



# Appraisal Environmental and Social Review Summary

## Appraisal Stage

### **(ESRS Appraisal Stage)**

Date Prepared/Updated: 07/31/2023 | Report No: ESRSA02913



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Ukraine	EUROPE AND CENTRAL ASIA	P180732	
Project Name	Ukraine Agriculture Recovery Inclusive Support Emergency (ARISE) Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Agriculture and Food	Investment Project Financing	8/4/2023	9/29/2023
Borrower(s)	Implementing Agency(ies)		

Proposed Development Objective

The Project Development Objective is to maintain an inclusive agricultural production and provide immediate and effective response to an eligible crisis or emergency.

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>700.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

Yes

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The proposed project will support an inclusive recovery of agricultural production in Ukraine that is significantly affected by the war, which would also benefit local and global food security. The proposed project will achieve its PDO by improving the access to finance to farmers and agribusinesses, using the following mechanisms: (i) interest rate compensation for agricultural production loans issued by the state and private banks under the credit program 5-7-9; and (ii) grants to small farms to support their agricultural production. The implementing agencies will be the Ministry of Agrarian Policy and Food (MAPF) and the Business Development Fund (BDF). The proposed project will be prepared under the emergency procedures. It is anticipated to become effective in October 2023 and be closed in September 2025.



#### D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The project will disburse financing under Component 1 for retroactive and next season interest rate compensation as part of the existing 5-7-9 loan program. Loans will be received by agricultural producers, majority of which are small and medium farms, with the size of less than 1,000 ha. Component 2 will finance grants to support farms of the size up to 120 ha and up to 100 cows, breeding goats and sheep, with direct transfers per hectare and animal. The direct payments per ha will cover about 15 percent of total needs for investing in crop planting. The project will provide an increased support to farmers in the liberated areas of the country, verification of the use of funds for production purposes will be carried out through on-site checks and innovative satellite data analyses on crop production. Overall coverage of beneficiaries is likely to reach into the tens of thousands but individual investments are site-specific and involve relatively small scale inputs to capital and operating expenditures of farms.

The war has disrupted the ability of the government and the private sector to provide direct financial support to farmers, communicate opportunities, and provide legal and technical support particularly in Eastern and Southern Ukraine. While populations of Western and Central Ukraine have largely been able to continue their lives, war risks and impacts play out across many levels: loss of life; loss of assets and capital; destruction of public infrastructure such as roads and power lines; contamination of agricultural land by military debris; contamination of land by mines; destruction of records; destruction of public offices; incapacitation of local public institutions and their functions. The war has created new categories of vulnerable groups.

The UN High Commissioner for Refugees (UNHCR) estimates that 8.1 million people are displaced across Europe as of the end of February 2023. According to the International Organization for Migration (IOM), an estimated 5.4 million people were internally displaced within Ukraine as of the end of January 2023, a decrease from 5.9 million as of December 5, 2022. The estimated number of internally displaced persons (IDPs) in Ukraine has been steadily declining since August 2022. However, the number of individuals officially registered as IDPs with the Ministry of Social Policy has been increasing since February 2022, reaching a peak of slightly under 4.9 million in December 2022; after this the numbers have very slightly decreased. Protracted displacement is becoming more prevalent, and 58 percent of all IDPs had been displaced for six months or more according to the January 2023 IOM report.

Refugees and IDPs will have left behind land, assets, and documents. It is also possible that due to need and expediency, IDPs may have settled on other people's land, or any land perceived as not claimed or used. The war has rendered some land plots environmentally toxic or otherwise unusable. Large swaths of land in the Eastern and Southern Ukraine may be affected by mines, environmental contamination with various debris of the war, or physical decimation. Water resources, roads, power structures or other ancillary facilities may also be affected, rendering previously fertile agricultural land unusable in the short term. The grain elevators sites are likely to be exposed to risk of indiscriminate or targeted aerial bombardment that is currently being experienced across the country.

#### D. 2. Borrower's Institutional Capacity

The project will involve two implementing agencies and will establish one Project Implementation Unit (PIU) for each agency to manage their corresponding project components.

