

## **Amendment to the Environmental and Social Review Summary (ESRS) Portucel Mozambique (project no. 32522)**

### **PS 1 – Assessment and Management of Environmental and Social Risks and Impacts**

\*\*\* Original Disclosure Follows After this Amendment \*\*\*

This amendment to the original Environmental and Social Review Summary (ESRS) for Portucel Mozambique (project no. 32522) comprises an update on information available to IFC since the time of the initial disclosure of this project in September 2014. In light of this changed information, IFC has also agreed with Portucel Mozambique the inclusion of additional items in the Environmental and Social Action Plan (ESAP) to ensure that recently-identified risks and impacts are properly mitigated.

The main issue that requires further disclosure is the nature and extent of Portucel Mozambique's acquisition of lands outside of concessions provisionally granted by the Government of Mozambique. These land-use concessions are known by their acronym "DUAT," which stands for direito de uso e aproveitamento da terra. In 2009-11 the company was granted provisional DUATs in Manica and Zambezia provinces totaling 365,000 hectares (ha). Portucel Mozambique has understood these provisional DUATs to be the first step in acquiring land, which would first and foremost be subject to the availability of land within the DUATs and the willingness of local communities and individual families to cede unused land, which they no longer intend to claim, to the company. In the course of negotiating such access inside provisional DUATs – in line with its Land Access Procedures (and preceding procedures) – Portucel was in some cases asked by local stakeholders to carry out land acquisition in areas outside of the DUATs. This was generally the case when existing population density and land use within a DUAT did not appear to support the possibility of land acquisition on a scale sufficiently large for Portucel plantations. (See below under PS-1 and PS-5 for more detailed descriptions of how the Land Access Procedure is to work.) Portucel was therefore requested by local communities and authorities to seek lands on the edges of, or in some cases immediately outside, the provisional DUATs. In other cases, Portucel was approached by communities with larger tracts of land well outside of the DUATs for inclusion in the company's forest-planting process. In further cases, Portucel field staff identified potentially usable areas and approached community leaders and local authorities about their availability.

The full extent of these practices was communicated to IFC in February 2016, and in April 2016 IFC received Portucel's information on how the company is working with local communities and authorities at the local, provincial, and national levels to secure formal DUAT authorizations for these areas, according to applicable Mozambican law and regulations. At the time of this update in May-June 2016, based on information available from the company on March 31, 2016, Portucel had acquired slightly more than 25,000 ha outside of the original, provisional DUATs, out of a total of close to 59,000 ha that the company has acquired in Manica and Zambezia. Of this total, the company intends to return to previous owners/users at least 7,700 ha and possibly more areas that it does not plan to use in Manica. Much of the remaining land is in the process of passing through requisite

steps to be included in existing DUATs or to have new DUATs issued, including local community consultations, surveying by relevant authorities, and formal government review and decision-making at sub-provincial, provincial, and national levels. Portucel Mozambique is communicating with the Ministry for Land, Environment, and Rural Development (also known as MITADER, the Portuguese acronym for “Ministério da Terra, Ambiente e Desenvolvimento Rural”), with which it intends to coordinate this process closely as there have not be similar precedential cases for DUAT regularization on this scale.

In addition, there is the question of the applicability of the Environmental and Social Impact Assessments (ESIA) and Environmental Management Programs (EMPs) that Portucel Mozambique prepared for its Manica and Zambezia operations in 2013-14. These ESIAs and EMPs were disclosed through extensive public consultation meetings and approved by MITADER in 2015 through the issuance of relevant permits. As the geographic remit for these permits is the originally-issued DUATs, Portucel Mozambique has requested its environmental and social consultant, Impacto, to prepare a review of the degree to which the original ESIA/EMPs are applicable to areas acquired outside of these original DUATs and to determine what steps the company should take to identify, assess, and mitigate additional risks and impacts appropriately. In a meeting in February 2016, MITADER indicated its general support for Portucel’s proposed approach for bringing lands outside of DUATs, (borders of existing parcels or new areas fully outside of them) in conformity with Mozambican regulations, and in May 2016, MITADER indicated that they will appoint a ministry focal point to assist in the regularization process and confirm a methodology to manage the situation.

