

Environmental and Social Review Summary
Hamkorbank -
Scaling up pro-poor value chains' sustainable production through microfinance -
Uzbekistan

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 Hamkorbank to manage potential social, environment and climate risks and impacts. The primary objective is to provide Hamkorbank and its various stakeholders, including farmers, non-governmental organizations (NGOs), suppliers, and clients, with a strategic framework to proactively manage and mitigate potential negative social, environmental, and climate-related risks and consequences. Simultaneously, this framework aims to facilitate the realization of favorable outcomes during the execution of the investment project.

I. Categorization of the investment and rationale:

This project aims to provide financial support to Small-Scale Producers (SSPs) both individually and as part of groups or producer organizations, along with agricultural Micro, Small, and Medium-sized Enterprises (agri-MSMEs) operating within specific value chains. These value chains, centered on dairy and horticulture, have been prioritized by both the country and IFAD for their potential to enhance rural prosperity and improve the livelihoods of small-scale producers. The dairy sub-sector, contributing to 45% of livestock gross value, holds room for growth since current production covers only a third of national demand. Notably, approximately 90% of dairy cows are owned by dekhan farmers. Meanwhile, focusing on horticulture aligns with the government's aim to diversify agriculture from cotton and wheat, thereby boosting rural incomes and reducing poverty. The project will assist targeted SSPs, their suppliers, and buyers (agri-MSMEs) supported by IFAD's initiatives. The goal is to enhance their income and sustainable production by facilitating financial inclusion through savings, insurance, financial education, and short-term microloans for investments in equipment and inputs. Additionally, the project aims to encourage financial institutions to extend their services to these groups, fostering greater financial inclusion and market expansion.

IFAD will provide a 4-year senior loan of USD 2.5 million to Hamkorbank - with a widespread countrywide network and already included as financial intermediary in one of IFAD-financed projects in the country - to be used to increase its agricultural portfolio supporting SSPs through microfinance. The SSPs to benefit of Hamkorbank's support will be operating under priority value chains (dairy and horticulture) and in rural areas of the regions in which IFAD financed sovereign operations will be targeted, namely Andijan, Fergana, Jizzakh, Kashkadarya, Namangan, Samarkand and Surkhandarya regions. Former, current, and expected beneficiaries of IFAD's programs will be liaised with Hamkorbank seeking to receive financial support under the project.

The project's environmental and social risk classification is Moderate based on IFAD's environmental and social categorization. Potential environmental and social risks and impacts of the Bank'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 SECAP Standard 8.

Uzbekistan is vulnerable to climate change impacts mainly due to increasing water scarcity, droughts, and a potential increase in the frequency of extreme events. The project's

interventions would not be expected to increase the vulnerability of target populations and resources to climate hazards. The project will scale up suitable and innovative microfinance services to finance SSPs in agricultural value chains while improving climate resilience at the production level. Hence, the proposed project's climate risk classification is Moderate according to IFAD's SECAP climate risk classifications.

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

During the due diligence mission, the assessment of the ESMS was conducted to check whether Hamkorbank's Environmental and Social Management System (ESMS) commensurate to the risk profile of its investee with the following elements: (i) an E&S 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 and review systems.

Hamkorbank has a robust Environmental and Social Management System (updated in 2021), with a comprehensive framework for its Environmental and Social (E&S) Policy. The bank seems to employ robust risk screening mechanisms, including risk assessment forms and requirements, that meet the standards set by national legislation and the International Finance Corporation (IFC) and that can be aligned to IFAD's standards.

To ensure a robust implementation process, Hamkorbank will need to 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 (FI) subprojects. The due diligence mission assured that the Environmental and Social Governance unit of the bank will be expanded with more specialists and the overall vision of the bank is to have sufficient human resources to implement the ESMS. The expertise division should have defined roles, responsibilities, and authority to implement the ESMS. The proposed and agreed Environment and Social Action Plan (ESAP) incorporates and reflects the relevant actions and mitigating measures.

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

Hamkorbank will maintain the current ESMS and will initiate a process to identify E&S risks and impacts of operations including: (i) Screening checklist aligned with IFAD SECAP standards to the extent possible; (ii) Capacity assessment of SSPs to manage risks and impacts, in line with Hamkorbank and IFAD ESG requirements; (iii) Risks assessment against key E&S criteria (namely, labor and working conditions; resource efficiency and pollution prevention; community health safety and security; resource conflicts; land acquisition, physical and economic displacement; biodiversity; ethnic groups and indigenous people; physical cultural resources; climate change, water, and legal compliance); (iv) Assessment and identification of risks and impacts of investments and loans for the beneficiaries. High and Substantial-risk subprojects according to IFAD SECAP requirements will be excluded from financing under the IFAD investment. IFAD's exclusion list will be mentioned in the contracts of subprojects.

It is recommended to Hamkorbank to consider using, if possible, 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.

The Bank will establish a Grievance Redress Mechanisms (GRM) dedicated to IFAD loan. The GRM will indicate grievance registration procedures, responsibilities for actions, timelines for communication and resolution, and avenues for escalation to higher levels, if necessary, and will improve the overall ESG implementation.

IV. Monitoring and dissemination procedure:

Monitoring. The Bank's ESMS will incorporate robust mechanisms for assurance, monitoring, and evaluation. Clear metrics for assessing social impact will be integrated into credit requirements. Hamkorbank will institute procedures and assign responsibility for the ongoing monitoring and assessment of ESG and climate risk performance in portfolio investments. A feedback loop will be established to enhance due diligence and investment implementation processes, ensuring continuous improvement of the ESMS and ESG performance.

Reporting. Hamkorbank will establish and maintain a monitoring procedure to monitor portfolio implementation including visits, and review of portfolio reports on ESAP's implementation and compliance of operations with any legal and/or contractual obligations and regulatory requirements. The Bank will be providing reports to IFAD on a quarterly basis. The project's sample reports on progress and the M&E will capture disaggregated data on both gender and youth.