Additional Financing Appraisal Environmental and Social Review Summary

Appraisal Stage

(AF ESRS Appraisal Stage)

Date Prepared/Updated: 06/10/2024 | Report No: ESRSAFA770

I. BASIC INFORMATION

A. Basic Project Data

Country	Region	Borrower(s)	Implementing Agency(ies)
Rwanda	EASTERN AND SOUTHERN AFRICA		

Project ID	Project Name
P181660	Commercialization And De-risking For Agricultural Transformation Project-additional Financing

Parent Project ID (if any)	Parent Project Name
P171462	Commercialization and De-Risking for Agricultural Transformation Project

Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Agriculture and Food	Investment Project Financing	6/12/2024	6/28/2024

Estimated Decision Review Date	Total Project Cost
6/11/2024	4,000,000

Proposed Development Objective

The Project Development Objectives are to increase the use of irrigation and commercialization among producers and agribusiness firms in supported value chains, and to increase access to agricultural finance.

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

No

C. Summary Description of Proposed Project Activities

Parent Project

The Commercialization and De-Risking for Agricultural Transformation Project (CDAT) (P171462) has four components:

Component 1. Value Chain and Infrastructure Development ($210.00 million);
Component 2. Agricultural Finance and Insurance ($35.00 million);
Component 3. Project Management ($15.00 million).
Component 4. Contingency Emergency Response Component (CERC) ($0 million). In addition, the project has an unallocated amount of $40 million that is intended to be allocated to the credit line under Component 2 upon successful implementation of a pilot on blended finance.

The components are interlinked and are jointly addressing some of the key challenges (land constraints and fragmentation, limited access to finance, insufficient skills, weak market and value chain linkages, and climate change) to Rwanda's agriculture transformation from a subsistence sector to a knowledge-based value creating sector, and leap to a market-driven agri-food system. Component 1 aims to strengthen market and value chain linkages and improve land use efficiency for commercial agricultural production production in 6 value chains (horticulture, beans, maize, cassava, Irish potatoes and rice) using a climate adaptation and mitigation lens. Component 2 is designed to increase access to affordable financial services and products, especially credit, to farmers and cooperatives for commercialization of the sector and to de-risk the sector using market-based insurance mechanisms and fintech solutions. Component 3 funds overall coordination, and project implementation and monitoring.

The target project beneficiaries are farmers' cooperatives, commercial farmers and small and medium-sized agri-enterprises (agri-SMEs) across Rwanda.

Proposed Additional Financing (AF)

Climate change remains one of the biggest risks to the Rwandan agri-food system with Rwanda ranked 153rd in terms of its vulnerability to climate change (Notre Dame Global Adaptation Index). As such, reducing farmers' vulnerabilities to climate risks is a key feature of the CDAT design. The project uses a multifaceted approach to reduce climate vulnerabilities in the targeted value chains, which are considered particularly susceptible to drought, flooding, moisture, and heat stress. The approach combines: (i) the use of targeted resilience and locally appropriate Climate Smart Agriculture (CSA) adaptation approaches, including climate smart technologies in the agriculture investments; and (ii) provision of appropriate agriculture insurance products to vulnerable farmers and herders. It is intended to contribute to achievement of the triple CSA goals of: (i) increased agricultural productivity and incomes; (ii) enhanced resilience to climate change; and (iii) reduced greenhouse gas (GHG) emissions.

Additional climate change mitigation and adaptation co-benefits can be generated through improved practices, investments and technologies targeted to benefit small-scale farmers and SMEs if an appropriate mechanism is in place. The GoR has requested the World Bank to mobilize grant funding from the Compact with Africa Green Business Fund (CwA-GBF) to pilot an innovative approach to enhance CDAT's climate impact and demonstrate new approaches for replication and scale up. The proposed AF will provide grants to incentivize and help expand the adoption of CSA practices by CDAT project beneficiaries in selected subsectors. The grants would be disbursed through a Results-based Climate Finance (RBCF) mechanism to be designed and piloted under subcomponent 2.1 Scaling up agricultural

finance leveraging the existing credit line. RBCF is a climate finance mechanism that provides a financial reward in the form of grant payments upon achievement of agreed-upon and verifiable climate-related outcomes, particularly emissions reductions and/or removals (ERRs) alongside adaptation and resilience co-benefits. The mechanism will be the first for Rwanda. The AF will also finance technical assistance for key project entities for capacity building, training, and administering the RBCF mechanism, as well as incremental project management costs.