As a result of this information, and the potential risks and impacts associated with lands outside of the DUATs, three items have been added to the ESAP originally disclosed in September 2014. These include the following: (1) to provide IFC the list of initial areas in Manica province to be returned to previous owners/users, including a registry of the company’s outstanding commitments or promised benefits to such owners/users under the Land Access Procedure so that these commitments can be completed and tracked accurately, (2) to provide IFC with a finalized list of additional areas in Manica to be returned and update the above-mentioned commitments accordingly, (3) to provide IFC with evidence of MITADER support for the company’s proposed approach to bringing all Portucel areas currently outside of DUATs within formally authorized DUATs within a reasonable period of time, (4) to prepare a communications plan for informing and consulting with key stakeholders, including local communities, on these regularization measures, (5) to submit a plan to the IFC for how the company intends to address any gaps in its ESIA/EMPs that Impacto has identified as part of its review, and (6) to provide IFC with quarterly updates on progress toward regularizing lands it has obtained outside of the original DUAT boundaries.

\*\*\*\*\* Original PS1 Disclosure \*\*\*\*\*

*E&S Assessment and Management System* – During appraisal there was clear evidence that Portucel, at a corporate level, has a well-organized environmental management system used to identify and mitigate environmental and health and safety risks. Portucel Group’s

Management Systems Policy establishes a comprehensive commitment to the use of independently-verified management systems (ISO 9001, ISO 14001 and OHSAS 18001), and the Company has an integrated approach to managing EHS risks and impacts across all of its forestry and industrial operations. It has also established a Company commitment to pursue Forest Stewardship Council (FSC) and the Programme for Endorsement of Forest Certification (PEFC) in its global forestry operations. The Company also benchmarks its performance against Global Reporting Initiative criteria under the G3.1 Guidelines, which are also independently assessed. At the country level Portucel Mozambique, Portucel's wholly-owned subsidiary, is in the process of establishing an integrated ESMS based on corporate guidance, operational requirements, and the specific circumstances of operating in Mozambique. Its intention is to seek FSC certification of its Mozambican plantations. At the time of the 2012 and 2014 appraisal visits, these management systems and most of the accompanying operating procedures had not been established, as Portucel was entirely absorbed by the ESIA process including the extensive public consultations. The use of FSC certification as a tool to verify conformity with internationally-recognized forestry practices is addressed in PS6, below. The ESAP requires Portucel Mozambique to complete and operationalize all elements necessary for a fully-functioning ESMS.

E&S Policy - Group's Corporate Sustainability Policy was established in 2005 and provides the basis for more explicit policies on Community Involvement and Communications. The Group has set specific guidelines for measuring its sustainability, which include goals, targets and specific performance requirements. These policies will apply to Portucel Mozambique (the "Company" or "P/M") operations as well. As of the second appraisal visit in February 2014, elements of corporate E&S policies were observed within P/M operations, and draft procedures (known as *normas tecnicas*, or technical norms) for Plantation Establishment, Silviculture and Harvesting were reviewed. Following the second appraisal visit a formal land acquisition procedure was developed, and additional norms for communications, social engagement, and community relations (including grievance management) were being developed and further refined. In addition, Portucel is planning the rollout of its corporate-level EHS policies and systems to the country level scheduled for November 2014. As noted above, the ESAP requires the Company to finalize and begin full implementation of such measures by agreed-to dates.

*Identification of Risks and Impacts* – Mozambique has a well-established environmental assessment procedure. Following IFC's second appraisal in February 2014, the Company completed a full Environmental and Social Impact Assessment (ESIA) in addition to the previously completed scoping study (Prefeasibility Study for Environmental Impacts or "EPDA" in Portuguese, which was issued in 2010). The full ESIA, which has been disclosed publicly and undergone extensive community consultations, has identified a number of principal impacts and risks arising from the Project. (See above under "Environmental and Social Categorization" for a brief summary of the principal risks and impacts identified by the ESIA.) The following paragraphs of this ESRS highlight a number of such risks and impacts that are most pertinent to the IFC's analysis of gaps in the Sponsor's systems and approaches *via-à-vis* the requirements of the Performance Standards. In addition, the potential for in-migration into certain Portucel Mozambique areas was only detected toward the end of the ESIA process. As part of the ESAP, the Company will therefore commission a supplemental study on possible influx and concomitant impacts on public services and social relations and, if appropriate, develop an Influx Management Plan.

The Company has developed a comprehensive Geographic Information System (the "GIS") program to assist it in its E&S risk identification and mitigation; this system will build on the public consultation and socioeconomic baseline assessments conducted during the ESIA for each of the two provinces.

