



Environmental & Social Management System (ESMS)

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This ESMS was created by the Foundation Development and Climate Alliance with the help of Environmental Resources Management (ERM) and Kreditanstalt für Wiederaufbau (KfW)

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LIST OF CONTENTS

1	Objectives and Scope	4
1.1	Background of the Foundation	4
1.2	Context of the ESMS	5
1.3	ESMS Objectives	6
1.4	E&S Risks and Impacts	6
1.5	Structure of the ESMS	7
2	Applicable E&S Standards and Guidelines	8
3	E&S Policy	9
4	E&S Process	9
4.1	General Structure of the E&S Process	9
4.2	Detailed Structure of E&S Process	9
4.3	Step 1: Exclusion List	11
4.4	Step 2: E&S Screening and Categorisation	11
4.4.1	Step 2.1: Institutional E&S Screening	11
4.4.2	Step 2.2: Portfolio E&S Categorisation	12
4.5	Step 3: E&S Due Diligence (ESDD)	13
4.6	Step 4: E&S Monitoring and Reporting	14
4.6.1	Monitoring and Reporting to the Foundation	14
4.6.2	Monitoring and Reporting to KfW	15
4.7	Project Screening	15
5	Grievance Mechanism	15
5.1	Overview	15
5.2	Foundation Grievance Mechanism	16
5.3	Offset Partner Grievance Mechanism	16
6	Review and Continuous Improvement	17
7	List of Annexes	17

LIST OF TABLES

Table 1: ESMS Tools	8
Table 2: Portfolio E&S Categories	12
Table 3: Required E&S Systems	13
Table 4: Required E&S Studies	14

LIST OF FIGURES

Figure 1: Interaction of Foundation, Buyers and Offset Partners (Sellers)	4
Figure 2: Foundation E&S Risk Management Process at a Glance	9
Figure 3: Foundation E&S Process Flow	10

Acronyms

ACRS	American Carbon Registry Standard
BMZ	German Federal Ministry of Economy
CCBS	Climate, Community and Biodiversity Standards
CDM	Clean Development Mechanism
E&S	Environmental and Social
EHS	Environmental, Health and Safety
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
GS4GG	Gold Standard for the Global Goals
H&S	Health and Safety
IFC	International Finance Corporation
IFC PS	International Finance Corporation Performance Standards
ILO	International Labour Organisation
KfW	German Development Bank (Kreditanstalt für Wiederaufbau)
NTS	Non-Technical Summary
PS	Performance Standard
PV	Plan Vivo
SD VISta	Sustainable Development Verified Impact Standard
SCS	Social Carbon Standard
VCS	Verified Carbon Standard

1 Objectives and Scope

1.1 Background of the Foundation

The climate objectives of the Paris Agreement cannot be reached with the contributions of nation states alone. Contributions from the private and third sector are needed. Therefore, the German Federal Ministry for Economic Cooperation and Development (BMZ) launched the Stiftung Allianz für Entwicklung und Klima (Foundation Development and Climate Alliance - "Foundation"), which is based in Germany.

The objective of the Foundation is to promote sustainable development and climate action through voluntary non-governmental Advisory Services. To reach this objective, the Foundation brings together companies, associations and public authorities that want to reduce their carbon footprint ("Buyers") with climate project developers and compensation providers ("Offset Partners" or "Sellers"). Buyers negotiate with Offset Partners and provide funding to the climate projects in developing countries ("projects") managed by the Offset Partners. In return, the Buyers receive certificates, e. g. to become carbon neutral.

The Foundation provides non-commercial Advisory Services, such as the following:

- Information exchange
- Non-commercial advice
- Public relations
- Platform provision on the Foundation homepage
- Event management for technical exchange

Fehler! Verweisquelle konnte nicht gefunden werden. depicts how the Foundation, Buyers and Offset Partners (Sellers) interact.

