

Environment and Social Review Summary CRECER - Bolivia

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 this IFAD's Private Sector Non-Sovereign Operation (NSO) with CRECER IFD. It is intended to ensure effective 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 main benefits of an NSO stem from its ability to leverage additional private sector financing and capture local know-how to achieve complementary results to what IFAD is doing through its sovereign projects in Bolivia. In the case of the CRECER NSO IFAD's subordinated loan will leverage a significant amount of private finance towards IFAD's targeted beneficiaries. The instrument is a subordinated loan (as opposed to an ordinary senior loan) was chosen specifically for its imbued capacity to leverage CRECER's balance sheet, bring in additional private capital to the project, and solidify the MFI's position in the market, thus increasing the overall level of outreach and impact of the NSO.

The proposed investment aims to improve the livelihoods and resilience of the rural poor (particularly women and youth) and small agricultural producers. The specific objective is to help them implement income and employment generating activities, to become agents for change in their communities, move out of poverty and strengthen their resilience.

To achieve this goal, IFAD will offer CRECER a subordinated loan in the amount of US\$ 5 million. The investment will allow the MFI to grow its loan portfolio in rural areas, and to particularly increase its outreach to IFAD's primary target groups, namely small agricultural producers (in portfolio participation and absolute numbers) and poor rural women and youth (in absolute numbers). Non-agricultural, rural on-lending use of proceeds is well varied, and goes to self-employed, micro entrepreneurs belonging to vulnerable groups. The financing will also contribute directly to CRECER's growth and consolidation post-COVID, and help to maintain its strong commitment to offering affordable financial solutions to underserved groups in the Bolivian microfinance sector.

This NSO will help catalyse up to US\$ 41 million in additional direct lending from CRECER to 65,000 rural clients, of which 50,000 are expected to be women and 25,000 youth. The overall total affected people by the project is estimated to be around 214,500, including direct and indirect beneficiaries.

Based on IFAD's Environment, Social and Governance (ESG) due diligence findings, the project is categorised as "moderate" according to IFAD's Social, Environmental and Climate Assessment Procedures¹. CRECER has foreseen climate risks in its portfolio of

¹ The project has been classified as moderate for the following reasons: (a) the assessment is at country level because the project coverage is equivalent; (b) presence of threats related to river floods, landslides, droughts and forest fires, climate change scenarios indicate changes in temperatures, climate variability with extreme events in intensity and frequency; (c) regarding the assessment by physical exposure, the five large regions of the country (Altiplano, Valleys, Chaco, Amazon and tropical Plains) are vulnerable to potential threats in agriculture, biodiversity, value chains and rural infrastructure; (d) in terms of sensitivity assessment, risks are identified due to social inequality based on gender, youth, indigenous peoples and marginalized groups; (e) finally, in terms of adaptive capacity and climate resilience, emergency plans are required to mitigate the impacts of disasters and support from the Bolivian government to recover and rehabilitate the livelihoods of affected families.

financial services for the rural areas, having considered in its credit risk analysis the hydro-meteorological risk maps prepared by the Bolivian Ministry of Development Planning and, on the other hand, has foreseen a preventive fund² to cover possible losses arising from the negative impacts of extreme weather events.

II. Approach to managing main ESG risks

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 integrates climate-related or other social and governance risks and impacts. CRECER IFD, in accordance with the added value of its experience in social responsibility and its development services program with emphasis on gender, is expected to continue with the implementation of its Environmental Policy, Client Care Management Policy, Climate Risk Policy, and Carbon Footprint Policy with IFAD's funding. Finally, CRECER IFD will be able to develop studies, if necessary, to better understand climate risks in specific areas in order to evaluate the placement of high-risk rural credits and the consequent recommendations for mitigation and adaptation to climate change.

On the social aspects, CRECER IFD's financial services, articulated with development services (as part of the Universal Social Performance Standards applied to IFDs) with a gender focus through education programs (financial education and digital training oriented to digital business) and health (cervical cancer prevention program through preventive screening campaigns) will be valuable for this NSO first experience in Bolivia. With the new project to be financed by IFAD, it is projected to reach 77% of women of the established target group, and CRECER IFD's experience in effective inclusion of women and its development services program will contribute to the social inclusion policy and to contribute to rural women not be gender violence victims..