One PIU will be hosted by the BDF under the Ministry of Finance (MOF), covering the activities under Components 1. The BDF will provide a compensation of interest rate to participating financial institutions (PFIs -- a number of domestic commercial banks that already provide loans for small agricultural business) who would act as intermediaries for extending financing and be required to maintain Environmental and Social Management Systems (ESMS) to screen for and address risks associated with the financing of any loans. Some PFIs in Ukraine have worked previously with international financial institutions that have similar requirements regarding environmental and social instruction into their credit decision-making processes, especially those that have worked with the IFC or EBRD and



any affiliated European commercial banks. However, adherence to international systems is likely to vary considerably and most PFIs will require some capacity building. The private sector banking system in Ukraine is likely only at the beginning of efforts to incorporate environmental and social taxonomy (substantial contributions through the provision of customized financial products addressing vulnerability and exclusion risks).

BDF, with support from experienced international consultant, is preparing an ESMS and this will be reviewed for consistency with ESS9. BDF has worked with the German bank KfW to establish processes that are consistent with IFC requirements for financial intermediation. Component 3 of the project will provide an avenue to hire specialized ESMS consultants to work with BDF and participating financial institutions to undertake due diligence review of their systems and identify resourcing required as a condition of participation in the BDF and additional capacity building opportunities during project implementation.

Another PIU will be set by the MAPF, covering the activities under Component 2.

The two PIUs will support project implementation, coordination, and day-to-day management and will include staff experienced with donor projects and with adequate technical knowledge, including environmental and social specialists. The MAPF will administer the provision of grants, utilizing its existing IT system and specialist resources. These will be reviewed for consistency with environmental and social screening requirements during project preparation.

Neither of the PIU have prior experience working with the Bank (they have worked with other donors, however) and they currently have no E&S staff in place. As E&S risk management capacity of the PIUs is insufficient, with limited knowledge of ESF requirements, comprehensive capacity building on ESS9 is required for participating banks involving training, development and implementation of an environmental and Social Management System (ESMS) to screen and approve loan activities, under the Project are planned from Bank's ESF Team side.

Each PIU will hire one environmental and one social specialist. The commitment to create and sustain these PIUs throughout the project implementation is outlined in the ESCP.

Other contemporaneous Bank operations also support development of ESMSs for PFIs in the agriculture sector in Ukraine. Therefore, it will be important for this operation to contribute to consolidating rather than duplicating this support. Due diligence review and development of BDF ESMS is identified as a project action for the restructured Ukraine Accelerating Private Investment in Agriculture Program (P166941). Development of commercial banks' ESMS is also being supported as part of the capitalization of a Partial Credit Guarantee Fund (PCGF) under MAPF (Strengthening the Partial Credit Guarantee Fund for Small Farmers in Ukraine P180242).

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## II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

### A. Environmental and Social Risk Classification (ESRC)

Substantial

#### Environmental Risk Rating

Substantial

Potential environmental impacts are connected to purchase and use of agrochemicals (pesticides, fertilizers) and include impact on biodiversity, surface and ground water sources, soil quality, occupational health and safety (OHS) and community health and safety impacts, as well as war-related hazards such as land contamination and explosive remnants of war (ERW). Environmental risks are expected to be site-specific, temporary and can be readily addressed through standard mitigation measures and compliance with national laws, however, these risks may be exasperated by ongoing war and war-related hazards and threats (such as aerial attacks). An emergency preparedness and response plan, including measures to protect the safety and security of project personnel and nearby communities, will be prepared as part of subproject Environmental and Social Management Plans (ESMPs) and include information



on a warning system and designated shelters. It is envisaged that all site-specific instruments will be prepared by loan/grant beneficiaries with support from respective PIUs. WB Team will be responsible for review of site-specific instruments for Substantial Risk and Moderate Risk subprojects and provide a no objection while PIUs will review and clear Low Risk subprojects' instruments. The project is being prepared rapidly and involves multiple implementing agencies, two PIUs, and financial intermediation with a number of commercial banks – neither of these parties having track record of engaging with or implementing the requirements of WB ESF. Furthermore, safety issues undermine the Borrower's and the Bank's ability to supervise project activities, thus the project will have to strongly rely on developed E&S instrumental base and E&S capacity of implementing parties. It will be important that a trained environmental specialist is engaged to screen, assess, and manage impacts associated with the grants and loans, as well as support PFI, and another trained environmental specialist is identified to work directly with MAPF to assess and manage the environmental impacts associated with the investments for the Component 2, as well as provide ESF-related guidance to local implementing parties.