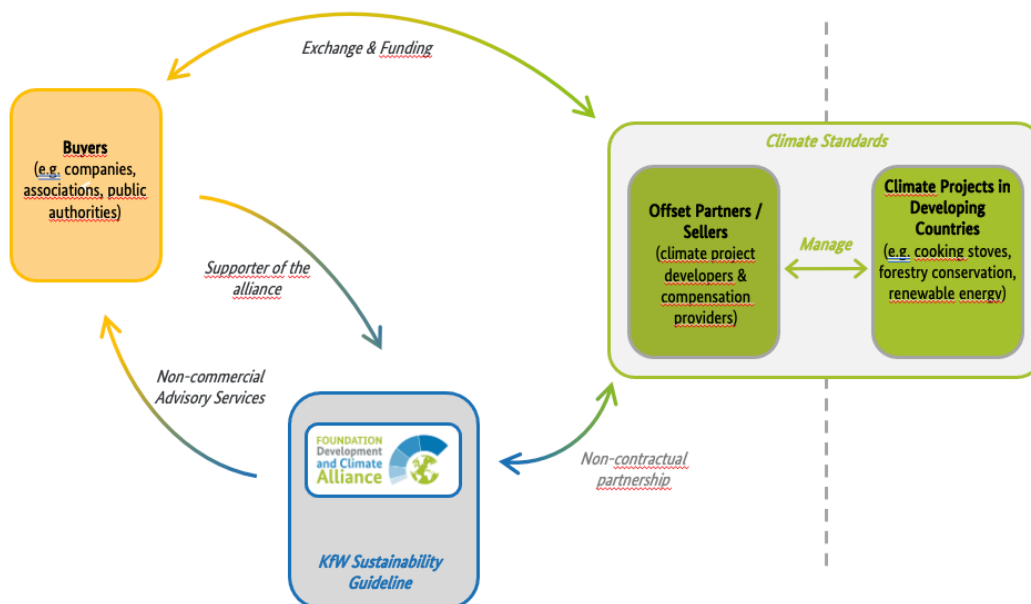


Figure 1: Interaction of Foundation, Buyers and Offset Partners (Sellers)

The projects of the Offset Partners include activities in different sectors, particularly in:

- Afforestation and reforestation, forest and moor conservation, sustainable forestry
- Sustainable agriculture and land management
- Energy efficiency (from energy efficient cooking stoves to large-scale industrial plants)
- Renewable energy (wind, solar including solar home systems, hydro, geothermal and biomass)
- Waste management and landfill gas

1.2 Context of the ESMS

The BMZ via the KfW Development Bank (KfW) provides the initial funding of the Foundation. Therefore, all of the Foundation's Advisory Services must be compliant with the KfW Sustainability Guideline.¹ The KfW Sustainability Guideline refers to the IFC Performance Standards (IFC PS), the World Bank Group General and sector-specific Environmental, Health and Safety (EHS) Guidelines as well as applicable national Environmental and Social (E&S) and Health and Safety (H&S) laws and regulations.

The Foundation conducted an initial assessment to determine the gaps of eight Climate Standards used by the Offset Partners versus the KfW Sustainability Guideline ("Gap Analysis of the Climate Standards").² The *Gap Analysis of the Climate Standards* showed that some Climate Standards had significant gaps and do not appear suitable for use in the projects of Offset Partners.³ Other Climate Standards had fewer gaps and it was considered that the implementation of an Environmental and Social Management System (ESMS) can close the remaining gaps and achieve conformance with the KfW Sustainability Guideline.

The Foundation utilises the ESMS to determine the Offset Partners' E&S risks and support them in managing / minimising the risks.

In this, the Foundation follows a differentiated approach:

- Offset Partners that are already members of the Development and Climate Alliance will be encouraged to steadily improve their E&S risk management, where necessary, and to close possible gaps in the standards they apply;
- New Offset Partners will be required to apply an E&S risk management that complies with the procedures laid out in this paper; for this, an adequate transition period may be agreed;
- Individual projects promoted by the Foundation in any way, for example by presentation on a platform managed by the Foundation or by co-financing, will need to conform to the procedures laid out in this document.

¹ KfW Development Bank (2019): Sustainability Guideline. Assessment and management of Environmental, Social, and Climate Aspects: Principles and Procedures. https://www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Richtlinien/Nachhaltigkeitsrichtlinie_EN.pdf.

² Environmental Resources Management (ERM, 2020): Gap Analyse von Standards im freiwilligen CO₂-Kompensationsmarkt. Beratung zur Gründung der Stiftung Allianz für Entwicklung und Klima. (Gap Analysis of Climate Standards in the Voluntary CO₂ Compensation Market. Consulting Service for the Establishment of the Development and Climate Alliance Foundation.).

³ The findings of the *Gap Analysis of the Climate Standards* form the starting point of the ESMS. As these Standards may evolve in the future, the initial findings of the *Gap Analysis* may be superseded, and this should be reflected in the annual update of the ESMS.

1.3 ESMS Objectives

The overall objective of the ESMS is to help ensure that the Foundation's Advisory Services are in line with the KfW Sustainability Guideline.

The key E&S risks of the Advisory Services are related to the individual projects developed by the Offset Partner (Seller) with funding from the Buyer. All projects aggregated are referred to as the portfolio of the Offset Partner ("portfolio"). The ESMS defines the Foundation's approach to support the Offset Partner in identifying and managing E&S risks in its portfolio. It is the responsibility of the Offset Partner to manage the E&S risks on the project-level. The specific objectives of the Foundation's ESMS are as follows:

- Identify, assess, mitigate, and monitor E&S risks of Offset Partners and their portfolios;
- Contribute to an improved E&S risk management awareness of the Offset Partners; and
- Establish and maintain the Foundation's good reputation related to E&S performance with Buyers, Offset Partners (Sellers), investors, and other stakeholders.

