

Environmental and Social Review Summary - SOAFIARY

The objective of this Environmental and Social Review is to summarize the social, environmental and climate change dimensions of this IFAD's Private Sector Non-Sovereign Operation (NSO). It is intended to guide SOAFIARY and its partners, which are farmers, NGO partners, suppliers and clients, in mitigating and reducing potential negative impacts and amplifying positive impacts induced by the project through all its implementation stages.

I. Categorization of the investment and rationale

IFAD's proposed investment consists of a \$3.5 million loan to SOAFIARY to increase inclusive and sustainable production, market access and benefits for smallholder farmers in Madagascar. With IFAD's funding, SOAFIARY will support an additional 4,000 smallholder farmers to reach a total of 5,000 farmers organized in 230 associations and engage in contract farming. This is an all-inclusive service delivery approach: provision of high quality inputs, technical assistance/training and marketing support. Within 4 years of the project implementation, SOAFIARY will collect 15,000 tons of dry grains from member farmers in the following regions: 27% in Menabe, 18% in Itasy, 16% in Haute Matsiatra, 15% in Vakinankaratra and 14% in Ihorombe, 10% in Bongolava. The investment is therefore expected to improve the livelihoods of 5,000 smallholder farmers and their families through increased productivity and income in an environmentally friendly manner.

Beneficiaries should be composed of youth representing at least 30%, women active in farming representing at least 35%, market-oriented farmers with up to 2.5 ha of available land and harvesting maize, rice, cassava, soy, legumes, and farmers grouped in farmers' organizations.

The SECAP review and subsequent due diligence classified the SOAFIARY project as a **B category** for a direct investment. The specific climate change risks and impacts that may be generated by the implementation of the loan are **classified as moderate** given the climatic heterogeneity of the target areas and the diversity of the activities.

II. Approach to managing key ESG risks

The key to managing environmental, social and climate change risks and governance in NSO operations is to ensure that private sector recipients maintain an environmental and social management system (ESMS) that also integrates climate-related risks and impacts. Over the past year, SOAFIARY has developed an action plan related to environmental, social and governance management (ESG), covering dust treatment, water potability, reforestation, environmental study for the development of the farm, improvement of energy efficiency, obtaining BIO certification, occupational safety and health insurance for employees, better management of human resources, improvement of social aspects of employees (health and education), and the establishment of a dialogue system within the company.

To date, the majority of the actions are already being carried out. The due diligence also showed that the company is continuously making an effort to adapt to the emergency situation by allocating the necessary resources on site for measures against the spread of COVID. In addition, other environmental and social actions are planned in the short term. These include the protection of watersheds against erosion, the improvement of socio-economic conditions and the resilience of member farmers.

III. Description of actions to prevent and address environmental, social and climate risks

SOAFIARY will refine its ESG policies to comply with the guidelines of SECAP Standard 8. This policy will (i) define the objectives and principles that guide the company to achieve good E&S performance, (ii) set out the E&S requirements and standards that apply to the company's investment activities and that will be used to manage the E&S risk associated with the investor portfolio, (iii) be a short written statement that must be approved by senior management. In addition, SOAFIARY must commit to

integrating E&S risk considerations into all of its activities, set strategic E&S objectives, establish an exclusion list of clients/investors whose business activities do not comply with IFAD principles, establish E&S requirements for clients and safety requirements for clients, suppliers, and farmers receiving investments; maintain external communication with stakeholders; improve risk management; continuously strengthen staff capacity to identify E&S risks; address sexual harassment and abuse through the adoption of a staff code of conduct; and address child labor.

In the six regions of intervention of SOAFIARY, the physical environment characterized by the fertility of the soil and the abundance of rainfall is very favorable to agricultural development. Indeed, the agro-ecological characteristics of these areas are conducive to the cultivation of rice, maize and legumes; as well as cattle, pig and poultry farming.

The main environmental and social challenges are water erosion of the soil caused by deforestation, which leads to a decrease in the cultivable area and the reduction of soil fertility. In the western part of the country, the lack of rainfall and the rise in temperature are putting natural resources in a fragile state.

The effect of climate change is a potential issue on agricultural development since dry periods tend to be longer in the highlands, while in the western part of the island, rainfall has become more intense, leading to increased flood risks. Moreover, the variation in weather conditions shows that rainfall is not regular from one year to another, and that regions can be subject to years of severe drought.

In the face of these challenges, the SOAFIARY project will bring improvements to natural resources and climate. Indeed, the implementation of smart farming techniques, water management and integrated pest management will improve soil quality and thus agricultural production. When farmers' income increases, human pressure on natural resources should decrease. In addition, the increase in the area of cultivated land increases the carbon sequestration capacity, and thus a potentially beneficial effect on the climate change.

Nevertheless, the environmental and social review identified adverse effects of the project on its setting. Therefore, in order to ensure a better balance between the economic, environmental, social and climate components of the project, SOAFIARY must implement an Environmental and Social Action Plan (ESAP) to ensure that positive impacts are enhanced and that mitigation measures for anticipated negative impacts are consistent with the avoidance or minimization of predicted impacts. The ESAP will include at least the following measures:

- Applying climate smart farming that respects environmental standards to ensure soil restoration and increased agricultural production,
- In collaboration with partner NGOs, build the capacity of member farmers: (i) to identify E&S risks, (ii) to implement improved techniques during the crop cycle, (iii) to control the use of agrochemicals, (iv) to control spatial management of the farm and the crop rotation technique,
- Develop collaboration with the meteorological service for information on weather forecasting to define the crop calendar.
- Ensuring the health, safety and security of those working on the site: health insurance for employees and measures against COVID, compulsory wearing of personal protective equipment (PPE) adapted to the activities,
- Establish a code of conduct within the company, raise awareness against sexual harassment and abuse, and provide for severe sanctions in case of violations.
- Respect the QHSE measures already in place and continue the weekly safety toolbox sessions and daily pre-starts, and apply the rules of good practice,
- Respect the minimum working age in accordance with the fundamental conventions of the ILO and the Malagasy labour code, and sensitize member farmers to prohibit child labour.

It should be noted that the existing human resources assigned to the implementation of the ESAP are considered sufficient, since they are composed of a QHSE manager and eight assistants.

In order to comply with the requirements of SECAP standard 8, SOAFIARY will complete its environmental and social management system through the compliance of the following mechanisms.

- **Stakeholder engagement process**: integration in the contract/agreement of the partners (Diocese, member farmers, technical, financial, institutional partners, service providers, suppliers, customers, etc.) of the commitment to its environmental policy.
- **External communication mechanism**: communication channels at national and international level are already operational, the company will complete them by a local diffusion in Malagasy language of its environmental policy and the existence of the complaints mechanism.
- **Grievance Mechanism**: The procedure manual should be supplemented by the handling of complaints/grievances from other stakeholders such as employees, local residents, member operators, NGO partners, suppliers and local authorities. The procedures should include the contact details of the person in charge of the grievance mechanism and clearly define the avenue of recourse for complainants and will include the possibility to send the complaint to SECAPcomplaints@ifad.org.

Monitoring and dissemination procedure: SOAFIARY will present an annual monitoring report on the progress made in complying with the E&S conditions of the investment agreement.