On the environmental and climate aspects, CRECER IFD has an institutional environmental policy, institutional practice of measuring the Carbon Footprint, an exclusion list (environmental safeguards to limited impacts on biodiversity and soil and water contamination by agrochemicals) for rural clients and a climate risk management policy in the event of climate disasters to mitigate possible client arrears by rescheduling debts. Therefore, CRECER IFD must continue with the application of these policies and measures. These measures are considered in the Environmental and Social Action Plan (ESAP).

III. Description of actions to pre-empt and address Environmental, Social and Climate risks

Currently, 40% of CRECER IFD's portfolio is located in rural areas and the objective of the CRECER IFD project is to boost income in rural areas of the country, mainly among women and young people, contributing to the country's economic reactivation through microfinancing. The new NSO operation will be used entirely to expand CRECER's microloan portfolio, meeting the goals established in the Project's Results Framework. CRECER IFD will apply its ESG policies to comply with the guidelines of SECAP. The current policies will define the objectives and principles that guide the company to achieve good E&S performance.

In the country: a) the incidence of extreme poverty in rural areas (28.8%) is four times higher than extreme urban poverty (7.2%), b) rural women represent 40.4% of the total

² In the event that the clients cannot pay back a credit, as a result of extreme climate event, CRECER has created a fund to prevent losses on their operations.

population of women in the country and many agricultural production tasks fall on their shoulders, especially in the current context of climate change, c) young people represent 27.2% of the population and required opportunities to access services, and d) indigenous people are 41% of the population (Quechua and Aymara are two of the most numerous indigenous peoples in the country).

The main environmental problems identified are: a) enforcement of existing regulations regarding introduction of seeds for industrial crops, and the regulation of the use of pesticides and agrochemicals that have been contaminating soil and water resources; b) the expansion of the agricultural frontier as one of the main threats to the forestry sector due to extensive land use, low yields per hectare, leaving degraded soil; c) soil pressure from livestock activities that require land to be cleared for fodder crops; and d) the high climate change vulnerability of the agricultural sector to extreme events that generates livelihood and economic losses.

The main impacts of climatic phenomena in Bolivia are directly related to "El Niño" and "La Niña". Recently, in seven continuous years, one El Niño and four La Niña events have been reported, which have caused large-scale losses to the agricultural sector. The different climate scenario models predict higher temperatures and heavier precipitation events during the rainy season, which expose the different regions of the country to longer dry seasons and an increase in the frequency and magnitude of floods, flash floods, hailstorms, river overflows, landslides and frosts.

Therefore, to ensure compliance with environmental, social and climatic safeguards, CRECER must implement the Environmental and Social Action Plan (ESAP) to take mitigation measures for the negative impacts described:

- Continue with financial services, articulated to development services with a gender focus through education programs (financial education and digital training oriented to digital business) and health campaigns.
- Expand the portfolio of financial services for rural youth.
- Continue with policy of preferential treatment for the elderly and service delivery to rural customers in their native language, in line with IFAD's policies on indigenous peoples.
- Implement and monitor IFAD's environmental policies (e.g. exclusion list for invasive species, prohibited pesticides and fertilizers) in the placement of rural credits.
- Continuously evaluate climate risks and trends inherent to the agricultural sector.
- Continue to apply the climate risk management policy (*via* preventive fund) in the event of climate disasters to mitigate possible client arrears by rescheduling debts.
- Continue with the institutional practice of measuring its carbon footprint.

Finally, CRECER has the human resources, technological and administrative infrastructure and social, environmental and climate policies in line with IFAD's safeguards, for which the ESAP will address:

- **Indigenous people:** reduce/minimize the risk of socio-cultural impact.
- **Gender and youth:** continue with social policies to expand the coverage of financial services for women and youth.
- **Non-financial services:** continue with non-financial services such as training and health.
- **Biodiversity conservation and sustainable management of natural resources:** to ensure that the portfolio of microcredits do not diminish ecological functions of habitats (water, soils, forests, and the biodiversity).
- **Occupational health and safety, including protocols for COVID-19 to clients:** 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.