

Environmental and Social Review Summary AMK Microfinance Institution Plc. (AMK)

The objective of this Environmental and Social Review Summary (ESRS) is to describe the social, environmental and climate considerations integrated into the Private Sector Non-Sovereign Operation (NSO) operation to AMK to manage potential social, environment and climate risks and impacts. It intends to guide AMK and its partners – farmers, non-government organizations (NGOs), suppliers and clients – in avoiding, reducing and mitigating potential adverse social, environment and climate risks and impacts, and generating positive benefits likely to occur throughout the implementation phase of the investment.

I. Categorization of the investment and rationale:

IFAD's proposed investment consists of a US\$ 5 million loan to AMK. The investment will allow the Microfinance Deposit-Taking Institution (MDI) to expand its loan portfolio in rural areas, and to particularly increase its outreach to IFAD's primary target groups, particularly poor rural women and youth. Besides IFAD's own US\$ 5 million loan, additional financing of a total of up to US\$ 30 million will be applied in direct lending from AMK to which will support it to expand its outreach by over 45,000 rural clients, of which 27,000 are women (60 per cent), 9,000 are youth (20 per cent), and 8.5 per cent of total poor in Cambodia. The financing will also contribute directly to AMK's growth and consolidation post-COVID, and help to maintain its strong market positioning in the Cambodian microfinance sector to serve the rural poor people, notably women and youth. The overall total people targeted to benefit from the project is approximately 225,000, including direct and indirect beneficiaries.

AMK will set up a US\$ 5 million Line of Credit (LoC) to agribusiness Micro-, Small- and Medium-sized Enterprises (MSMEs) and Agricultural Cooperatives (ACs) in selected pro-poor value chains in the entire Cambodia to be readily available after the disbursement of IFAD's disbursement (estimated to the 2nd half of 2022). AMK will finance ACs, agribusiness entrepreneurs, traders, input suppliers and service providers (e.g., logistics) with advantageous terms and conditions compared to the terms existing in the market.

The project's environment and social risk classification is moderate based on IFAD's environmental and social categorization. Potential environmental and social risks and impacts of AMK's transaction are expected to be generally site specific, reversible and can be avoided or mitigated by adhering to standards, procedures, and guidelines consistent with the requirements of IFAD's Standard 8.

The project's climate risk classification is substantial based on past and current climate observations and trends, future projections, and exposure of the project area (covering 100% of the Districts) to climate hazards. While limited impact from climate change may occur, financial, environmental, and social underperformance or failure is unlikely.

II. Approach to managing key social, environment and climate risks and impacts (ESG):

The key to managing environmental, social and climate 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. AMK has several policies approved by their Board, which include complaints management policy, compliance risk management policy, Occupational Health and Safety, and Social Risk Policy. AMK has a risk management framework and policy, which was approved by their Board in 2020. The policy establishes a credit committee and is operationalized using a credit risk assessment tool, with a focus on credit risk but does not include tools to screen for environment, social and climate risks and impacts. As part of the credit cycle, AMK does not categorize environment, social and climate risks and impacts for any of its loans. Based on the current structure, environment and social risks and impacts are identified, managed, and monitored by

the research and training departments but the process is not embedded within the loan approval structure of AMK. IFAD's appraisal considered the environmental and social management planning process and documentation for the project and identified gaps consistent with Standard 8 requirements. Where necessary, corrective measures, intended to close these gaps within a reasonable period. Through the implementation of these measures, the project is expected to be designed and operated in accordance with the objectives of Standard 8 of IFAD's Social, Environment and Climate Assessment Procedures (SECAP 2021).

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

AMK will develop and maintain an ESMS commensurate to the risk profile of its investee with the following elements: (i) an Environmental and Social Policy; (ii) identification of risks (environmental, social and climate due diligence); (iii) Management plans; (iv) internal organizational capacity and competency; (v) emergency preparedness and response; and (vi) monitoring, review and reporting systems. To ensure a robust implementation process, AMK will ensure availability of adequate technical expertise (either in-house training or through external expert support – consultants), to carry out due diligence and manage the E&S risks of the given Financial Intermediary subprojects. The expertise should have defined roles, responsibilities, and authority to implement the environmental and social management system (ESMS).

AMK will establish and maintain a process to identify environment, social and climate risks and impacts of operations, develop an environmental and social action plan (ESAP) and review proposed transactions against the IFAD exclusion list (current list to include types of projects/ activities in IFAD's Exclusion list) and national E&S laws and regulations. AMK will use the SECAP risk assessment tool to categorize subprojects as follows: — High risk (FI-1): significant in magnitude and spatial extent, permanent, diverse, irreversible, or unprecedented; — Substantial risk (FI-2): potential adverse risks and impacts, mostly predictable, temporary, and reversible; — Moderate risk (FI-3): Likely some adverse risks and impacts, predictable, temporary, and reversible; — Low risk (FI-4): Risks not likely generated. Risks to be assessed against key E&S criteria (namely: labour and working conditions; resource efficiency and pollution prevention; community health safety and security; resource conflicts; land acquisition, physical and economic displacement; biodiversity; indigenous people; physical cultural resources; climate change, water, and legal compliance).

AMK will also establish procedures for disclosure of policies and relevant safeguard documents (Environmental and Social Management Framework, Resettlement Policy Framework, Environmental and Social Impact Assessment, Climate Risk Analysis, Environmental and Social Management Plans, Resettlement Action Plans, and Free, Prior and Informed Consent process), providing links to websites and other avenues for accessing documents that can be in the public domain (e.g. environment and social governance policies). AMK will establish and maintain an emergency preparedness and response system to respond to accidental and emergency situations e.g., floods, droughts, fire, etc.

AMK will (i) develop stakeholder engagement procedures which include a Grievance Redress Mechanism (GRM) to respond to concerns and grievances; and (ii) publish their corporate environmental and social policy or a summary of their ESMS on their website. The GRM will indicate grievance registration procedures, responsibilities for action, timelines for communication and resolution, and avenues for escalation to higher levels if necessary.

IV. Monitoring and dissemination procedure

Monitoring. The mechanisms of assurance as well as monitoring and evaluation will be built into the Bank's ESMS and clear social impact measures incorporated into the credit requirements. AMK will establish procedures and allocate responsibility for monitoring and reviewing the ESG and climate risk performance of portfolio investments. A feedback mechanism will be set up with the aim of improving due diligence and investment implementation procedures and processes so as to continually improve the ESMS and the ESG performance.

Reporting. AMK will establish and maintain a monitoring procedure to monitor portfolio implementation including visits, and review of portfolio reports on ESAPs implementation and compliance of operations with any legal and/or contractual obligations and regulatory requirements. AMK will also send sample reports on the portfolio to IFAD with the AEPR.