D. Environmental and Social Overview

D.1 Overview of Environmental and Social Project Settings

The parent project intends to improve commercialization and access to financial services in selected agricultural value chains. The project will be implemented countrywide via several components managed by RAB and BRD. Target beneficiaries will include farmers' cooperatives, commercial farmers and small and medium-sized agri-enterprises involved in the target value chain of rice, maize, horticulture, irish potatoes, cassava, and beans.

The project has four components, the forth component with zero dollar allocated. Component 1: Value Chain and Infrastructure Development (US$140.6million)

The parent project undertake basic infrastructure works that could include irrigation infrastructure, both large and small-scale irrigation technology, solar pumps, water meters, on-farm infrastructure, such as greenhouses, warehousing, cold chain and pack-houses, processing and value addition infrastructure, such as dryers, shellers, or mills that will help increase commercialization.

In subcomponents 1.1 (Irrigation rehabilitation and development) and 1.2 (Land husbandry), the project will finance seed production and multiplication, rehabilitation of existing irrigation schemes and development of new irrigation schemes, improve land husbandry and mobilize water users into associations for efficient water use and crop diversification. For example, the project plans to support approximately 16 subprojects irrigation of 12,890 Ha (plus feasibility studies of 7,000 ha more), 13 land husbandry projects of 7,580 Ha.

The construction of irrigation schemes and use of agro-chemicals could also have direct impact on ecosystem services that may result in adverse health and safety to and impacts on affected communities as governed by ESS4 (e.g. irrigation schemes with presence of dams, which are expected to be small dams) . The client will identify project potential risks and impacts on ecosystem services that might be exacerbated by climate change such as food and water supply, flood regulating regimes. It is noted that the project has positive environmental and climate change interventions in subcomponent 1.2 promoting land husbandry measures, protection of watershed areas and promoting soil conservation measures.

Component 1.3 involves value chain and small-scale infrastructure development with focus on strengthening market and value chain linkages and improving land use efficiency for commercial agricultural production. Through this component, the project will invest in productive assets (equipment and facilities) for cooperatives and agri-SMEs to help them aggregate, preserve, process and store their produce for value addition. The project will deploy matching grant model implemented by RAB with an option of borrowing for this subcomponent 1.3 of productive assets.

Component 2: Agricultural Finance and Insurance (US$68.4 million)

This component includes financing through Development Bank of Rwanda (both direct and through commercial FIs, microfinance institutions and SACCOs) to farmers, farmer cooperatives, agri-SMEs, and other agribusiness companies that require long-term financing under comp 2.

The project targets are principally capital investments by farmers, farmer cooperatives, agri-SMEs, and other agribusiness companies. The credit line can be used for any commodity and business related to the agriculture sector in addition to the target value chains. This means that as opposed to component 1 that focuses on the selected six priority supply chains, the lending component, component 2 will extend financing for any commodities and businesses related to the agriculture sector in addition to the target value chains from which potential financing opportunities will be introduced to the FIs. This expands the scope of environmental and social risks to be screened for, assessed and mitigated. The risks will be exacerbated by overall low capacity of the FIs for environmental and social risk assessment in the agricultural sector and also those of the recipients (i.e., farmers, cooperatives, SMEs). Because component 2 will support existing agri-SMEs and there is a likelihood that these may have ongoing environment, labor (including child labor), health and safety (EHS) issues/risks like inappropriate use of agrochemicals, poor waste management practices, air and water pollution etc.

Component 2 will provide funding via PFIs including insurance companies, commercial banks, microfinance institutions and SACCOs whose Environmental and Social Management Systems (ESMSs) will need to be established, assessed, and strengthened in line with ESS9 during project implementation as a condition of accessing financing from BRD. Currently, BRD works with Commercial Banks, Microfinance Institutions (MFIs) and SACCOs that will be PFIs. About 13 Commercial Banks and 200 MFIs and SACCOs (projected 7 MFIs & 193 SACCOs) are expected to partner with BRD under the project. Investment loans and wholesale credit lines will be the key financial instruments used.

