



ADAPTATION FUND

CASE STUDY 2:

Project/programme with ESP principles issues: Natural Habitats and Biodiversity

This case study describes a project proposal that provides a risks identification for the Environmental and Social Policy (ESP) principles on Protection of Natural Habitats and on Conservation of Biological Diversity that lack substantiation and, is in contradiction with the description of the environment provided as part of the justification for the project.

THE CASE

INCREASING ADAPTIVE CAPACITY OF LOCAL COMMUNITIES AND ECOSYSTEMS IN THE WATERSHED THROUGH ECOSYSTEM AND COMMUNITY-BASED ADAPTATION.

The proposed project aimed at strengthening the adaptive capacity of vulnerable populations in the upper watershed of an alpine region and developing a model of adaptation to climate change for replication in the country

The project is in an upper watershed on the steep western slope of the mountains. The watershed consists of four sub-basins, formed by several tributaries, most of them originating in a high-altitude Ecological Reserve. The rivers have a large contribution from tributaries that accumulate and channel water from the forests covering the steep hills.

Local communities depend mostly on extensive farming characterized by low productivity, sub-optimal use of economic resources and ecosystems, and with negative impacts on ecosystems and communities, rendering them vulnerable to climate change. Rural communities, agriculture practices and ecosystems all strongly depend on water availability.

The hillsides in the lower part of the drainage system maintain large areas of natural and modified montane cloud forest, which are important for the water cycle and biodiversity. Most of the forest is included in two Protected Forests areas covering 220,800 ha and 20,050 ha. In addition, there are several private reserves that are trying to develop ecotourism services like trail hiking and bird watching. The forest area has a high biodiversity conservation value, including many endemic species, and is home to several vulnerable and endangered large mammals. The main

threats to these species are habitat loss caused by deforestation and hunting by farmers. A major part of the drainage system is an important bird and biodiversity area.

In the lower part of the water system, deforestation is caused by expansion of agriculture and livestock. Farmers invade the forests and riversides mainly to expand grazing areas for livestock and for subsistence agriculture. Another factor contributing to deforestation is the artisanal production of charcoal. In this region landslides frequently occur during the rainy season. The resulting road closures and traffic restrictions lead to important economic losses and access problems to local communities.

Climate change is affecting communities in the project area by reducing water availability for human consumption and farming, and by exacerbating existing problems such as landslides, erosion, river sedimentation and floods. Stronger and more frequent El Niño–Southern Oscillation (ENSO) events create periods of heavier rainfall and of severe drought. These changes, alone, will be enough to modify the structure of the native montane cloud forests, which capture cloud moisture and feed stream flows.

Implementation strategy

The project will follow a dual implementation strategy by on one hand supporting forest conservation, and on the other hand fostering the development of more sustainable and diversified agricultural activities making use of ecosystems in a responsible manner. The proposed project consists of three components, summarised as follows by outputs.

| Component | Outputs | Budget (USD) |
|---|---|--------------|
| Component 1: Conserve vegetation cover | At least 5,000 ha of native vegetation is conserved by sustainable forest management (including e.g. enrichment planting, selective grazing) and conservation mechanisms (e.g. erosion control structures). Existing protected forests and private conservation areas (ca. 2,000 km ²) will be under improved management. | 2,200,000 |
| Component 2: Adapt farming practices to new climate conditions. | Sustainable farming practices will be applied and climate change adaptation considerations will have been integrated in rural credit provisions on 1,000ha of pasture and 1,000ha of crops. | 1,900,000 |
| Component 3: Strengthen local capacities and share lessons | All villages in the target area will have increased capacities for forest conservation and sustainable management. Lessons of successful practices will be captured and made available. | 1,000,000 |

Risks

The project proposal included the outcome of the required environmental and social risks identification. Among the risk findings the implementing entity (IE) reported in section II.K of the proposal was the following:

| Checklist of environmental and social principles | No further assessment required for compliance | Potential impacts and risks – further assessment and management required for compliance |
|--|---|---|
| Principle 9: Protection of Natural Habitats | ✓ (No risk) | |
| Principle 10: Conservation of Biological Diversity | ✓ (No risk) | |

With regards to **Principle 9: Protection of Natural Habitats**, the IE presented the following justification for lack of risk findings:

