Environment and Social Review Summary
NBS Bank, Malawi – Financial Inclusion in the Agricultural Value Chains

This 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 IFAD's Private Sector Non-Sovereign Operation (NSO) with NBS Bank, Malawi. The ESRS provides a tool to ensure capacity for mitigating and reducing the potential negative environmental, social and climate effects/risks and to enhance the positive impacts derived from the project through all it 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 Malawi.

In the case of this NSO IFAD's senior loan will enable NBS to expand its lending activities to rural small producers, aiding them in rebuilding their livelihoods in a more resilient manner. NBS is a fully-fledged commercial bank providing various financial services to individuals, groups, SMEs, large corporations and public institutions. The bank is currently involved in initiatives geared towards transforming smallholder producers' agriculture from subsistence to commercial agriculture. The goal of this project is to contribute to sustainable production, income growth and job creation in Malawian rural areas by facilitating access to financial services for small producers, their organizations and Agri-SMEs working with them in the wake of COVID-19, Cyclone Freddy and the Ukraine crisis. This NSO will allow the beneficiaries to access much needed and appropriate financial services by offering: (i) opportunities of loans for better yielding seeds and fertilizers; (ii) capacity building; (iii) savings (deposit) services; (vi) use of financial digital services in rural areas (e.g. digital wallet and payments); and (v) opportunities for risk management (agricultural insurance products).

This intervention will directly benefit rural SMEs, producers' organizations, and small producers in Malawi, 40% of beneficiaries will be women 30% youth[1] and 60% poor people[2]. IFAD's proceeds will be used exclusively to provide loans to Agri-SMEs and producers' organizations.

Based on SECAP[3]'s environmental and social (E&S) risk categorisation for financial institutions, the project's E&S risk category is moderate[4] with potential risks that are site-specific, predictable, temporary, and reversible. Adhering to IFAD's SECAP 2021 requirements and Malawi's environmental and climate laws, policies, and regulations, as well as the Environment, Climate, and Social Action Plan (ECSAP), can help avoid or mitigate these risks. This programme explicitly excludes investment in any category A/high risk sub-projects. The proceeds of the loans will finance better yielding seeds and fertilizers, innovative financial products for financing opportunities and technologies in export crops value chains, capacity building, use of digital services in the rural areas and

[1] The Government of Malawi (GoM), through its National Youth Policy (NYP) (2013), defines a youth as person aged between 10- 35 years.

[2] poor people are defined, according to the WB definition (early 2022) as people living on less or equal to US$ 1.9 [MWK 1,500] per day.

[3] IFAD's Social, Environmental and Climate Assessment Procedures (SECAP), https://www.ifad.org/en/secap

[4] Moderate Risk FIs: An FI's existing or proposed future portfolio (IFAD-supported and other projects) includes – or is expected to include in the future – significant exposure to activities with potential adverse environmental or social risks or impacts that are mostly predictable, temporary and reversible. The FI's existing or proposed portfolios include clients and projects categorized as Moderate Risk, as defined by IFAD's environmental and social categories for direct investments (with only a limited number of Substantial Risk clients and projects, as defined by IFAD's environmental and social categories for direct investments). Significant exposure to clients and projects within an FI's portfolio occurs when more than 80% of the total portfolio value rests with these clients and projects.

risk management (agricultural insurance products). These activities are expected to have limited adverse and reversible environmental and social impacts which are largely site specific and can be avoided or mitigated by adhering to standards, procedures, and guidelines consistent with the requirements of IFAD's SECAP's 2021, Malawi's national environmental and climate laws, policies and regulations as well as the Environment, Climate and Social Action Plan (ECSAP) that has been prepared for this project.

An analysis of the proposed project against the IFAD SECAP, the SECAP's online climate screening tool and a review of secondary climate data on the country and proposed value chains (macadamia and tea) revealed that the project's climate risk classification is Substantial[5]. The country is vulnerable to floods, droughts, and strong winds that are associated with tropical cyclones. These climatic events will impact the smallholder agriculture sector in various ways, including through crop and livestock losses, loss of livelihoods, and loss of human lives. Measures such as climate insurance can enhance households' capacity to cope with climate risks.