Subcomponent 2.1: Scaling up agricultural finance (US$15 million equivalent) is funding a credit line facility for agriculture production and post-harvest projects under the prioritized value chains and other subsegments of the agriculture sector. Subcomponent 2.2: Strengthening agricultural insurance (US$20 million equivalent) is reinforcing the quality and effectiveness of agricultural insurance offered by Rwanda's National Agricultural Insurance Scheme (NAIS).

Component 3 of project management will finance coordination and project implementation.

Comp 4: does not currently have any funding allocation within the project design and will be a Contingent Emergency Response Component (CERC) allow for rapid reallocation of credit uncommitted funds in the event of an eligible emergency to be defined during project implementation. This component will need to meet E&S requirements in the Emergency Action Plan and separate ESCP.

The bulk of the US$4 million AF will be allocated to Sub-component 2.1. A small portion of the AF funds will also be allocated to components 1 and 3. Specifically, the AF will finance the below: Grants to be disbursed through a Results-based Climate Finance (RBCF) mechanism to help expand the adoption of CSA practices by CDAT project beneficiaries in selected subsectors. The mechanism will be designed and piloted under subcomponent 2.1 leveraging the existing credit line. The result-based grant payments will incentivize the eligible PFI borrowers (farmers, cooperatives, and agri-SMEs) to invest in additional CSA technologies and/or practice change. Payment to the eligible borrowers would only be made upon ex-post verification that the agreed-upon climate outcomes have been achieved. The grant will

be disbursed through the implementation arrangements of subcomponent 2.1 to minimize the transaction costs and ensure the linkage with credit.

The eligible borrowers will adhere to and comply with the requirements of the environmental and social risks and impacts due diligence conducted for the parent project. Based on preliminary analysis and stakeholder consultations, potential target sub-sectors and eligible investments/practices for accessing the RBCF grant include: conservation agriculture (e.g. incentivizing cover cropping, reduced tillage, crop rotation, etc.); agroforestry (e.g. incentivizing planting of fruit trees); livestock (such as incentivizing use of biogas digesters for manure management, application of forage seeds, tree planting of fodder trees etc.); and rice (such as application of sustainable rice intensification practices on existing marshland irrigation schemes). The Credit Line Manual will be updated to reflect the necessary details for implementation of the RBCF mechanism (including the list of eligible CSA investments and practices, monitoring protocols, reporting requirements etc.).

Technical Assistance (TA) to RAB and BRD for capacity building, training, and administering the RBCF mechanism. TA will be provided to RAB, building on its existing capacities and partnering with relevant entities, to support the necessary training to farmers on adopting and implementing the eligible CSA technologies and practices, collection of field data, as well as the monitoring and reporting related activities required as part of the MRV system. TA will also be provided to BRD to increase its capacity to administer the RBCF mechanism and disburse the results-based payment grants upon verification of results.

The project will also undergo a restructuring and conduct Partial Fund Cancellation. US$80 million equivalent will be canceled from the Scale-Up Financing (SUF) (IDA-7040-RW) for repurposing to new projects. The resultant change in project E and S scope is not affected as all parent project activities remain, and funds will be reimbursed back to the project per the agreement between the World Bank and the GoR.

Allocation of the unallocated US$40 million. Following the successful completion of the credit line pilot, the unallocated US$40 million will be allocated to subcomponent 2.1 as originally envisaged. The Credit Line Manual will be adjusted in line with the recommendation of the credit line evaluation.

D.2 Overview of Borrower's Institutional Capacity for Managing Environmental and Social Risks and Impacts

The project AF will be implemented by the Rwanda Agriculture and Animal Resources Development Board (RAB) and the Development Bank of Rwanda (BRD). Additionally, for subcomponent 1.3 BDF will be engaged by RAB as a service provider through a Memorandum of Understanding (MoU) to administer the project matching grant facility, whereby RAB will have the responsibility for E&S aspects. MINAGRI, the overall Ministry under which RAB serves as an autonomous agency, is one of the key stakeholders for the project.

