

Environment and Social Review Summary

Mozambique – Futuro Mcb Inclusive Microfinance Project

The Environment and Social Review Summary (ESRS) is a tool for supporting the integration of environmental, social and climate change considerations in the governance and operational mechanisms of Mozambique – Futuro Mcb Inclusive Microfinance Project, aiming to ensure capacity for mitigating and reducing the potential negative effects and enhance the positive impacts derived from the project through all its stages of implementation.

I. Categorisation of the investment and rationale

The proposed investment aims to support and stabilise access to finance for rural Micro, Small and Medium Enterprises (MSMEs) and to contribute to income growth and food security in the poorest rural areas of Mozambique. With support from IFAD, Futuro Mcb will mobilise and amplify its private sector resources and establish know-how to support the financial inclusion and improved access to finance of targeted groups in Nampula province. The expansion of its microfinance portfolio is expected to alleviate poverty and foster the growth of smallholder farmers and micro-enterprises in Nampula's rural areas, notably helping them build better and in a more resilient manner given the COVID 19 results.

The loan will allow Futuro Mcb to double its predominantly rural micro and MSME loan portfolio and increase its outreach to other northern Mozambique districts. This will contribute to overcoming the development obstacles of smallholder producers and MSMEs, which have been heavily exacerbated by COVID 19, by providing access to much needed financial services (credit, deposit and insurance). The loan is expected to improve the livelihoods of 21,000 individuals (both individual borrowers and borrower group members) by the end of 2025. The loan to Futuro Mcb complements IFAD's existing portfolio in Mozambique, notably the Rural Markets Promotion Programme (PROMER), Inclusive Agri-food Value-chains Development Project (PROCAVA), Small Scale Aquaculture Promotion Project (PRODAPE) and Rural Enterprise Financing Project (REFP) through the provision of further financing for the targeted beneficiaries in Nampula province.

Based on IFAD's Environment, Social and Governance (ESG) due diligence findings, the project is categorised as a Financial Intermediary – Moderate according to IFAD's Social, Environmental and Climate Assessment Procedures (SECAP).¹ This categorisation recognises that Futuro Mcb is a Financial Intermediary (FI), and the clientele profiles entail end line investments that are nano, micro and small-scale in the agriculture, fisheries and commercial sectors. The end line investments in agriculture include production (e.g. vegetables and poultry) activities such as inputs purchases, while commercial activities include catering, restaurants, transport, spare parts supply, wholesale and grocery shops. Due to the nano, micro and small-scale nature of the investments, any potential adverse environmental and social impacts resulting from the project activities will be site-specific, reversible and can be avoided or managed adequately with appropriate measures. The climate changes specific risks and effects on the end line investments, and thus the reaching of the project objectives are deemed moderate given the diversity of activities. Cumulative impacts shall be addressed when specific projects and locations are selected for implementation.

¹ IFAD's Social, Environmental and Climate Assessment Procedures (SECAP), <https://www.ifad.org/en/secap>

II. Approach to managing main ESG Risks

On the social aspects, these are embedded in the evaluation process that is done for credit applications. Indeed, the credit evaluation process includes an analysis of the social conditions of the recipient and the ability of the borrower to pay. Conversely, Futuro does not have specific environmental policies in place. The climate risk analysis is not included in the assessments being done. As with the environmental aspects, Futuro considers them new but essential areas and discusses how the current gaps can be filled. Consequently, Futuro will develop a comprehensive environmental and social management system (ESMS), including climate change risk management and strategies to manage social risks. The FI also does not have an exclusion list, which would also be integral to the ESMS.

The ESMS will include guidance on managing labour and working conditions, grievance redress, stakeholder engagement and communication strategies, record keeping and security. An Environment and Social (E&S) risk policy will be established, providing an overall framework to guide operations and investments. The ESMS will include a screening procedure and an Exclusion List, covering all the types of investments.

