

E&S Safeguards Policy

1. Introduction

The E&S or Environmental and Social Safeguards Policy (hereinafter, the "Policy") is an essential component of the overall risk management process and socio-environmental impacts of a specific Project that seeks to reflect the social-environmental performance standards of the Green Climate Fund (hereinafter, "GCF").

2. Definitions

- 2.1. Environmental Assessment Service (Servicio de Evaluación Ambiental - SEA): It is a functionally decentralized public body with legal personality and its own assets. The SEA was created by Law No. 20.417, published in the Official Gazette on January 26, 2010, which amended Law No. 19.300 of General Bases for the Environment.
- 2.2. Environmental Impact Assessment System (Sistema de Evaluación de Impacto Ambiental - SEIA): it is an environmental management instrument of a preventive nature that allows the authority to determine before the execution of a project if: (i) complies with environmental legislation, and (ii) takes charge of the potential significant environmental impacts.
- 2.3. Area of influence: The geographic area or space, whose attributes, natural or sociocultural elements must be considered in order to define whether the project or activity generates or presents any of the effects, characteristics or circumstances of Article 11 of Law No. 19.300, or to justify the non-existence.
- 2.4. Environmental impact: Alteration of the environment, caused directly or indirectly by a project or activity in a certain area.
- 2.5. Indigenous Peoples: For the purposes of this manual, and the framework of the current national regulation, indigenous peoples are considered those defined by article N ° 1, literal b) of Convention 169 of the International Labor Organization (hereinafter "ILO"), recognized in the first article, second subsection of Law No. 19.253.

- 2.6. FYNSA: Corporate business holding composed of FYNSA Administradora General de Fondos S.A., Finanzas y Negocios S.A. Brokers, Finance and Business Financial Services Limited.
- 2.7. Project Investment Committee related to the Green Climate Fund or "Investment Committee": is the committee regulated in the document "Statute of the Investment Committee of projects related to the Green Climate Fund".
- 2.8. Originator: Natural or legal person that presents a Project to FYNSA.
- 2.9. Developer: Natural or legal person that carries out the execution of the Project.
- 2.10. Responsibility: The due diligence that a person must employ in his own business in the terms established in article 44 of the Civil Code.
- 2.11. E&S Safeguards (hereinafter, "ESS"): Set of policies, measures and procedures applicable to projects subject to financing by the GCF, in order to avoid environmental and social damage, improve the degree of development of interest groups, and allow countries and clients to comply with international best practices in the framework of the IFC operational standards¹.
- 2.12. Third parties: For the purposes of this policy and in accordance with the current labor code, third parties or also called contractors or subcontractors and are defined as those who, by reason of a contractual agreement, carry out works or services at their own risk and with workers under their dependency for FYNSA.

¹ https://www.ifc.org/wps/wcm/connect/24e6bfc3-5de3-444d-be9b-226188c95454/PS_English_2012_Full-Documents.pdf?MOD=AJPERES&CVID=jkV-X6h

3. Index

| | |
|---|----|
| 1. Introduction | 1 |
| 2. Definitions | 1 |
| 3. Index | 3 |
| 4. Objectives | 4 |
| 5. Scope | 5 |
| 6. General principles | 5 |
| 7. Duties and responsibilities..... | 6 |
| 8. Socio-environmental risks and impacts identification and evaluation..... | 7 |
| a. Risks revision and categorization | 7 |
| b. Socio-environmental evaluation of projects..... | 8 |
| c. Environmental and Social management system..... | 9 |
| 9. Social and environmental due diligence | 9 |
| 10. Monitoring of Social and environmental safeguards..... | 9 |
| 11. External communication and attention to complaints and claims | 10 |

4. Objectives

The general objective of this Policy is to define the guidelines for FYNSA to effectively manage the risks and socio-environmental impacts of the Projects of risk category B and C, for itself or for third parties, with funds granted by the GCF (hereinafter the "Projects").

For this, FYNSA will supervise the fulfillment of the safeguards that seek to avoid or mitigate the adverse effects of Projects on people and the environment, for which, the Developer or Originator of the Project, will have a Comptroller who will supervise the development of the Project, and will provide FYNSA with the information it requires to perform supervisory tasks.