**Social Risk Rating**

Substantial

Project activities associated with the provision of compensation of interest rate for loans and grants to secure working capital for agricultural production, processing and sale of agricultural products are likely to involve some site-specific risks and adverse impacts on workers and communities. In most situations, these risks will be easily manageable but are rendered unpredictable by the contextual risks associated with the national emergency. Workforces participating in activities enabled by the loans and grants are typically small due to high mechanization in the sector. Community and worker health and safety risks common to the activities being supported include risk of interaction with nearby communities during transport of equipment and machinery or during localized construction activities. Commercial banks participating in the 5-7-9 program will require transparent external communications about the potential opportunities and the rights of stakeholders, and a transparent process for the resolution of disputes about land ownership prior to loan approval. Activities associated with private land purchase, equipment purchase, working capital and small-scale construction works are generally easily manageable through screening and site management plans. The invasion and ongoing war in Ukraine pose significant contextual risks that are beyond the control of the project such as risks associated with aerial bombardment, war fighting or further displacement of refugees. Sexual exploitation and abuse and sexual harassment (SEA/SH) risks for the sector are estimated to be low, but preventative measures will be put in place. Fair labor conditions and worker health and safety need to be addressed by the PFIs' screening to identify labor-related risks associated with activities to be financed prior to approval of subsequent loans. There is an inclusion risk that provision of credit financing and grants may benefit those enterprises with existing financial capacity, and not reach rural new starters, those with insolvency records, cultural minorities and/or the elderly without access to information or awareness of the program. A Stakeholder Engagement Plan (SEP) will be adopted and implemented by two implementing agencies. A comprehensive outreach program will need to be set up to ensure access to the program information among different stakeholders groups. Small entrepreneurs may be more reluctant to apply and take on debt during the current crisis. Financial products and training tailored to smallholders is required, for example, for women-led businesses, community enterprises, borrowers lacking a credit history or lacking financial skills. The quality of management systems deployed by PFIs is likely to vary and a capacity building approach will need to be integrated into the Bank TA activities to ensure that these systems are subject to due diligence review and updated for consistency with ESS9. Both PIUs shall hire a social specialist providing overall coordination and support on assessment and management of social risks and development of socially inclusive financial products. A Grievance Mechanism (GM) will be readily accessible to all project-affected parties, at no cost and without retribution, including concerns and grievances filed anonymously, in a manner consistent with ESS10. The grievance mechanism will also able to receive, register and address concerns and

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grievances related to SEA/SH in a safe and confidential manner, including through the referral of survivors to gender-based violence service providers.

## B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

### B.1. General Assessment

#### ESS1 Assessment and Management of Environmental and Social Risks and Impacts

##### **Overview of the relevance of the Standard for the Project:**

The BDF, through interest rate compensation for loans, will support purchase and use of agrochemicals (pesticides, fertilizers), purchase of equipment and materials, covering other operational expenses. Potential environmental risks and impacts include impact on biodiversity, surface and ground water sources, soil quality, OHS and community health and safety impacts, as well as war-related hazards such as land contamination and ERW.

Social risks and potential impacts involve fair labor conditions and worker health and safety, which need to be addressed by the PFI and grant manager screening to identify risks associated with activities to be financed prior to approval of subsequent loans. Activities proposed under the project are not expected to cause temporary or permanent physical or economic displacement or loss of assets. Activities that require involuntary resettlement will be deemed ineligible for financing. Land or property transactions by beneficiaries under the project will be conducted on a willing buyer-willing seller basis as evidenced by records to be provided by the grant beneficiary. The project is not expected to disproportionately impact vulnerable and disadvantaged groups; however, measures will be in place to prevent child or forced labor. A key focus on social risk management for the project will be demonstrating effective labor inspection and promoting fair and safe working conditions for employees of businesses receiving financial support linked to 5-7-9 program and grant activities. There is a risk that provision of credit financing may benefit those enterprises with existing financial capacity, and not reach rural new starters, those with insolvency records, cultural minorities and/or the elderly without access to information or awareness of the program. Measures will be considered to support inclusion of women-led businesses struggling to access finances for cultural and capacity reasons. The project will explore preferential measures for female-owned or female-managed businesses.

