacity of carbon sinks. This can be through avoided deforestation and conversion of native vegetation or through carbon sequestration via native vegetation regrowth, native vegetation restoration, and/or improved soil management. Any reversals are deducted.
Objective
Generating significant carbon reduction and/or carbon removal.
Eligibility criteria
<ul style="list-style-type: none">• Emissions reductions from avoided deforestation and conversion of native vegetation• Carbon sequestration through native vegetation regrowth, native vegetation restoration and/or improved soil management (no tillage, reduction in agrichemical inputs etc.)
KPIs
<ul style="list-style-type: none">• Tonnes of Carbon Dioxide equivalent (tCO₂e) avoided• CO₂ removed and sequestered (mtCO₂)
Monitoring
<ul style="list-style-type: none">• Systematic evaluation of carbon emissions avoided through avoided deforestation• Remote sensing monitoring of native vegetation regrowth or native vegetation restoration

- Monitoring of the implementation of activities to encourage soil carbon sequestration at the farm level

Indicator: Climate Adaptation
Scope
For SIM projects climate adaptation refers to regenerative agriculture, an activity which has climate resilience benefits.
Objective
Increasing farmers resilience to climate change risks
Eligibility criteria
Regenerative agricultural practices implemented including: <ul style="list-style-type: none"> • No tilling farming, with cover crops • Organic fertilization – At least 20% of the fertilizer volume comes from organic sources • Use of biologicals – At least one application of biologicals per crop/harvest • Reduction in chemical pesticide use – Below 20% of the national average • Crop rotation
KPIs
<ul style="list-style-type: none"> • Number of direct and indirect beneficiaries reached • Number of hectares under regenerative agriculture
Monitoring
<ul style="list-style-type: none"> • Questionnaires for participants, site visits

Indicator: Biodiversity
Scope
Area native vegetation protected and/or restored
Objective
Protecting vital habitats for flora and fauna
Eligibility criteria
<ul style="list-style-type: none"> • Native vegetation is present in the land area • On average, 5% of the land area is native vegetation in excess of legal requirements
KPIs
<ul style="list-style-type: none"> • Hectares of native vegetation conserved • Hectares of native vegetation in excess of legal requirements conserved
Monitoring
<ul style="list-style-type: none"> • Remote sensing using Landsat images

Indicator: Gender
Scope
Improving gender equity in SIM project activities
Objective
<p>Apply a gender lens to SIM projects at both fund and portfolio levels</p> <ul style="list-style-type: none"> • Conduct a contextual analysis at the country and sector level using publicly available information prior during project development phase • Assess gender risks and impacts at project level • Create a Gender Action Plan with activities to ensure female participation in project activities • Carry out monitoring of Gender Action Plan implementation
Eligibility criteria
<ul style="list-style-type: none"> • Potential for females to be included in project activities
KPIs
<ul style="list-style-type: none"> • Number of farming groups with at least one female owner • Women benefiting directly from the project (excluding employees)

<ul style="list-style-type: none"> • Number of farmers with increased knowledge of gender equality and SEAH issues
Monitoring
<ul style="list-style-type: none"> • Data collection: analysis of CNPJs (Tax IDs) of farming groups • Data collection: analysis of distribution of communications materials and attendance at workshops

4 FUND REQUIREMENTS: RCF-DCF PROJECT

The sections below provide specific details of the procedures and processes used for the E&S management of the RCF-DCF Project. It forms the RCF-DCF Project E&S Policy which is readily available and used internally by the investment and ESG team at SIM. This E&S Policy is endorsed by the senior management of SIM and will be communicated to all levels of the company and its stakeholders. This E&S Policy is made publicly available on the SIM website (<https://sim.finance/>).

4.1 INTRODUCTION

Growing demand for soy is leading to the deforestation of large tracts of Cerrado vegetation in Brazil, with associated greenhouse gas (GHG) emissions and loss of biodiversity. At the same time, large tracts of cleared and sub-utilized land are available in the Cerrado for expansion of soy cultivation without the need for further conversion of natural habitats. By restricting soy cultivation to areas that are already cleared, levels of deforestation, or conversion of natural habitats, should be reduced and carbon emissions, together with the loss of biodiversity, avoided.

Responsible Commodities Facility – Deforestation and Conversion Free: Finance for soy production in the Cerrado, Brazil (RCF-DCF Project) designed by Sustainable Investment Management Ltd (SIM) was created to provide financial incentives to farmers that commit to legal compliance with the Brazilian Forest Code through the cultivation of deforestation- and conversion-free (DCF) soy

The RCF Cerrado Programme 1 (RCF Pilot) was the first project to be implemented under the context of the Responsible Commodities Facility. From an environmental perspective, the RCF Pilot focused on the objectives of Cerrado Manifesto and had the objective to halt deforestation and conversion and maximise the conservation of native vegetation in areas of soy production. In this context, the funds raised were used to provide low interest rate crop finance to farmers committed to the production of deforestation- and conversion-free soy in the Cerrado biome, with emphasis on the municipalities with higher risk of deforestation in the States of Mato Grosso and Goiás. It was intended to be a demonstration project, with the proposal now to scale it up to become the RCF-DCF Project.

The RCF-DCF Project will consist of the RCF Impact Fund, a single partner Limited Partnership structure to be capitalized by the Green Climate Fund (GCF), with an equity contribution of USD 100 million. The RCF Impact Fund will provide subordinated capital to special purposes Investment Structures (investees) leveraging an additional USD 400 million over time in co-financing from institutional and impact investors. Funds will be disbursed to farmers via innovative green bonds (Certificados de Recebíveis do Agronegócio – CRAs, a type of security widely used to finance the Brazilian agribusiness), tied to strict covenants:

- No clearing of native vegetation after 2020.
- Compliance with Brazil's Forest Code and environmental regulations.
- Maintenance of native vegetation beyond legal requirements.
- Adherence to labour (including slave labour, child labour, SEAH and gender quality) and agrichemical standards.

By leveraging concessional capital to unlock significant private investment, the RCF-DCF Project provides a scalable, market-based solution to halt deforestation in the Cerrado while ensuring agricultural productivity, climate resilience, and biodiversity protection. The project represents a transformative step toward aligning global soy supply chains with climate and sustainability goals.

Environmental and social (E&S) impacts and risks are at the core of RCF-DCF Project investment philosophy. This is reflected in the operational and investment decision-making procedures of the project. This E&S Policy, amended from the previous E&S framework developed in collaboration with UNEP, outlines those procedures, as well as how the projects will demonstrate positive E&S impacts from DCF soy in the Cerrado.

Note that, for clarity, key technical terms used in this document are defined in Annex I.

4.1.1 Goal

The overall goal of the RCF-DCF Project is to ***‘Contribute to the protection of forests, and avoid conversion of Cerrado vegetation, to achieve positive climate and biodiversity impacts, through incentivising compliance with the Brazilian Forest Code¹⁵ and expansion of soy cultivation on to degraded pastureland’***. In achieving this goal, the project will also contribute to a number of the Sustainable Development Goals (SDGs), [Brazil’s National Biodiversity Strategy and Action Plan](#) (NBSAP), [Brazil’s National Determined Contribution](#) (NDC) to Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC), as well as several relevant industry initiatives, i.e.:

- Soy Working Group (Grupo de Trabalho da Soja – GTS)
- Cerrado Working Group (Grupo de Trabalho do Cerrado – GTC)
- [Cerrado Manifesto](#) (including the [Statement of Support](#) and anticipated near-future Cerrado Conservation Mechanism)
- [Collaboration for Forests and Agriculture](#) (CFA)
- [Tropical Forest Alliance](#) 2020 (TFA 2020)
- [Consumer Goods Forum](#) (CGF)
- [Amsterdam Declaration Partnership](#)
- [Good Growth Partnership](#)

¹⁵ The RCF-DCF Project will maintain compliance with the Forest Code, as enshrined in Brazilian law as of 01 January 2019, irrespective of any future changes to the laws comprising the Code, unless those changes require a higher level of forest protection and concomitant biodiversity and climate impact of Farmers, in which case the highest level of legal compliance will be adopted.

4.2 E&S RISKS

E&S risks have a material impact on the long-term financial performance of projects and companies. Poorly managed risks can lead to inefficiencies, operational disruption, litigation, exposure to regulatory change and reputational damage. Supplementing traditional financial analysis with that of E&S-related risks, and measures to manage those identified risks, is both prudent and in line with fiduciary responsibility to optimize investor returns.

SIM carried out a risk assessment to identify all relevant environmental and social risks and impacts of the RCF-DCF Project. The risk assessment involved a gap analysis based on the International Finance Corporation (IFC) Social and Environmental Performance Standards. IFC Performance Standard 1, which covers project-level risk management procedures (such as project-level risk categorisation and E&S management) is applicable at the RCF-DCF Project level and not the farm level and so is not discussed in the risk assessment. The ESMS and E&S Policy of the RCF-DCF Project meet the requirements of Performance Standard 1.

4.2.1 Labour and Working conditions

4.2.1.1 *Inherent risk*

There are a number of risks relating to labour and working conditions in the agribusiness sector of Brazil. These include the risk of slave labour, the risk of child labour, sexual exploitation, abuse and harassment (SEAH) risks, and gender equality risks. These risks are explained in more detail below. Due to the nature of these risks, labour and working conditions are given a medium inherent risk classification.

4.2.1.1.1 Forced labour and child labour

Forced labour (also known as slave labour) “consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty. This covers any kind of involuntary or compulsory labour, such as indentured labour, bonded labour, or similar labour-contracting arrangements¹⁶.”

Child labour is defined as “employing children in any manner that is economically exploitative, or is likely to be hazardous 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.”

The 2023 Global Slavery Index estimated about 5.0 per 1,000 people in modern slavery in Brazil, placing Brazil among countries with substantial vulnerability¹⁷.

Areas of rapid agricultural expansion and conversion of land, such as the Cerrado region of Brazil where the RCF-DCF Project is located, often have large amounts of informal or contract labour in remote locations. These are conditions that raise the risk of exploitation and slave-like conditions.

¹⁶ <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

¹⁷ : Walk Free 2023, Global Slavery Index 2023, Minderoo Foundation. Available from: <https://www.walkfree.org/global-slavery-index/>

4.2.1.1.2 SEAH

“Sexual Abuse” means the actual or threatened physical intrusion of a sexual nature, whether by force or under unequal or coercive conditions.

“Sexual Exploitation” means any actual or attempted abuse of a position of vulnerability, differential power, or trust, for sexual purposes, including, but not limited to profiting monetarily, socially, or politically from the sexual exploitation of another.

“Sexual Harassment” includes unwelcome sexual advances, requests for sexual favours, and other verbal or physical conduct of a sexual nature, that interferes with work, or is made a condition of employment, or creates an intimidating, hostile or offensive environment in connection with a Fund-related activity.

In the agribusiness sector, SEAH can be found at all levels of the value chain. The RCF-DCF Project will finance soy farms in the Cerrado which commit to deforestation and conversion-free soy production. Therefore, the context of SEAH is focussed at the farming and primary production level.

In general, research shows that women agricultural workers experience high levels of violence and harassment by supervisors and colleagues in the fields, plantations and greenhouses of agribusinesses globally.

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In general, research shows that women agricultural workers experience high levels of violence and harassment by supervisors and colleagues in the fields, plantations and greenhouses of agribusinesses globally.

The following activities are recognised as being commonly associated with higher levels of SEAH risk¹⁸

- Remote, rural locations

Soy farms in the Cerrado, which is the focus of the RCF-DCF Project, are in remote, rural locations. This is a SEAH risk because it increases the opportunities for men to perpetrate sexual assault and harassment because individuals are physically distant from neighbours, support networks, and formal services, making it harder to leave a situation or call for help. There is also limited or non-existent public transport which means if victims do not have personal vehicles then they can be trapped in an abusive situation.