When required, Futuro will ensure all essential safeguard documents, which may include some or all of the following: Environmental and Social Impact Analyses (ESIAs), Climate Risk Analyses (CRA), Resettlement Action Plans (RAPs), Free, Prior, and Informed Consent (FPIC) process or reports as well as any other procedures related with eventual epidemics and pandemics (including the COVID-19 pandemic). But given the nano, micro and small-scale investments financed it remains unlikely that ESIAs, RAPs, CRAs or FPIC processes will actually have to be deployed during the implementation of the project.

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

Critical for addressing Environmental, Social, and Climate risks associated with the interventions will be developing the Environmental and Social Action Plan (ESAP), including Climate Change, for Mozambique – Futuro Mcb Inclusive Microfinance Project. This will combine three main lines of work: 1) support the development and establishment of Futuro's ESMS; b) ensure capacity to operationalise the ESMS, and; c) effective implementation of the project ESAP.

Traditionally, microfinance institutions and their clients and projects are not associated with environmental and social risks as larger-scale projects and institutions. No significant environmental concerns emerge from microfinance activities, and generally, their social impacts are identified as positive. However, the cumulative effects derived from the immense diversity and geographical dispersion of micro-investments are not exempt from environmental and social risks such as diffuse water and soil contamination, weak waste management, landscape degradation or use of child labour. Despite each individual micro-business may be considered insignificant, the cumulative effect may induce significant social and environmental impacts. Microfinance institutions, such as Futuro, recognise the relevance of ecological, social, and climate change risks, and are showing a growing interest and commitment in identifying and anticipating social, environmental, and climate change risks associated with the activities they promote.

Currently, Futuro has no ESMS in place and no public commitment or known policy and practices associated with environmental and social and climate change risk management. The establishment of an ESMS is proposed as a result of the ESG due diligence and IFAD's requirements, starting with the adoption of an E&S Policy that, once adopted and

communicated, will guide the organisation in implementing Environmental and Social Management procedures as part of its daily management.

The development of Environmental and Social Management procedures and related implementing tools require capacity complemented with external technical assistance. Awareness and technical support are needed both internally and by clients and other relevant stakeholders, enhancing their environmental and social performance, reducing risks, and contributing to sustainable development at the local level.

Once the E&S policy and required institutional and technical capacities are in place, action plans can be prepared for managing specific operations, programmes, projects and actions, supported by tools adjusted to the different project stages, from screening and appraisal to the implementation, monitoring and evaluation. These will then be applied as part of Futuro's overall assessment and risk management framework for each operation.

The ESMS will use several tools integrated into the ESAP, in line with adopting an E&S Policy. E&S screening and due diligence procedures, including exclusion lists and mitigation measures, monitoring, grievance and redress mechanisms, will support environmental, social and climate change risk management. Technical capacitation, awareness and training will ensure management and implementation capacity for environmental, social and climate change related risks.

Screening and exclusion procedures will be in line with IFAD's SECAP standards and adapted to the specific types of investments. The applicable standards will cover labour and working conditions, resource efficiency and pollution prevention, community health safety and security, land acquisition, physical and economic displacement, biodiversity, vulnerable and marginalised groups, cultural heritage, climate change, water and legal compliance.

Futuro will develop safeguard documents adequate to the degree of risks and ensure disclosure of all procedures in compliance with national laws and IFAD's SECAP requirements.

Adapted to the specific investment, site and socioeconomic conditions, the environmental, social and climate change management plans and procedures will address, both at company and sub-borrower level, 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 production sites of the sub-borrowers, grievance redress mechanisms for the workforce (if applicable given the size of the sub-borrower enterprise).
- **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 the portfolio of project related-activities are avoided or minimised, with particular attention to vulnerable groups.

- **Gender inequality, land tenure and land access issues**, particularly for women and youth: given that land access and ownership in Mozambique poses relevant challenges for youth and poor women in particular.
- **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 the water cycle should be maintained or enhanced.
- **Vulnerable and marginalised groups**: to ensure their opportunities to benefit from project-related opportunities and that their lands and resources are not transformed, encroached upon or significantly degraded.
- **Stakeholder engagement, grievance redress and information disclosure (only on the level of the company)** to improve the environmental and social sustainability of projects, enhance project acceptance, and make a significant contribution to successful project design and implementation.