To address potential adverse environmental and social impacts associated with financial intermediation under Component 1, the BDF will develop and adopt a fund-level ESMS to inform due diligence on PFIs. The ESMS will include: (i) an environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks and impacts of subprojects; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of subprojects and the portfolio; and (v) external communications mechanism. The ESMS will establish eligible and ineligible activities for Project financing in accordance with national law, regulations and procedures and the World Bank Group Environmental, Health and Safety Guidelines. The ESMS will specify the roles and responsibilities of the E&S specialists in BDF for environmental and social screening; monitoring and reporting procedures; and measures aimed at inclusion and non-discrimination in the delivery of benefits. The BDF PIU will undertake a review of the PFIs' ESMS for consistency with fund-level ESMS; the PFIs will be required to adopt BDF's terms as a condition of the the 5-7-9 program loan approval procedure. The BDF will include all necessary provisions into agreements with PFIs/beneficiaries to comply with national legislation, WB ESF requirements, subproject-specific Environmental and Social Assessment (ESA) instruments (i.e., Environmental and Social Impact Assessments/Environmental and Social Management Plans (ESIAs/ESMPs), ESMP Checklists, Pest Management Plan etc., as applicable), including having designated and trained E&S staff to supervise project implementation and provide reports and feedback to the Borrower during the lifetime



of the subproject. It is envisaged that all site-specific instruments will be prepared by loan/grant beneficiaries with support from respective PIUs. WB Team will be responsible for review of site-specific instruments for Substantial Risk and Moderate Risk subprojects, PIUs will review and clear Low Risk subprojects' instruments.

Under Component 1, part of financing will be provided retroactively, for eligible expenditures starting from January 1st, 2023. For retroactive financing, an audit will be undertaken before disbursement. An audit will be based on representative sample of issued loans to confirm systems for screening and management of corrective actions to address environmental and social risks and inform the development of BDF ESMS.

To address potential adverse E&S impacts associated with provision of grants by MAPF, and since the specific locations and risk profile of these grants are unknown, the project will prepare an Environmental and Social Management Framework (ESMF) no later than ninety (90) days after the Effective Date. The ESMF will include procedures, criteria, and responsibilities for subproject screening to identify those which might require an Environmental and Social Impact Assessment (ESIA) and/or a stand-alone ESMP. All site-specific instruments will be prepared by loan/grant beneficiaries with support from respective PIUs. It will also describe a screening mechanism for energy efficiency, recycling and reducing waste generation and potential E&S impacts and generic mitigation measures for common groups of matching grants. The ESMF provides a framework for monitoring the identification, selection, design, implementation and evaluation of activities under component two. In the event that the CERC is activated, the ESMF will be updated to include measures to assess and mitigate risks associated with the agreed emergency activities.

Eligibility criteria and an exclusion list will be determined in consistency with the ESF requirements and will apply to all forms of project financial support. All PFIs will categorize any loans covered by the BDF activity that involves High risk E&S impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage and/or any activities involving land acquisition leading to economic or physical displacement; such activities will be ineligible for project financing.

The project has prepared a draft Environmental and Social Commitment Plan (ESCP) and a draft SEP, including a project GM to guide review and adoption of the BDF and PFI ESMSs during implementation. A fund-level ESMS for BDF under Component 1 and an ESMF for MAPF under Component 2 will be established no later than 90 days after the project effective date. PFI ESMS's will be reviewed, updated, and adopted as a condition of further participation in the 5-7-9 program.

### **ESS10 Stakeholder Engagement and Information Disclosure**

The current state of martial law and military activity context mean that there are extremely limited engagement and consultation options. It is inadvisable to encourage large in-person meetings of local stakeholders due to risk of aerial bombardment. Key institutional stakeholders include MAPF, BDF, and participating commercial banks, regional and local administrations, local extension offices and their workers. Key project-affected stakeholders are expected to include small and medium sized farm businesses consisting of primary producers of agricultural products cultivating no more than 1000 hectares of land. These farmers would be beneficiaries of interest rate compensation on 5-7-9 program loans backed by the BDF and those that choose to sell their land to loan recipients. Those small businesses and land users who are more vulnerable and less likely to participate in benefits include farmers with poor credit history, those dissuaded from borrowing due to the crisis, those from cultural minorities, the elderly and others who lack access to financial knowledge. Other interested parties may include local and national level NGOs, local governments, universities and other associations and cooperatives concerned with agricultural development, land issues and the rights of specific interest groups such as refugees. The project should promote engagement of female-