- Lack of facilities

Another SEAH risk is a lack of facilities in agricultural project sites and farm worker accommodation or other physical spaces, as well as overcrowded and/or mixed worker accommodation and lack of separate facilities especially for women. Brazilian law and requires decent dorms, sanitation and sex-segregated

¹⁸ Green Climate Fund .2021. Revised Policy on the Prevention and Protection from Sexual Exploitation, Sexual Abuse, and Sexual Harassment. <https://www.greenclimate.fund/document/revised-policy-prevention-and-protection-sexual-exploitation-sexual-abuse-and-sexual>

¹⁹ IFC, EBRD, CDC, 2020, Addressing Gender-Based Violence and Harassment (GBVH) in the Agribusiness Sector. <https://www.ifc.org/content/dam/ifc/doc/mgrt/sectorbrief-addressinggbvh-agribusiness.pdf>

sleeping/bathroom areas for rural workers, however, investigations have found this to not always be the case. This is a medium risk of the RCF-DCF Project because the soy farms are highly mechanised and therefore have fewer employees than other agricultural sectors which makes overcrowding less likely.

- Temporary and seasonal working

In the agricultural sector, a SEAH risk is the engagement of temporary, seasonal and migrant workers, often exacerbated by precarious employment conditions and low levels of unionisation, which reduce the likelihood of workers reporting SEAH for fear of losing jobs. This is a low risk for the RCF-DCF Project because women are typically employed on the farms in administrative roles such as office work, kitchen work and general cleaning services which are not seasonal. In addition, the farms are highly mechanised and so generally don't require additional workers for planting or harvesting so there are few seasonal fluctuations in the number of workers on a farm.

There can also be a risk that the arrival of a large, predominantly male workforce into a community can alter existing power dynamics and potentially increase risks of SEAH against local women. This is a low risk for the RCF-DCF Project because the farms are highly mechanised and so generally don't require additional workers for planting or harvesting so there are few seasonal fluctuations in the number of workers on a farm.

- Seasonal fluctuations in workload

In the agricultural sector, seasonal fluctuations in workload (due to planting, harvesting etc.) can increase the likelihood of physical and verbal abuse in an attempt to immediately boost productivity, contributing to an environment where SEAH is tolerated. This is a low risk for the RCF-DCF Project for two reasons. Firstly, women typically work in administrative roles which are not connected to productivity in the fields. Secondly, the farms are highly mechanised and so generally don't require additional workers for planting or harvesting so there are few seasonal fluctuations in the number of workers on a farm.

- Asymmetrical power relations

On farms with male management, there is a SEAH risk of asymmetrical power relations, with men in positions of power and women in lower paid, lower authority positions. This is a risk on farms financed by the RCF-DCF Project because the majority of the farms are male-owned.

- Lack of digital penetration

In rural areas there can be a lack of digital penetration resulting in a lack of ability for farm workers to communicate SEAH issues or risks or access services. This is a low risk for the RCF-DCF Project because in Brazil ownership of a mobile phone is nearly 90%.

- Lack of SEAH knowledge, training and services due to disparate project sites

RCF-DCF Project financed farms will be spread across the Cerrado biome. Due to this, there is a risk that farms will have a lack of SEAH knowledge, training and services.

4.2.1.1.3 Gender Equality

The main gender equality risks related to the agribusiness sector in Brazil are inequality of opportunities, remuneration and working conditions. A full Gender Assessment for the RCF-DCF Project can be found in Annex 8.

4.2.1.2 Mitigation measures and residual risk

4.2.1.2.1 Forced labour and child labour

The RCF-DCF Project only finances farms that meet the project's eligibility criteria. One of the eligibility criteria is that farms must be in compliance with Brazilian labour legislation, including that related to forced and child labour. The RCF-DCF Project also include an Environmental and Social Commitment Plan (see Appendix IX) in the contract signed by the farmer (Cédula de Produto Rural – “CPR”). The plan will state that the farmer will comply with all national legislation relating to labour, including those relating to forced labour and child labour.

In addition, an innovative effort implemented by the Brazilian authorities in 2003 to combat forced labour was the creation of the “Dirty List” (Lista Suja). This public tool contains the names of employers (individuals or companies) that have been identified as using slave labour. The Dirty List is updated biannually by the Brazilian Ministry of Labor. As part of the eligibility criteria checks, SIM cross-checks the Tax IDs of the individual farmers and companies wishing to receive finance from the RCF-DCF Project against this list. Companies or individuals that are present on the list are not eligible for finance from the RCF-DCF Project. Updates to the Dirty List will be crosschecked against financed farms and found to be present in the updates will be expelled from the project.

4.2.1.2.2 SEAH

To mitigate the risks associated with soy farms being in remote, rural locations, the RCF-DCF Project will have an anonymous online form, email address and phone number for individuals to report SEAH concerns or incidents. A QR code will be used to provide a quick link to the online form to WhatsApp. Brazilians, including those with poor literacy skills, regularly use WhatsApp voice notes to communicate. Farmers financed by the RCF-DCF Project will be required to display posters with this information (provided by the project) in prominent locations in workspaces on their farms. Posters will use icons and simple pictograms to show steps to make a complaint assist those with poor literacy. Ownership of a mobile phone was 88.9%²⁰, in 2024 and there are 1.2 smartphones per inhabitant²¹ and therefore it is highly likely that victims will have access to a phone and/or the internet. Any reports made will be managed according to the procedure for SEAH related complaints. In addition, project staff will be trained in identifying SEAH risks and if any are identified during field visits these will be investigated and appropriate action taken.

To mitigate risk of a lack of facilities, the RCF-DCF project will make the farms it finances contractually obliged to comply with the relevant Brazilian laws on this topic. Non-compliance will lead to expulsion from the project and monetary fines.

To mitigate this risk of asymmetrical power relations, the RCF-DCF Project will prioritise financing farms with at least one female owner, providing they meet the other eligibility criteria. This will reduce the risk of asymmetric male – female power relations. To further mitigate this risk, the RCF-DCF Project will have an anonymous online form, email address and phone number for individuals to report SEAH concerns or incidents. A QR code will be used to provide a quick link to the online form and to WhatsApp. Brazilians, including those with poor literacy skills, regularly use WhatsApp voice notes to communicate. Farmers financed by the RCF-DCF Project will be required to display posters with this information (provided by

²⁰<https://agenciadenoticias.ibge.gov.br/en/agencia-news/2184-news-agency/news/44045-in-brazil-88-9-of-the-population-had-a-mobile-phone-in-2024>

²¹ <https://eaesp.fgv.br/en/news/research-reveals-brazil-has-480-million-digital-devices-use-22-inhabitant?>

the project) in prominent locations in workspaces on their farms. Posters will use icons and simple pictograms to show steps to assist those with poor literacy. Any reports made will be managed according to the procedure for SEAH related complaints.

To mitigate the risk of a lack of SEAH knowledge and training, the RCF-DCF Project will hold 'Farmer Field Days' which are training days hosted in rural areas to allow the participation of farmers and farm workers who may be unable to attend events in cities etc. These training days will include information on SEAH prevention and will be organised in collaboration with relevant Brazilian organisations. As well as this, educational communications materials will be developed to improve farmers' SEAH knowledge and will be distributed to all farmers financed by the RCF-DCF Project. The materials will be developed in collaboration with relevant Brazilian organisations.

Additionally, the RCF-DCF Project only finances farms that meet the project's eligibility criteria. One of the eligibility criteria is that farms must be in compliance with Brazilian labour legislation, including those relevant to SEAH. All financed farms will also be contractually bound to comply with SIM's SEAH policy. This is stated in the Environmental and Social Commitment Plan (see Appendix IX) in the contract (Cédula de Produto Rural – "CPR") signed by the farmer. Non-compliance will lead to expulsion from the project and a monetary fine.

4.2.1.2.3 Gender Equality

The RCF-DCF Project only finances farms that meet the project's eligibility criteria. One of the eligibility criteria is that farms must be in compliance with Brazilian labour legislation, including those relevant to gender equality. This is stated in the Environmental and Social Commitment Plan (see Appendix IX) in the contract (Cédula de Produto Rural – "CPR") signed by the farmer.

4.2.1.2.4 Residual risk

Based on the implementation of these mitigation measures, the residual risk is classified as low.

4.2.2 Resource efficiency and pollution prevention

For the agribusiness sector in Brazil, the main risks in this category relate to agrichemical use and water use.

4.2.2.1 Inherent risk

4.2.2.1.1 Agrichemicals

It is estimated that the use of herbicides, fungicides and insecticides can increase crop yield globally by 50%, 17% and 17%, respectively, in comparison with pesticide free crops.²² On average 50-60% of the total pesticides applied on Brazilian crops were applied on soy plantations.²³ But pesticides can have

²² JERRY COOPER, H. D. 2007. The benefits of pesticides to mankind and the environment. *Crop Protection*, 26, 1337-1348.

²³ Heinrich-Böll-Stiftung (2021) *Brazil: more cultivation, more pesticides, more exports*, European Union office, available at: <https://eu.boell.org/en/PesticideAtlas-Brazil> (Accessed: 5 November 2025). eu.boell.org ; Associação Brasileira de Saúde Coletiva (ABRASCO) and partners (2023) *Vivendo Em Territorios Contaminados: Um dossiê*

negative human and environmental impacts. Pesticides can be carried by the wind and/or travel during precipitation events, where they become part of the water run-off from the fields joins larger bodies of water such as rivers and streams. This is known as pesticide drift. Exposure to pesticide can cause acute (short term) and chronic (long term) harmful effects on human health and can harm or kill non-target plants, animals and microorganisms.

Brazil legislation permits the use of a number of pesticides which are listed on internationally recognized instruments and databases of severely hazardous pesticides such as the Rotterdam Convention, Stockholm Convention and WHO Recommended Classification of Pesticides by Hazard. Due to this, the inherent risk is classified as medium.

4.2.2.1.2 Water use

Water use can be a risk in the agribusiness sector due to the potential for unsustainable water use causing stress on water resources. The majority of farms growing soybeans in the Cerrado are rain fed, with farmers relying on the rainy season to water their crops. Therefore, the inherent risk of unsustainable water use is classified as low, and no mitigation measures are required.

4.2.2.2 Mitigation measures and residual risk

4.2.2.2.1 Agrichemicals

To mitigate the risk of severely hazardous pesticides being used on RCF-DCF Project financed farms, SIM has developed a database of pesticides typically used on soy farms which are listed on internationally recognized instruments and databases of severely hazardous pesticides. Farms financed by the RCF-DCF Project are prohibited from using these pesticides. They will also be required to apply pesticides in appropriate weather conditions and with the correct equipment that is properly adjusted for the product. Annual declarations will be signed to confirm compliance. This is included in the Environmental and Social Commitment Plan (see Appendix IX) in the contract (Cédula de Produto Rural – “CPR”) signed by the farmer and stipulated in the RCF-DCF Project eligibility criteria. In addition, farmers financed by the RCF-DCF Project will be encouraged to use biological alternatives to pesticides, often referred to as biocontrol agents or biopesticides, which use natural mechanisms to manage pests, diseases, and weeds. Due to these mitigation measures, the residual risk is classified as low.

4.2.2.2.2 Water use

As discussed above, the inherent risk of unsustainable water use is classified as low, and no mitigation measures are required. Therefore, the residual risk is also low.

4.2.3 Community health, safety and security

sobre agrotóxicos nas águas do Cerrado, available at: <https://br.boell.org/sites/default/files/2023-05/dossie-agrotoxicos-aguas-cerrado.pdf> (Accessed: 5 November 2025).

4.2.3.1 Inherent risk

Community health, safety and security risks refer to “adverse impacts on the health and safety of the Affected Community during the project life from both routine and non-routine circumstances.”²⁴ The RCF-DCF Project does not work with communities and farms are not typically located close to communities. Instead, farms typically border other farms. Therefore, this risk is not applicable to the project.

4.2.3.2 Mitigation measures and residual risk

This risk is not relevant to the project and so no mitigation measures are required. If, under exceptional circumstances, a potential farm is located in close proximity to a community a further risk assessment will be carried out as part of the investment E&S due diligence report. If necessary, an Emergency Preparedness and Response Plan will be developed to prepare for any potentially dangerous incidents that have been found as part of the risk assessment.