*E&S Management Programs* - The Company has developed a comprehensive Code of Good Forestry Practices (the "Code"), which governs its European forestry operations. The Code establishes standard operating procedures for planning, community engagement, health and safety, fire management and logistics. E&S requirements are included, and metrics to ensure compliance are well outlined. While the Company's forestry supervisors in Mozambique are familiar with the Code, the Code needs to be adapted and applied to the unique conditions of Mozambique through the Technical Norms, which amount to internal, detailed standards and procedures for Project implementation. P/M has already established or is drafting standard operating procedures for important components of its corporate Code and for its country-specific operational requirements; however, as stipulated in the ESAP, these need to be more comprehensive and/or fully implemented, including a Mozambican version of the Code and procedures on land access, community relations, grievance management, identification of high conservation value forests, and labor and occupational health and safety (OHS) standards for its own staff, its contractors, and the community members engaged as day laborers in clearing, planting, and maintaining P/M's plantations. Given that much of the work is conducted by contractors and especially by local residents mobilized by authorities at the local levels, where P/M's forests are being planted, it is particularly important that EHS requirements be codified and explicitly transferred to all contractors, local authorities, and community work crews.

*Organizational Capacity and Competency* - Following the IFC's first appraisal in December 2013, P/M has advanced in the process of developing greater organizational capacities and competencies for E&S issues, including the appointment of an Environmental Manager, and after the IFC's second visit in February 2014, it appointed a Community Relations Manager. At the time of the IFC's third visit in July-August 2014, the Company hired a Human Resources Manager and contracted a firm to assist it with social communication. Field-level staff for E&S functions are being progressively recruited, trained, and deployed. As part of the ESAP, the Company has agreed to build up its organizational capacity on all relevant teams by specified dates.

*Emergency Preparedness and Response* - At the time of the IFC's visits, there were indications that some elements had been established for an overall fire safety system, especially regarding the threat of forest fires, and there is rudimentary attention to life-threatening situations within forestry operations, particularly with regard to plans for local residents to assist with cutting back overgrown vegetation along roadsides and clearing such vegetation in or near P/M's plantations. While forestry supervisors have provided first aid or transport to local health facilities for the minor workplace accidents registered to date, P/M does not yet have any formally established system for communicating and responding to serious accidents or life-threatening situations that work crews composed of local residents might face in the course of clearing, planting, and maintaining forest areas. At the time of this disclosure P/M did not otherwise have written information about fire prevention and response or established emergency procedures for staff or contractors for IFC to review. As discussed further under PS-2 with regard to work crews composed of local residents, a basic safety orientation procedure and communications systems between regional offices and field teams need to be standardized, emergency procedures need to be established for responding to accidents, and a system for tracking incidents needs to be created. The Company's level of planning and communication should also be more commensurate with the potential risks and impacts regarding the prevention of critical incidents, especially forest fires, and responding to them. Under the ESAP, the Company will identify the most significant life-threatening risks and situations and prepare formal written emergency preparedness procedures addressing each of the risks. These procedures should

be disseminated broadly to staff and contractors (in Portuguese and local languages), and trainings, orientations, and refreshers should be conducted at regular intervals.

*Monitoring and Review* - P/M has a biogeographic database and GIS upon which planning for forestry operations has been based and through which future monitoring, including of E&S issues, will further developed. P/M's GIS-based forest management system (known as the Sistema de Gestão Florestal) will incorporate documentation on land acquisition and household data to assist with managing and monitoring the social impacts of the Company's activities. In addition, the Company has indicated it will seek to certify its forestry practices to the Principles and Criteria of the Forest Stewardship Council ("FSC"), which include active monitoring and adaptive management. This extends to monitoring socio-economic conditions as well. Data on food security and livelihoods in the two provinces – collected as part of the ESIA process and described in greater detail below (under PS5) – will serve as the baseline for P/M's monitoring of livelihoods in the Project area, particularly for those families who have ceded land to the Project. Finally, the Company plans to employ a digitized system for tracking the use of day labor at the local level, and this system can be designed to assist with tracking the impacts of land access and the process of restoring or improving the livelihoods of those economically displaced by the Project (see below under PS5 for more information).

