Environment and Social Review Summary – EERF, Uganda

The objective of the ESRS is to support the mainstreaming of social, environmental and climate dimensions into IFAD's Private Sector Non Sovereign Operation (NSO) Economic Enterprise Restart Fund (EERF). It is intended to guide PFIs, MSMEs, SACCOs and VSLAs to mitigate and reduce the potential negative effects and amplify the positive effects induced by the project through all it stages of implementation.

I. Categorization of the investment and rationale

The proposed IFAD investment consists of up to US$ 5 million loan to Stanbic Bank Uganda (SBU), the promotor and manager of the Economic Enterprise Restart Facility (EERF) a private sector led initiative with a target size of US$ 40 million aimed at complementing government efforts to address COVID 19 pandemic effects in Uganda. Specifically, EERF aims to channel financing through Partner Financial Institutions (PFIs), Village Savings and Loans Associations (VSLA) and SACCOs to rural MSMEs, smallholders and "on farm projects". The expected outcomes are increased income, and improved food security in rural and urban areas of Uganda. The beneficiaries are expected to be at least 50% women, at least 30% youth, and at least 25% in rural areas of eastern or northern Uganda which are among the poorest regions of the country. Maximum amounts of loans of Tier 4 MFIs to their members depends on the respective MFIs policies and procedures, but will in most cases rather be below $ 700, and on average $ 300. It is expected that >75 percent of EERF funds to be channeled via the Tier 4 MFIs. Hence, the portfolio supported under the EERF is expected to include business activities that have minimal or no major adverse environmental or social impacts. EERF will not cover lending towards the palm oil sector. SBU also maintains an exclusion list that is aligned with global and regional restrictions and borrowers are not expected to be involved in activities excluded by IFADs exclusion list. Overall, the project is not expected to support higher risk transactions that may be exposed to: (i) significant risks and impacts on environment, community health and safety, biodiversity, (ii) involuntary resettlement, (iii) significant Occupational Health and Safety risks.

Based on IFAD's ESG due diligence findings, the project is categorized as a Financial Intermediary – **Category B** according to IFAD's Social, Environmental and Climate Assessment Procedures (SECAP).

II. Approach to managing main ESG Risks

Key to managing environmental, social and climate as well as governance risks in NSO operations is to ensure recipients maintain an Environmental and Social Management System (ESMS) which also incorporates climate related risks and impacts. While the Standard Bank of South Africa Limited (SBSA) has an ESMS in place, this to date focusses more on its Southern Africa portfolio and primarily on the mining sector. While also being under the remit of SBSA's ESMS, Stanbic Bank Uganda Limited a Sustainability Unit has recently been established (SBU-SU), which will be directly responsible for ESG risk management of the EERF portfolio. The Unit is in the process of developing its own ESMS for SBU. The ESMS will include guidance on managing labour and working conditions, grievance redress, stakeholder engagement and communication strategies, record keeping, and security. SBU has an E&S risk policy which is currently under review, as well as a Governance policy, which will both be further developed to also capture the needs of EERF operations and investments. The SBU-SU has developed a screening procedure and an Exclusion List, which will also be refined to apply to the types of investments made under EERF.

Based on the degree of risks involved, the PFIs/portfolio projects will be responsible for preparing necessary safeguard documents, which may include some or all of the following: Environmental and Social Impact Assessments (ESIAs), climate risk assessments andcarbon balance analysis, Resettlement Action Plans (RAPs), Free, Prior, and Informed Consent (FPIC) process or reports. SBU-SU, PFIs and MSMEs, SACCOs and VSLAs will put in place procedures to prepare for, respond to, emergency situations such as drought, floods, accidents, pestilence (eg. due to locust/fall army worm plagues), and epidemics and pandemics (including the COVID-19 pandemic).

The SBU-SU will monitor and review the performance of all the portfolio investments under EERF. The PFIs will be responsible for monitoring the performance of their portfolio investments and will report back to the SBU-SU. On the ground routine monitoring will be done by the MSMEs, SACCOs and VSLAs who will report to the PFIs. All these entities will need capacity building in order to do monitor ESC and governance issues effectively.