- ▶ *The project will have a positive impact on principle 9 of the ESP. The project will strengthen the conservation of the Ecological Reserve and will improve other conservation areas such as protective forest.*
- ▶ *The project seeks to reduce the main sources of deforestation and degradation, rescuing natural spaces and habitats that previously existed and that are now necessary for the recovery of flora and fauna in the area.*
- ▶ *The project also seeks to protect forests that provide multiple benefits to communities and production sectors.*
- ▶ *Project activities will not involve unjustified conversion or degradation of critical natural habitats, including those that are (a) legally protected; (b) officially proposed for protection; (c) recognized by authoritative sources for their high conservation value, including as critical habitat.*

With regards to **Principle 10: Conservation of Biological Diversity**, the IE presented the following justification for lack of risk findings :

- ▶ *The country has signed and ratified the Convention on Biological Diversity and has a recently updated National Biodiversity Strategy.*
- ▶ *The project will not change land use areas with high value biodiversity or introduce invasive species.*
- ▶ *In addition, the project will not change a natural ecosystem to an agricultural unit with a reduced diversity of flora and fauna. On the contrary, the project will be implemented in a way that avoids any reduction or loss of biological diversity or the introduction of known invasive species.*

THE ISSUE

The issue with this case is that the risk findings for the principles on the protection of natural habitats and conservation of biological diversity were at odds with the fact that concrete interventions would take place in an area known to contain valuable natural habitats and biodiversity.

What was the approach taken by the IE?

As part of the project background and justification, the IE provided an extensive description of the value and importance of the natural habitats and the biodiversity of the project area. It described the impacts of climate change on the natural environment but also emphasized the important contribution of unsustainable and damaging agriculture practices to environmental degradation. The project's approach is to address the management of the affected forests and improve agriculture practices to reduce their impact.

As required, the IE identified the environmental and social risks of the project activities. The IE also screened all project activities against the 15 principles of the AF ESP, included an overview of the outcome of the risk identification, and a summary of information to substantiate the risk findings. The conclusion for the principles on natural habitats and biodiversity was that no risks were identified. These findings were substantiated by the anticipated positive outcomes of the project.

What are the shortcomings of their approach?

It is clear from the proposal that the project will be implemented in an area of high value in terms of natural habitats and biodiversity. The sensitivity of the environment both in terms of habitats and biodiversity is high. At the same time, the activities have a degree of inherent risk.

The issue presented here is that the risk findings for the principles on the protection of natural habitats and conservation of biological diversity **are inadequate** in two ways:

- i. Only positive anticipated outcomes of the project are considered in the risk findings, rather than the risks of negative impacts, and
- ii. The risk findings lack credibility compared to the other information presented in the proposal on the value and sensitivity of the environment and the inherent risks of the activities.

Specifically, the habitat restoration and conservation activities do carry risks to the very habitats they intend to protect. These include risks of not achieving the project objectives, of technical failure, of inadvertently creating negative drivers of change, and of changing conditions. **Similarly, risks to biodiversity are inherent to the project activities.** Risks for both principles are furthermore also dependent on the synergy and alignment between the project activities and the management plans that must be in effect for the protected areas but that are otherwise not mentioned in the proposal.

Risks identification is about the risk of “unnecessary environmental and social harms” of projects and programmes supported by the Fund. The focus of the risks identification therefore should be on the risk of negative impacts, and not about the outcome of the balance of negative impacts and positive outcomes. The focus of the section of the proposal on environmental and social risks **should be on the risks of unwanted negative impacts; weighing the risk of such negative impacts against the expected positive outcomes is not part of a funding application.**

In addition, the risks finding for biodiversity is mostly based on government policy and stated intentions, rather than actual risks.

THE SOLUTION

The solution lies with applying the ESP to the project proposal as it is intended to be done: **identifying the risks of unwanted negative environmental and social impacts in a credible and substantiated manner.**¹ The information on the environmental and social setting in which the project will be implemented seems to be mostly available. The inherent risks of the planned activities are also likely to be well understood. Bringing those two elements together would generate most of the risks assessment that is required for compliance with the AF ESP.

The risks identification needs to be done in a ‘gross’ manner rather than as a balanced, ‘net’ appreciation of negative and positive expected outcomes. The gross risk is the amount of damage caused by a risk when all preventive measures fail. Projects should aim to avoid this inherent risk as much as possible. The net risk is the amount of damage caused when preventive measures are used successfully.

This means that the **risks identification should be based on the bare risks of project activities carried out with proper care and consideration, without specific mitigation, management, or other measures.** Anticipated positive project outcomes should not be considered in the identification of the risks.

This section needs to explain in detail what the risks are, and assumptions in the risk assessment need to be stated and justified. To the greatest extent possible, interpretation needs to be separate from the presentation of facts and data. Knowledge gaps should be identified, and where these prevent adequate risk assessment, an explanation should be included on how this was addressed.