



#	Issue	Made by	Answer
1	<p>We have concerns about the proposal to develop a eucalyptus forest plantation. The proposal should clarify how the proposed activity aligns with Mozambique's National Adaptation Plan of Action and the PPCR's focus on supporting pilot adaptation projects, by demonstrating persuasively that the proposed project would play an important role in fulfilling one or more elements in the NAPA.</p> <p>In addition, the proposed use of eucalyptus can have adverse effects on soil quality with implications for future uses of the land for agriculture and forestry. The proposal should address potential environmental and social concerns associated with the types of trees to be planted, and the economic effects of the project on the affected population.</p>	US	<p>On the Alignment with Mozambique's NAPA</p> <p>One of the four Actions in the Mozambique's National Adaptation Plan of Actions (NAPA) concerns "Strengthening Capacity of Agricultural Producers to cope with Climate Change". It lays out three long-term objectives which are pertinent for the Lurio project:</p> <ol style="list-style-type: none"> i. The first objective (Long Term Result I) is to reduce losses in crop production and livestock in regions prone to drought, floods, cyclones, tropical storms and other climatic events. This result is expected to be achieved, among others, by: (i) promoting farmers associations, (ii) encouraging the local production of seeds, (iii) drilling wells or water boreholes, (iv) disseminate and encouraging the use of drought tolerant crops, and (v) encouraging the local production of seeds. Considering that the Lurio operation districts fall in categories two and three of the cyclone risk areas, then this objective is also relevant to the project. Additionally, the referred activities are all covered under the Lurio Community Development Program which was developed based on a needs' assessment carried out with the local communities. For instance, the agriculture program is encouraging the cultivation of varied beans (e.g. cowpea, soroco beans & soy beans) which are drought tolerant crops, stimulating the local production of seeds as well as supporting the establishment of producers' associations for both agriculture crops and the tree growers. Furthermore, the community development program includes the drill of water boreholes and a contract for the establishment of these has already been signed with a service' provider. ii. The second objective (Long Term Result II) is to "<i>Reduce the degradation of soils due to inappropriate agricultural practices</i>". Listed support activities include promoting community reforestation activities aimed at producing biomass for energy consumption and forest conservation activities particularly within river basins and promote community activities for fire management. This applies directly to the Lurio project and its tree-grower scheme, which contemplates as a major product, the sustainable production of fuels for local use as well as regional and national commercialization. Part of the project commitment is to provide farmers' families with the annual fuel needs in charcoal (1 ton on average) created by the project, as well as improve charcoal cooking stoves. This, as well as the production of fuel wood products for commercialization beyond the project boundary should also contribute to reducing or avoiding pressure on existing native forest, which nowadays are the mainly sources of fuel wood. It should be noted that the level of deforestation in the province of Nampula is the second highest in Mozambique, including in forest reserves such as Mecuburi, which stands in the vicinity of the Lurio project. In regards to the fire management activities the agriculture program is, under the tree-growers component, encouraging the implementation of measures for prevention of fires in the farmers' woodlots. To refer that one of the criteria for selection of producers to benefit from the solar panels' incentives, is the existence of fire prevention measures (e.g. established firebreaks and spot weeding) to protect the established woodlots against fires.

iii. The third objective (Long Term Result III) is to “*establish alternative forms of subsistence*”, with an increase in family income as a short -term result. To achieve this, the activities identified include: (i) the promotion of sustainable use of natural resources, (ii) encourage the cultivation of cash crops and (iii) promotion of the planting of species used in the production of biofuels in arid and semi-arid areas. Both apply directly to the Lurio Project that will hold [Forestry Stewardship Council](#) Certification and will produce sustainable charcoal as one of its products. More generally, the Lurio Project will contribute positively to the income of rural households by employing up to 500 permanent and 5.000 temporary jobs, and through its out-grower scheme that should involve around 2.000 farmers. The agriculture program is currently incentivizing the production of cash crops like soy beans

On the Adverse Impacts regarding the Use of Eucalyptus, as well as other environmental and social risks.

The revised concept note includes two annexes that detail all environmental risks associated with the Lurio Project and proposed mitigation measures, namely with regards to the Erosion Assessment, Hydrology Assessment, and Surface and Groundwater Quality Assessment. These potential impacts may have attached negative spill-over effects that may lead, among others, to social and economic negative impacts on the population living within and in the vicinity of the project.

Therefore, it is imperative that the impacts associated with the project are properly evaluated and adequate mitigation measures developed, implemented and supervised during project implementation. The project sponsor has commissioned, as part of the project’s development activities, an Environmental and Social Impact Assessment (ESIA) in line with the country legal requirements. The ESIA as well as an Environmental and Social Management Plan (ESMP) were approved by the GoM and an environmental license granted. The license as a validity of 5 years which is renewable for similar periods up to the end of the concession. The Government of Mozambique (GoM) is expected to undertake annual audits on the environmental and social aspects of the project and ensure that the ESMP is being implemented correctly. Both the ESIA and the ESMP will likely be updated as the project progresses and lessons are incorporated.