This ESMS document describes the Foundation's E&S management process to be applied by the Foundation's staff and advisors. The ESMS standardises and formalises the process and provides the tools required to meet the ESMS objectives. Both this ESMS document and its Tools/Annexes are "living documents" and will be assessed and updated as necessary.

For the time being, this ESMS will only assess the portfolio level of Offset Partners. In addition, all projects published on the website of the Foundation will be screened in an E&S Due Diligence (see chapter 4.7).

1.4 E&S Risks and Impacts

The Foundation provides Advisory Services to Offset Partners that promote the Foundation's vision and mission. Offset Partners' portfolios have associated E&S risks.

Although it is expected that the overall impacts of the projects of the Foundation's Offset Partners will be positive, potential E&S risks and adverse impacts are not to be neglected. Potential E&S risks and impacts related to Offset Partners' projects may include *inter alia* the following:

- Impacts due to the siting of the projects
 - Impacts on land take or restriction of access to natural resources (threats to livelihoods)
 - Impacts on natural habitats and or flora/fauna
 - Impacts on cultural heritage
- Impacts on workers' Occupational H&S during the construction activities (from minor injuries to fatal accidents)
- Impacts on labour conditions during the construction activities, particularly for the cases of multiple levels of contractors and subcontractors. Such impacts might include *inter alia*:
 - Employment of children as per ILO Core Labour Conventions (child labour)
 - Remuneration that is non-transparent or non-compliant to legal requirements
 - Harassment, intimidation, and/or exploitation of workforce
 - Discriminations towards workers due to origin, gender, age, ethnicity, or any other criteria non-related to job
- Impacts on the community during construction activities, particularly linked to:

- Accidents on open construction sites on which the access to community is not appropriately restricted
- Accidents related to traffic
- Disturbances due to exposure to noise, vibration, dust, etc.

It is expected that the majority of the Offset Partners' projects will be of medium to low E&S risks (e. g. energy efficient cooking stoves, solar home systems). Nonetheless, the ESMS needs to detect any potential red flags of high E&S risks.

This ESMS should have a conservative approach with regard to E&S impacts (precautionary principle) and follow the mitigation hierarchy to avoid, reduce, and/or compensate any E&S impacts.

Each project's E&S risks and potential impacts have to be compiled specifically based on its foreseen activities by the Offset Partners. The Foundation will only oversee the Offset Partners' consolidated portfolios from a high level.

1.5 Structure of the ESMS

This ESMS is developed based on the requirements set forth by the KfW Sustainability Guideline, especially the IFC PS1 *Assessment and Management of Environmental and Social Risks and Impacts*.⁴ The processes described in the ESMS are in line with the Foundation's *Approved Standards and Processes*.⁵

The ESMS comprises the following sections:

- Section 1: Objectives and Scope – the context, purpose and structure of the Foundation's ESMS;
- Section 2: Applicable E&S Standards and Guidelines – the applicable international good practice E&S standards;
- Section 3: E&S Policy – the Foundation's commitments to E&S topics;
- Section 4: E&S Process – the systems, processes and supporting tools for incorporating E&S into each stage of the E&S risk management process;
- Section 5: Grievance Mechanism (Foundation-level and Offset Partners-level); and
- Section 6: Review and Continuous Improvement.

The ESMS has been designed to integrate with the Foundation's overall governance arrangements and processes, as applicable throughout Offset Partner screening, as well as monitoring and reporting through the partnership period. Sections of the ESMS are supported by various detailed policies, templates and checklists including an Exclusion List, E&S Questionnaires, Checklists, etc. which are available in the Appendices. The table below provides an overview of the ESMS Tools/Appendices and the documentation responsibilities:

⁴ IFC Performance Standard 1 *Assessment and Management of Environmental and Social Risks and Impacts* and Guidance Notes (2012): https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps1.

⁵ Development and Climate Alliance (2020): *Approved Standards and Processes*. https://allianz-entwicklung-klima.de/wp-content/uploads/2020/11/AllianzEntwicklungKlima_Anforderungskatalog_Standards_EN.pdf.