4.2.4 Land Acquisition and Involuntary Resettlement

4.2.4.1 Inherent risk

The farmers financed by the RCF-DCF Project will carry out no land acquisition and there will be no involuntary resettlement. Farmers are provided crop finance for their existing lands and will not expand beyond this. Indeed, the purpose of the RCF-DCF Project is to incentivise farmers not to clear further native vegetation for soy expansion. The farms financed actively manage the whole farm area and do not have informal settlers or encroachers on the land. Therefore, this risk is not relevant to the project.

4.2.4.2 Mitigation measures and residual risk

This risk is not relevant to the project and so no mitigation measures are required.

4.2.5 Biodiversity Conservation and Sustainable Management of Living Natural Resources

4.2.5.1 Inherent risk

4.2.5.1.1 Genetically modified organisms (GMO)

About 98% of Brazil's soy is GMO to withstand the heavy use of pesticides. As explained in Section 4.2.2.1, pesticides can harm or kill non-target plants, animals and microorganisms, therefore negatively impacting biodiversity. Therefore, the inherent risk is medium.

4.2.5.1.2 Invasive species

IFC guidance²⁵ states that intentional or accidental introduction of alien, or non-native, species of flora and fauna into areas where they are not normally found can be a significant threat to biodiversity, since some alien species can become invasive, spreading rapidly and out-competing native species. = The guidance also classes living modified organisms, which includes GMOs, as alien species, with similar potential for invasive behaviour as well as potential for gene flow to related species. It states that any new introduction of such organisms should be assessed with due regard to the Cartagena Protocol on Biosafety. Brazil has ratified and is a Party to the protocol. Part of the protocol involves carrying out risk assessments of living modified organisms. In Brazil this is done by the National Biosafety Technical Commission (CTNBio), in cooperation with the National Biosafety Council (CNBS). Approval from

²⁴ <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

²⁵ <https://www.ifc.org/content/dam/ifc/doc/2010/20190627-ifc-ps-guidance-note-6-en.pdf>

CTNBio must be received before a GMO soy variety can be sold commercially in Brazil. For this reason, the inherent risk is low.

4.2.5.1.3 Conservation units

There is a limited risk that farms may be located in conservation units – these are protected areas in Brazil, legally established by federal, state, or municipal governments to conserve nature and promote sustainable use of resources.

4.2.5.1.4 Native vegetation protection

Farmers financed by the RCF-DCF Project are required to commit to no deforestation or conversion of native vegetation on their farm. This will provide a positive impact for biodiversity conservation and sustainable management of living natural resources.

Therefore, the inherent risk is classed as medium.

4.2.5.2 Mitigation measures and residual risk

4.2.5.2.1 Genetically modified organisms (GMO)

While farmers may be encouraged to switch to non-GMO soy production it is unlikely that there will be a high uptake due to the extensive use of GMO soy in Brazil. Therefore, it is important to mitigate the risk of high pesticide use that is associated with GMO soy use. To mitigate the risk of severely hazardous pesticides being used on RCF-DCF Project financed farms, SIM has developed a database of pesticides typically used on soy farms which are listed on internationally recognized instruments and databases of severely hazardous pesticides. Farms financed by the RCF-DCF Project are prohibited from using these pesticides. They will also be required to apply pesticides in appropriate weather conditions and with the correct equipment that is properly adjusted for the product. Annual declarations will be signed to confirm compliance. This is included in the Environmental and Social Commitment Plan (see Appendix IX) in the contract (Cédula de Produto Rural – “CPR”) signed by the farmer and stipulated in the RCF-DCF Project eligibility criteria. In addition, farmers financed by the RCF-DCF Project will be encouraged to use biological alternatives to pesticides, often referred to as biocontrol agents or biopesticides, which use natural mechanisms to manage pests, diseases, and weeds. Due to these mitigation measures, the residual risk is classified as low.

4.2.5.2.2 Conservation units

To mitigate the risk of overlaps with conservation units, polygons of farm boundaries are checked against maps of conservation units. Any farms that overlap are not eligible for finance from the RCF-DCF Project. This criterion is included in the RCF-DCF Project Eligibility Criteria. Therefore, the residual risk is classified as low.

4.2.6 Indigenous Peoples

4.2.6.1 Inherent risk

SIM follows the GCF’s use of the term Indigenous Peoples, which is used to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

- Self-identification as members of a distinct indigenous social and cultural group and recognition of this identity by others.

- Collective attachment to geographically distinct habitats, ancestral territories, or areas of seasonal use or occupation as well as to the natural resources in these areas.
- Customary cultural, economic, social, or political systems that are distinct or separate from those of the mainstream society or culture.
- A distinct language or dialect, often different from the official language or languages of the country or region in which they reside. This includes a language or dialect that has existed but does not exist now due to impacts that have made it difficult for a community or group to maintain a distinct language or dialect.

Brazil has extensive indigenous communities and also has a significant population of Afro-descendants who escaped slavery, known as Quilombolas, who have ancestral ties to traditional lands. Quilombolas often suffer from racism, marginalisation, and lack of visibility. Therefore, both Indigenous communities and Quilombola communities are recognised by the RCF-DCF Project for the purposes of this risk identification.

The RCF-DCF Project will finance farmers located in the Cerrado biome of Brazil. Indigenous communities are located in nearly all of the 11 states that the Cerrado is located in. Around 80 Indigenous lands are officially recognised within the Cerrado biome (see Figure 4). These territories cover roughly 12 million hectares, which is less than 5% of the Cerrado. Quilombola communities are located in nine of the states that the Cerrado is located in. Around 60 Quilombola territories are officially recognised within the Cerrado biome (see Figure 4).

The main inherent risks to indigenous peoples are discussed below.

- Land-grabbing and violence

The RCF-DCF Project activities take place on privately owned or privately leased soy farms in the Cerrado region of Brazil. Weak governance, inconsistent land registration systems, and high demand for land to convert to agriculture, mean that there is an inherent risk of land grabbing. Land grabbing in the Cerrado encompasses a range of mechanisms: forging title documents, exploiting gaps in property records, coercively removing local communities, and strategically registering land through the self-declarative Rural Environmental Registry (Cadastro Ambiental Rural, in Portuguese, known widely as simply 'CAR'). Land grabbing can have a detrimental impact on Indigenous peoples and Quilombolas, causing displacement, violence and restricted access to customary use areas. For these reasons the inherent risk is high.

- Agrichemicals

As explained in Section 4.2.1.1, pesticides can have negative human and environmental impacts. Pesticides can be carried by the wind and/or travel during precipitation events, where they become part of the water run-off from the fields joins larger bodies of water such as rivers and streams. This is known as pesticide drift. Exposure to pesticide can cause acute (short term) and chronic (long term) harmful effects on human health and can harm or kill non-target plants, animals and microorganisms. Pesticide drift has the potential to harm the health of Indigenous peoples living in areas surrounding the RCF-DCF Project financed farms and harm or kill the wild plants, fruits, nuts and medicinal species that they customarily gather in their territories and customary use areas. For these reasons, the inherent risk is classes as medium.

- Water loss

As explained in Section 4.2.2.1.2, water use can be a risk in the agribusiness sector due to the potential for unsustainable water use causing stress on water resources. This is also a risk to Indigenous peoples if they are dependent on the same sources of water. The majority of farms growing soybeans in the Cerrado are rain fed, with farmers relying on the rainy season to water their crops. Therefore, the water use of soy farms does not impact the water use of Indigenous peoples and so the inherent risk of unsustainable water use is classified as low, and no mitigation measures are required.

- Exclusion from decision-making.

There is a risk that Indigenous peoples are excluded from decision-making processes with consultations not held or Free, Prior and Informed Consent (FPIC) not secured. This is a low risk for the RCF-DCF Project because the project activity is the protection of native vegetation on soy farms which are privately owned or privately leased. The stakeholder who needs to make the decision about participating in the project is the farmer because it is the native vegetation on their land which they are choosing to protect.

Due to the combination of these risks the inherent risk rating for this category is medium.

4.2.6.2 Mitigation measures and residual risk

The costs of all mitigation measures will be included in the project costs and so a separate budget line for these actions is not required.

- Land grabbing and violence

To mitigate the risk of farms financed by the RCF-DCF Project being involved in land-grabbing and violence, the project implements three mitigation measures. Firstly, farmers will be screened to ensure that they have an unquestionable right to use the farm the finance will be for, be it as land title or land lease agreement. This reduces the risk that land-grabbing has taken place. Violence is often associated with land grabbing activities and so by prohibiting farms with a history of land grabbing from participating in the project this also reduces the risk of violence against Indigenous peoples. Secondly, polygons of the farm boundary will be checked against national maps of indigenous and Quilombola territories. These maps are produced by Fundação Nacional dos Povos Indígenas (FUNAI), the Brazilian governmental agency responsible for protecting the rights and interests of the country's Indigenous peoples. This will ensure that no financed farm overlaps with an Indigenous or Quilombola territory. Other maps, including those where Indigenous peoples self-declare their territories, points of interest, and conflicts, will also be consulted. Finally, internet searches will be used to check if there is any evidence of either the farm owner or farm negatively impacting indigenous rights including through the use of violence. These checks are included in the RCF-DCF Project eligibility criteria.

During the consideration of farms to be included in the project, if the analysis of Indigenous territories and customary use areas shows that a farm is within 25km of these areas, an Indigenous Peoples Plan will be created, based on the Indigenous Peoples Planning Framework (Appendix IV) and used to determine whether the farm is suitable for inclusion in the project.

- Agrichemicals

To mitigate the risk of agrichemicals, SIM has developed a database of pesticides typically used on soy farms which are listed on internationally recognized instruments and databases of severely hazardous

pesticides. Farms financed by the RCF-DCF Project are prohibited from using these pesticides. They will also be required to apply pesticides in appropriate weather conditions and with the correct equipment that is properly adjusted for the product. Annual declarations will be signed to confirm compliance. This is included in the Environmental and Social Commitment Plan (see Appendix IX) in the contract (Cédula de Produto Rural – “CPR”) signed by the farmer and stipulated in the RCF-DCF Project eligibility criteria. This will reduce the likelihood of pesticide drift of severely hazardous pesticides into Indigenous territories and customary use lands. In addition, farmers financed by the RCF-DCF Project will be encouraged to use biological alternatives to pesticides, often referred to as biocontrol agents or biopesticides, which use natural mechanisms to manage pests, diseases, and weeds. Due to these mitigation measures, the residual risk is classified as low.

The implementation of these mitigation measures reduces the risk level of this category, with the residual risk classified as low.

4.2.7 Cultural Heritage

4.2.7.1 Inherent risk

Cultural heritage risks related to the RCF-DCF Project are those associated with the potential for chance finds of physical cultural resources and any adverse impacts on them through project activities. The RCF-DCF Project finances farms that commit to deforestation and conversion-free soy production in the Cerrado. These farms have been practicing agriculture for many years prior to participating in the RCF-DCF Project, with crops planted on an annual basis. Therefore, there is no possibility of chance finds of physical culture resources and so this risk is non-applicable to the project.

4.2.7.2 Mitigation measures and residual risk

This risk is not relevant to the project and so no mitigation measures are required.

4.3 PROJECT AND INVESTEE RISK CATEGORISATION

As a result of the E&S risk assessment and the mitigation methods put in place to address the inherent risks, the RCF-DCF Project is classified as FI–2. This is when an FI’s existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.