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. The nature of financial intermediation means that Financial Intermediaries (FIs) assume delegated responsibility for environmental, climate and social risk assessment, risk management, monitoring and reporting, and overall portfolio management. The effectiveness of NBS' environmental, climate and social risk management has been evaluated based on documentation provided.

NBS has developed an Environment and Social Management System (ESMS) that includes an Environmental and Social (E&S) Risk Policy and an addendum to the policy. The policy promotes sound environmental and social banking by applying necessary environmental and social due diligence practises, building skills in ESG within the bank, and achieving superior shareholder performance through better environmental operations. It provides guidelines for environmental and social risk categorization and required environmental and social studies based on Malawi's laws. These include: (i) grievance redress mechanism with clear procedures for receiving, channelling grievances, escalation, recording and tracking grievances; (ii) information disclosure to the public; and, templates for (iii) list of sub-projects excluded from accessing loans; (iv) profiles of category A and B sub-projects and activities; (v) post loan disbursement E&S risks monitoring checklist; (vi) legal status of proposed sub-project/activities; (vii) action plan (issues, required action, timelines) and (viii) Environmental Management Act list of sub-projects that require further environmental and social assessments/studies.

The bank has a Client Service Team responsible for assessment, identification, management and monitoring of the environmental and social risks and a Risk and Compliance Division responsible for reporting and providing oversight and guidance on issues relating to environment and social risks. The E&S policy notes that all dealings with sub-projects in Category A and B environmental and social risks will be disclosed in the bank's Market Disclosure Report. The bank engages with its stakeholders in various ways

[5] Substantial Risk FIs: An FI's existing or proposed future portfolio (IFAD-supported and other projects) includes – or is expected to include in the future – significant exposure to activities that are substantially vulnerable to climate-related hazards. The FI's existing or proposed future portfolios include clients and projects categorized as Substantial Risk, as defined by IFAD's climate change categories for direct investments (with only a limited number of High Risk clients and projects, as defined by IFAD's climate change categories for direct investments). Significant exposure to clients and projects within an FI's portfolio occurs when more than 80 per cent of the total portfolio value rests with these clients and projects. Limited exposure to clients and projects within an FI's portfolio occurs when less than 20 per cent of the total portfolio value rests with these clients and projects.

including field assessment of affected communities, but needs to put in place and elaborate stakeholder engagement plan.

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

The Bank should strengthen its Environmental and Social Management System (ESMS) by developing detailed Environment, Climate and Social Risk Management (ECSRM) procedures to better assess, manage and monitor risks. The ECSRM procedures should have clear guidelines for the identification, categorization, management and monitoring of climate risks. Thereafter the Bank should provide training to responsible staff on the ECSRM procedures once they have been approved by the board. This should include training on climate risk assessment, management and monitoring.

To further enhance efficiency in ESG, the Bank should have clearly defined roles and responsibilities of staff charged with ESG and ensure no duplication of ESG responsibilities or gaps in delivery occur.

The bank should build on its E&S policy to provide clear procedures on stakeholder engagement and information disclosure. The bank has documented a detailed grievance redress mechanism, this should be enhanced by developing a grievance log for all submitted grievances.

The bank should ensure that its existing exclusion list is comprehensive, based on the IFAD SECAP 2021 exclusion list, particularly on agro-inputs and chemicals.

Lastly, in light of the substantial climate risk classification, and given that climate risks could lead to adverse phenomena and affect the ability of NBS's clients to pay back the loans, the bank should strengthen the integration of climate risks in the bank's risk identification and categorization matrix, monitoring and compliance templates and ensure that relevant staff are well trained on climate aspects. Climate insurance and provision of loans for climate resilient seeds and purchase of inputs are measures likely to increase climate resilience and coping abilities. Moreover, NBS should partner with existing Government and IFAD initiatives on climate change adaptation to ensure its agricultural value chain clients have access to climate resilient technologies/practices and climate and early warning information.

To enhance performance of its (ESMS), an Environmental Climate and Social Action Plan (ECSAP) with detailed recommendations on strengthening and streamlining of the ESG capacities within bank has been provided.