ESMS Tools		
Advisory Process Stage	For use by:	
	Foundation	Offset Partners
Screening	Exclusion List (Annex A)	
	E&S Screening Questionnaire for Offset Partners (Annex B)	
Categorisation	E&S Categorisation Guidance & Form (Annex C)	
Monitoring	Annual E&S Report to KfW (Annex F)	E&S Monitoring Form (Annex E)
Overall	Grievance Mechanism Template (Foundation-level) (Annex D)	Grievance Mechanism Template (Offset Partner-level) (Annex D)

Table 1: ESMS Tools

2 Applicable E&S Standards and Guidelines

The ESMS is structured in line with the following Applicable E&S Standards and Guidelines:

- KfW Sustainability Guideline - Assessment of Environmental, Social, and Climate Performance: Principles and Process⁶;
- IFC Performance Standards⁷:
 - PS1 - Assessment and Management of Environmental and Social Risks and Impacts
 - PS2 - Labour and Working Conditions
 - PS3 - Resource Efficiency and Pollution Prevention
 - PS4 - Community Health, Safety, and Security
 - PS5 - Land Acquisition and Involuntary Resettlement
 - PS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources
 - PS7 - Indigenous Peoples
 - PS8 - Cultural Heritage
- World Bank Group's General and sector-specific Environmental, Health and Safety Guidelines⁸; and
- Core Labour Standards of the International Labour Organisation (ILO)⁹.

⁶ KfW Sustainability Guideline (2019): https://www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Richtlinien/Nachhaltigkeitsrichtlinie_EN.pdf

⁷ IFC Performance Standards and Guidance Notes: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards/

⁸ IFC Environmental, Health and Safety Guidelines: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/EHS-Guidelines/

⁹ Core Labour Standards of the International Labour Organisation: <https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>

3 E&S Policy

The Foundation's E&S Policy outlines the Foundation's commitment towards sustainability and how it is fully integrated into the Foundation's processes. The E&S Policy lays the foundation of the whole ESMS and is aligned with the Foundation's *Approved Standards and Processes*.

The E&S Policy has been approved by the Foundation and reflects the level of commitment to managing E&S across the Foundation's Advisory Process, throughout its Offset Partners' portfolios, and within the Foundation's own operations. The E&S Policy applies to all Foundation employees and Advisory Services across the Foundation. In addition, all third-party contractors of the Foundation with responsibility for managing E&S aspects, and those of its advisory services, must align to the requirements set out in the E&S Policy.

The E&S Policy can be found at: https://allianz-entwicklung-klima.de/wp-content/uploads/2022/01/ESMS_ES-Policy_V1.pdf

4 E&S Process

This chapter describes the key steps involved in the Foundation's E&S Process for Offset Partners.

4.1 General Structure of the E&S Process

Companies or organisations that want to become official Offset Partners of the Foundation ("potential Offset Partners") submit an application to the Foundation. The E&S Expert reviews the application, undertakes a Due Diligence if needed, and if acceptable the company becomes an official Offset Partner. The E&S Expert will assess each Offset Partner again on an annual basis through the Monitoring and Reporting.

Figure 2 below is a high-level illustration of the four-steps of managing E&S risks throughout a typical advisory process.



Figure 2: Foundation E&S risk Management process at a glance

4.2 Detailed Structure of E&S Process

Figure 3 further depicts the Foundation E&S Risk Management Process in a detailed E&S Process Flow. The Figure describes the key steps and which actions are to be done by the (potential) Offset Partner and the Foundation's E&S Expert. It also shows which Tools/Annexes are relevant and at which stage.