RAB will be responsible for the overall project implementation and set up a Project Implementation Unit (PIU) which will be responsible for overall project oversight and coordination (Component 4), as well as Component 3. The RAB will also be responsible for the management of Value Chain and Infrastructure Development (Subcomponent 1.1, Irrigation rehabilitation and development, Subcomponent 1.2: Land husbandry, Subcomponent 1.3: Innovation and services for agri-business development) and Agricultural Insurance (Subcomponent 2.2: Strengthening agricultural insurance) under Component 1 and 2 respectively. The BRD through its project PIU will be responsible of the

implementation of the Agricultural Finance under the component 2 (Subcomponent 2.1: Scaling up agricultural finance). BDF will manage the grant financing under 1.3 (as a service provider under RAB agreement).

The proposed project would be complementary to other Bank-financed interventions in agriculture in Rwanda. The Rwanda Sustainable Agricultural Intensification and Food Security Project (SAIP, P164520) is focusing on improving productivity, food security and market access of beneficiaries in selected value chains. While SAIP has a focus on smallholder beneficiaries and on increasing their productivity and food and nutrition security, the proposed project will have an integrated focus on promoting agri-food commercialization; in this context, irrigation will be included selectively in value chains and geographies where it has the potential to expand marketable volumes through commercial production. Additionally, a second Program for Results operation, the Transformation of Agriculture Sector Program Phase 2 (P161876), is supporting the implementation of Rwanda's PSTA4; the Strategic Plan aims at strengthening the capacity of the Ministry of Agriculture and Animal Resources to create the enabling environment that would encourage greater private sector investments and increased commercialization across key value chains.

RAB has the general mission of championing the agriculture sector development into a knowledge based, technology driven and market-oriented industry, using modern methods in crop, animal, fisheries, forestry and soil and water management in food, fiber and fuel wood production and processing. The Single Project Implementation Unit (SPIU) currently Under RAB was created in 2012. The SPIU has one Financial Institution that is the World Bank and Korea International Cooperation Agency (KOICA). Through the World Bank, different projects were implemented, namely the two completed projects, the Rural Sector Support Project (RSSP) initiated in 2001 and Land Husbandry, Water harvesting, and Hillside irrigation Project (LWH) initiated in 2019, Feeder Roads Development Project (FRDP) which was relocated to Rwanda Transport Development Agency was initiated in 2013 and one ongoing project the Sustainable Agriculture Intensification and Food Security Project (SAIP) that started in 2018. KOICA funded the Rural Community Support Project and SAPMP, all are still ongoing. The Safeguards instruments were prepared for all projects funded by the World Bank from 2001 up to date. The Environmental and Social Management Framework (ESMF), the Resettlement Policy Frameworks (RPF) are the two instruments that guided the Government of Rwanda in the preparation of Site-specific Safeguards Instruments (ESIAs &RAPs). The implementation of RSSP and LWH projects were fully centered on ESMF and RPF instruments that guided the Project Implementers to prepare the site-specific documents namely the Environmental & Social Impact Assessment (ESIA), The Resettlement Action Plan (RAP) and Pest Management Plan (PMP) specifically for LWH Project. These projects have recorded satisfactory E&S performance and subproject ESHS impacts and risks adequately mitigated. So far, all of these projects were implemented under the World Bank safeguard policies and the project would be the first project to be implemented under the ESF.

To implement the Project, RAB has prepared an Environmental and Social Management Framework (ESMF), Resettlement Frameworks (RF), Labor Management Plan (LMP), Stakeholder Engagement Plan (SEP) and the Environmental and Social Commitment Plan (ESCP). Additionally, Pest Management Plan (PMP) and Master Emergency Response Plan (ERP) for a wide range of emergency situations, and Master EPP (Emergency Preparedness Plan) related specifically to dam safety requirements were prepared under the parent project and will be considered for the AF. Other required instruments as agreed in the ESCP will be prepared when required.