III. Description of Actions to pre-empt and address Environmental, Social and Climate Risks

SBU-SU will refine its ESG policies so that they are relevant to EERF investments and operations. In case not yet existent, PFIs will also develop ESG policies specific to their portfolio projects. A legal register will be prepared which will guide the assessment of legal compliance within portfolio investments/projects.

The SBU-SU's screening procedure and Exclusion List will be refined to apply to the types of investments made under EERF. As part of the revised screening procedure, the Exclusion List will also address those investments that cannot be funded by Stanbic and IFAD. The screening checklist will align with the Equator Principles, IFC Performance Standards and IFAD SECAP standards. Risks will be assessed against key ESC criteria namely: labour and working conditions, resource efficiency and pollution prevention, community health safety and security, land acquisition, physical and economic displacement; biodiversity, indigenous people, cultural heritage, climate change, water, and legal compliance. Thus, investments that may pose high and substantial risks will be screened out at the due diligence stage, ensuring that all EERF investments remain in Category B and C.

Safeguard documents to be developed by SBU-SU or PFIs - proportional to the degree of risks involved - will include ESIAs/ESMPs, RAPs, climate risk assessment andcarbon footprint analysis, and FPIC. Risks and impacts will be identified and appropriate mitigation measures proposed, which will be captured in an ESC management plan (ESCMP) for each type of investment. All safeguard documents (including the ESMS) will be disclosed in accordance with national laws, IFC Performance Standards and IFAD's SECAP requirements.

SBU-SU and/or the PFIs will develop procedures and/or plans, elements of which will be proportionately and relevantly adopted by the portfolio projects, in order to address, inter alia:

- **Labour and Working Conditions:** Sound worker-management relationships complying with ILO Core Conventions and national laws, in particular prohibition of the use of child labour and forced labour on the portfolio investment sites, grievance redress mechanisms for the workforce.
- **Occupational health and safety, including protocols for the COVID-19**: covering hygiene at production sites, ventilation of production sites, personal

protective equipment at production and processing sites, storage/handling/use of agrochemicals and potentially hazardous materials, and emergency response.
- **Resource efficiency and pollution prevention and management**, because the consumption of finite resources, the generation of waste and the indiscriminate use of agrochemicals may threaten people's well-being, livelihoods and ecosystem services at the local, regional, and global levels.
- **Community health, safety and security:** to ensure that risks and impacts to community health, safety, and security from portfolio project related-activities are avoided or minimized, with particular attention to vulnerable groups.
- **Resource conflicts**: typically these could include farmers-pastoralists and human-wildlife conflicts
- **Land acquisition, physical and economic displacement** where not more than 20 people are affected by the portfolio project.
- **Gender inequality, land tenure and land access issues**, particularly for women and youth: given that in Uganda, land ownership is primarily patriarchal, making it difficult for youth and poor women in particular, to have access to land.
- **Biodiversity conservation and sustainable management of natural resources**: to ensure that the portfolio investments do not diminish ecological functions of habitats, including forests, and the biodiversity they support. Also soils resources and water cycle should be maintained or enhanced
- **Carbon balance analysis** to establish the GHG emissions of the portfolio of projects and minimize their impact/contribution to climate change.
- **Indigenous peoples:** to ensure their lands and resources are not transformed, encroached upon or significantly degraded, and to create opportunities to benefit from project-related activities.
- **Physical cultural resources**: to ensure that tangible and intangible cultural resources (from the past, present and future) are protected.
- **Stakeholder engagement, grievance redress and information disclosure** with the aim of improving the environmental and social sustainability of projects, enhance project acceptance, and make a significant contribution to successful project design and implementation.

The capacity of the SBU-SU as well as PFIS, MSMEs, SACCOs and VSLAs (to the extent possible) will be further improved to ensure that adherence to ESG requirements and the implementation of the ESMS are effectively achieved.