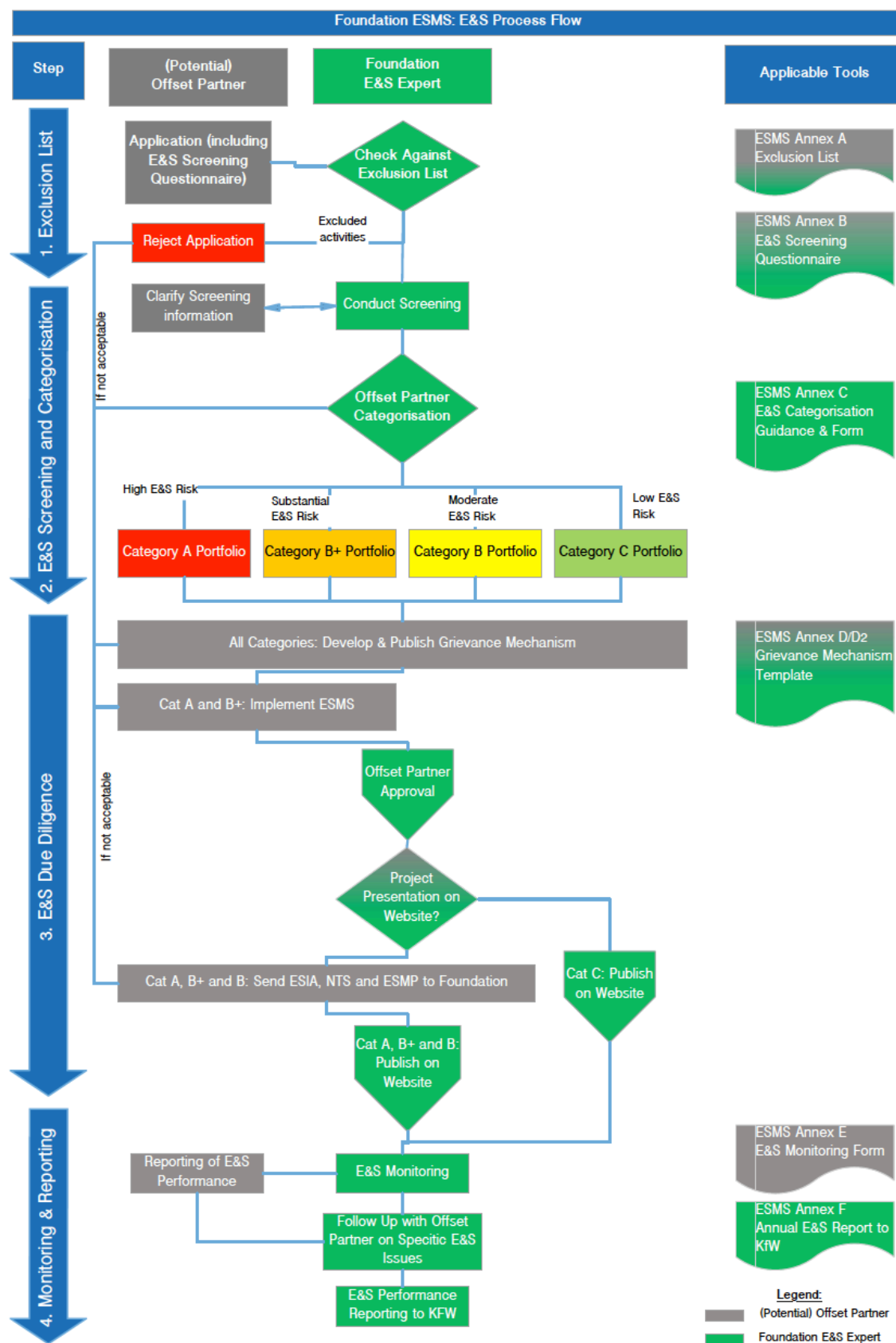


Figure 3: Foundation E&S process flow

The following chapter describes each of the four steps in the E&S Process in more detail.

4.3 Step 1: Exclusion List

The Foundation will not promote any of the activities listed on the [Exclusion List \(Annex A\)](#)¹⁰. The **Exclusion List** is published on the Foundation's homepage¹¹ to clearly communicate to the public and all stakeholders the types of activities that will not be promoted by the Foundation.

The whole process starts with the potential Offset Partner filling in and submitting the [E&S Screening Questionnaire \(Annex B\)](#) to the Foundation. The **E&S Screening Questionnaire** should be completed truthfully declaring all known E&S issues applicable to the potential Offset Partner's portfolio, including the potential Offset Partner's status on E&S Policy, ESMS, management plans and procedures, E&S capacities, company operations, types of resources used, interactions with the local communities, and other E&S relevant topics (see **E&S Screening Questionnaire**).

The E&S Expert will review and amend the **E&S Screening Questionnaire**. Supporting evidence should be requested to verify statements made by the potential Offset Partner. The E&S Expert will also assist the potential Offset Partner in case of any questions. The overall objective for the E&S Expert is to gather all relevant information to conduct the E&S Screening and Categorisation.

The E&S Expert screens the information of potential Offset Partners against the **Exclusion List**. If any of the projects of potential Offset Partners include activities listed on the **Exclusion List**, the application will be rejected.

If the potential Offset Partner's activities are not listed on the Exclusion List, its application will continue to the E&S Screening and Categorisation.

4.4 Step 2: E&S Screening and Categorisation

The aim of the E&S Screening is to gather all relevant information to determine the E&S risk categories of the portfolios of the potential Offset Partners, and is conducted in a two-stage process:

- Step 2.1: Institutional E&S Screening
- Step 2.2: Portfolio E&S Categorisation

4.4.1 Step 2.1: Institutional E&S Screening

The E&S Expert screens and analyses the application of a potential Offset Partner including **E&S Screening Questionnaire (Annex B)**. The E&S Expert assesses the institutional capacity of the potential Offset Partner to manage E&S risks and determines which Climate Standards the potential Offset Partner uses.

The following Climate Standards are preferred by the Foundation, as their E&S results in the *Gap Analysis of the Climate Standards* were satisfactory¹²:

- Gold Standard for the Global Goals (GS4GG)¹³;
- Verified Carbon Standard (VCS)¹⁴ in combination with

¹⁰ The Foundation's Exclusion List builds on the Exclusion Lists of KfW and IFC and includes further activities that the Foundation does not promote.