The proposed portfolio of the RCF-DCF Project will be Investment Structures that disburse funds to farmers which meet the E&S requirements of the RCF-DCF Project. The E&S requirements are communicated through the RCF-DCF Project eligibility criteria which must be met by any farmer wishing to be financed by the project. For this reason, the E&S risk assessment and the mitigation methods put in place is the same for the Investment Structures as it is for the RCF-DCF Project and so the Investment Structures are classified as B. This is for business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

4.4 COMPLIANCE WITH EXISTING RELEVANT POLICIES, LAWS AND REGULATIONS

4.4.1 National and state-level policies

Farms are contractually required to comply with all applicable national and state-level policies, laws and regulations, related to E&S aspects of operations. Chief among these are:

- The Forest Code (Brazilian Native Vegetation Protection Law 12.651-2012), which aims to protect native vegetation by establishing a regulatory framework for land use and environmental conservation on private properties. All rural landowners must comply with the Legal Reserve and APP requirements of the Forest Code, particularly those relating to those aiming at the maintenance or enhancement of on-farm biodiversity, habitat connectivity and riparian buffer zones, where no soy can be cultivated, and which protect water bodies from nutrient and soil runoff ²⁶.
- National labour legislation, including the Criminal Code Article 149 on slave labour, and Labour Code Article 403 and Hazardous Work List Article 2 on child labour.
- The Soy Moratorium, enacted in July 2006, to halt deforestation for soy production in the Brazilian Amazon.
- Brazilian national and relevant state policies, laws and regulations governing the production of Genetically Modified Organisms (GMOs) and use of agrichemicals (see Section 6.5).

4.4.2 Investor policies

The RCF-DCF Project will comply with the sustainability policy frameworks of investors, concessional (development banks, impact investors and foundations) and commercial (banks, pension funds, institutional investors) contributing to the project. This includes identifying and addressing how the requirements of the GCF's environmental and social safeguard standards and policies can be suitably addressed in project activities, risk mitigation measures, and monitoring and reporting.

4.4.3 Labour, land tenure and human rights standards and guidance

The following voluntary standards and principles will also be taken into consideration:

- [International Labour Organisation \(ILO\) standards on forced labour and child labour](#)
- [ILO Indigenous and Tribal Peoples Convention \(ILO 169\)](#)
- [Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security \(VGGT\)](#)

²⁶ In cases where the farm does not contain sufficient native vegetation to meet the requirements of the Forest Code in respect to its Legal Reserve and APP, the Forest Code requires the farmer to adhere to the relevant Programme of Environmental Regularization (PRA). The adherence to the PRA is the first step of the regularization process. To the extent that farmers are engaged with the regularization process, they are considered as complying with the Forest Code requirements.

- [United Nations Declaration on Human Rights](#)
- [United Nations Declaration on the Rights of Indigenous Peoples²⁷](#)
- [United Nations Guiding Principles on Business and Human Rights](#)

4.5 RISK MANAGEMENT THROUGHOUT THE INVESTMENT CYCLE

From farm origination to an investment decision being made, the RCF-DCF Project will manage E&S risks by adopting the following procedures:

4.5.1 Screening

Screening guides the RCF-DCF Project in selecting Farmers and areas for cultivation that are:

- eligible for RCF-DCF Project financing, i.e. meeting the project eligibility criteria; and
- likely to significantly contribute to achieving the impact objectives of the project through assessment of impact potential against KPIs.

Screening also ensures exclusion of Farmers with business activities countering any of the project's core objectives and protect project partners from reputational risk (see Appendix III for a schedule of excluded activities).

While project funds will flow through investment structures, all environmental screening of potential farmers remains the responsibility of SIM.

Since compliance with the eligibility criteria is mandatory, there will be no "E&S gaps" that need to be addressed by farmers and so the application of Environmental and Social Action Plans (ESAPs) is not required.

4.5.2 Eligibility criteria

The eligibility criteria were created to ensure compliance with applicable policies, laws, and regulations, and to mitigate the inherent risks identified in the E&S risk assessment. Compliance with the eligibility criteria is mandatory and only farms that meet all criteria are eligible for finance from the RCF-DCF Project. Farms or farmers with "gaps" in compliance with the eligibility criteria are not able to participate in the project, and therefore, Environmental and Social Action Plans (ESAPs) are not applicable to this project. The eligibility criteria are included within the contract with the farmer (Cédula de Produto Rural – "CPR") in the form of an Environmental and Social Commitment Plan (see Appendix IX).

Meeting the following minimum eligibility criteria is required for participation in the RCF-DCF Project:

1. Land use

²⁷ Including provisions for the collective right of indigenous peoples to give or withhold their free, prior and informed consent to changes in land use on territories for which the communities hold customary and/or statutory rights of ownership or use.

The property included in the RCF-DCF Project must comply with the following conditions:

- i) Deforestation and conversion: the cultivation area of the property must have been cleared of native vegetation before 1 Jan 2020;
- ii) Preference to be given to areas restored from abandoned pastureland to soy cultivation;
- iii) No conversion of additional areas of native vegetation is allowed (in the property) during the term of the Facility; and
- iv) The Protection:Production Ratio (PPR) of the portfolio of properties financed must be at least:
 - 40% in Cerrado areas inside the Legal Amazon; and
 - 25% in Cerrado areas outside the Legal Amazon;

and the areas of native vegetation must be conserved for the duration of the finance period.

Clarification Notes to the criteria above:

1. Deforestation pre-2020 does not preclude a property from being included in the project, provided that the limits imposed by the Forest Code were respected (please refer to Note 5 to the Eligibility Criteria “Compliance with the Forest Code” below). Any deforestation from 2020 onward will result in the rural property being excluded from participation in the RCF-DCF Project. In case the deforestation happens after the property is included in the RCF-DCF Project, the producer will be expelled from the project and subject to a 15% fine over the loan value.
2. The non-deforestation requirements of the Eligibility Criteria apply only to properties financed by the RCF-DCF Project. Properties operated by the same producers but not included in the RCF-DCF Project are not obliged to comply with these requirements.
3. For the assessment of conditions above, the RCF-DCF Project adopts the concept of minimal level (of deforestation or conversion) as defined by the Accountability Framework Initiative (Afi)²⁸.
4. For the determination of what constitutes “deforestation and conversion of native vegetation”, the RCF-DCF Project adopts the definition of “fallow areas” established in the Brazilian Forest Code²⁹, according to which an area can remain fallow for a maximum period of 5 years. So, if a fallow area is left without productive use (e.g., agriculture, pasture land) for more than 5 years, it will be considered to be under natural regeneration and to have reached ‘native vegetation’

²⁸ “Minor level (of deforestation or conversion): A small amount of deforestation or conversion that is negligible in the context of a given site because of its small area and because it does not significantly affect the conservation values of natural ecosystems or the services and values they provide to people. Minimal levels of deforestation or conversion at the site scale do not necessarily violate no-deforestation or no-conversion commitments. However, this provision does not sanction substantial conversion of forests or natural ecosystems to enlarge commodity production areas. To be considered consistent with no-deforestation or no-conversion commitments, minimal levels must generally meet the following conditions: Not exceed cumulative thresholds that are small both in absolute terms (e.g., no more than a few hectares) and relative to the area in question (e.g., no more than a small proportion of the site). Levels of conversion or deforestation should be assessed cumulatively over space and time; multiple small instances of conversion may lead to a producer being considered non-compliant with commitments. (...)” (“Accountability Framework, Terms and Definitions, June 2019, page 15).

²⁹ Law 12.651/2012, art. 3, item XXIV).

status. On the other hand, any further clearance of fallow areas within the 5 years period (i.e., prior to having reached 'native vegetation status'), are not considered "deforestation or conversion of native vegetation" for the purposes of this criterion.

5. The Protection/Production Ratio (PPR) is the proportion of areas of protection in relation to total areas of the farms financed by the RCF (i.e., total area of native divided by total area of CARs included in the RCF-DCF Project) and, the targets above were defined using the Forest Code as a proxy. The Forest Code requires that farms in the Cerrado biome keep 35% of legal reserve if located in the Legal Amazon and 20% elsewhere.
6. The RCF-DCF Project portfolio aims to include soy farms that in aggregate protect at least 5% more area of native vegetation than required by the Forest Code for the region where farms are located. I.e., the targets aim at an Excess Native Vegetation (ENV) of 5% in relation to the legal reserve requirements of the Forest Code.

The PPR requirements can be met in each individual Property or by aggregating bundles of properties of the same Group. It is important to clarify that this bundling is not a means of compliance with the Forest Code requirements and does not release the farmer of the regularisation process committed under the Forest Code rules (see section below).

2. Compliance with the Forest Code

- i) The property must be registered with the Cadastro Ambiental Rural (CAR).
- ii) The property must not overlap with conservation units, indigenous reservations, and community lands (including quilombos);
- iii) The property must contain and maintain an area of native vegetation equivalent to that required for Legal Reserve and Areas of Permanent Protection (APPs) determined by the Forest code or be engaged in a Project of Environmental Regularisation (PRA) established by the state environmental agency.

Clarification Notes to the criteria above:

1. Determination of compliance with the Forest Code is particularly challenging, given that there is no official confirmation from government authorities and that the data reported in the CAR are self-declared and not validated by the relevant environmental agencies. For this reason, RCF-DCF Project conducts its own analyses to determine likelihood of compliance, based on the amount of native vegetation observed in the Properties and whether this satisfies the theoretical requirements of the law. All these analyses are conducted using satellite imagery (Landsat) and ArcGIS. The RCF does not carry out on-site audits.
2. RCF-DCF Project's analyses take into account the data self-declared in SICAR. However, the quality of declarations is highly varied, and it is often the case that the numbers declared do not match the areas in the polygons drawn in SICAR, or the boundaries and locations of legal reserves and APPs are incorrect or inappropriate, requiring case-by-case interpretation.

3. For the calculation of APPs, RCF uses the data self-declared in the CARs related to the Property, both in terms of area declared and by calculating the area of the polygons drawn by the landowner in the CARs. The area declared and the area drawn in the map are often different. In case of discrepancies, if the GIS analysis provides a clear delineation of the APP area, the area calculated in the polygons are used. Otherwise, the highest figures are adopted.
4. If the analysis conducted by RCF-DCF Project according with the procedures described above suggests that a property contains sufficient area of native vegetation to include both legal reserves and APPs, compliance with these two categories is considered satisfied and any remaining native vegetation is considered “excess native vegetation”. If such analysis suggests that a property does not contain sufficient native vegetation to include both legal reserves and APPs, the APPs are considered part of the legal reserves, as per Article 15 of the Forest Code.
5. In case the property does not contain sufficient native vegetation to meet the requirements of the Forest Code in respect to its Legal Reserve and APP, the Forest Code requires the farmer to adhere to the relevant Project of Environmental Regularization (PRA)³⁰. The adherence process starts with a requirement to be made by the Producer in the SICAR. Based on this requirement, the environmental agency will analyse and validate the information declared by the producer in the CAR and subsequently must notify the Producer to sign a formal commitment (“Termo de Compromisso”), whereby the Producer commits to adopt the required measures for the environmental regularization of the Property. Therefore, after having declared its intention to adhere to the PRA, the formalization of the adherence depends on the environmental agencies taking specific actions to continue the formalization process (analysis and validation of the CAR, and notification of the producer to sign the Termo de Compromisso). Considering that these actions are not under the producers’ control³¹, the RCF considers that once the farmers declare in the SICAR their intention to adhere to the PRA, they have initiated the regularization process and are deemed to be complying with the Forest Code requirements and procedures.
6. The RCF-DCF Project analysis is not intended to replace the responsibilities of the public authorities, nor to validate or scrutinize the official regularization process. Therefore, for the purposes of the RCF-DCF Project eligibility criteria, the requirement of “compliance with the Forest Code” should be considered met (i) if the RCF-DCF Project’s analysis suggests that the property does not have a deficit of Legal Reserve and APP, or (ii) in case RCF-DCF Project’s analysis suggests that the property has a deficit of Legal Reserve and/or APP, if the farmer is formally engaged in a process of regularization of the farm, having enrolled the property in the CAR and submitted a request to adhere to the PRA.
7. For the purposes of the RCF-DCF Project, the protection of native vegetation and the production of DCF soy occurs not from the requirement of “compliance with the Forest Code” but rather from the contractual engagement of the farmer towards the RCF (as described above).

³⁰ Law 12.651/2012, art. 59.

