Early Warning System

IFC-34183

Westfalia Fruto Mocambique (Pty) ltd

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Quick Facts

Countries	Mozambique, South Africa
Financial Institutions	International Finance Corporation (IFC)
Status	Active
Bank Risk Rating	B
Voting Date	2014-03-25
Borrower	Westfalia Fruto Mozambique Ltda
Sectors	Agriculture and Forestry
Potential Rights Impacts	Healthy Environment, Housing & Property, Labor & Livelihood
Investment Type(s)	Loan
Investment Amount (USD)	$ 4.10 million
Project Cost (USD)	$ 10.50 million

Project Description

The project will involve a loan to Westfalia Mozambique to establish a 200 hectare avocado orchard and associated pack house near the city of Chimoio in the Gondola district of Manica Province, in the Beira Corridor of Mozambique. Additional capacity will also be established within the same packhouse to serve an estimated 200 local litchi fruit farmers, providing them with access to export markets and other third parties fruit.

Early Warning System Project Analysis

Risk Assessment: CATEGORIZATION

The IFC states that this is a category B project "because the limited number of specific environmental and social impacts which it may result in can be avoided or mitigated by adhering to generally recognized performance standards, environmental, health and safety (EHS) general or design criteria." IFC notes that key environmental and social risks associated with this investment are: (i) land acquisition and involuntary resettlement (ii) labor and working conditions including child labor across litchi suppliers, (iii) irrigation and water use and efficiency, (iv) soil erosion and conservation, (iv) environmental, occupational health and safety, food safety and social (including labor) management systems and related procedures for the farm operations and processing unit, including environmental health and safety organizational structure and internal technical capacity for effective implementation, monitoring and reporting of the Company's environmental health and safety management system; and (v) adherence to Mozambique labor law, working conditions, standards and risk prevention and management, including employees (permanent and casual), contractors and nearby communities.

APPLICABLE SOCIAL AND ENVIRONMENTAL STANDARDS

The following analysis is based on the initial E&S risk assessment conducted by Westfalia in order to determine if the project site was appropriate. The scope of review included a preliminary assessment of soil fertility, availability of water resources, basic infrastructure, land rights, land title and land disputes, labor aspects, site history and basic impacts of proposed enterprises on adjacent stock/crops and environment.

IFC documentation states that Westfalia "will conduct a more detailed environmental and social impact assessment covering all potential impacts from its activities, which will include a project description and exploration plan, site location and impacts to local biodiversity, more comprehensive water use plan including water extraction, storage, and efficiency (through implementation of drip irrigation technology), supply chain, land tenure risk assessment and associated social compensation in case of physical/economic displacement."

The Project triggers the following IFC Performance Standards:

PS 1 - Assessment and Management of Environmental and Social Risks and Impacts
PS 2 - Labor and working conditions
PS 3 - Resource Efficiency and Pollution Prevention
PS 4 - Community Health, Safety and Security
PS 5 - Land Acquisition and Involuntary Resettlement
PS 6 - Biodiversity Conservation and Sustainable Management of Living Natural Resource

Source: IFC documentation

People Affected By This Project

ENVIRONMENTAL AND HUMAN RIGHTS RISK ASSESSMENT

Labor Rights

The farm will employ 40 permanent workers to manage the farm, while during the harvest period (2 months), and will require 400 additional temporary workers for seasonal and harvesting operations. The IFC recognizes that "child labor remains a problem in Mozambique. Although the law prohibits forced and bonded labor by children, it is a common problem, especially in rural areas. Children, including those under age 15, commonly work on family farms in seasonal harvests and on commercial plantations harvesting cotton, tobacco, or tea and are paid on a piecework basis rather than for an hourly minimum wage. Trade unions indicated that in the northern provinces of Zambezia, Nampula, and Cabo Delgado, adults hired to work in tobacco, cotton, cashew, and coconut plantations routinely had their children work also to increase their income. These children worked long hours and were prevented from attending school." While litchi and avocado production are not explicitly mentioned in formal child labor reports, the IFC notes, this is in part because of the small size of this business in Mozambique, and "it does not mean they are not exposed to the same risks as other commercial crops are facing, especially considering it is a labor intensive activity."

