

Environmental and Social Data Sheet

Overview

Project Name:	Africa Sustainable Forestry Fund II
Project Number:	2014-0159
Country:	Regional: Central, East and Southern Africa
Project Description:	Equity fund combating climate change by investing in sustainable forestry projects in Sub-Saharan Africa
EIA required:	Multi-investment Fund: EIA required for selected investments
Project included in Carbon Footprint Exercise ¹ :	no

(details for projects included are provided in section: "EIB Carbon Footprint Exercise")

Summary of Environmental and Social Assessment, including key issues and overall conclusion and recommendation

The project comprises a minority participation in the new Africa Sustainable Forestry Fund II (henceforth ASFF II), a closed-end fund with target size USD 200m which focuses on forestry assets in Sub-Saharan Africa. The Fund aims to (1) acquire and improve the management of existing forestry plantations in order to increase yields in a long-term sustainable manner; and (2) invest in selected timber processing facilities in order to develop a portfolio which integrates the forest biomass value chain.

ASFF II will develop and expand the investment programme initiated by its predecessor, ASFF I, aiming to achieve a combined total of 250,000 ha of sustainable forestry plantations. The two Funds aspire to create a timberland investment platform with potential to attract global investment interest and facilitating the integration of Africa into the timberland global investment community. This is expected to provide additional financial resources to support sustainable forestry in the continent, and to help address the continent's worsening supply shortage and increasing trade deficit.

Relevant Undertakings:

- The Fund shall carefully analyse each new greenfield project and its consequences on the financial model of the Fund during the investment period and report every six months until three years after the plantation establishment. In addition, a clear landownership, social and environmental baseline has to accompany the due diligence process.
- The Fund shall report on an agreed set of key performance indicators which should include area under productive management, employment generation, net carbon sequestration, timber outputs, and status of acquisition or implementation of forest certification to the satisfaction of the Bank.

¹ Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100,000 tons CO₂e/year absolute (gross) or 20,000 tons CO₂e/year relative (net) – both increases and savings.

Relevant Conditions in the Technical Description:

The Fund Manager shall use all reasonable endeavours to ensure when it makes Investments that the underlying operating Portfolio Company or project will be obliged to operate, and will be operated in accordance with all applicable EU and national laws and, in particular with respect to:

- Directives 2009/147/EC (Birds); 92/43/EEC (Habitats); Environmental Impact Assessment (EIA) Directive 2011/92/EU; 2001/44/EC (Strategic Environmental Assessment [SEA]); and 96/61/EC (IPPC)

to the extent that such laws and requirements are applicable to the relevant underlying operating Portfolio Company or project.

The General Partner shall also collect and publish the Non-Technical Summary (NTS) of a project's EIA if the project is subject to an EIA according to EU or national legislation in order to ensure compliance with the EIB's Public Disclosure Policy.

Summary of Environmental and Social Assessment, including key issues and overall conclusion and recommendation

The Fund has an Environmental, Social and Governance Policy which articulates the principles and commitments that underpin the Fund's activities, and underlines the Fund's active promotion of sustainable development in its full range of activities and investments. The Policy includes an excluded investment list which is consistent with the requirements of the EIB.

A full-time Environmental and Social Governance officer is employed at Fund-level.

At individual investment level, the Fund will require its portfolio companies to establish an Environmental and Social Management System, and is explicit about the obligation to ensure that appropriate tools, targets, budgets, resources and timetables for implementation of these, are in place.

The Fund will adopt a set of environmental and social key performance indicators in order to assess its portfolio companies, and it will undertake appropriate follow-up and monitoring of the ESG performance of companies throughout the investment process.

The Fund is committed to the principles of sustainable forestry and seeks full adherence to relevant international best practice standards. It will only invest in certified or certifiable assets: for each of the Fund's Portfolio Investments, the General Partner will seek to obtain and maintain third party-accredited certification reflecting international best practice, such as the Forest Stewardship Council (FSC).

