



Disclosure statement

Operating principles for Impact Management

Investing for Development SICAV (the “Signatory”) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Impact Principles”). This Disclosure Statement applies to the following assets (the “Covered Assets”): The Forestry and Climate Change Sub-Fund. The total assets under management of FCCF in alignment with the Impact Principles are USD 7.1m as of 31st March 2021

Abbreviations Fund, FCCF, SICAV

References in this document to “SICAV” refer to Investing for Development, a société d’investissement à capital variable incorporated under Luxembourg law and registered with the Registre de Commerce et des Sociétés au Luxembourg (RCSL) under number B.148 826.

References to “Fund” or “FCCF” refer to the Forest and Climate Change Fund, a Sub-Fund of the SICAV.



Principle 1

Define strategic objectives, consistent with the investment strategy.

Define strategic impact objective(s), consistent with the investment strategy. The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social, economic, or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The strategic intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible expectation of achieving the impact objectives through the investment strategy; and that the magnitude (scale and/or intensity) of the expected portfolio impact is proportionate to the size of the investment portfolio.

FCCF's impact intent is based on the assumption that secondary and degraded forests are not disappearing because they in themselves are perceived as economically valuable, but rather because they present little or no value in the eyes of local communities and economic actors. The Fund seeks to change this perception, turning secondary and degraded forests from a land use option without economic value, to an economic asset providing income through its sustainable management and the development of fair value chains. This is expected to result in the appreciation of the forest, leading to reduced deforestation and degradation rates, and increased forest restoration over time.

The Fund's vision and mission have been translated into the following strategic impact targets consistent with the investment strategy and social and environment goals of the Fund:

- **Natural capital from secondary and degraded forest increased, and deforestation and forest degradation was reduced.** To assess this, particular attention is paid to the area of secondary and degraded forest secured for management (SDG 15.1) and the amount of carbon which has been sequestered (SDG 13.1).
- **A fair and inclusive value chain for timber derived from secondary and degraded forests was established:** This looks at the creation of fair value chains, including the total volume of timber produced from secondary and degraded forests (SDG 11.c) and the total income derived from such sustainably sourced timber (SDG 15.b)
- **Socio-economic opportunities and livelihoods derived from secondary and degraded forests for small forest owners, communities, indigenous peoples:** This Fund also highlights the importance of producing beneficial impacts for local communities. To do this, the Fund considers the number of communities directly and indirectly impacted are considered (SDG 10.2 & 13.b), the number of landowners receiving investment (SDG 8.3) and jobs created (SDG 8.3)

Not only do the targets tie in with the SDGs, but also the Bonn Challenge, FLEGT and nationally defined goals.



Principle 2

Manage strategic impact and financial returns at the portfolio level

The Manager shall have a process to manage impact achievement at the portfolio level, similar to that of managing financial returns. The objective of the process is to establish and monitor expected impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

The portfolio has been constructed in such a way that the impact of each project may help to strengthen the portfolio as a whole. For instance, the improvement of access to export for one product may have a broader beneficial impact on the creation of value chains, which enables other non-directly related projects to benefit. This means that it is essential for the Fund to monitor its strategic impact on a portfolio basis, in order to assess the efficacy of the Theory of Change.

The Fund's investment process is aligned to its impact intent during each step, from screening through Due Diligence, up to the exit. Key environmental and social indicators are defined for each investment, and reported on at the Portfolio level twice a year. This report shows how the Fund, as a whole, is performing against strategic impact targets: a summary of this can be seen in the Fund's [annual and semi-annual reports](#). The performance is also monitored at Investment Committee level during each meeting and any concerns emerging from the reports are reviewed. These concerns may also feed into strategic changes, as we learn from successes and weaknesses. The Fund's [remuneration policy](#) is such that the Fund Management team's variable remuneration is partly contingent on the Fund's environmental and social performance.



Principle 3

Establish the Manager's Contribution to the achievement of impact.

The Manager shall seek to establish and document a credible, transparent narrative on the investor's contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels, and assessed for the individual investment, or from a portfolio perspective. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

During each analysis a base case scenario is considered, assuming the status quo prior to management intervention remains in place (this does not include a scenario under which additional forestry degradation occurs – although this is often a likely outcome if there is no intervention). The baseline condition is documented in a detailed investment proposal, based on forest inventories and the local economic, environmental and social conditions. The variables in this scenario are then adjusted to indicate likely outcomes following management intervention, during Due Diligence. This allows the Fund to ascertain its likely contribution to impact. Following this modelling, the projects continue to be monitored against these initial scenarios to ensure that the impact narrative occurs according to the previously set targets. This allows the manager to monitor the impact that the intervention has, with numerical evidence, versus the status quo.



