

FINDEV CANADA TRANSACTION SUMMARY

Africa Forestry Fund II

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.



Transaction Description

Africa Forestry Fund II ("AFF II" or the "Fund") is an investment fund focused on forestry and forestry-related assets in Sub Saharan Africa. The Fund aims to build a portfolio of 8-10 companies with quality management and high barriers to entry. It currently has a pipeline in excess of 40 potential transactions for a total of US\$ 400M across targeted Sub Saharan African countries, namely Namibia, South Africa, Zimbabwe, Mozambique, Tanzania, Uganda, Kenya, Ethiopia.

Transaction Details

TARGET FUND	Africa Forestry Fund II Limited
DOMICILE OF INCORPORATION	Mauritius
DOMICILE OF OPERATIONS	Namibia, South Africa, Zimbabwe, Mozambique, Tanzania, Uganda, Kenya, Ethiopia
TERM OF FINANCING	10-year closed-end fund, with a 5-year Investment and a 5-year Disinvestment Period
SECTOR	Investments in forestland or forestry-related companies and projects through the acquisition, improvement and rehabilitation of plantations, downstream manufacturing, and biomass energy.
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	Category C
FINANCIAL PRODUCT	Fund Investment
TOTAL PROJECT SIZE	USD 120 million
FINDEV CANADA PARTICIPATION AMOUNT	Up to USD 7.5 million
DATE OF TRANSACTION DISCLOSURE	12/08/2019
DATE OF TRANSACTION SIGNING	11/25/2019
2X CHALLENGE QUALIFYING	No

Summary of Anticipated Development Impacts

AFF II has sustainability at its core with best-in-class practices and certifications to bolster all aspects of the forestry value chain. Its primary objective is to acquire and sustainably develop local forestry, forest-product manufacturing and biomass energy assets. AFF II will contribute to FinDev Canada's long-term development impact goals and the SDGs, particularly SDG 8, SDG 13 and SDG 15.



CLIMATE CHANGE MITIGATION AND ADAPTATION:

- **Encouraging sustainable forestry practices:** AFFII focuses on rehabilitation, conservation and prevention of illegal deforestation or degradation of forest land as well as increasing productivity through better management practices. It achieves this by upgrading operations to meet Forest Stewardship Council certification practices, the highest standard for sustainability in the forestry sector. The Fund's portfolio companies are expected to contribute to maintaining or transitioning to sustainable land management approaches for up to 50,000 ha of forest land, about 20% of which could be land under direct conservation.
- **Contributing to carbon sequestration and avoidance:** Sustainable land management practices will lead to carbon capture from standing biomass of the plantations, estimated at up to 3.5 tons of CO₂, with additional carbon captured from wood products sold. In addition, the Fund will invest in biomass energy generation of process steam for use in industrial settings, which could replace as much as 100,000 tons per year of coal and heavy fuels with biomass, thus contributing to a reduction in CO₂ emissions of approximately 200,000 tons per year.



MARKET DEVELOPMENT:

- **Contributing to local employment and economic value addition:** Over the next 10 years, the Fund is expected to support up to 3,500 permanent jobs and directly contribute US\$ 100M of economic value in taxes, salaries, and profits in its markets of operation. It is estimated that sustainable wood products sales could reach 500,000 m³ annually, responding to increasing African market demand for domestic wood products, rather than imports.



WOMEN'S ECONOMIC EMPOWERMENT:

- **Building capacity on women's economic empowerment and incorporating gender considerations into the investment process:** The Fund Manager has completed the Women's Empowerment Principles (WEPs) Self-Assessment and is committed to build its internal capacity to support women's economic empowerment and to support its portfolio companies. To better address gender equality throughout its portfolio, AFF II plans to engage a human resource professional with expertise in diversity and inclusion in the forestry sector.

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

The environmental and social impacts and risks of the transaction are predominantly related to those associated with the Projects in which Africa Forestry Fund II will invest. As such, FinDev Canada's environmental and social assessment focused on the Fund's Environmental and Social Management System (ESMS) and its application as it pertains to the Fund's portfolio, i.e., how the Fund intends to assess and manage the environmental and social risks related to its investments.

Due to the nature of transaction, as well as intended diversity of investments, site specific impacts for each investment cannot be determined at this time. However, the potential impacts of the sectors in which the Fund will invest—established brownfield forestry plantations, biomass energy generation and local manufacturing/ sawmills -- may present issues related to health and safety and labour conditions, issues related to community and stakeholder relations, risks to biodiversity, cultural heritage sites, access to land, biomass sourcing, air emissions, fire safety, and noise/dust emissions.

The key mitigant that the Fund has put in place is the ESMS, which requires the application of international standards (e.g. IFC Performance Standards, IFC EHS Guidelines, EIB Environmental and Social Standards, and the FSC certification system), to ensure key environmental and social risks are considered in the investment assessment process, and appropriate mitigations are put in place.

The Fund is predominantly reliant on FSC certification for its forestry plantations, and relies on the IFC Performance Standards for investments in other sectors. The Fund has committed to annual reporting on its portfolio's Environmental, Social and Governance (ESG) activities as well as quarterly meeting with FinDev Canada officers to seek feedback and guidance on ESG issues related to its investments.