led businesses, and businesses led by entrepreneurs from disadvantaged groups or regions. Those stakeholders from more remote areas and from vulnerable backgrounds (elderly, female smallholder farmers for example) are more likely to perceive land reform and associated access to credit as being a benefit for the wealthy. Lack of engagement and consultation would result in delays and non-participation, threatening the achievement of development objectives. Communications and transparency will minimize levels of concern, help to identify landowners and users and minimize disputes. Without adequate stakeholder engagement, particularly at the level of PFI external communications about financial products on offer, the project risks reinforcing perceptions of inequity in receipt of benefits tied to trust in governance and reform legitimacy.

The project has prepared a draft SEP which identifies potential project-affected and other interested parties and outlines measures for engagement with these stakeholders. This includes description of a project-level Grievance Mechanism (GM) to be maintained throughout project implementation. The GM includes provisions to handle complaints associated with SEA/SH including referral to specialist national service providers. The SEP has been designed to serve as a framework for further development of the external communications procedures for BDF and PFIs, whose ESMS will require timely response to public inquiries and potential for stakeholder engagement associated with 5-7-9 loan activities.

Due to the current national emergency context a limited online consultation and disclosure period was launched in April 2023 by the MAPF and BDF representatives in order to seek and respond to feedback from stakeholders on the proposed project and mainly focused on the technical aspects of the investments and ensuring the ways of receiving feedback from the ground, including GM establishment and operationalization.

Since further information is not yet available, more detail will be provided on the range of issues under consideration during preparation of BDF and PFI ESMS and grants procedure when specific locations, stakeholder groups, and portfolio of activities are known. The BDF ESMS will be reviewed, updated, adopted prior to provision of further support for 5-7-9 loan program to include external communications procedures informed by the SEP to ensure effective consultation on loan activities. PFIs that participate in the program may be required to engage in additional outreach and engagement with their prospective beneficiaries. They will be made aware of the project SEP and GM and their responsibilities for receipt, response and reporting on complaints and should have the capacity, staff, and resources to comply.

An accessible GM for the project will be established, publicized, maintained and operated in a transparent manner that is culturally appropriate and will be tailored to address any SEA/SH issues. The GM will be readily accessible to all project-affected parties, at no cost and without retribution, including concerns and grievances filed anonymously, in a manner consistent with ESS10. The GM will also be able to receive, register and address concerns and grievances related to SEA/SH in a safe and confidential manner, including through the referral of survivors to gender-based violence service providers. The Project Operation Manual (POM) will outline GM procedures and management.

## **B.2. Specific Risks and Impacts**

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

### **ESS2 Labor and Working Conditions**

The BDF and MAPF will engage a small number of desk-based staff and consultants (direct and contracted workers) in the process of building their PIUs and institutional systems. These workers will be involved in negotiating participation with commercial banks and monitoring implementation of grant-financed activities and will not be





transferred directly to the operation but will remain subject to their existing government contractual terms and conditions.

Agricultural workforce in Ukraine is small-scale given the high degree of mechanization. There is no intent to use voluntary community labor for implementation of activities. Civil works contractors hired by agricultural businesses and cooperatives may be involved in small-scale construction activities and for transport and installation of equipment procured. Entrepreneurs benefitting from support under the project will commit to adhere to national legislation and be subject to the requirements of the PFI ESMS under which loans are being provided to them. In cases where loans are being given to smallholder farmers, associated investments may require additional labor and heighten risk of incidents of child labor. Agricultural activities that include risk of chemical pollution (pesticides, fertilizers) due to improper use or spills from machinery may expose children on family farms to hazardous activities. Preventive measures will be outlined in project's ESMF as well as project ESMS will provide further guidance on dealing with hazardous materials. Subprojects screened as involving significant risks to labor rights, health and safety of employees, and child or forced labor will be excluded from financing.