Following a careful review by the AfDB’s safeguards team of the ESIA, the ESMP and the Resettlement Framework, the Bank has requested the sponsor to undertake a number of updates to strengthen the project.

The primary objective of the ESIA update was to generate sufficient factual information on which to assess the significance and severity of environmental impacts on the flora, fauna, soil and water resources. As such, the following different specialist studies were produced: (i) Botanical Specialist Survey Report, (ii) Erosion Assessment, (iii) Hydrology Report, (iv) Surface and Groundwater Quality Assessment, and (v) Terrestrial Fauna Baseline Report. The reports that will inform and support the ESIA update, were submitted and are currently under review by the AfDB and EIB safeguard specialists.

The risks highlighted in the specialist reports that are related to the use of eucalyptus are presented hereunder. A more exhaustive assessment on all risks identified by these studies can be provided if need

			<p>be. Nevertheless, Annex I outlines the risks and their expected severity (with and without mitigation) included in: (i) the Erosion Assessment, (ii) Hydrology Assessment, and (iii) Surface and Groundwater Quality Assessment. Annex II includes proposed mitigation measures that shall be put in place in order to mitigate risks expressed in Annex I.</p> <p>Similarly to other plantations owned by Green Resources in East Africa, the project will seek to obtain FSC certification. In order to obtain the FSC certification, the project needs to fully comply with the 10 principles of responsible forest management. FSC only recognize standards that deliver environmental services to local and global communities, including clean air and water, and contributes to counterattack the effects of climate change. FSC directly or indirectly addresses issues such as illegal logging, deforestation and global warming and applies to projects that have positive effects on economic development, environmental conservation, poverty alleviation and social and political empowerment. The Lurio Project has passed through the first stage of certification and one final independent audit will be carried out before the end of July 2014.</p> <p>On the negative economic impacts of the project.</p> <p>While some of the risks highlighted above are environmental in nature, their event may lead to significant negative social consequences due to disruptions in income. Conversely, if these risks are properly mitigated, the social negative impact of the project may be significantly reduced. This is central to the Community Development Program and both the out-grower and tree-grower schemes.</p> <p>In the context of AfDB's rules and procedures, resettlement refers not only to physical displacement but also economic, and is considered involuntary when the project-affected people are not in a position to refuse the activities that result in their physical or economic displacement. The Bank has requested the sponsor to undertake for a Full Resettlement Action Plan (FRAP) which is currently under final review by AfDB's safeguards specialists which participated in the appraisal mission held in May 2014.</p> <p>The FRAP is a document envisaged in the Bank's Involuntary Resettlement Policy. The objective of the policy is to: (i) avoid involuntary resettlement where feasible, or minimize resettlement impacts where involuntary resettlement is deemed unavoidable after all alternative project designs have been explored, (ii) ensure that displaced people are meaningfully consulted and given opportunities to participate in the planning and implementation of resettlement program, (iii) ensure that displaced people receive significant resettlement assistance under the project, so that their standards of living, income-earning capacity, production levels and overall means of livelihood are improved beyond pre-project levels, (iv) provide explicit guidance to borrowers on the conditions that need to be met regarding involuntary resettlement issues in Bank operations to mitigate the negative impacts of displacement and resettlement, actively facilitate social development and establish a sustainable economy and society, and (v) guard against poorly prepared and implemented resettlement plans by setting up a mechanism for monitoring the performance of involuntary resettlement program in Bank operations and remedying problems as they arise.</p>
3	There is a need to clearly specify the "heavy community involvement" and the out-grower schemes that are	PPCR Expert	The out-grower scheme (focused on agriculture) and the tree-grower scheme (focused on tree plantations) are an integral part of the Community Development Program (CDP) being implemented by