The IFC further notes that, according to the Human Rights Country Report from US State Department, of child labor provisions "is very limited, especially outside the capital where a majority of the abuses occurs, and there are no mechanisms in place for submitting complaints about hazardous and forced child labor." IFC pledges that Westfalia will conduct harvesting operations at its litchi suppliers, using its own staff, thereby minimizing the risk of use of child labor across supply chain. Going forward, Westfalia has also agreed to develop a specific operational procedure for its supply chain that requires suppliers to commit in not using child/forced labor and in not converting natural habitats into fruit production.

IFC documentation states that Hans Merensky Holdings has a formal internal grievance procedure, as a part of its general human resources policy and includes periodical communication with workers' committees, a grievance form and an external phone line to raise complaints regarding the code of ethics. The Westfalia project will be part of this system.

The following questions may be relevant in determining whether you or your community has suffered a violation of labor rights due to the construction or operation of Westfalia's agribusiness:

- Are children under the age of 15 working in this industry?
- Do you have reasons to believe that children could be recruited and employed in the context of the planned Westfalia project?
- Is forced labor a problem in this industry?
- Do you have options (legal or otherwise) if children under the age of 15 have been recruited and employed in the project?
- Do you have options (legal or otherwise) if children under the age of 18 have been recruited and employed to work in dangerous jobs or at night?

Sources: IFC documentation; 2011 Findings on the Worst Forms of Child Labor

Right to Property and Adequate Housing

IFC documentation states: "According to Mozambique legislation, land is owned by the State and cannot be sold, otherwise disposed of or encumbered. Nevertheless, the law provides land use rights known as 'the use and enjoyment of land right' known as a DUAT. Foreigners may be a DUAT holder provided they have an approved investment project. Acquisition of a DUAT is proven through a title deed. DUAT for economic activities are conditional to a business plan approved by local authorities. A buyer of a rural property can only secure the land by an application to the authorities, for their approval of the transfer. However, if a land use rights are acquired by a company, the effective right of the company and the land can be

Investment Description

- International Finance Corporation (IFC)

Although the total Project cost is estimated at US$10.5 million, IFC's proposed investment comprises a senior A Loan to the company of up to EUR 3.1 million (approximately US$ 4.1 million). A portion of the A Loan may be mobilized through the Global Agriculture and Food Security Program. That portion would finance the construction of the packhouse with capacity sufficient to handle fruit from the neighboring smallholder farmers.

Private Actors Description

Westfalia Fruto Mocambique Ltda will be majority-owned (75%) by Hans Merensky Holdings (“HMH”), a South African fruit producer, exporter, trader and distributor known under its Westfalia trademark, also involved in timber production and processing under the Merensky brand. HMH is South Africa’s largest avocado producer and exporter, and Europe’s largest avocado importer. HMH is an IFC investee company since December 2012.

AgDevco will be a minority shareholder (25%) in WM. AgDevCo is a social impact investor and agribusiness project developer with a strong presence in Central Mozambique, across 17 ongoing projects. AgDevCo will provide debt and equity funding and use its experience in small agribusiness development in Mozambique to support the Company in engaging with local farmers.

Private Actor 1	Private Actor 1 Role	Private Actor 1 Sector	Relation	Private Actor 2	Private Actor 2 Role	Private Actor 2 Sector
-	-	-	-	AgDevCo	Undisclosed	-
-	-	-	-	Hans Merensky Holdings (Pty) Ltd	Parent Company	-
-	-	-	-	Westfalia Fruto Mocambique Ltd.	Client	-

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CONSULTATION PROCESS

The IFC states that, at a corporate level, Hans Merensky Holdings has a community liaison officer that manages a team of social workers tasked with actively engaging and communicating with local communities mainly through monthly based meetings with community committees. As part of the new recruited Corporate Sustainability Manager role Hans Merensky Holdings has developed a stakeholder engagement policy/program to disseminate existing best practices across all business units and consistent with IFC requirements. IFC states that Westfalia will further develop a site specific stakeholder engagement policy/program to address specific issues encountered during the risk assessment phase of the proposed Mozambique operations.

ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org/

Bank Documents

- 34183 Westfalia ESAP Disclosure

Campaign Documents

- Afrique: La Fondation MasterCard soutient les petits paysans afin de réduire la pauvreté et améliore