RAB currently has both social and environmental development specialist for the PIU under SAIP. District safeguards officers (four environmental and four social) under RAB are fully onboard and received trainings on the Environment and Social Framework (ESF) and the related ten Environment and Social Standards (ESS) and special focus on the project specific instruments - ESMF, LMP, RPF, GRM, monitoring and reporting. ESCP also includes a requirement for

one Climate Change Specialist at head office to manage climate related aspects, as they are identified during project implementation.

BRD has also been responsible for implementing several World Bank-funded projects in a satisfactory manner. These include the Land Husbandry, Water Harvesting and Hillside Irrigation Project and the Third Rural Sector Support Project (both closed), the Sustainable Agricultural Intensification and Food Security Project (SAIP, ongoing), as well as the Renewable Energy Fund Project, the Housing Finance Project, the Socio-economic Inclusion of Refugees and Host Communities in Rwanda Project prepared under the previous WB safeguards policies. However, the project would be the second project to be implemented under ESF. BRD is currently implementing the Access to Finance for Recovery and Resilience Project (AFIRR) which was prepared under the ESF and is financing SMEs across sectors via PFIs whereby BRD will already be providing some retail agricultural loans (not yet operational at the time of this ESRS). Under the project, BRD will provide both wholesale credits to Participating Financial Institutions (PFIs), and direct lending to private Agri-SMEs.

In line with ESS9, BRD is required to have in place an institutional Environmental and Social Management System (ESMS). For the past year, World Bank has been supporting BRD in its institutional process of updating its ESMS that involved modernizing the policy and procedures to fit with BRD's growing portfolio, diversified lending (including increasingly via PFIs), which required addition of corresponding PFI requirements and due diligence procedures to BRD's ESMS. This process aimed to benefit all World Bank projects currently and potentially supported with BRD. Given BRD's increasing focus on sector-specific lending, the updated ESMS also envisions inclusion of sectoral E&S lending guidelines (starting with agriculture and renewable energy). Since BRD plans to expand its work with various DFIs, its updated ESMS also clarified applicable technical E&S standards, including the World Bank as well as standards of other DFIs or investors that BRD expects to receive funding from, and a revised List of Excluded Activities that states what BRD will not finance. From the World Bank perspective, the ESMS update process would allow to strengthen the overall approach and streamline due diligence for World Bank supported projects (as listed above) which so far have not been managed in an integrated manner at the institutional level, even though E&S issues were adequately addressed via project specific PIUs. The involvement of BRD's senior management in tis update also signals the growing importance and support for E&S risk management. The updated BRD ESMS is expected to be formally approved by BRD Board and the ESCP includes this requirement as a condition of World Bank approval of the ESMS. Further details on the ESMS are given under ESS9.

BRD about a year ago recruited two dedicated staff with institutional responsibility for E&S risk management, which is considered sufficient for the project implementation as this is at par with some major international banks with far more complex portfolios. However, BRD will be encouraged to gradually increase its internal capacity via recruiting additional staff (as possible), internal training of investment and operational risk staff, as well as continuous improvement of the underlying E&S procedures.

Since under the project BRD will be lending via PFIs, their capacity shall be assessed and strengthened throughout project implementation. For this purpose, ESCP includes a requirement that BRD will prepare a structured Environmental and Social Capacity Building Plan that will include both BRD and PFI capacity and needs assessment as well as activities to meet these needs.

The potential environmental and social risks and impacts from the additional financing works are currently expected to be moderate to substantial and consistent with those generally envisaged during construction works, including noise, dust emissions, vegetation clearance, soil erosion, accidents, and injuries etc. Like the parent project, high risk

subprojects, as per the considerations defined in World Bank's ESF risk classification guidance, will be excluded from financing using the World Bank funds under this Project