On the other hand, this Policy establishes specific objectives oriented to the fulfillment of the General objective indicated above, which are:

- Establish a reference framework to support the decision-making process;
- Establish the roles and responsibilities regarding the management of risks and socio-environmental impacts of a project;
- Provide for the revision and environmental and social categorization of the projects;
- Assess potential environmental and social risks and adverse impacts of projects;
- Identify actions to avoid, minimize, mitigate or compensate adverse environmental and social impacts;
- Provide a mechanism to manage environmental and social risks and adverse impacts throughout the Project cycle;
- Provide a mechanism for the monitoring of activities aimed at managing risks and socio-environmental impacts;
- Carry out the socio-environmental due diligence process,
- Facilitate cooperation on environmental and social safeguards with joint financing partners.

5. Scope

The information contained in this Policy applies exclusively to Projects that are developed or executed with the support of the Green Climate Fund. Those projects that are not funded by the GCF will be subject to compliance with the current socio-environmental regulatory framework in Chile.

6. General principles

The general principles under which this Policy is governed are:

- Compliance with the national and international regulatory framework applicable to the Project.
- Coherence between the Policy and the decisions made regarding the Projects.
- Risk-based approach: Environmental Impact Studies will be developed using a risk-based approach, thus ensuring that environmental and social requirements and processes are addressed according to their classification.
- Hierarchy of mitigation: The mitigation hierarchy will be considered as a general principle for the management of environmental risks and impacts in projects. The aim of the mitigation hierarchy is to prioritize risks and impacts in order to anticipate and avoid their effects on people and the environment. When it is not possible to avoid, mitigation measures must be implemented and, in addition, timely risks or residual impacts must be addressed.
- Dissemination of information for different stakeholders.
- Inclusion and promotion of initiatives that ensure respect for gender equity in projects.
- Compliance with working conditions, ensuring compliance with the conventions of the International Labor Organization (ILO) and the United Nations (UN) signed by Chile.
- Consistency between the design and execution of activities associated with projects and rights and commitments established in the United Nations Declaration on Indigenous Peoples Rights, including the principle of free, prior and informed consent. As well as the principles contained in the Universal Declaration of Human Rights.

- Protection of critical habitats, biodiversity and ecosystem services through the application of the ESS stipulated in the National Regulatory Framework.
- Supervision of FYNSA: FYNSA will supervise that the entities or third parties involved in the execution of the projects ensure that their activities do not cause, promote, contribute, perpetuate or exacerbate the breach of the GCF's environmental social safeguards.

7. Duties and responsibilities

- 7.1. The implementation of the E&S Safeguards Policy in a Project will be the responsibility of the Developer and the Project Originator.
- 7.2. The correct application of the procedures of identification and evaluation of risks and socio-environmental impacts, will be the responsibility of the Developer and the Originator of the project.
- 7.3. The execution of the opportune information processes to all the stakeholders involved with the Project, will be the responsibility of the Developer and the Project Originator.
- 7.4. The supervision and monitoring of compliance with the commitments and measures for compliance with social and environmental safeguards will be the responsibility of FYNSA.
- 7.5. The execution of the ESS management system will be responsibility of the Developer and the Project Originator.
- 7.6. The process of E&S due diligence will be responsibility of the Developer and the Project Originator.
- 7.7. The external communication, information disclosure and attention of complaints and claims of the Projects with funds granted by the GCF, will be managed by FYNSA.

8. Socio-environmental risks and impacts identification and evaluation

In relation to the process of identification and evaluation of risks and socio-environmental impacts for each project, the following general guidelines are established:

- (i) Identification of risks within the framework of socio-environmental standards of the GCF in line with the GCF ESMS and E&S Policy.
- (ii) Identification of risks and impacts established in Law N ° 19.300 that establishes the environment general bases.
- (iii) All projects executed through funds granted by the GCF represented by FYNSA will have a social and environmental pre-feasibility analysis, accompanied by a letter of relevance of the project's entry to the SEA, which will be prepared by the project developer.
- (iv) Admission of projects to the Environmental Assessment System (SEA), if it meets the entry criteria established in the regulations of the system.
- (v) For those projects that do not meet the criteria for admission to the SEA, the response of non-admission by that agency is required.
- (vi) Comply with all the technical and administrative requirements established in the Social and Environmental Management Manual of FYNSA's GCF projects.
- (vii) Develop the Environmental Impact Statement or Study according to the type of project and whenever the SEA determines.