Information about agrosilvopastoral conditions, and the extent and condition of native forests, needs to be improved and monitored using the Company's GIS and other appropriate instruments. Of particular importance will be assessing the level and effectiveness of informed consultation and participation of affected communities and improved assurance that local residents are experiencing concrete benefits from the project, particularly with regard to enhanced livelihoods. This is especially important for those economically vulnerable families or communities ceding lands to the Project who often rely the most on income from forest products (firewood, charcoal, etc.) derived from wooded areas.

As stipulated under the ESAP, appropriate monitoring and review systems will be established to this end. Specifically, the Company will involve representatives from Affected Communities and other stakeholders as appropriate and establish procedures and systems to monitor the effectiveness of its ESMS and management programs, compliant with applicable regulations and consistent with third-party verification systems with which the Company anticipates conforming, when appropriate. This M&E system should be fully integrated the Company's GIS-based forestry planning and management systems, and among its numerous tasks, the system should be capable of tracking, monitoring, and evaluating the impacts of land acquisition and the effectiveness of the Company's livelihood improvement measures in particular.

*Stakeholder Analysis and Engagement Planning* – As described in greater detail under PS5, P/M is engaged in a complex process of negotiating access to land for forestry operations with local authorities, individual families, and, at times, communities as a whole. In exchange, local residents are benefiting from opportunities for short-term wage labor involved in clearing, planting, and maintaining areas to be afforested with eucalyptus, currently about 1,000 ha in total. According to the socioeconomic baseline assembled during the ESIA, residents of the areas where P/M has its DUATs have both elevated expectations about the project's potential benefits (jobs, improved social infrastructure, and enhanced living standards chief among them) and significant concerns about negative impacts (namely reduced availability of land for household agriculture, diminished access to forests for firewood and charcoal production, and an increase in land-based conflicts). Handling community relations properly – particularly with regard to negotiating land access,

managing wage labor transparently, enhancing local livelihoods, providing other improvements in the quality of life, and resolving grievances effectively – will therefore be critical for ensuring the success of the Project and avoiding (or minimizing) negative outcomes.

As required under the Land Law, the Ministry of Agriculture, with P/M's assistance, conducted a series of public consultations in 2009 (known in Portuguese as *consultas comunitárias* or "community consultations") in order to secure the DUATs. These consultations were held in the provincial capitals and at local levels, but in limited locations and with limited local participation. Formal minutes were kept and submitted to provincial and national authorities as part of the DUAT authorization process. Despite some shortcomings noted in the ESIA, these community consultations met the formal requirements of Mozambican legislation regarding public consultation on any change of land-use rights. In addition, P/M has launched a process – carried out through meetings with district administrators, chief of administrative posts, and *régulos* – of consulting communities and approaching them and individual residents for access to land not being used, or not likely to be used, for agriculture. On the basis of agreements, many of which are written and demonstrate the concurrence of previous land-right holders through their signatures, such unused lands have been ceded to P/M for clearance and planting of eucalyptus, through a process that involves paid labor by local residents. Through a relationship largely mediated by local traditional and administrative authorities, P/M maintains dialogue and interaction with such residents, who are estimated to number 5,000 families. However, to date, these meetings and engagement efforts have not been based on a standard set of messages regarding the impacts (both positive and negative), benefits, and risks associated with the project. Rather, they have focused on P/M's land access needs. By the time of the formal disclosure of the ESIA and associated public consultations, in July-August 2014, P/M had standardized its approach to community relations and seeking land contributions from current users in order to achieve informed participation and consultation with Affected Parties (see below under PS5 for a more extensive description of P/M's land access process).

Indeed, at the time of the July-August public consultations on the completed ESIA, a number of which were attended by the IFC, it was clear that the Company's approach to securing ICP had improved significantly. The Company now has a formal policy and approach to engaging with local communities and to receiving and addressing grievances. It appears that the majority of those who have contributed land to P/M's plantations continue to support the project and consider that they derive concrete benefits from it, largely through wages earned through day labor (clearing vegetated or wooded areas and planting and maintaining eucalyptus for P/M). In large part based on advice from the IFC, P/M is working to develop a comprehensive system for identifying all of its stakeholders, for explaining the risks or positive benefits from the Company's business activities to them in a consistent, documented fashion, for documenting that the Company is engaging residents in project areas through mechanisms for informed participation and consultation (ICP), for receiving and processing complaints of poor Company performance on environmental or social issues in a structured fashion, and for monitoring progress (or shortcomings) in performance and reporting back to stakeholders on a regular basis. If implemented properly, these measures will assist P/M in ensuring that it has met the IFC's standard for ICP, particularly with regard to land access (these are described in greater detail under PS5). Actions to be taken by the Company under the ESAP to close performance gaps regarding stakeholder engagement, grievance management, and communications are noted together, immediately below.