³¹ At present, there are over 7 million CARs enrolled in the SICAR, but only 7% of the CRAs were analysed and validated by the government.

3. Land title

Farmers must have unquestionable right to use the property, be it as land title or land lease agreement.

Preference will be given to properties with at least one female owner.

4. Legal compliance

Farmers must demonstrate that the property does not contravene any environmental or legal requirements, such as:

- i) environmental embargoes,
- ii) labour legislation (including slave and child labour, SEAH, and gender equality),
- iii) internationally accepted rules for the use of agrichemicals (at the farm level).

Clarification Notes to the criteria above:

1. By adopting strict environmental criteria, the project aims to minimise its exposure to financing the production from recently deforested areas. The project will conduct an initial screening of each property applying to participate in the project, using an internal producer enrolment and due diligence system. This system uses advanced analytics on a combination of real time production data, consultation of external databases (SICAR, IBAMA, state environmental agencies, Ministry of Labour, etc.), documental and satellite imagery analyses. The Project does not carry out on-site audits.
2. The assessment of the conditions above will be made through the consultation of official databases (SICAR, IBAMA, state environmental agencies, Ministry of Labour, etc.) and, with respect to the requirement (iii) above, through a declaration signed by both the farmer and the Agronomic Engineer officially responsible for the approvals required for the use of agrichemicals in the property.
3. The RCF-DCF Project does not finance rural properties containing an embargoed area³². However, an embargo in a rural property outside of the RCF-DCF Project shall not, per se, preclude other Rural Properties of the group to participate in the project (provided that they comply with the RCF-DCF Project criteria).

³² "Embargo" is an administrative measure imposed by the environmental authority (Federal or State), with the objective of preventing the continuity of the environmental damage and allow for the regeneration the degraded area (Decree nr. 6.514/2008, art. 108). The embargo applies to the area of the property where the environmental infraction occurred only; it does not apply to the rest of the property and does not restrict the farmer to carry out production activities in other areas of the property (Decree nr. 6.514/2008, art. 15-A). Until January 2024, banks were allowed to finance production activities in a rural property having an embargoed area, provided that the productive activities to be financed are not carried out in the embargoed area. In January 2024 the Central Bank of Brazil adopted a rule forbidding financial institutions to finance activities in a property having an embargoed area, even if the activities are not carried out in the embargoed area (until then, this restriction applied only to loans to properties located in the Amazon Biome). The Central Bank is now adopting the RCF rule approach.

4. The RCF-DCF Project shall not finance any producer involved with slave labour in any of its properties. For the verification of these criteria, the RCF-DCF Project refers to the list of employers accused of using slave labour published by the Ministry of Labor.

4.5.3 Due diligence

Due diligence of each individual potential farmer is conducted by the SIM which cross checks the data provided by farmers (i.e. CAR number, name and identity number of producer, company registration number, etc.), with a series of databases (CAR registry, list of embargos at state and federal law, list of abuses of labour law, etc.) and utilizes satellite imagery to verify the historic land use and whether there is any overlap with Federal Conservation Units, Indigenous Territories or Community Lands. This data is also independently verified by a third-party company. A screening checklist is provided in Appendix VIII.

Stakeholder mapping will be carried out and any stakeholders identified that have not already been consulted as part of the main RCF-DCF Project stakeholder consultation will be consulted. Appendix VI outlines the stakeholder engagement framework

As per the GCF requirements, SIM is responsible for disclosing a "Sub-Project Disclosure Package" prior to a specific investment. Therefore, for each investment, SIM will produce an E&S Due Diligence Report which assesses the E&S risks and categorises the investment. The report will include details on the purpose, nature, and scale of activities; duration; intended beneficiaries; a summary of stakeholder consultations, if required; available grievance mechanisms; E&S risks; and mitigation measures (see Appendix IX for a report template). For Category B investments, the report will be published on the GCF website and on SIM's website 30 days prior to SIM approving the investment. The reports will be made available in both English and Portuguese.

4.5.4 Farmer approval and contracting

Based on the screening and due diligence processes, together with credit analysis, the RCF-DCF Project determines whether the Farmer is eligible for enrolment in the project. Before approving any crop finance contracts, Farmers are required to sign an agreement and provide guarantees that outlines their E&S obligations, i.e. ongoing compliance with eligibility criteria (Section 4), and existing relevant policies, laws and regulations (Section 6.1). These requirements are outlined in the agreements in the form of an Environmental and Social Commitment Plan (see Appendix IX).

4.5.5 Project level compliance monitoring and reporting

As with KPI impact monitoring (Section 5.2), compliance with the eligibility criteria is monitored for the duration of participation in the Facility using advanced analytics on a combination of real-time production data, documentary and satellite imagery analyses, collected by both the Project Manager and a third-party verification company. This includes verification of no deforestation or conversion, protection of areas required under the Forest Code as Legal Reserves, APPs, and areas of excess native vegetation, steps put in place for compliance with the Forest Code, and compliance with labour laws.

Any non-compliance issues on the part of the farmer, detected through regular compliance monitoring, will trigger consultation with Aggregators to ascertain the cause and identify appropriate action for mitigation, through dialogue with the relevant farmer(s). Legal covenants, stipulating the required timeframe for full compliance and remediation will be included in amendments to the legally binding agreements signed with farmers.

Failure of farmers to conform to these covenants, will result in ejection from the RCF-DCF Project. All non-compliance issues will be reported to the Environmental Advisory Board at the first meeting after each crop season.

4.6 MONITORING AND REPORTING

Monitoring and reporting of E&S performance against project KPIs will comprise a combination of aggregating farmer-level data, coupled with the latest technological developments in big data, cloud computing and remote sensing. These technologies will be combined to automate, wherever possible, E&S monitoring and reporting and, in doing so, aim to reduce marginal costs and increase transparency. KPIs will be monitored for the duration of participation in the Project by the RCF-DCF Project team and independently verified by a third-party company (with experience in SEAH and gender metrics), which will inform annual KPI and target reviews by the Environment Advisory Board. Monitoring and reporting costs are included in the project costs.

Coordination of monitoring among RCF-DCF Project stakeholders, and reporting, is the responsibility of the SIM. Indicative reporting responsibilities are summarized in Table 2. E&S performance, i.e. impacts achieved against KPIs, will be reported upon conclusion of each crop season, first to the Environmental Advisory Board and secondly to stakeholders and the wider public in accordance with the disclosure policy.

Table 2. E&S Indicators to be monitored

Description of E&S metric to be monitored	Responsibility
ENVIRONMENT	
Conservation and Sustainable Land Use	
Area of native vegetation protected	SIM
Area of deforestation	
Total area of land under sustainable management (productive and conservation)	
Number of farms adhering to pesticide requirements	
Number of farms transitioning to biological alternatives to synthetic pesticides	
CLIMATE	
CO2 avoided emissions	SIM
SOCIAL	
GENDER	
Number of financed farms with at least one female owner	SIM
Number of farmers attending workshops on gender equality and SEAH (disaggregated by gender)	

RISK MANAGEMENT	
Number of gender-based violence incidents reported (disaggregated by gender)	SIM
Number of internal / external grievances received (disaggregated by gender)	
Number of grievances received from Indigenous peoples	

4.6.1 SEAH monitoring

The contractual clauses in the Environmental and Social Commitment Plan (see Appendix IX) will be explained before contract signing, and the Director of ESG and Compliance will monitor to ensure all farmers are aware of their commitments. All contracts will be fully reviewed by SIM prior to signing to ensure they meet the SEAH requirements.

Farmers will be required to display posters with information on the project grievance mechanism. This will be monitored by checking for posters during field visits by SIM and relevant service provider staff (e.g. the aggregator Traive).

The number of complaints related to SEAH will be monitored quarterly by the Director of ESG and Compliance. It will be reported annually in the GCF report. The timeframe for handling complaints will also be monitored, and measures will be implemented if targets are not met. The findings of any complaints will also be used to review the project's SEAH risk assessment and mitigation measures, and any necessary changes will be documented and implemented.

The awareness-raising activities for SEAH – farmer field days and communications materials – will be monitored in terms of the number of events, the number of attendees, the number of communications materials, and the number of farmers who received them. These numbers will be reported annually to the GCF.

SEAH metrics will be verified by an independent auditor specialised in assessing SEAH mitigation outcomes.

4.7 DISCLOSURE AND TRANSPARENCY

Project E&S performance against KPIs and towards target ambitions is transparently reported annually (or more frequently wherever possible) as an annual report available on SIM's website, which will include, *inter alia*: the number of farms engaged in the project, the regions from which DCF soy and maize are being sourced, and progress on each KPI and associated target ambition. The project will also include a section on E&S risks and impacts in all reports to its Environmental Advisory Board and Directors.

To ensure comprehensive implementation of the E&S Policy, the following institutional roles and capacities are divided among RCF stakeholders. The full operational routine is described in Appendix VII.

4.7.1 Project Manager

Sustainable Investment Management Ltd (SIM) acts as Project Manager for the RCF-DCF Project

The Project Manager is responsible for comprehensive application and monitoring of this E&S Framework, and for the revision of the E&S Framework at appropriate times to ensure iterative improvements over time.

The Project Manager coordinates the activities of Aggregators and, through them, monitor Farmer compliance with eligibility criteria, risk management procedures, and monitoring and reporting of Facility's E&S performance through the impact framework.

The Project Manager has the overall responsibility of demonstrating Facility level E&S impact, against KPIs and associated targets, as a means of measuring progress towards RCF-DCF Project objectives and contributions to corresponding policy and industry commitments. Certain monitoring functions, particularly those utilizing remote sensing technologies, may be outsourced to third-party service providers.

The Project Manager also has the responsibility to ensure all investment decisions are informed by E&S risk and impact assessments conducted as part of routine screening and due diligence.

4.7.2 Aggregators

Traive, a credit risk management company specialised in the agribusiness in Brazil, plays the role of Aggregator of farmers for the RCF-DCF Project.

The Aggregator acts as a bridge between the RCF-DCF Project and individual Farmers, conducting activities such as farmer selection, credit analysis, and risk monitoring. They work closely with other parties that will coordinate the disbursement of funds and collection of repayments (either physical or financial), as appropriate and requested by SIM.

The Aggregator informs farmers of the credit lines and associated E&S obligations, as outlined in this Framework, which are then formalized in the contracts with each individual participating Farmer.

4.7.3 Environmental Advisory Board

The operations of the RCF-DCF Project are overseen by an Environmental Advisory Board with representation from globally renowned NGOs and initiatives.

The Environmental Advisory Board plays an advisory role to the RCF-DCF Project, reviewing and assessing whether the operations of the project comply with the Eligibility Criteria, based on internal monitoring reports and independent audits, and identifying potential improvements to the project to enhance environmental impact.

4.7.4 Farmers

Farmers, through legal covenants in the RCF-DCF Project contracts, commit to comply with the E&S obligations comprising this policy, i.e. ensure conformity with eligibility criteria, inform Aggregators of progress against E&S impacts through the relevant KPIs, and maintain compliance with all relevant RCF-DCF Project E&S risk management provisions.

Incidents of non-compliance, if not remediated, will result in the expulsion of the individual farmers from the RCF, and farmers will potentially be liable for fines.

4.8 ETHICAL CONDUCT AND SAFEGUARDS

The RCF-DCF Project strives for all business operations to be conducted lawfully and to the highest ethical and moral standards, including in relation to the E&S issues, corporate governance, corruption, and labour rights through the following principles:

- All executing entities and service providers are expected to act with honesty and integrity in all business dealings relating to the RCF-DCF Project, when working with other company employees, the public, business associates, government and regulatory authorities.
- All executing entities and service providers are expected to maintain the confidentiality of all information provided to them in conducting of any business dealings related to the RCF-DCF Project.
- All executing entities and service provider are expected to avoid conflicts of interest.
- All executing entities and service providers are expected to value diversity and are committed to equal opportunity and fair compensation in all aspects of employment without regard to gender, race, nationality, religion or sexual orientation.