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

A. Environmental and Social Risk Classification (ESRC) — Substantial

A.1 Environmental Risk Rating — Substantial

The proposed AF aims to facilitate the disbursement of grants through a RBCF mechanism. This initiative is designed to broaden the adoption of CSA practices among CDAT project beneficiaries within selected subsectors, with a funding provision of US$4 million. Potential target subsectors and eligible investments/practices for accessing the RBCF grants include conservation agriculture, which encourages practices such as cover cropping, reduced tillage, and crop rotation; agroforestry; the utilization of biogas digesters for effective manure management; the application of forage seeds; tree planting, specifically fodder trees; and the enhancement of rice intensification practices within existing marshland irrigation schemes. While sustainable agricultural practices like cover cropping, reduced tillage, crop rotation, and agroforestry offer numerous benefits, they also come with potential negative environmental impacts and risks. Cover cropping and reduced tillage while intended to improve soil health and reduce erosion, for instance, can sometimes lead to increased weed pressure, necessitating the use of herbicides that can harm non-target species and contaminate water sources. Crop rotation, if not carefully managed, may introduce invasive species or pests that can disrupt local ecosystems. Agroforestry, despite its many benefits, can lead to competition for water and nutrients between trees and crops, potentially stressing the agricultural system and reducing crop yields if not properly balanced. The implementation of biogas digesters, application of forage seeds, and enhancement of rice intensification practices also carry environmental risks. Biogas digesters, if not correctly maintained, can produce methane leaks, a potent greenhouse gas, contributing to climate change. The introduction of forage seeds can sometimes lead to the establishment of non-native species that may outcompete local flora, reducing biodiversity. Enhanced rice intensification practices, although designed to increase efficiency, can place additional strain on water resources and potentially lead to soil degradation if nutrient inputs are not managed correctly. Furthermore, intensification within marshland irrigation schemes can disrupt wetland ecosystems, affecting biodiversity and natural water filtration processes. These practices require careful management and monitoring to mitigate their negative environmental impacts. The restructuring includes the allocation of the previously unallocated US$40 million. This amount is to be directed to subcomponent 2.1, as was initially planned. The goal of this subcomponent is to lay the groundwork for broadening the availability of affordable financial services and products. This resource is expected to encourage PFIs, such as commercial banks, MFIs, and SACCOs, to extend their services to the agricultural sector. BRD has been managing the credit line, distributing funds through PFIs. BRD employs an Environmental and Social Management System (ESMS) with an industry guide specifically tailored to agricultural lending. As the sector's risks are complex and require a more sophisticated understanding than what general cross-sectoral environmental and social risk management guidelines can offer, thus though the AF and restructuring dose not bring a new activity or increased scope to the parent project, the environment risk kept as the parent project and remains "Substantial".

A.2 Social Risk Rating — Moderate

The social risk rating of the project is Moderate. The project is expected to promote positive social benefits for the wider population within the project implementing districts. The project will involve moderate land acquisition and resettlement due to the nature of the activities to be implemented under component one of the project that include irrigation schemes, on-farm infrastructure, such as greenhouses, warehousing, cold chain and pack houses among a number of subprojects to be implemented. Some of the supported on-farm infrastructure (green houses, warehousing, cold chain) will be privately owned and constructed through FIs where activities that involve resettlement or have sub-activities that require resettlement shall be excluded as per the ESMS guidance. The project has identified sixteen (16) potential small irrigation sites, of which six (6) are existing schemes with a combined command area of 12,890 ha. In addition, the project will finance complementary infrastructure as needed (e.g., development of access roads within the schemes). The six (6) exiting small irrigation schemes require small land acquisition, while the remaining identified potential small irrigation schemes will require moderate land acquisition as the command area (marshland) is Government land and the hillside component for terracing is developed and remains with the individual landowner and no land acquisition required. As there is a high dependence on biomass for household energy needs (used by 80 % of the population) and increasing urbanization (at 4.4% per year) creates significant pressure on natural resources already, notably land, water, and forests with over 60% of households cultivate less than 0.7ha, and 30% cultivate less than 0.2ha. The pressure to avail more land for large scale commercialization may give rise to limited degree of social conflict. The key social risks of the project are associated with 1) potential land acquisition that could lead to impacts on livelihoods, ii) potential exclusion of beneficiaries due to limitations or inadequate stakeholder engagements which could affect vulnerable groups in particular (e.g, the elderly and disabled) , iii) community health and safety risks to communities due to the proposed project works associated with the rehabilitation of marshlands, on-farm infrastructures. There are also concerns related to land consolidation for irrigation schemes and terracing and the redistribution of plot in the irrigation schemes identified under the parent project that could be a potential risk under the AF. The command area to be developed under this project of around 12,890 ha in the marshland area, which is public land, shall be redistributed to the same farmers that have been cultivating that command area who are currently organized under cooperatives. The project shall develop a clear criterion of ensuring that existing land users regain their plots after construction of irrigation infrastructure in the command area. The hillside land husbandry infrastructure of over 7,580 ha to be developed under this project, is on private land that shall be retained by the landowners after constructing the terraces infrastructure. The SEP prepared for the parent project shall guide RAB/SPIU in stakeholders engagement process throughout the project implementation process under the additional financing