Key OHS issues associated with BDF and MAPF activities include accidents during construction works, traffic accidents, lack of workers' awareness on occupational health and safety requirements such as the use of Personal Protective Equipment (PPE) and safe workplace practices. Additional threats to workers are posed by ERW and indiscriminate or targeted aerial attacks. These risks are unable to be entirely mitigated by the project. OHS risks and associated screening measures will be identified in the ESMS and respective site-specific action plans as required. PFI ESMSs will be reviewed, updated, adopted prior to provision of loans and include labor management procedures (LMP) and OHS measures for PFIs consistent with ESS2, including a GM for workers. LMP will also be included in the grants ESMF.

### **ESS3 Resource Efficiency and Pollution Prevention and Management**

This standard is relevant to the project. The project will facilitate agricultural activities which include land cultivation, use of agricultural chemicals (pesticides, fertilizers), transport, installation and operation of agricultural equipment. Potential impacts include land/water pollution due to improper storage or use of chemicals and spills from machinery; vegetation clearance (on land plots designated as agricultural but not cultivated for a while), erosion (in case of cultivation of previously undisturbed land designated as agricultural), and agriculture waste, potential fire and explosion hazards associated with transition to new sources of energy for grain elevators.

The ESMF for grants and ESMS for loans will include provisions for screening for such future implications and, based on screening results, an appropriate E&S instrument will be developed (such as Pest Management Plan etc.) for such subprojects. The ESMS will also screen for, promote and provide guidance on appropriate agricultural practices consistent with requirements of ESS3 on effective use of natural resources, climate resilience and adaptation (climate-smart agriculture), as well as pollution prevention and management. Guidance on assessment of associated activities with civil works (such as construction/repairs to agricultural facilities) risks and impacts and proposed mitigation measures related to relevant requirements of ESS3, including raw materials and water use, air pollution, hazardous materials, and hazardous waste will also be provided, as relevant.

### **ESS4 Community Health and Safety**

This standard is relevant. The potential risks and adverse impacts on community health and safety are associated with civil works for enhancement of agricultural production. Local communities are expected to benefit through



provision of local jobs and income from services. Potential risks and impacts include location specific and moderate amounts of emissions of dust, noise, odor, and vehicle exhausts; traffic jams and traffic and road safety risks due to increased traffic volume and movements of heavy-duty vehicles; temporary road blockades and closures; increased waste and wastewater generation, underground water pollution by fertilizers and other agrochemicals. Community exposure to waste (including hazardous waste), particulate matters, may lead to increased risks of health issues, resulting from poor site management, communicable diseases relating to poor animal welfare and sanitation, and the presence of labor (i.e., COVID-19 virus). Any SEA/SH risks will be screened for by PFIs and relevant measures included in E&S plans where necessary. The corresponding ESMF for grants and PFI ESMS will be reviewed, updated, adopted and implemented to screen for activities and community health and safety risks. Community hazards associated with war fighting and aerial bombardment are widespread and beyond the control of the project to manage. However, where appropriate the external communications of PFI ESMS and MAPF ESMF will incorporate guidance to promote responsiveness to emergencies in line with current national emergency laws. This includes toll free contacts for emergency rescue, mental health support, chance finds of the explosive remnants of war, shelter and evacuation procedures, among others.

#### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

This standard is not relevant. Activities proposed under the project are not expected to cause any temporary or permanent physical or economic displacement, loss of assets or access restrictions.. The BDF and MAPF will exclude any investments which may require involuntary resettlement, restrictions on land use, or negative impacts on assets or livelihoods of land users.

#### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

This standard is relevant to the project. The project will facilitate agricultural activity which includes land cultivation, use of agricultural chemicals (pesticides, fertilizers). Potential impacts include habitat pollution by agricultural runoff due to improper storage or use of chemicals; impact of water habitats due to extensive use of water resources; fragmentation/destruction of natural habitats due to vegetation clearance on land plots designated as agricultural but not cultivated for a while (restored habitats).

The ESMF for grants and ESMS for loans will include provisions for screening for potential adverse impacts on biodiversity and those having such impacts on critical habitats or ecosystems will be excluded from consideration under this project. The project will not support activities that envisage agricultural development of land plots that represent natural habitats (including critical) and weren't previously utilized even if such land plots are designated as agricultural at the time for loan application.