Safeguarding involves protecting individuals from any form of harm, including exploitation or sexual abuse, that may occur through interactions with individuals working for or with SIM, or in the projects SIM implements. This entails proactively identifying, preventing, and mitigating all risks of harm, exploitation, and abuse, and establishing mature, accountable, and transparent systems for responding to, reporting, and learning from these risks when they arise. SIM will not condone abuse and exploitation by its staff or affiliated personnel.

SIM will:

- Ensure all staff, executing entities, and service providers have access to, are familiar with, and know their responsibilities within this E&S policy.
- Design and undertake its activities in a way that identifies risks and protects people from harm that may arise from their coming into contact with the RCF-DCF Project.
- Implement stringent safeguarding procedures when recruiting, managing and deploying staff and associated personnel. This includes criminal record checks for any violence, abuse or sexual exploitation, sexual abuse or sexual harassment.
- Ensure staff receive training on safeguarding at a level commensurate with their role in the organisation.
- Follow up on reports of safeguarding concerns promptly and according to due process.

Appendix I: Definition of key terms

Abandoned pastureland: Permanent removal of livestock from land characterised by the loss of native trees, and/or the planting of non-native grasses, used for the primary aim of rearing livestock that occurred within the last 15 years (adapted from [Cava et al 2018](#)). In relation to this E&S Framework, abandoned pastureland is further limited to land not classified as Cerrado from remote sensing using multi-image classification ([de Souza Menda et al 2019](#)).

Active management for protection objectives: Efforts to maintain the species composition and habitat structure of Cerrado such that it meets the definition of Natural Habitat and develops towards the characteristics of old-growth Cerrado.

Active management for restoration objectives: Efforts to alter an area's species composition and habitat structure to return it to that of Cerrado and meet the definition of Natural Habitat.

Carbon stocks: The quantity of carbon in a carbon pool ([IPCC, 2022](#)).

Cerrado biome: The area comprising parts of the Brazilian states of Bahia, Goias, Maranhao, Mato Grosso, Mato Grosso Do Sul, Minas Gerais, Para, Parana, Piaui, Rondonia, Sao Paulo, and Tocantins, as well as Paraguay, dominated by savanna as defined by [WWF's Critical Regions layer](#).

Community Lands: Areas formally (or in the process of becoming) recognised as designated for indigenous peoples and local communities as Quilombolas territories, Reserves, Sustainable Development Reserves, and Settlement Projects ([LandMark 2019](#))

Indigenous Territories: Areas recognised by FUNAI as being national territory owned by the Union [of Brazil] inhabited by one or more indigenous peoples, which have been declared as used for their productive activities, indispensable to the preservation of the environmental resources necessary for their well-being as well as physical and cultural reproduction ([FUNAI 2019](#))

Key Performance Indicators: Critical (key) indicators of progress toward an intended result. KPIs provide a focus for strategic and operational improvement, create an analytical basis for decision-making, and help focus attention on what matters most ([KPI 2019](#)).

Native vegetation: Areas composed of viable assemblages of plants and/or animal species of largely native origin, and/or where human activity has not essentially modified an area's primary ecological functions and species composition ([IFC 2012](#)).

Protected Area: A clearly defined geographical space, recognised, dedicated and managed, through legal or other effective means, to achieve the long-term conservation of nature with associated ecosystem services and cultural values ([IUCN 2008](#)).

Restoration: Defined under the Forest Code as the recovery of an ecosystem or native biological community from a degraded or impacted condition to a non-degraded condition, which may be different from its original condition ([Imaflora 2014](#)). In relation to this E&S Framework, "non-degraded condition" is defined as meeting the criteria for native vegetation.

Appendix II Alignment with aims, goals, indicators and targets of relevant policy and industry initiatives

II a RCF-DCF Project's KPIs and Relevant Sustainable Development Goal indicators³³

RCF contributes to three of the Sustainable Development Goals as described below and detailed in the following table:

- **Goal 2** - End hunger, achieve food security and improved nutrition and promote sustainable agriculture. Particularly relevant is Target 2.4 *'By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality'*.
- **Goal 13** – Take urgent action to combat climate change and its impacts. Target 13.2 *'Integrate climate change measures into national policies, strategies and planning'*. However, contributions to climate change are better reflected as contributions to meeting Brazil's nationally determined contribution to the Paris Agreement of the United Nations Framework Convention on Climate Change.
- **Goal 15** - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. In particular, Target 15.2 *'By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally'*

Responsible Commodities Facility Key Performance Indicators	Relevant Sustainable Development Goal Indicators
1.1a) Area of on-site native vegetation within RCF farms	15.1.1 Forest area as a proportion of total land area 15.1.2 Proportion of important sites for terrestrial and freshwater biodiversity that are covered by protected areas, by ecosystem type

II b RCF-DCF Project's KPIs and Brazil's Nationally Determined Contribution to the Paris Agreement³⁴

Brazil has ratified the UNFCCC Paris Agreement on 21 September 2016. The Paris Agreement aims to keep a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius. Brazil has committed to reduce its greenhouse gas (GHG) emissions by 43% by 2030, 89% of which will be derived from reduced

³³ https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework_A.RES.71.313%20Annex.pdf

³⁴ www4.unfccc.int/sites/submissions/INDC/Published%20Documents/Brazil/1/BRAZIL%20iNDC%20english%20FINAL.pdf

deforestation. The RCF funds can support Brazil's deforestation commitments, by ensuring a sustainable agricultural economy free from deforestation.

Responsible Commodities Facility Key Performance Indicators	Relevant Nationally Determined Contribution Targets
1.1a) Area of on-site native vegetation within RCF farms	Enhancing sustainable native forest management systems, through georeferencing and tracking systems applicable to native forest management, with a view to curbing illegal and unsustainable practices
1.1b) tCO ₂ conserved in on-site native vegetation in RCF farms	Reducing emission levels of 1.3 GtCO ₂ e by 2025 and 1.2 GtCO ₂ e by 2030, corresponding respectively, to a reduction of 37% and 43%, based on estimated emission levels of 2.1 GtCO ₂ e in 2005 Reducing emissions of 48% in terms of emissions intensity in 2030, compared to 2012 estimates

II c RCF-DCF Project's KPIs and Brazil's National Biodiversity Strategy and Action Plan³⁵

The RCF-DCF Project could contribute to the following targets in Brazil's current National Biodiversity Strategy and Action Plan:

Responsible Commodities Facility Key Performance Indicators	Relevant National Biodiversity Strategy and Action Plan Targets
1.1a) Area of on-site native vegetation within RCF farms	B5 - By 2020, the rate of loss of native habitats is reduced by at least 50% (in comparison with the 2009 rate) and, as much as possible brought close to zero, and degradation and fragmentation is significantly reduced in all biomes C11 - By 2020, at least 30% of the Amazon, 17% of each of the other terrestrial biomes, and 10% of the marine and coastal areas, especially areas of particular importance for biodiversity and ecosystem services, are conserved through protected areas foreseen under the SNUC Law and other categories of officially protected areas such as Permanent Protection Areas, legal reserves, and indigenous lands with native vegetation, ensuring and respecting the demarcation, regularization, and effective and equitable management, so as to ensure ecological interconnection, integration and representation in broader landscapes and seascapes
1.1b) tCO ₂ conserved in on-site native vegetation in RCF farms	D15 - By 2020, ecosystem resilience and the contribution of biodiversity to carbon stocks has been enhanced through conservation and restoration actions, including restoration of at least 15% of degraded ecosystems, prioritizing the most degraded biomes, hydrographic regions and ecoregions,

³⁵ <https://www.cbd.int/doc/world/br/br-nbsap-v3-en.pdf>

Responsible Commodities Facility Key Performance Indicators	Relevant National Biodiversity Strategy and Action Plan Targets
	thereby contributing to climate change mitigation and adaptation and to combatting desertification

II d RCF's KPIs and Relevant Industry Initiatives

- Soy Working Group (Grupo de Trabalho da Soja – GTS) – a multi-sector group, made up of producers, traders, civil society, government and soy consumers (such as retail), which works to ensure the permanence of environmental protection achievements related to the soy moratorium.
- Cerrado Working Group (Grupo de Trabalho do Cerrado – GTC) - was established by a multi-stakeholder coalition to develop terms of agreement between producers, industry, consumer organisations and civil society, as well as an action plan for eradicating deforestation and conversion of native vegetation in Brazil's Cerrado biome.
- [Cerrado Manifesto](#) (including the [Statement of Support](#)). A convocation launched on the Day of Cerrado, September 11, 2017, by a coalition of 60 civil society institutions, among them WWF, TNC, CI, Greenpeace Brasil, IPAM and Imaflora. The document calls for immediate measures in defence of the Cerrado to be taken by companies that buy soybeans and beef from this biome, as well as investors working in these sectors, to adopt effective policies and commitments to eliminate deforestation and to unlink their productive chains from areas natural resources. The Statement of Support followed on October 25, 2017. 23 global companies, including Ahold Delhaize, Marks & Spencer, METRO, Tesco, McDonald's, Nando's, Unilever and Walmart responded to the call and issued statements supporting the objectives of the Cerrado Manifesto. The Statement of Support now has 135 signatories.
- [Collaboration for Forests and Agriculture](#) (CFA) was jointly launched in 2016 by the National Wildlife Federation (NWF), The Nature Conservancy (TNC), the World Wildlife Fund (WWF), the Gordon and Betty Moore Foundation and a range of other strategic partners. The focus is to achieve solid commitments to zero conversion by the leading companies that buy, distribute and process soy and beef in the Amazon and Cerrado regions in Brazil, and in the Gran Chaco region spanning Argentina and Paraguay. The CFA aims to work using the following strategies: promote leadership by the private sector, guarantee robust transparency, and alignment of capital flows.
- [Tropical Forest Alliance](#) 2020 (TFA 2020) is a global public-private partnership in which partners take voluntary actions, individually and in combination, to reduce the tropical deforestation associated with the sourcing of commodities such as palm oil, soy, beef, and paper and pulp. TFA 2020 and its partner countries, companies and civil society organisations work together to: Improve planning and management related to tropical forest conservation, agricultural land use and land tenure; Share best practices for tropical forest and ecosystem conservation and commodity production, including working with smallholder farmers and other producers on sustainable agricultural intensification, promoting the use of degraded lands and reforestation; Provide expertise and knowledge to assist with the development of commodity and processed-commodity markets that promote the conservation of tropical forests; and, Improve monitoring of tropical deforestation and forest degradation to measure progress.
- Innovative Finance for the Amazon, Cerrado and Chaco (IFACC) is a new initiative from the United Nations Environment Project, the Nature Conservancy and the Tropical Forest Alliance. They serve as the “go-to” team for banks, companies and investors seeking to expand innovative finance for deforestation/conversion-free beef and soy in these regions. They want to scale innovative financial

mechanisms—including farm loan products, farmland investment funds, corporate debt instruments and capital markets offerings—and help farmers implement proven business models to supply the global market without further conversion of the Amazon, Cerrado and Chaco ecosystems.

- The [Consumer Goods Forum](#) (CGF) is a global organisation that brings together consumer goods retailers and manufacturers, alongside other key stakeholders, to secure consumer trust and drive positive change, including greater efficiency. The mission of CGF's environmental sustainability work is to position the consumer goods industry as a leader in tackling climate change, reducing waste and improving environmental stewardship in global supply chains. To achieve this, they pursue: Sustainability improvements – driving and communicating sustainability improvements across the value chain; and Multi-stakeholder collaborations – working with cross-sector stakeholders to ensure positive business actions on the issues that matter most.
- [Amsterdam Declaration Partnership](#) is based on the Amsterdam Declarations (AD) signed by Denmark, France, Germany, Italy, the Netherlands, Norway and the United Kingdom. The overall ambition is deforestation-free, sustainable commodities. ADP cooperates with private sector and producer country actors and their initiatives. To reach their common goal the AD country governments join efforts to influence key processes to enhance market uptake of sustainable commodities in our countries complementary to supporting production side measures in countries of origin. The AD-Partnership promotes the uptake of sustainably produced soya.