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

B.1 Relevance of Environmental and Social Standards

ESS1 Assessment and Management of Environmental and Social Risks and Impacts — Relevant

The proposed AF aims to facilitate the disbursement of grants through a RBCF mechanism. This initiative is designed to broaden the adoption of CSA practices among CDAT project beneficiaries within selected subsectors, with a funding provision of US$4 million. Potential target subsectors and eligible investments/practices for accessing the RBCF grants include conservation agriculture, which encourages practices such as cover cropping, reduced tillage, and crop rotation; agroforestry; the utilization of biogas digesters for effective manure management; the application of forage

seeds; tree planting, specifically fodder trees; and the enhancement of rice intensification practices within existing marshland irrigation schemes.
While sustainable agricultural practices like cover cropping, reduced tillage, crop rotation, and agroforestry offer numerous benefits, they also come with potential negative environmental impacts and risks. Cover cropping and reduced tillage while intended to improve soil health and reduce erosion, for instance, can sometimes lead to increased weed pressure, necessitating the use of herbicides that can harm non-target species and contaminate water sources. Crop rotation, if not carefully managed, may introduce invasive species or pests that can disrupt local ecosystems. Agroforestry, despite its many benefits, can lead to competition for water and nutrients between trees and crops, potentially stressing the agricultural system and reducing crop yields if not properly balanced.

The implementation of biogas digesters, application of forage seeds, and enhancement of rice intensification practices also carry environmental risks. Biogas digesters, if not correctly maintained, can produce methane leaks, a potent greenhouse gas, contributing to climate change. The introduction of forage seeds can sometimes lead to the establishment of non-native species that may outcompete local flora, reducing biodiversity. Enhanced rice intensification practices, although designed to increase efficiency, can place additional strain on water resources and potentially lead to soil degradation if nutrient inputs are not managed correctly. Furthermore, intensification within marshland irrigation schemes can disrupt wetland ecosystems, affecting biodiversity and natural water filtration processes. These practices require careful management and monitoring to mitigate their negative environmental impacts.

To support assessment and management of environmental and social risks and impacts, the project has prepared the following instruments, which will remain valid for the AF activities, that cover the components managed by RAB (with the ESMS covering the components managed by BRD as described under ESS9): Resettlement Policy Frame Work (RPF), Environment and Social Management Framework (ESMF), and Labor Management Procedures (LMP) which cover component 1 of the project related to value chain and infrastructure development that has three subcomponents on a) Irrigation rehabilitation and development, b) Land husbandry and c) Innovation and services for agri-business development to be implemented by RAB. The parent project includes Development Bank of Rwanda as an implementing agency that will lend both direct and through Participating Financial Institutions to farmers, farmer cooperatives, agri-SMEs, and other agribusiness companies that require long-term financing under component 2.1 of the project. BRD has an existing Environmental and Social Management System (ESMS) aligned with the ESF requirements. The BRD ESMS also includes the activities that will be implemented by BDF on behalf of RAB as a service provider for subcomponent 1.3. and subcomponent 2.2 for the strengthening of the National Agricultural Insurance Scheme (NAIS). BDF activities under this Project are governed by RAB ESMF since RAB has the primary responsibility for subcomponent 1.3.

ESS2 Labor and Working Conditions Relevant

Management of labor issues will be governed by two key framework instruments under the parent project: The Labor Management Plan (LMP) was prepared, cleared and disclosed by RAB. The LMP will be relevant for the AF activities.