a. Risks revision and categorization

For the development of the review process and categorization of risks, the procedures of the E&S Management Manual for GCF projects will be applied, which indicates the guidelines to determine the nature and scale of the potential risks and socio-environmental impacts inherent to a specific project. Also, these guidelines will serve to categorize the risk of a project being A, B or C according to the GCF.

- (i) Among the risks and impacts that will be considered at this stage are: direct and indirect, induced, long-term and/or cumulative impacts², potential E&S risks for the activities, taking into account the areas of influence of the

² Result from the incremental impact, on areas or resources used or directly affected by the project, from other existing, planned or reasonably defined developments at the time the risks and impacts are identified. Source: GCF, 2018

activities, including Associated facilities³ and impacts of third parties. In addition, all those established in the SEA regulation will be considered.

- (ii) The framework to identify socio-environmental risks will be determined by the GCF interim E&S safeguards (PS1-8) standards and categories.
- (iii) An integrated review of risks and impacts will be carried out taking into account that these can be combined in the environmental and social field, as well as in their nature, magnitude and complexity, also considering the specific characteristics of the area of influence.
- (iv) The risk category of the project will be presented to the GCF with all supporting documents to confirm its E&S classification.

b. Socio-environmental evaluation of projects

An effective environmental and social management system will be established to evaluate the E&S risks and impacts associated with the projects subject to financing by the GCF, with the objective of having the means and resources to subsequently manage risks in an effective and equitable manner.

The management of these risks will be done in order to comply with the GCF E&S safeguards standards and with the regulatory framework applicable in Chile and will be carried out in line with the socio-environmental guidelines established in the E&S Management Manual for GCF projects. Here are some general guidelines:

- (i) The socio-environmental evaluation of projects will be subject to compliance with the technical requirements set out in the national regulatory framework and will be applied to each of the phases of the projects according to the nature of the project, this evaluation will be particularly relevant in the phases of evaluation and preparation of projects.
- (ii) The scope and depth of the E&S assessment will be determined by the SEA in accordance with the national regulatory framework and can be carried out through two tools: the environmental impact statements and the environmental impact studies, the latter will apply in the case a project

³ Are those that are not funded as part of the project, and that would not have been constructed or expanded if the project did not exist and without which the project would not be viable. GCF, 2018

generates or presents any of the effects, characteristics or circumstances contemplated in article 11 of Law No. 19,300.

c. Environmental and Social management system

An environmental and social management system (ESMS) will be implemented for each project, with the aim of ensuring the establishment of plans with the mitigation measures of all the risks and impacts previously identified. The ESMS will consider the following elements and criteria:

- (i) The criteria and elements of this system will be described in the social and environmental safeguards management system procedure.
- (ii) The studies referred to the evaluation of socio-environmental risks and impacts must have the plans, mitigation measures and prevention of emergencies established in the national regulatory framework.
- (iii) Fynsa will establish the necessary processes and measures to guarantee the continuous improvement of the environmental and social management system.

9. Environmental and Social due diligence

An E&S due diligence process will be carried out as part of the evaluation and supervision of activities developed by third parties with responsibilities in any of the stages of the project. The detail on this aspect can be found in the E&S Management Manual for GCF Projects, within the section "Surveillance and Monitoring Plan".

10. Monitoring of environmental and social safeguards

FYNSA, will carry out the supervision and control functions, as support of the verification activities of the E&S performance of the third parties involved with the execution of the project. The monitoring will be a continuous process that allows the disclosure of compliance with the guidelines established in the E&S management manual for GCF projects. On the other hand, in principle the scope of monitoring will be based on the type and level of risks identified, including environmental and social risks.

11. External communication and attention to complaints and claims

The external communication, information disclosure and attention of complaints and claims of GCF funded projects will be carried out in accordance with the E&S Management for GCF Projects.