Appendix III Schedule of excluded activities

RCF will not invest in an entity that has an interest in a subsidiary or joint venture with substantial involvement in any of the following projects:

1. 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, ozone depleting substances, PCB's, wildlife or products regulated under CITES and transboundary movement of waste prohibited under international law.
2. Production or trade in weapons and munitions.
3. Gambling, casinos and equivalent enterprises.
4. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
5. Production or trade in unbonded asbestos fibres.
6. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, or blast fishing.
7. Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage
8. Trading in endangered or protected wildlife or wildlife products.
9. Agricultural development on peatlands.
10. Hunting and trade of bushmeat.
11. Production or activities involving harmful or exploitative forms of forced labour (all work or service, not voluntarily performed, extracted from an individual under threat of force or penalty), and harmful child labour (employment of children that is economically exploitive, 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, moral, or social development).
12. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without the full documented consent of such peoples.
13. Production or activities that may affect remote groups with limited external contact, including people in voluntary isolation, isolated peoples, or those in initial contact.

The RCF-DCF project will also not participate or invest in an investment if such participation or investment would cause the RCF-DCF Project to become involved in violations of the human rights specified by the United Nations' Universal Declaration of Human Rights, and labour rights as specified by the United Nations/International Labour Organisation core conventions on 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 (Convention 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 100 and 111).

Other investments may be added to this exclusion list in new versions of this E&S framework.

APPENDIX IV: INDIGENOUS PEOPLES PLANNING FRAMEWORK (IPPF)

1. INTRODUCTION

This Indigenous Peoples Planning Framework (IPPF) guides the ensure and implementation of projects and activities undertaken by Sustainable Investment Management (SIM) to ensure respect for the rights, dignity, and culture of Indigenous Peoples. The IPPF aligns with the Green Climate Fund (GCF) Environmental and Social Safeguards (ESS), the GCF Indigenous Peoples Policy, the UN Declaration on the Rights of Indigenous Peoples, IFC Performance Standard 7: Indigenous Peoples, and applicable national laws.

2. OBJECTIVES

The objectives of the IPPF are:

1. To ensure that the development process fosters full respect for the human rights, dignity, aspirations, identity, culture, and natural resource-based livelihoods of Indigenous peoples
2. To avoid adverse impacts of projects on Indigenous peoples, or when avoidance is not possible, to minimise, mitigate and/or compensate for such impacts.
3. To improve project design and promote local support by establishing and maintaining an ongoing relationship based on meaningful consultation with the Indigenous peoples affected by a project throughout the project's life cycle.
4. To recognise, respect and preserve the culture, knowledge, and practices of Indigenous peoples.

3. SCOPE

SIM follows the GCF's use of the term Indigenous peoples, which is used to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

- Self-identification as members of a distinct indigenous social and cultural group and recognition of this identity by others.
- Collective attachment to geographically distinct habitats, ancestral territories, or areas of seasonal use or occupation, as well as to the natural resources in these areas.
- Customary cultural, economic, social, or political systems that are distinct or separate from those of the mainstream society or culture.
- A distinct language or dialect, often different from the official language or languages of the country or region in which they reside. This includes a language or dialect that has existed but does not exist now due to impacts that have made it difficult for a community or group to maintain a distinct language or dialect.

SIM regularly works in Brazil, which has a significant population of Afro-descendants who escaped slavery, known as Quilombolas, who have ancestral ties to traditional lands. Quilombolas often suffer from racism, marginalisation, and a lack of visibility. For this policy, Quilombolas are included within the definition of Indigenous Peoples.

This IPPF applies whenever Indigenous peoples are present in, or have a collective attachment to, a proposed project area. As specified in the ESMS and project E&S Policy, this refers to potential project areas located within 25 km of Indigenous territories.

4. GENERAL

A key purpose of this IPPF is to ensure that Indigenous peoples present in, or with collective attachment to, a potential project area are fully consulted about project implementation arrangements. The scope and scale of consultation, as well as subsequent project planning and documentation, will be proportionate to the potential project risks and impacts that may affect Indigenous peoples.

SIM, in close partnership with the Indigenous peoples that project activities may impact, will assess the nature and degree of the expected direct and indirect economic, social, cultural (including cultural heritage), and environmental impacts on Indigenous peoples who are present in, or have collective attachment to, the potential project area. SIM will prepare an Indigenous Peoples Plan (IPP) and identify how affected Indigenous Peoples will participate in consultation. No activities impacting Indigenous peoples will be implemented prior to the finalisation of an IPP.

5. IMPLEMENTATION ARRANGEMENTS

To assess the proximity of Indigenous peoples to potential project activities, SIM will consult maps by Fundação Nacional dos Povos Indígenas (FUNAI), the Brazilian governmental agency responsible for protecting the rights and interests of the country's Indigenous peoples, and other maps, including those where Indigenous peoples self-declare their territories, points of interest, and conflicts. An IPP will be prepared if any potential activities are located within 25km of these areas.

The IPP will be prepared by SIM in consultation with the affected Indigenous peoples, with the assistance of independent specialists using culturally appropriate methods.

The capacity of the Indigenous peoples to engage will be assessed, and where necessary, capacity-building programmes will be implemented to enhance the effectiveness of the process.

Consultations will be conducted in a culturally appropriate, gender-inclusive, and intergenerational manner.

The preparation of the IPP and all associated activity costs will be covered within the project management fee budget.

6. AVOIDANCE OF ADVERSE IMPACTS

It is SIM's policy to avoid implementing projects with adverse impacts on Indigenous peoples. In very limited circumstances, where project alternatives are not possible, and adverse impacts are unavoidable, SIM will work to minimise, restore, and/or compensate for these impacts in a culturally appropriate manner, commensurate with the nature and scale of the impacts.

SIM will never design or implement projects that have the potential to affect remote Indigenous peoples with limited external contact, also known as peoples “in voluntary isolation,” “isolated peoples” or “in initial contact.”

SIM will never design or implement projects which require the removal of Indigenous peoples from their land.

7. CIRCUMSTANCES REQUIRING FREE, PRIOR AND INFORMED CONSENT (FPIC)

For potential project areas within 25km of Indigenous territories, where an Indigenous Peoples Plan finds that the project will have an impact on lands and natural resources subject to traditional ownership or customary use of Indigenous peoples, FPIC of those Indigenous peoples will be sought before any project activities can commence.

FPIC will also be required in the case of:

- a) Impacts on cultural heritage that is essential to the identity, cultural, ceremonial, or spiritual aspects of indigenous peoples’ lives, including practice of traditional livelihoods, natural areas with cultural or spiritual values such as sacred groves, sacred bodies of water and waterways, sacred trees, and sacred rocks; and
- b) Use of cultural heritage, including knowledge, innovations or practices of indigenous peoples for commercial purposes.

There is no universally accepted definition of FPIC. For the purposes of this document, free, prior and informed consent will have the meaning described in this document. Free, prior and informed consent will be an iterative process, where a decision is made on the basis of their own independent deliberations and decision making process, based on adequate information to be provided in a timely manner, in a culturally appropriate manner, in a local language that is understood by them, and through a process of transparent and inclusive consultations, including with women and youth, and free of coercion or intimidation. FPIC does not require unanimity and may be achieved even when individuals or groups within or among affected indigenous peoples explicitly disagree.

SIM will document: (i) the mutually accepted process to carry out good faith negotiations that has been agreed by SIM and Indigenous peoples; and (ii) the outcome of the good faith negotiations between the SIM and Indigenous peoples, including all agreements reached as well as dissenting views.

8. INDICATIVE OUTLINE OF AN INDIGENOUS PEOPLES PLAN (IPP)

a. IPP Executive Summary.

This section concisely describes the critical facts, significant findings, and recommended actions.

b. Assessments of potential project activities with impacts on Indigenous peoples.

This section provides analysis of the nature and scale of such impacts, should:

Provide baseline information on the demographic, social, cultural, and political characteristics of the affected communities; the land and territories that they have traditionally owned or customarily used or occupied; and the natural resources on which they depend.

Identify key project stakeholders and elaborate a culturally appropriate and gender-sensitive process for meaningful consultation with Indigenous peoples at each stage of project preparation and implementation, taking the review and baseline information into account.

Assess, based on meaningful consultation with the affected communities, the potential adverse and positive effects of the potential project activities.

Identify and recommend, based on meaningful consultation with the affected communities, the measures necessary to avoid adverse effects and ensure co-benefits, or, if such measures are not possible, recommend to reject the area for participation in the project.

c. Information disclosure, consultation and participation.

This section should:

- Describes the information disclosure, consultation and participation process with the affected communities that can be carried out during project preparation;
- Summarise their comments on the results of the social impact assessment and identify concerns raised during consultation;
- Document any FPIC processes and outcomes, as necessary;
- Confirm disclosure of the draft and final documents to the affected Indigenous peoples;

d. Feedback and Grievance Redress Mechanism.

This section describes the procedures to redress grievances by affected Indigenous peoples communities. It also explains how the procedures are accessible to Indigenous Peoples and culturally appropriate and gender sensitive.

e. Monitoring, reporting and evaluation.

This section describes the mechanisms and benchmarks appropriate to the project for monitoring and evaluating the implementation of the IPP.

f. Budget and financing.

This section provides an itemised budget for all activities described in the IPP.

APPENDIX V: GRIEVANCE REDRESS MECHANISM

Concerns and grievances relating to the project can be submitted to canal.etica@sim.finance. Prior to project implementation an anonymous comment box will be added to a specific RCF-DCF Project complaint page on the SIM website (in both English and Portuguese). A QR code will be created to provide a quick link to the webpage. A phone number, including on WhatsApp to enable messages and voice notes, will also be set up, monitored by an individual who will have training on the risks to Indigenous people, as well as gender risks and SEAH risks. This information will be placed on posters in prominent locations on all RCF-DCF Project financed farms. Posters will use icons and simple pictograms to show steps making a complaint to assist those with poor literacy. The project will also communicate with indigenous networks in the Cerrado to explain the project and provide details of how to access the grievance redress mechanism if required. This is the most suitable method of sharing the grievance redress mechanism because RCF-DCF Project financed farms will be scattered across the region. Submissions can be made in any language and provisions for interpretation/translation will be provided during the process as necessary to overcome language barriers/limitations.

The SIM Ethics Committee, composed of the CEO, the Director of ESG and Compliance, and the Legal Manager of BVRio, is responsible dealing with any submissions. Once received, the committee will meet within a maximum period of 10 (ten) days to deal with the incident.

SIM's Grievance Redress Mechanism uses a survivor-centred approach when addressing any complaints, including project-related cases of Sexual Exploitation, Abuse, and Harassment (SEAH). Its key elements are:

- Treat survivors with dignity and respect.
- Enable survivors to make informed decisions about what they want.
- Help survivors to be safe.
- Treat survivors equally and non-judgmentally.

Any complaints or grievance received will be treated as a priority, always ensuring due confidentiality of the facts reported and of the complainant.

Survivors will be provided with timely support and access to appropriate services and protection measures as needed. This will include, as relevant:

- a. Access to medical care for immediate and ongoing health needs.
- b. Psychosocial support to address trauma and promote recovery.
- c. Legal assistance to help survivors pursue justice and protect their rights.
- d. Community-driven protection measures to ensure safety and prevent retaliation.
- e. Reintegration support to help survivors resume their livelihoods and social roles without stigma.
- f. Protection of survivors from retaliation and use of traditional justice.

The Grievance Redress Mechanism is based on the following stages:

- 1) Concern or grievance relating to a SIM project submitted to canal.etica@sim.finance.