	mentioned to be the innovative parts of the project.	Group	<p>GR. The concept has been revised to better capture the extensive involvement of the community. Annex III provides a thorough description on stakeholders' consultations throughout the different phases of the project and on the implementation of the CDP.</p> <p>GR has developed a concise and detailed document explaining the design, implementation and supervision of the CDP which can be provided if need be.</p>
4	The proposal mentions potential negative environmental and social impacts. It will be important to have an integrated environmental and social impact analysis with convincing mitigation strategies or solutions mapped out before funding is endorsed.	PPCR Expert Group	<p>Please see Annex I (outline of expected environmental and social impacts of the project as well as a summary of AfDB's safeguards) and Annex II (proposed mitigation measures) under the revised concept.</p> <p>AfDB is still assessing and will continue to assess the project to its full extent in terms of social and environmental impacts. In doing so, the Bank is utilizing its rules and procedures which include: (i) Integrated Safeguards System (ISS), (ii) Involuntary Resettlement (2003), (iii) Environment (2004), and (iv) three cross-cutting policies and strategies: Gender (2001), Climate Risk Management and Adaptation Strategy (2009) and the Civil Society Engagement Framework (2012).</p> <p>During project implementation, AfDB's rules commit the Bank to regularly supervise the implementation of the FRAP to assess compliance with its own rules and procedures. These supervision efforts should include independent meetings with project affected persons and host communities, and a review of activities under the grievance redress process. AfDB will ensure that compliance problems are addressed promptly, and if resettlement implementation is not in compliance with this policy, the Bank will take immediate steps to halt disbursements or undertake other remedial measures until such time as the project is brought into compliance with this policy and the project-specific resettlement plan.</p> <p>In practical terms, the environmental and social assessment includes the project's area of influence (both upstream and downstream), a comprehensive scoping of the project's components, consideration of alternatives, and assessment of cumulative impacts. The Lurio Project will be attributed a categorization that follows the principle of using the appropriate level of environmental and social assessment for the type of operation in question. Working with Bank operations staff, the borrower proposes a category, providing sufficient supporting documentation and baseline data to allow the Bank's Compliance and safeguards function to review and validate the proposed category. The responsibility of appropriate categorization is therefore shared by the Bank and its borrowers and should be based on reasonably and accurate due diligence material. The Bank's Internal Safeguards System (ISS) contemplates four categories and each project needs to be categorized which final attribution depends on the level of adversity of impacts accruing from the project.</p> <p>The Lurio Project falls under Category 1 which entails projects "<i>likely to cause significant environmental and social impacts</i>". The logic behind this categorization is that the Lurio project is likely to induce significant and/or irreversible adverse environmental and/or social impacts, or to significantly affect environmental or social components that the Bank or the client considers sensitive. All category 1 projects are required to put in a place an ESIA and a ESMP, which once finalized in a form acceptable to AfDB, will play a key role during the monitoring and supervision phase of the project..</p> <p>Annex I includes a more detailed description of AfDB's Environmental and Social safeguards.</p>
5	In light of an uncertain and unstable global carbon	PPCR	Carbon revenues are expected to generate approximately USD 46 million until 2020 and may represent

	<p>market, what plans will be put in place to mitigate the risks? In this regard, updated data on how these risks are integrated in the financial flows would need to be provided in order to secure a sound financial base for the project</p>	<p>Expert Group</p>	<p>an important source of revenue to the project. Those carbon revenues are based on the assumption that 1,262,414 tons of CO₂ will be generated under the Clean Development Mechanism (CDM) scheme, while 417,556 tons of CO₂ will be produced under the Verified Carbon Standard (VCS). Prices are estimated based on market data from March 2014: USD 5.5 per ton for Certified Emission Reductions (CERs, under the CDM) and USD 7.4 per ton for Verified Carbon Units (VCUs, under the VCS). The sponsor has established a dedicated internal team to handle carbon credit issues and the CDM process. The team already boasts a track record of success in obtaining CDM certification, including the company's success in a forestry project in Uganda (2011) with sales agreements in place with the Government of Norway and the Swedish Energy Agency.</p> <p>However, given the uncertainty surrounding carbon prices and also because these savings are verified <i>ex post</i>, AfDB needs to pursue project's bankability without considering these potential revenues in the financial model. This puts pressure in the cash-inflows requirements and may reduce the speed by which the company will grow its operations over time. Nevertheless, for the lenders it is more important to ensure the bankability of the project and avoid default on committed debt even if this is achieved at the cost of seeing the project struggling to realize all its growth potential. PPCR resources will play a key role in mitigating this by being deployed <i>pari-passu</i> with the sponsor's equity or in one bullet-disbursement to speed-up the expansion of the project.</p> <p>The sponsor is expecting to transfer 10% of all carbon credit revenues to the Community Development Program. This is in excess of the initially estimated USD 7 million.</p>
	<p>From a credit risk standpoint, given that the Lurio Project is non-sovereign transaction without a sovereign guarantee attached, AfDB must ensure that the risk of default of the project company on its obligations (e.g. debt repayment) is minimized. This involves the negotiation of a security package between the project company and other financiers, which shall never underestimate the negative impact of such potential revenues not materializing. This is structured in many different ways but having always as a guiding principle the need of the debt service coverage ratios be equal or above x1.3 to ensure default risk is minimized</p>	<p>PPCR Expert Group</p>	<p>AfDB will, in coordination with other lenders, negotiate an appropriate package to secure their own financing of which PPCR resources shall benefit. This may include, among others,: (i) negative pledges clauses, (ii) step-in rights, (iii) reserve accounts, and (iv) clear step-in provisions.</p>