¹¹ [Stiftung Allianz für Entwicklung und Klima \(allianz-entwicklung-klima.de\)](https://www.allianz-entwicklung-klima.de)

¹² The list will be regularly reviewed and adapted

¹³ <https://globalgoals.goldstandard.org/>

¹⁴ <https://verra.org/project/vcs-program/rules-and-requirements/>

- Climate, Community and Biodiversity Standards (CCBS)¹⁵ and/or
- Sustainable Development Verified Impact Standard (SD VISta)¹⁶

All potential Offset Partners using the eligible Climate Standards will advance to Step 2.2 of the E&S Screening.

The following Climate Standards are normally not permitted by the Foundation (except in special cases)¹⁷:

- Clean Development Mechanism (CDM)¹⁸
- Social Carbon Standard (SCS)¹⁹
- American Carbon Registry Standard (ACRS)²⁰

4.4.2 Step 2.2: Portfolio E&S Categorisation

Based on the information received in the **E&S Screening Questionnaire**, a portfolio E&S Categorisation will be determined and documented by the E&S Expert in the **E&S Categorisation Guidance & Form (Annex C)**. The E&S Expert will assign an E&S risk category to the portfolio (category A, B+, B or C²¹), following the categorisation criteria defined by KfW and the IFC. Factors determining the E&S Categorisation include, but are not limited to: the portfolio projects' expected CO₂ emissions, locations, setup and inherent industry sector risk, impact on the environment, labour and local communities, and other topics included in the applicable E&S Standards.

The following overview shows the definition of each E&S risk category.

Portfolio E&S Categories	Description
Category A (High risk)	Portfolios with <u>potential significant</u> adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented.
Category B+ (Substantial risk)	Portfolios with <u>single significant</u> adverse E&S impacts and risks.
Category B (Moderate risk)	Portfolios with potential <u>limited</u> 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 with <u>minimal or no</u> adverse E&S risks and/or impacts.

Table 2: Portfolio E&S Categories

The E&S Expert will take the information provided by the potential Offset Partner in the **E&S Screening Questionnaire** and categorise each project listed in the Top 15 project List. Since the extent of E&S risks might not be fully clear at this stage for each project (due to lack of project-specific details), the precautionary principle will apply and the higher risk category will be adopted (e. g. if unsure whether a single project should be category B or C, choose B).

¹⁵ <https://verra.org/project/ccb-program/rules-requirements-and-guidance/>

¹⁶ <https://verra.org/project/sd-vista/rules-requirements/>

¹⁷ Plan Vivo is currently under revision.

¹⁸ <https://cdm.unfccc.int/Reference/index.html>

¹⁹ <http://www.socialcarbon.org/documents/>

²⁰ <https://americancarbonregistry.org/carbon-accounting/standards-methodologies/american-carbon-registry-standard>

²¹ Categories: A (high risk), B+ (substantial risk), B (moderate risk) or C (low risk)

The overall portfolio E&S category will be determined by the highest single project E&S category of the Top 15 projects. For instance, if the highest project E&S category of the presented projects is category A, thus the overall portfolio E&S category is category A.

The categorisation will be revised where necessary, based on the result of the E&S assessments. The respective justification/rationale will be documented and filed as appropriate.

For more guidance on the categorisation process, see **E&S Categorisation Guidance and Form** in **Annex C**.

The result of the Categorisation will be approved or rejected by the Foundation in writing using the **E&S Categorisation Form**. In case where the categorisation is rejected, any amendments and records of communication will also be noted in the **E&S Categorisation Form**.

All potential Offset Partners that receive the approval by the Foundation will become Offset Partners.

Depending on the portfolio E&S category, each Offset Partner must develop the E&S Systems contained in Table 3. For instance, a portfolio with the category B or C implies that the Offset Partner needs to only develop and publish an institutional-level Grievance Mechanism. If a portfolio has a category A or B+, the Offset Partner needs to also implement an institutional-level ESMS.

E&S Systems	Portfolio E&S Category			
	A	B+	B	C
<i>Environmental and Social Management System (ESMS)</i>	✓	✓	✓	X
<i>Grievance Mechanism (GM)</i>	✓	✓	✓	✓

Table 3: Required E&S Systems

4.5 Step 3: E&S Due Diligence (ESDD)

The E&S Expert will assess all successfully approved Offset Partners within the E&S Due Diligence (ESDD) process.

An ESDD will be conducted by the E&S Expert corresponding to the level of perceived E&S risks and impacts associated with the portfolio. The E&S Expert will assess whether the Offset Partners have successfully implemented a Grievance Mechanism. For category A and B+ Offset Partners, the E&S Expert will also assess whether the Offset Partners have successfully implemented an ESMS.