Environmental and Social Assessment

Environmental Assessment

Environmental and social impact assessment is not necessary for management of existing plantation forestry assets according to EU EIA legislation. However, environmental and social assessment is likely to be necessary for establishment of new plantations where they entail land use change. The Fund's guidelines ensure that this would be done, in accordance with international best practice.

Concessions over natural forests are excluded from the scope of the Fund. The Fund will support sustainable forestry in several countries where levels of deforestation and forest degradation remain high, and it offers important environmental and climate action benefits, including improved greenhouse gas sequestration, soil protection and strengthening of supply of a range of renewable raw materials.

With regard to biodiversity, the Policy states that a precautionary approach is taken to the conservation, management and sustainable use of living natural resources. In line with the EIB's aim to achieve no net loss of biodiversity, the Fund's investments will seek to uphold the

mitigation hierarchy, to safeguard and where feasible, enhance habitats and the biodiversity they support.

In line with the EIB Environmental and Social Handbook, the Fund will not invest in companies which pursue commercial management or purchase of logging equipment for use in tropical natural forest and/or high conservation value forests, nor any other activities that may lead to clear cutting and/or degradation of such forests.

The Fund seeks to support and uphold the principles of good forest governance and legality of forest products trade in the companies and countries in which it operates, as outlined in the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan.

Estimate of Carbon Footprint Exercise

As a Fund, the project is not included in the annual Carbon Footprint accounting exercise of the EIB. However, carbon sequestration is considered a Key Performance Indicator for the Fund, meriting discussion of this important benefit of the Fund.

Social Assessment

The Fund's Environmental, Social and Governance documentation states that the Fund seeks the fair treatment of all stakeholders affected by the Fund's investments, by identifying relevant stakeholders; respecting local communities and indigenous peoples' legal and customary rights over resources; and engaging in participatory, fair and transparent decision-making processes, in line with international best practice including IFC Performance Standards.

Community liaison managers are appointed for the Fund's portfolio companies to work on stakeholder engagement and local community relations. Health and safety of workers is an important priority for all companies, and several portfolio companies have specific programmes addressing worker nutrition. The Fund actively seeks to develop relationships with NGOs and other strategic partners that can help to create positive health, educational and economic development outcomes. The Fund commits to protecting the people, livelihoods and social fabric of local communities in areas where the Fund's portfolio companies may conduct business.

Other Environmental and Social Aspects

There is an urgent need to establish well-planned and managed forest plantations in Africa to meet the rising demands for wood and other forest products – locally, regionally and internationally – and to ease the pressure on the natural forest areas that remain. The present fund is expected to help address these challenges. By supporting sustainable forest plantation management, the investment is expected to deliver a range of positive environmental and social impacts including climate change mitigation and adaptation, through carbon sequestration and renewable energy generation; protection of biodiversity by reducing pressure on existing forests; and protection against soil erosion.

The Fund presents the EIB with an important opportunity to support sustainable forestry in several African countries where levels of deforestation and forest degradation remain high. According to the FAO (2010), Africa lost 3.4 million ha of forest per year during the decade 2000-2010, an annual change rate of almost -0.5%. If the rate has slowed slightly since the previous decade, this is likely due to the exhaustion of the resource in many areas. Establishment of new forest plantations during this period progressed at a very small scale by comparison, only 245,000 ha per year (some 7% of forest loss).

Of the 6 African sub-regions, Southern Africa has had the highest net forest loss over the past 20 years, diminishing by over 1 million ha per year (annual change rate of -0.53%) during the 20-year period 1990-2010. Meanwhile only about 33,000 ha of forest plantations were established in the region, most of which were in South Africa.

Meaningful involvement of local communities, including consultation and free prior informed consent of indigenous communities who are directly affected are central in the Bank's social due diligence. Particular emphasis will be applied to the screening of the original public

consultation accompanying the granting of the land-use rights to the projects in which the Fund is investing. When planned and implemented in an appropriate manner together with local communities, forest plantations can contribute to rural livelihoods and reduce poverty; generate employment in rural areas; diversify the rural economy; and contribute biomass-based resources for local use.

The Fund is expected to invest taking into account a sustainable environmental management perspective and the social impacts will be duly analysed.