

PILOT PROGRAM FOR CLIMATE RESILIENCE

Project/Program Preparation Grant Request

1. Country/Region:	Mozambique	2. CIF Project ID#:	(Trustee will assign ID)
3. Project Name:	<i>Private Sector Investment to Build Climate Resilience in Mozambique.</i>		
4. Tentative Funding Request (in USD million total) for Project¹ at the time of SPCR submission (concept stage):	<i>Grant: 1.0</i>	<i>Loan: 10.0</i>	
5. Preparation Grant Request (in USD million):	<i>\$0.425</i>	<i>MDB: IFC</i>	
6. National Project Focal Point:	<i>Adriano Ubisse, Director of Investments and Cooperation, Ministry of Planning and Development</i>		
7. National Implementing Agency (project/program):	<i>Ministry of Planning and Development & Ministry for Coordination of Environmental Affairs</i>		
8. MDB PPCR Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters-PPCR Focal Point: Joyita Mukherjee (jmukherjee1@ifc.org)</i>	<i>TTL: Anthony Mills (amills@ifc.org) Noleen Dube (ndube@ifc.org)</i>	

9. Description of activities covered by the program preparation grant:

Background

The IFC component of the Mozambican SPCR (hereafter referred to as the program) totals US\$11 million of PPCR grant and loan funding and focuses on private sector investments that build climate resilience. These investments will take place across Mozambique and will focus primarily on agribusiness including forestry and tourism.

Objective

The program will build climate resilience by catalysing private sector investments in the agribusiness sector and providing technical support to relevant private sector players. The private sector investments will improve community livelihoods thereby providing a buffer against expected increases in the frequency and intensity of climate change-induced hazards such as droughts and floods.

The program comprises the following main components:

1. Provision of credit lines for adaptation investments.
2. Natural resource management to build climate resilience.

¹ Including the project preparation grant request.

Climate adaptation is a relatively new area for the private sector globally and more specifically in Mozambique. The private sector is hesitant to participate in climate resilient initiatives due to lack of awareness of the opportunities and risks of climate change to their business. There is also insufficient and unreliable information on investment opportunities that: 1) build climate resilience; 2) reduce costs from impacts of climate change; and 3) mitigate climate change risks. This Program Preparation Grant will fund the preparatory phase of the program and will entail an assessment of private sector opportunities and barriers within each of the above-listed components. Information gathered through the preparatory phase will be used to inform the design and implementation of the private sector investments in the Mozambique SPCR. Preparatory phase activities are described below.

Component 1: Supporting adaptation investments through financial intermediaries.

1. Assess the willingness of financial institutions to introduce credit lines for climate resilient investments and the demand for these credit lines from potential beneficiaries in Mozambique.
2. Through in-depth market research, determine: i) the potential pipelines of climate resilient investments that could be financed by financial institutions in *inter alia* the following sectors: agriculture, peri-urban water, tourism, forestry and natural resource management; ii) the economics of these investments; iii) profiles of potential target borrowers including individual and small holder farmers and SMEs; and iv) their specific demand for support (both financial and technical).
3. Prepare a detailed implementation plan for establishing credit lines and building the above pipelines that includes potential partners/clients, costed interventions, key milestones and expected timelines.

Component 2: Building climate resilience in natural resource management through individual pilot investments with the private sector.

The World Bank defines adaptation as activities that:

- reduce the risk, exposure or sensitivity of human or natural systems to climate change and climate variability;
- increase the potential or capability of a system to adapt to the effects and impacts of climate stimuli;
- build problem solving capacity to develop responses to climate variability and change;
- incorporate climate hazard risk information into decision-making; or
- address impacts exclusively linked to climate variability and change.

Managing natural systems to buffer communities against damages from extreme climate events is increasingly been viewed as a highly cost effective way of adapting to climate change, as per the definition above. There are several ways to manage natural resources to build climate resilience. Firstly, vegetation cover in both agricultural and natural landscapes can be managed to protect the soil surface from intense and damaging raindrop impact, thereby reducing soil erosion in the face of extreme rainfall events. Increasing natural vegetation cover also increases infiltration of water into soil profiles, thereby reducing surface flooding during extreme rainfall events and increasing base flows of rivers (i.e. during the dry season and during droughts). Secondly, vegetation biomass in certain localised areas can be reduced to manage increased fire risks in the face of increasing temperatures and longer dry seasons. Such risks, namely a greater frequency of intense fires in natural forests are predicted to increase in Mozambique. Such risks need to be managed in order to secure ecosystem goods and services (see below) and to prevent physical damage to infrastructure and communities. And thirdly, natural resources such as natural woodlands and forests can be managed to maximise yields of food, medicine, fibre, timber, carbon credits and other products for local communities. Such goods can be used to diversify livelihoods, increase income flows and thereby provide economic buffers for communities during droughts and floods.

The IFC has identified three possible options within component 2 for projects that engage the private sector in natural resource management that will build climate resilience. The three options include forest areas in Niassa, Gorongosa and central Mozambique. The commercial viability of these projects and other similar projects will be comprehensively analysed during the preparatory phase and only commercially - viable options will be pursued for implementation. The activities involved are described below.

Project 2a: Woodland management in Niassa Reserve.