The Foundation may decide in the future to publish descriptions of selected projects of the Offset Partners on the Foundation's platform/website. Depending on the project E&S category of these projects, certain E&S studies need to be conducted and uploaded as well on the platform/website as shown in the table below.

For projects by existing Offset Partners that have already been published on the Foundations' website, see chapter 4.7.

E&S Studies	Project E&S Category			
	A	B+	B	C
Environmental and Social Impact Assessment (ESIA)	✓	✓	✓	X
Non-Technical Summary (NTS)	✓	✓	✓	X
Environmental and Social Management Plan (ESMP)	✓	✓	✓	X

Table 4: Required E&S Studies

As a prerequisite for publishing category A, B+ and B projects on the Foundation's platform/website, the Offset Partner will provide an E&S Impact Assessment (ESIA) proportionate to the potential E&S risks and impacts of the project and shall meet the requirements of the IFC PS 1 to 8 as applicable. Further, it is required that an easy-to-understand summary (Non-Technical Summary, NTS) of the main E&S findings and mitigation measures including the stakeholder engagement process will be part of the project presentation. Offset Partners will also provide an E&S Management Plan (ESMP) for each project they want to present on the Foundation's platform/website.

For category C projects no further studies are required.

As part of the ESDD, the E&S Expert will assess whether all of the above required studies have been appropriately prepared for those projects proposed to be published on the website.

4.6 Step 4: E&S Monitoring and Reporting

The objective of the E&S Monitoring and Reporting is to ensure that the ESMS is implemented as intended by the Foundation.

E&S Monitoring will take place annually at two levels:

- Monitoring and Reporting from Offset Partners to Foundation
- Monitoring and Reporting from Foundation to KfW

4.6.1 Monitoring and Reporting to the Foundation

The E&S Expert will conduct E&S Monitoring and Reporting of each Offset Partner depending on the level of E&S risk of the Offset Partner's portfolio:

- For category B and C Offset Partners, a simplified E&S Monitoring and Reporting will apply
- For category A and B+ Offset Partners, additional information will be requested

Once a year, the E&S Expert will send an [E&S Monitoring Form \(Annex E\)](#) to the Offset Partner. The Offset Partner completes the **E&S Monitoring Form** and sends it back to the E&S Expert. Finally, the E&S Expert will consolidate the information within the Foundation Monitoring Report to KfW.

The E&S Monitoring Form consists of two parts. Part I needs to be completed by all Offset Partners (information e. g. on Exclusion List items, Grievance Mechanism). Part II needs to be completed only by category A and B+ Offset Partners (information e. g. on the status of their own ESMS).

The Foundation will track the E&S performance of the Offset Partners and review and reconfirm the Offset Partners' E&S category.

4.6.2 Monitoring and Reporting to KfW

The Foundation will provide key data on E&S performance of its activities and of the Offset Partners in its [*Annual E&S Report to KfW \(Annex F\)*](#). The Foundation will develop the *Annual E&S Report to KfW* together with an external consultant. The content of the *Annual E&S Report to KfW* may include, but is not limited to:

- Number and type of Offset Partners/portfolios promoted and portfolio E&S category
- Critical portfolios/projects and respective actions
- Status of implementation of Offset Partner ESMS
- Grievances
- Occupational H&S records (accidents, incidents, etc.)
- Trainings conducted by the Foundation internally and externally
- Lessons learned (positive and/or negative)

Reporting requirements set forth by KfW will be followed. In addition, any major E&S, labour, H&S, security or other incident, a material adverse effect or impact in relation to the Foundation's activities should be reported by the Foundation to KfW within three days of becoming aware of such incident.

4.7 Project Screening

In addition to the portfolio screening of potential Offset Partners, the Foundation screens all projects published on the website regarding their E&S impacts and risks (Annex B2). Subsequently, only projects that can demonstrate that their processes, products, and services meet the E&S risks defined in the ESMS will continue to be published and promoted by the Foundation.

5 Grievance Mechanism

5.1 Overview

The purpose of a Grievance Mechanism is to implement a formalised process (identification, tracking, and redress) to manage grievances/complaints from communities, workers, and other stakeholders. A Grievance Mechanism needs to ensure that all stakeholder comments, suggestions, and objections are captured and considered.

A grievance is defined as an issue, concern, problem, or claim (perceived or actual) that an individual or community group wants the Foundation and/or Offset Partner to address and resolve, e. g.:

- Specific complaint about impacts, damages, or harm caused by the project;
- Concerns about project activities during construction or operation, or perceived incidents or impacts.