*External Communications and Grievance Mechanisms* – During the appraisal visits, there was little visible evidence of routine or systematic external communications by P/M at local levels. In places visited by the IFC, results of the 2009 consultas comunitárias (community consultations) used during the DUAT-granting process were not available nor posted in visible locations, and no visual materials were available that seek to explain to largely illiterate populations the nature of the Project. IFC and the ESIA contractor conducted desk reviews of the official Public Minutes from the 2009 community consultations which indicated that only a small number of households were present at the public hearings held during the DUAT-granting process. P/M's external communications with affected parties have relied almost entirely on routine, near-daily interactions between Project staff (particularly district forestry supervisors) and local authorities (régulos, chiefs of post, and district administrators), not on written or printed materials. As a result, the exact level of prior knowledge about the DUATs and land transfer process is inconsistent at the actual community or household levels, but unsolicited offers of land from outside of the DUATs by communities or individual land-right holders indicate a broad and growing awareness of the Company's ongoing land acquisition efforts and local employment opportunities that the Project represents. As noted below in the section on the Client's Community Engagement, P/M has sought to bolster the public consultation component of the ESIA process, including through efforts to hold ESIA public disclosure meetings and consultations at the localidade and povoação/povoado levels, where its land access and planting efforts are concentrated and to encourage broad-based and active community participation in these meetings. By the time of the July-August 2014 public consultations on the ESIA (which included meetings at the national, provincial, district, and most significantly the community levels), the Company's capacity to reach out to and communicate with stakeholders, particularly Affected Communities, had increased markedly.

P/M has only recently begun to formalize its approach to external communications and community relations. Consequently, it is only since August 2014 that the Company has had an explicit mechanism designed specifically to address community grievances associated with the Project. Hitherto, the local population has relied on existing channels through their local leaders and government authorities to raise complaints, and participants in the ESIA's socioeconomic baseline work, particularly focus-group discussions with local authorities and with residents, raised a number of complaints regarding P/M's operations so far. The most significant complaints and concerns identified during the ESIA's socioeconomic survey work revolve around (1) the Company's lack of a comprehensive communications plan; (2) shortcomings in the recruitment and management of day laborers; (3) a (mis-informed but nonetheless present) concern that P/M's land access practices would result in physical resettlement; (4) the need for P/M to develop and disseminate its corporate social responsibility program (namely its plans for local investments in social infrastructure); (5) lack of clear information about the physical extent of the DUATs; and (6) deficiencies in P/M's land access process. A properly designed and implemented approach to stakeholder engagement, particularly at the community level, and additional adequately trained personnel to effectively and consistently engage with communities will therefore be required. Since the IFC's second appraisal visit in February 2014, P/M hired a Community Relations Manager, and it has developed a draft "Mechanism for Managing Community Relations," including proposed grievance resolution mechanisms. Through the assistance of an IFC Advisory Services project (Project ID 598347), the Company will further refine its approach to stakeholder engagement and community relations, including with regard to managing and resolving grievances.

Three major components of an overall system for stakeholder engagement and community relations are required under the ESAP. First, by end-October 2014, a draft Stakeholder Engagement Plan and Community Development Plan are due, and P/M will begin annual

public reporting on its E&S performance by 2016 (covering calendar year 2015 in its first edition). Second, a draft Communications Plan – comprising strategies and activities as well as a description of the Company's internal capacities and mechanisms for coordinating communications and relations with outside parties including Affected Communities – is due by end-September 2014. This is meant to support land access negotiations (see below under PS5), community relations, and grievance management. Finally, the Company will operationalize mechanisms for community relations and resolution of grievances as part of a comprehensive and responsive system. To do so, it will hire sufficient communications personnel and dedicated community relations staff and properly structure channels for receiving complaints and resolving problems raised by stakeholders, especially residents in and near the DUATs, in close collaboration with district forestry operations teams. To ensure that the newly-launched grievance mechanism (under the Company's Community Relations Management Mechanism) is functioning properly, the ESAP stipulates that by end-April 2015 P/M will conduct an internal review of its grievance management system, based on its first six months of use, and develop any appropriate corrective action plan necessary to strengthen it.