



Environmental & Social Management System (ESMS)

Version 1.0, March 2022

Background

The Foundation Development and Climate Alliance (henceforth „Foundation“) is committed to holistic climate protection that integrates the Sustainable Development Goals (SDGs) within the ambitious climate goals of companies and organisations. In particular, the Foundation advocates voluntary carbon offsetting, specifically projects that serve equally towards the promotion of both sustainable development and climate protection in developing countries and emerging economies. Here, the Foundation pays particular attention to the observance of human rights and the Foundation’s grounding principle in not causing damage wherever projects are implemented. Since March 2022, the Foundation has explicitly ensured these requirements through its Environmental & Social (E&S) Policy¹ and a corresponding Environmental & Social Management System (ESMS).² These specify how environmental and social aspects can be accounted for, how associated risks can be effectively minimized, and how possible negative consequences can be counteracted.

With a functioning ESMS, the Foundation also fulfills its obligations to its public funding provider, the German Federal Ministry for Economic Cooperation and Development (BMZ), and those of its founder, the national development bank Kreditanstalt für Wiederaufbau (KfW). The concordance of both what the Foundation offers and the guidelines put forth under the KfW Sustainability Guideline³ is affirmed by the ESMS, ensuring compliance with the principles of the development bank and the German government’s obligations under international and national treaties, as well as standards that protect the environment and people.

Goals

The Foundation’s ESMS is designed to assist Supporters and Offset Partners in identifying, classifying, and managing the environmental and social risks associated with projects or project portfolios. This includes but is not limited to:

- Identifying, assessing, minimizing E&S risks in projects recommended by the Foundation;
- Identifying, assessing, minimizing E&S risks in project portfolios of Offset Partners;
- Contributing to improved E&S risk management and awareness among Offset Partners;
- Establishing and maintaining quality assurance of the Foundation’s recommendations regarding environmental and social standards among buyers, Offset Partners (sellers), investors, and other stakeholders.

Guiding Principles



The Foundation is committed to the following guiding principles regarding the projects or project portfolios of its Offset Partners:

- Avoid, reduce or limit negative E&S and climate impacts;
- Avoid negative impacts on the living conditions, livelihoods and land tenure of communities;
- Promote the Health and Safety (H&S) of all employees;
- Prohibit forced labour and child labour;
- Prohibit discrimination, prohibit and combat harassment and support the freedom of association and the right to collective bargaining of workers;
- Support the preservation and protection of biodiversity and sustainably manage natural resources; and
- Comply with all relevant E&S, H&S and land acquisition policies, laws and regulations of the target countries and international standards.



By committing to this set of guiding principles, the Foundation will adhere to the following generally accepted, good practice E&S standards:

- Local laws and regulations in all countries where the Foundation and its Offset Partners are active;
- KfW Exclusion List and KfW Development Bank Sustainability Guideline;
- IFC Performance Standards and supporting Guidance Notes;
- World Bank Group’s general and relevant sectoral Environmental, Health, and Safety Guidelines; and
- ILO Core Labour Conventions.

Elements of ESMS

Key elements of the ESMS include the *Exclusion List*, the *Screening* of projects funded or promoted by the Foundation, as well as a *Portfolio Screening* from new Offset Partners (which will be expanded to existing partners in the medium term). All successfully approved projects and project portfolios are to be evaluated in the framework put forth by the *E&S Due Diligence Process* (ESDD). In the Foundation's *E&S Monitoring and Reporting*, it is ensured that the ESMS is implemented as planned.⁴

In this way, E&S risks and undesirable consequences that negatively impact individuals, local communities, and natural ecosystems can be identified so that they can be appropriately corrected by the Offset Partners afterwards. However, it remains the responsibility of each Offset Partner to counteract potentially identified risks at the project level.



Figure 1: Elements and Processes of ESMS

Project screening can be partially shortened by high-quality project certification that already sufficiently considers E&S risks. The standards that meet these quality requirements were assessed and determined in a gap analysis in 2020. Currently, environmental and social safeguards are primarily covered by the Gold Standard for the Global Goals (GS4GG) or a standard combination of VCS + CCBS (Verified Carbon Standard + Climate, Community & Biodiversity Standards).

This certification eliminates the need for additional E&S risk management for the project. In the case of any changes in stan-

dards, offers or new findings and requirements, the gap analysis will be revised and updated accordingly.

Category A (High risk)	Portfolios/projects with potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented.
Category B+ (Substantial risk)	Portfolios/projects with single significant adverse E&S impacts and risks.
Category B (Moderate risk)	Portfolios/projects with potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
Category C (Low risk)	Portfolios/projects with minimal or no adverse E&S risks and/or impacts.

Table 1: Categories of Risk Assessment

Implementation

In order to give all partners of the Foundation sufficient time in implementing or reviewing E&S risks, the following measures will be implemented first:

- Existing Foundation Offset Partners with projects listed on the Foundation's provider platform will be required to submit those projects for E&S screening or provide evidence of ESMS-compliant certification. In addition, Offset Partners are encouraged to continuously improve their E&S risk management and address potential gaps in the standards they apply.
- Individual projects that are directly or immediately promoted by the Foundation, such as through presentation on a Foundation-managed platform, must comply with the procedures outlined in the ESMS.
- For new Offset Partners, E&S risk management that complies with the procedures set forth in the Foundation's ESMS will be mandatory beginning in March 2022; a reasonable transition period may be agreed upon.
- From 2023/2024, the portfolios of all Offset Partners will be evaluated in accordance with the ESMS. The Foundation's provider platform will be adapted in accordance with the requirements of the ESMS.

The Foundation will conduct a regular review of the ESMS and its implementation.

¹ www.allianz-entwicklung-klima.de/wp-content/uploads/2022/01/ESMS_ES-Policy_V1.pdf

² www.allianz-entwicklung-klima.de/wp-content/uploads/2022/01/ESMS_Manual_V1.pdf

³ www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Richtlinien/Nachhaltigkeitsrichtlinie_DE.pdf

⁴ The full ESMS documents can be accessed at: <https://allianz-entwicklung-klima.de/en/standards-studien/>

⁵ www.allianz-entwicklung-klima.de/wp-content/uploads/2021/01/2020-Gap-Analyse-von-Klimastandards-Stiftung-Allianz-fuer-Entwicklung-und-Klima.pdf