- 2) The SIM Ethics Committee, composed of the CEO, the Director of ESG and Compliance, and the Legal Manager of BVRio, is responsible dealing with any submissions. Once received, confirmation of receipt will be sent to the Complainant. The committee will meet within a maximum period of 10 (ten) days to deal with the incident. They will discuss whether a formal or information resolution is required, and inform the Complainant.
- 3) The SIM Ethics Committee will plan for the inquiry process and prepare the confidential file where the information will be stored.
- 4) Information on the complaint will be collected through interviews with the Complainant, Witnesses, and Respondent. Further information will be gathered if necessary, until the committee deems it to be adequate.
- 5) The information will be analysed to establish the evidence for the complaint.
- 6) Findings will be prepared along with recommendations.
- 7) Recommendations will be implementation and feedback given to complainant.

SIM will maintain a log on its website where grievances are registered in writing and maintained as a publicly available database. The database will include information about the complaint and the resolution of the complaint, including the remedy provided, taking into consideration that complainants' identities can be kept anonymous if requested. This database will also be shared with the GCF independent Redress Mechanism.

In the unlikely event that a complaint or grievance cannot be resolved, SIM will seek independent counsel and/or escalate the issue to the grievance mechanism of the donor(s) and/or investor(s) financing the project.

Grievances can also be submitted to the Independent Redress Mechanism of the Green Climate Fund: <https://irm.greenclimate.fund/>. Information about this mechanism will also be placed the RCF-DCF Project grievance mechanism information website, posters on all RCF-DCF Project financed farms, and will be communicated to the indigenous networks in the Cerrado.

Some executing entities and service providers of the RCF-DCF Project have their own grievance redress mechanisms. It will be contractually agreed that SIM will be informed of any grievances relating to the RCF-DCF Project received through these channels and the SIM grievance redress mechanism procedure described above will then be followed.

APPENDIX VI: STAKEHOLDER ENGAGEMENT FRAMEWORK

SIM uses open, transparent, inclusive engagement with stakeholders, particularly Affected Communities, as a key element to enhance the environmental and social sustainability of our activities and projects. At the project planning stage, SIM undertakes the following:

- (i) Stakeholder identification and analysis.
- (ii) Stakeholder engagement planning.
- (iii) Disclosure of information highlighting potential risks and impacts that might disproportionately affect vulnerable and disadvantaged groups and describing the differentiated measures taken to avoid and minimise these.
- (iv) Meaningful stakeholder engagement, disclosure, outreach and communication to affected communities that is ongoing and iterative throughout the project cycle, starting as early as possible, including different stakeholder categories, which is equitable and non-discriminatory, and free of intimidation or coercion. Such disclosure and engagement will be commensurate with the nature of the social risks and impacts and the environmental and social risk category of the project in accordance with PS 1 (Assessment and Management of Environmental and Social Risks and Impacts).
- (v) Stakeholder engagement that is inclusive and culturally appropriate and that takes into consideration the feedback provided through such engagement
- (vi) Creation of a responsive approach to addressing grievances.

APPENDIX VII: OPERATIONAL ROUTINE

Implementation of the RCF-DCF Project involves a number of organisations that specialise in different activities in the process, involving both financial and environmental streams. Sustainable Investment Management (SIM) plays the role of 'Project Manager, to ensure the adequate integration of both these streams, while management of the CRA issuance is done by Opea Securitizadora S.A (the Securitization Company). The operational routine of the RCF-DCF Project is described in the Securitization Instrument issued by Opea.

1. ENVIRONMENTAL SCREENING

Prior to their inclusion in the RCF-DCF Project, farms and farmers interested in participating in the programme are assessed by SIM for compliance with the project eligibility criteria.

The initial screening looks for farming groups that have native vegetation in excess of legal requirements (called "excess natural vegetation") and have not converted any native vegetation since 1st January 2020.

Other requirements are then also checked

A list of farmers that meet these requirements, and have adequate credit rating, is submitted to investors. Investors can request changes, and a final list is confirmed by SIM.

2. CREDIT ANALYSIS

Prior to their inclusion in the project, all participating farmers and farms are screened by Traive (the Credit and Monitoring Agent) using their credit analysis methodology. This includes analyses of indebtedness and debtors, receivables, pledges, total assets, revenue forecast, and historic performance.

Based on the results of the credit analyses, a final portfolio allocation is defined ensuring geographic diversification, credit limits for each farmer, as well as average and maximum loan concentration parameters established by the Securitization Agreement.

Once a final portfolio is defined, it is recommended to the investors, prior to proceeding with contracting for inclusion in the RCF-DCF Project.

3. COLLECTION OF GUARANTEES AND CONTRACTING

Once confirmation is secured from the Credit Committee, the loan is documented in the form of a Financial CPR. Each CPR includes a lien (in the form of a fiduciary alienation) on the soy to be produced, for a value corresponding to 115% of the full amount due by the producer at maturity. The CPRs also include the environmental obligations of farmers in the form of the Environmental and Social Commitment Plan (see Appendix IX).

Each CPR is registered in the public notary of the farm's municipality and deposited in the B3 Stock Exchange in Brazil. The collection of the CPRs and the formalization process is conducted by the Formalization Agent (Ace – Agriculture Collateral Experts Ltda).

4. CRA ISSUANCE AND REGISTRATION IN VIENNA STOCK EXCHANGE

Once all CPRs and the respective guarantees are duly formalised, Opea Securitizadora issues the CRAs and register them in the Vienna Stock Exchange and the Brazilian Stock Exchange (B3).

Investors subscribe the CRAs and deposit the funds in a bank account managed by the Paying Agents (TMF and UMB).

Farmers enter into offtake agreement with traders, for delivery of soy at harvest, and assign these agreements to the RCF to receive payment directly from the traders.

Funds are transferred to Brazil and paid into the bank accounts of farmers.

5. MONITORING

During the crop season, farms are continuously monitored for crop development and deforestation and land conversion by both SIM and the third-party EarthDaily Agro.

SIM's analyses focus only on detecting any sign of conversion of native vegetation, using Landsat images taken at different times in the crop season. EarthDaily conducts an independent analysis of crop development using satellite images with 10 m resolution. Any sign of deforestation and land conversion and/or crop failure is reported immediately, and SIM then determines ways of mitigating risks of environmental or financial underperformance.

SIM also monitors farms and farmers for infractions of other environmental legislation associated with their tax IDs (CNPJ/CPF), using a bespoke Due Diligence & Risk Assessment System that monitors 20 databases of compliance with different legislation.

Grievance mechanism channels are monitored and any complaints handled according to the grievance redress mechanism (Appendix V).

6. INDEPENDENT VERIFICATION

Annually, monitoring reports are made available to an independent verification company to review and assess compliance with the eligibility criteria and the environmental and social performance of the project.

7. HARVESTING, LOAN REPAYMENT AND RENEWAL

At the end of the crop cycle, soy is harvested and delivered at the location defined in the offtake agreements with soy traders. Traders pay directly to the RCF-DCF Project for the soy delivered.

RCF-DCF Project uses proceeds to repay interest and/or principal back to investors and the balance is used to finance the next crop cycle.

Loans are renewed for farmers that continue to comply with the requirements of the RCF-DCF Project.

APPENDIX VIII: ELIGIBILITY FOR PARTICIPATION IN THE RCF-DCF PROJECT - SCREENING CHECKLIST

The following table provides the screening checklist which is used to check for the eligibility of farms to participate in the RCF-DCF Project. Screening reports will be generated by the bespoke RCF-DCF Project database.

Category	Requirements
Eligibility Criteria	<p><u>Land Use</u></p> <p>i) Deforestation and conversion: the cultivation area of the Property must have been cleared of native vegetation before 1 Jan 2020;</p> <p>ii) Preference to be given to areas restored from abandoned pastureland to soy cultivation;</p> <p>iii) No conversion of additional areas of native vegetation is allowed (in the Property) during the term of the finance;</p> <p>iv) The Protection:Production Ratio (PPR) of the portfolio of Properties financed must be at least:</p> <ul style="list-style-type: none"> • 40% in Cerrado areas inside the Legal Amazon; and • 25% in Cerrado areas outside the Legal Amazon <p><u>Compliance with the Forest Code</u></p> <p>i) The Property must be registered with the Cadastro Ambiental Rural (CAR);</p> <p>ii) The Property must not overlap with conservation units, indigenous reservations, and community lands (including quilombos);</p> <p>iii) The Property must contain and maintain an area of native vegetation equivalent to those required for Legal Reserve and Areas of Permanent Protection (APPs) determined by the Forest code or be engaged in a Project of Environmental Regularization (PRA) established by the state environmental agency.</p> <p><u>Land title</u></p> <p>Farmers must have unquestionable right to use the Property, be it as land title or land lease agreement.</p>

	<p>Preference will be given to Properties with at least one female owner.</p> <p><u>Legal compliance</u></p> <p>Farmers must demonstrate that the Property does not contravene any environmental or legal requirements, such as:</p> <ul style="list-style-type: none"> i) environmental embargoes, ii) labour legislation (including slave and child labour, SEAH, and gender equality), iii) internationally accepted rules for the use of agrichemicals (at the farm level).
Indigenous peoples	Where the farm is located within 25km of an Indigenous territory (including Quilombola territories) an Indigenous Peoples Plan must be developed.
Local communities	Where the farm is located within close proximity to a community, a risk assessment of the impacts on that community must be carried out and any Emergency Preparedness and Response Plans created if necessary.
Exclusion Criteria	<p>SIM and its projects will not invest in an entity that has an interest in a subsidiary or joint venture with substantial involvement in any of the following projects:</p> <ul style="list-style-type: none"> 1. 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, ozone depleting substances, PCB's, wildlife or products regulated under CITES and transboundary movement of waste prohibited under international law. 2. Production or trade in weapons and munitions. 3. Gambling, casinos and equivalent enterprises. 4. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded. 5. Production or trade in unbonded asbestos fibres. 6. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, or blast fishing.

	<p>7. Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.</p> <p>8. Trading in endangered or protected wildlife or wildlife products.</p> <p>9. Agricultural development on peatlands.</p> <p>10. Hunting and trade of bushmeat.</p> <p>11. Production or activities involving harmful or exploitative forms of forced labour (all work or service, not voluntarily performed, extracted from an individual under threat of force or penalty), and harmful child labour (employment of children that is economically exploitive, 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, moral, or social development).</p> <p>12. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.</p> <p>13. Production or activities which may potentially affect remote groups with limited external contact, also known as peoples "in voluntary isolation", "isolated peoples" or "in initial contact".</p> <p>SIM and its projects will also not participate or invest in an investment if such participation or investment would cause SIM to become involved in violations of the human rights specified by the United Nations' Universal Declaration of Human Rights, and labour rights as specified by the United Nations/International Labour Organisation core conventions on 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 (Convention 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 100 and 111).</p>
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APPENDIX IX: SUB-PROJECT E&S DUE DILIGENCE REPORT TEMPLATE

- **Executive Summary:**
A brief explanation of the purpose of the sub-project. A concise discussion of all environmental and social areas of concern and their mitigation measures.
- **Sub-Project Overview:**
An explanation of the purpose, nature, scale and duration of the sub-project activities, including the intended beneficiaries.
- **Due Diligence Procedure:**
Brief overview of the approach used to conduct the due diligence.
- **Findings:**
Detailed discussion of all environmental and social risks.
- **Mitigation Measures:**
For each medium or high risk found, the report should explain the appropriate corrective actions to mitigate them and why they are necessary.
- **Stakeholders:**
Summary of stakeholder engagement framework, if required (see Appendix VI for a template).
- **Grievance Mechanisms:**
Explanation of available grievance mechanisms for the sub-project.
- **Sub-Project Environmental and Social Commitment Plan:**
Table outlining the E&S categories to be complied with and the requirements of the farmer. The project eligibility criteria and associated requirements are also included in the plan.

Table: E&S compliance requirements

E&S Category	Farmer Requirement
<i>e.g. Agrichemicals</i>	<i>e.g. No use of any internationally banned pesticides. Signed declaration of this by the farmer and agronomic engineer officially responsible for the approvals required for the use of agrichemicals in the property.</i>

Table: Project Eligibility Criteria

Criteria Category	Farmer Requirement
<i>e.g. Land Use</i>	<i>e.g. The cultivated areas of the property must have been deforested before January 1, 2020;</i>