The Grievance Mechanism should also consider positive feedback and suggestions. The Grievance Mechanism is required to be:

- **Systematic:** All forms of complaints need to be considered;
- **Transparent:** Stakeholders must be informed that a Grievance Mechanism is in place, grievances must be documented and registered;
- **Appropriate:** Tailored to the scope, adapted to local conditions and culturally acceptable; and

- **Lead to corrective actions:** Grievances must be answered as relevant and the answers must be documented. Timely resolution of grievances is vital.

The Grievance Mechanism will be implemented at two levels:

- The Foundation will develop and implement an institutional-level Foundation Grievance Mechanism
- The Offset Partner is required to develop and implement its own Offset Partner Grievance Mechanism

Potential Project Affected Communities should first submit their grievance to the Offset Partner. If it cannot be resolved, potential Project Affected Communities should then submit their grievance to the Foundation.

5.2 Foundation Grievance Mechanism

The Foundation seeks to build strong relationships with Offset Partners and stakeholders and to manage the impact of its activities. Nevertheless, the Foundation recognises that complaints about its activities may occur. The Foundation provides a formalised mechanism for all Offset Partners, workers, and potential Project Affected Communities to report cases of misconduct in a transparent manner. Additionally, the Foundation Grievance Mechanism allows stakeholders from potential Project Affected Communities to raise questions or concerns or provide positive feedback to the Foundation and its Offset Partners and have them addressed in a prompt and respectful manner at no cost.

The Foundation aims to address all complaints received, regardless of whether they stem from real or perceived issues and whether the complainant is named or anonymous. Any stakeholders who consider themselves affected by activities of the Foundation operations or Offset Partners' projects will have access to the Foundation Grievance Mechanism at no cost, in a fair and transparent manner and with no retribution. The statutory rights of the complainant to undertake legal proceedings remain unaffected by participation in this process. Confidentiality will be respected and the Foundation will take all reasonable steps to protect parties to the process from retribution.

All Offset Partners will have to acknowledge the Foundation Grievance Mechanism and take care that the proper implementation is guaranteed by assigning the necessary resources and competencies. The Offset Partner will communicate and engage with stakeholders regarding this Foundation Grievance Mechanism in an understandable manner, in addition to the engagement and disclosure activities regarding the Offset Partner Grievance Mechanism (see Chapter 5.3). The Foundation Grievance Mechanism should be communicated, and grievance forms should be made available in the relevant languages to facilitate access to the Mechanism.

The Foundation developed the Foundation Grievance Mechanism based on the [Grievance Mechanism Template \(Annex D\)](#).

5.3 Offset Partner Grievance Mechanism

The purpose of the Offset Partner Grievance Mechanism is to implement a formalised process (identification, tracking, and redress) to manage project-related complaints from communities, workers, and other stakeholders. The Offset Partner Grievance Mechanism needs to be designed in a way that all stakeholder comments, suggestions, and objections are captured and considered.

The Offset Partner is responsible to implement the Offset Partner Grievance Mechanism that addresses the requirements described. The Offset Partner needs to appoint one person as Grievance Mechanism Manager who will inform all stakeholders about the Grievance Mechanism procedures, gather grievance forms, report them to the grievance register, and provide input to the project reporting to the Foundation. The stakeholders must be

informed on the existence of such Grievance Mechanism and the Offset Partner will communicate that the process is considered by stakeholders to be culturally appropriate, trustworthy, and effective.

Grievances might be formulated in an informal way (not necessarily written complaint) during a conversation; therefore Offset Partner employees need to be sensitised to this system. All grievances must be documented by the Offset Partner employees and sent to the Grievance Mechanism Manager and consigned in a grievance register (paper or electronic).

The grievance register should at least include the following contents:

- Name and contact details of contact (unless requested to remain anonymous)
- Date and description of grievance
- Response made to the grievance/corrective action implemented

More information on the Grievance Mechanism and the dedicated form are provided in the [Grievance Mechanism Template \(Annex D and D2\)](#).

6 Review and Continuous Improvement

A fundamental concept of the ESMS is the commitment to continual improvement. The Foundation will undertake a comprehensive review of the ESMS implementation at least once per year.

An independent review (e. g. by an external consultant) and feedback process will promote ESMS efficacy and relevance. This allows for the ESMS to be adjusted when necessary and include any new requirements, good practices and/or lessons learned (i. e. the ESMS is a “living system”).

7 List of Annexes

Annex A: [Exclusion List and Sectoral Guidelines of the Foundation](#)

Annex B: [E&S Screening Questionnaire](#)

Annex B2: [E&S Project Screening Questionnaire](#)

Annex C: [E&S Categorisation Guidance & Form](#)

Annex D: [Grievance Mechanism Template](#)

Annex D2: Grievance Mechanism Register

Annex E: [E&S Monitoring Form](#)

Annex F: [Annual E&S Report to KfW](#)

Annex G: [Glossary of Terms](#)