The ESMF for grants and ESMS for loans will also provide guidance on appropriate agricultural practices consistent with requirements of ESS6 on effective use of natural resources, pollution prevention and vegetation clearance timing (ensure that cutting of trees and vegetation is limited to a minimum and done during non-breeding period). The ESMF for grants and ESMS for loans will provide guidance to mark the subproject area's intersection with Emerald Network and agricultural activity will be allowed in adherence to the requirements of Emerald Site Management Plan (or similar management document, as applicable and if available).

#### **ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**



This standard is not relevant. No indigenous peoples who meet the criteria described under this standard reside in the territory of Ukraine.

### **ESS8 Cultural Heritage**

This standard is not relevant. Damage to cultural or archaeological heritage as a result of small-scale agricultural developments financed by loans and grants supported by BDF and MAPF is unlikely. Activities supported by loans and grants should be screened by PFIs for potential impacts on known heritage sites and practices and those having impacts on cultural heritage will not be eligible for the Project support. Cultural and archaeological heritage that have been damaged or destroyed by war fighting should not also be eligible for application of loans and grants (for purchase or agricultural development).

### **ESS9 Financial Intermediaries**

The BDF and the Participating Financial Institutions providing on-lending through the 5-7-9 program would be considered FIs for the purposes of the project. The BDF and PFIs will require mutually supportive environmental and social management systems. The BDF manager will establish a fund-level ESMS, satisfactory to the Bank, no later than 90 days after the Effective Date of the Project and before the start of future interest rate compensation lending. Each PFI will establish or update their ESMS as a condition of participation in the program. The fund manager will be required to undertake due diligence review of the existing ESMS of PFIs and support them to update and implement these with adequate capacity to manage the E&S risks associated with financing small and medium sized agricultural enterprises. First ten PFI ESMSs will also be reviewed for compliance with ESS9 by the WB Team. The fund-level and PFI ESMS will include: (i) an environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks and impacts of participating portfolios (including screening loan activities against the exclusion list and ensuring compliance with national environmental, social, labor and OHS laws of Ukraine; screening, reviewing and categorizing loan activities according to their environmental and social risks and impacts according to the pre-set criteria; applying relevant requirements of the ESF through the use of appropriate E&S assessments and plans, where necessary); (iii) organizational capacity and competency (including designating a senior management official with oversight responsibility and sufficient number of competent technical staff to implement the ESMS; building capacity and receiving training on E&S assessment and management; (iv) monitoring and review of environmental and social risks of loan activities (including implementation of any corrective actions proposed for loan activities); and (v) an external communications mechanism. The mechanism will enable beneficiaries as well as those who believe they are adversely impacted by the BDF or PFI financing of beneficiaries' activities to submit complaints and feedback on issues such as child labor, health and safety of workers, workplace harassment.

The BDF will include all necessary provisions into agreements with PFIs and require them to include the respective requirements into loan agreements to comply with national legislation and WB ESF requirements, including having a designated E&S staff (at PFI level) to supervise project implementation and provide reports and feedback to the BDF during lifetime of the project. The BDF will report to the World Bank semi-annually on the environmental and social performance of the Project. The content of semi-annual reports will be detailed in the POM. The PFIs will also be required to promptly notify the Bank of any significant accidents or incidents associated with PFI subprojects. The BDF will review and adjust, in a manner acceptable to the Bank, its fund-level ESMS from time to time, including when the environmental and social risk profile of its portfolio changes significantly. The BDF may be required to



adopt and implement additional or alternative environmental and social requirements, depending on the nature of its activities and the environmental and social risks and impacts of the potential subprojects.

**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways** No

**OP 7.60 Projects in Disputed Areas** No

**B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts**

**Is this project being prepared for use of Borrower Framework?** No

**Areas where “Use of Borrower Framework” is being considered:**

N/A

**IV. CONTACT POINTS**

**World Bank**

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**Borrower/Client/Recipient**

**Implementing Agency(ies)**

**V. FOR MORE INFORMATION CONTACT**

Public Disclosure



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**VI. APPROVAL**

Task Team Leader(s):	Sergiy Zorya, Johanna Jaeger
Practice Manager (ENR/Social)	Sanjay Srivastava Cleared on 26-Jul-2023 at 19:17:21 EDT
Safeguards Advisor ESSA	Sunrita Sarkar (SAESSA) Concurred on 31-Jul-2023 at 11:38:44 EDT