Principle 4

Assess the expected impact of each investment, based on a systematic approach.

For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?

The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact differing from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow international best practice conventions.

An investment file is produced for each potential investment in the Fund. This investment file has a broad approach and systematically considers all key components required as part of the investment process, including the project background, organizational structure, structure of forestry concerned, particularities of local industry structure, market structure, financial analysis and impact assessment. This impact assessment is carried out for each investment on a systematic basis and requires a consideration of core areas aligned with the Fund's theory of change:

- Natural Capital (viewed as environmental impact, linked to SDG 13 & 15)
- Wood Value Chains (viewed as Impact on Forestry Development and linked to SDG 8,9,12)
- Equity and Inclusion (Viewed as Social Impact and linked to SDG 1 & 5)



Principle 5

Assess, address, monitor and manage potential negative impacts of each investment.

For all investments, the Manager shall seek to avoid, minimize, or mitigate potential negative effects by assessing and monitoring Environmental, Social and Governance (ESG) and other nonfinancial risks, as well as the performance of the investee in managing material ESG issues. Where appropriate, the Manager shall engage with the investee company to seek its commitment to take action to address potential gaps in current investee systems, processes, and practices, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, provide support where appropriate, and address unexpected events.

The Fund [requires its investees to be aligned to international sustainability standards](#), such as the [Forest Stewardship Council® Principles and Criteria \(FSC P&C\)](#), and strive for certification after investment— as such, a fundamental part of its investment process is to ensure that its underlying investees abide by the FSC Principles which require the judicious monitoring of potential negative impacts. Before any investment takes place, investees must commit to work towards FSC certification. FSC certification ensures annual third party audits verifying the investee's performance against FSC Principles and Criteria for sustainable forest management. In view of this, and the potential for other negative externalities, the Fund systematically conducts a social, environmental, governance and financial risk and mitigation analysis as part of its initial due diligence. The ability to assess, address, monitor and manage potential negative impacts is again assessed with the Investment Committee. This ESG focus is also followed up during the continued monitoring of the investments. Where appropriate, areas of concern may also be addressed through Technical Assistance. In cases of equity investments, the Fund also takes Board positions, allowing for even greater scrutiny of the investments and a strong degree of control when it comes to assessing and managing negative impacts.



Principle 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

The Fund has two members of staff on the ground in Central America who are in constant communication with the Investment recipients. The Fund also works closely with an Investment Adviser who conducts regular monitoring on the ground. Investment recipients are contractually required to provide relevant data to the Adviser. The investee receives detailed information on the indicators to be monitored and reported on. This data is aggregated into reports twice a year, which are monitored by the Fund Manager, and which show how the investment performs against its pre-defined targets. Any concerns are escalated to the managing bodies of the Fund, who will decide on the best course of action, to ensure that expectations can be reached.



Principle 7

Conduct exits considering the effect on sustained impact.

The Manager shall, in good faith and consistent with its fiduciary responsibilities, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

The Fund may use a variety of financial instruments, including loans, where the end of the financial relationship with investees is established from the start, or equity, where the exit is less certain. In the latter case, the Fund strives for a “responsible exit”¹ to safeguard the impact strategy beyond the lifetime of the Fund. This includes considerations of the timing of the exit, integration of environmental and social criteria in the selection of the buyer, possibilities to legally safeguard the investees’ mission and balancing financial and non-financial objectives of the Fund. It should be noted that the Fund has not yet conducted an exit.

¹



Principle 8

Review, document and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

The Fund commits to integrating lessons learned from the Fund's processes and investments within its ESMS, which is a living document and which constantly evolves as the Fund develops. The Fund also keeps a log of all strategic issues in its Board Meeting minutes. These issues are reviewed on a regular basis, so that the Fund can improve its processes. The Fund believes that its Investment Recipients should also be able to learn from the examples of other investments, and therefore an annual workshop is organized by the Fund (not held in 2020 due to COVID), bringing together lessons learnt within the various projects.



Principle 9

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the extent to which impact management systems are aligned with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall be publicly disclosed, subject to fiduciary and regulatory concerns.

The Fund confirms its commitment to [publicly disclose alignment](#) with the Impact Principles and provide regular independent verification of the alignment.

The Fund has engaged an independent organization to conduct a verification of its compliance with the Impact Principles and is awaiting its results which will be publicly disclosed and available before December 2021, in line with the Impact Principles' requirements. Besides its annual disclosures, the Fund will continue to conduct independent verifications on an ongoing basis (expected to be every 3 years). Additional information on FCCF's impact is also publicly available in its [semi-annual and annual reports](#).

Authorized Representative:

Apricot Wilson

Title:

Head of Impact

Name of Institution:

Investing for Development SICAV

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