1. Determine the feasibility of using fire management to: i) reduce the risk of increased intensity and frequency of fires under a changing climate; and ii) generate carbon income for communities and private companies involved in activities protecting/increasing carbon sequestration within the reserve.
2. Analyse the commercial viability of alternative livelihoods based on natural resources (indigenous ecosystems or agro-ecological landscapes) for local rural communities living within and adjacent to the reserve.
3. Assess the opportunities for private sector investment in carbon sequestration in miombo woodland in other parts of Mozambique.
4. Prepare a detailed implementation plan for private sector investment in Niassa Reserve that includes potential partners/clients, costed interventions, key milestones and expected timelines.

Project 2b: Sustainable timber harvesting in central Mozambique.

1. Review international best practice techniques for sustainable harvesting of miombo woodland.
2. Assess the impacts of climate change on current harvesting and replanting activities in miombo woodlands in Central Mozambique, and provide recommendations for future sustainable harvesting and replanting activities given the predicted impacts of climate change.
3. Undertake in-depth market research on Mozambican tropical hardwood markets and the possible market impacts under various climate risk scenarios, and assess how sustainable miombo woodland management would contribute to reducing these market impacts.
4. Assess the opportunities for private sector investment in sustainable tropical hardwood harvesting in other miombo woodlands in Mozambique.
5. Prepare a detailed implementation plan for private sector investment in miombo woodland sustainable harvesting that includes potential partners/clients, costed interventions, key milestones and expected timelines.

Project 2c: Tourism and watershed management in Gorongosa National Park.

1. Assess the impact of various climate risks on the Mount Gorongosa watershed, and provide recommendations for managing the watershed in a commercially viable manner to promote alternative livelihoods for local communities as well as tourism within the national park.
2. Assess the adaptation needs of private sector tourism operators in the national park and determine the commercial viability of proposed adaptation interventions.
3. Assess the opportunities for private sector involvement (e.g. hydro-power operators) in watershed management in other water catchments of Mozambique.
4. Prepare a detailed implementation plan for private sector investment in watershed management in Gorongosa National Park and two other sites that includes potential partners/clients, costed interventions, key milestones and expected timelines.

Value chain analysis: in each of the above components, the target groups and beneficiaries of the private sector activities will be identified using a 'value chain' perspective.

10. Outputs:	
Deliverable	Timeline
Four reports on the findings of the above activities, namely: <ul style="list-style-type: none"> • Supporting adaptation investments through financial intermediaries; • Woodland management in Niassa Reserve; • Sustainable timber harvesting in central Mozambique; and • Tourism and watershed management in Gorongosa National Park. 	Hand-in: 30 August 2012
11. Budget (indicative):	
Expenditures ²	Amount (USD) - estimates
Consultants (local and international)	\$320,000
Equipment	
Workshops/seminars/surveys	\$30,000
Travel/transportation	\$45,000
Others (admin costs/operational costs)	
Contingencies (max. 10%)	\$30,000
Total Cost	\$425,000
Other contributions:	
• Government	
• MDB	
• Private Sector	
• Others (please specify)	
12. Timeframe (tentative): Submission of program preparation grant request: April 2012. Hiring of consultants and commencement of study: May/June 2012. Completion of the study: August 2012. Submission of pre-appraisal document for PPCR Sub-Committee Approval: November 2012. Expected Management ³ approval date: December 2012.	
13. Other Partners involved in project design and implementation⁴: MDBs: <ul style="list-style-type: none"> • World Bank; and • African Development Bank. Local partners: <ul style="list-style-type: none"> • Ministry of Planning and Development. • Ministry of Coordination of Environmental Affairs. • Ministry of Tourism. • Ministry of Agriculture. 	

² These expenditure categories may be adjusted during project preparation according to emerging needs.

³ In some cases activities will not require MDB Board approval.

14. If applicable, explanation for why the grant is MDB executed:

The Program Preparation Grant will be used to identify opportunities for private sector engagement in economic sectors such as agribusiness, natural resources and tourism in Mozambique. The IFC has a comparative advantage in this regard given its focus on the private sector and its decades of experience in catalysing investments in the developing world. The IFC is participating in the PPCR in both Nepal and Bangladesh in the agribusiness sector and will share the experience from these countries in Mozambique. In Africa, IFC is participating in the Niger and Zambia SPCRs and lessons from these will also be used in Mozambique. The PPG activities in the three African countries will be implemented in a phased manner. Niger activities will be implemented approximately a month ahead of Zambia activities, and approximately two months ahead of Mozambique activities.

It is expected that the 3 African SPCRs will work closely together in the development of initiatives. In this regard, IFC has strong knowledge management and lessons learned components in all the projects which will allow for the sharing of appropriate information.

The IFC is a leading global player in the testing of climate resilient investments in the private sector and is therefore well positioned to assess: 1) the potential for local banks to act as aggregators to finance private sector adaptation projects that may be too small for IFC direct investments; and 2) the commercial viability of natural resource management and tourism projects that will build the climate resilience of this sector.

The IFC, in collaboration with various stakeholders, will use the preparation grant to execute the above-described studies to design and implement the viable projects in the private sector component of the Mozambique SPCR. It will use its own processes and procedures to procure and execute the studies.

15. Implementation Arrangements (incl. procurement of goods and services):

This program will be implemented by the IFC in close collaboration with the Ministry of Planning and Development and the Ministry for Coordination of Environmental Affairs. In addition, the program will form collaborations with private sector entities, government agencies and other relevant stakeholders as required.

The procurement of goods and services will follow IFC's procurement guidelines.

⁴ Other local, national and international partners expected to be involved in design and implementation of the project.