Anticipated key labor and working conditions risks and impacts are mainly associated with the planned construction works and operation of subprojects, the anticipated occupational health and safety risks from civil works and use of agrochemicals. The project has put in place child labor prevention mechanisms in the design of the project, as appropriate within the design of each subcomponent. The client has provided appropriate measures for the protection of vulnerable project workers such as women and people with disabilities and other disadvantaged groups such as historically marginalized groups and all these categories shall all be considered while recruiting workers and allocation of project benefits.

The majority of those involved will be local people recruited by companies and therefore contracted workers as per ESS2. Due to the limited nature of the activities to be implemented under this project under component one, labor camps or significant labor influx are not anticipated. PIU employees are civil servants that remain under the terms and conditions of their existing public-sector contract, as such, these employees will remain subject to the terms and conditions of their existing public-sector employment. These individuals will however be subject to the requirement of ESS2 in relation to labor and working conditions including occupational health and safety and grievance mechanisms.

Likewise, any technical consultants contracted by the project will also need to adhere to labor standards in line with ESS2. To ensure health and safety of workers during the construction and operational phases of the subprojects, Health, Safety and Environmental (HSE) plans, in line with WBG EHS Guidelines (General and Sector Guidelines under the agriculture sector) will be prepared, in the form adequate for various subproject types. For investments via BRD into small and microenterprises, an HSE plan can take a form of a signed undertaking by the microentrepreneur to comply with certain key OHS risk mitigation actions as part of the loan agreement as would be governed by PFIs' ESMSs.

During subproject operation, such plans shall include detailed requirements for the transport (including road safety measures), handling and disposal of chemicals/ reagents and other hazardous materials. The plan will include procedures on incident investigation and reporting, recording and reporting of non-conformances, emergency preparedness and response procedures and continuous training and awareness to workers. HSE plan apply to all subcomponent operation phases, as relevant.

ESS3 Resource Efficiency and Pollution Prevention and Management Relevant

Resource Efficiency and Pollution Prevention and Management explanation remains the same as the parent project: Management of resource efficiency and pollution prevention issues had been governed by two key framework instruments under the project: The ESMF prepared by RAB and had been disclosed prior to project Board approval and BRD's ESMS that had been integrating these aspects as part of the underlying E&S policies, procedures, and screening and monitoring tools within the overall system.

The project intends to develop irrigations schemes in different sizes and the operation of an irrigation scheme involves significant water and energy use. The designs of irrigation schemes must adapt efficient water use technics and also acquire water user permits from competent authorities before the use of the water. The irrigation schemes also use large quantities of fertilizers if not well managed could end up polluting the surrounding sources of drinking and cause health risks to the communities. The project will apply the resource efficiency requirements of this ESS, and after

assessing environmental and social risks and impacts of the proposed activities, will identify and implement technically and financially feasible measures that avoid or minimize resource misuse. Being an irrigation project, the water balance and quality assessment in the subprojects under the irrigation subcomponent will be maintained, monitored, and reported periodically. Such assessment will begin with relevant parameters included in the Cumulative Impact Assessment (CIA) as described under ESS1 and corresponding risk management measures developed under the management plans prepared under each relevant subproject.

ESS4 Community Health and Safety Relevant

The AF will be focus on component 2 sub-component 2.1 activities. Some of the climate smart activities, the AF resource could also be supporting activities outlined above. Thus all the parent project ESS4 will be applicable for all the AF activities.

The parent project involves civil works, these activities can pose community health and safety issues that include sexual exploitation and abuse. However, the GBV risk assessment conducted for the parent project has confirmed the GBV/SEA risk of the project moderate. Hence, the GBV/SEA risk for the AF will remain moderate. The other potential community health and safety risks likely include incidences of labor influx as a result of the AF project activities.

The construction works shall require the Project to provide security for safeguarding workers and property. The project shall engage security personnel for the safety of workers and worksites (materials, storages sites, etc.). These workers like others shall sign the Code of Conduct and undergo regular training programs in line with the requirements of ESS4.

All ES instruments prepared and cleared for ESS4 on the parent project, will be adopted for the AF activities as necessary.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement Relevant

Management of land-related issues will be governed by two key framework instruments under the project: The RPF prepared by RAB and shall be disclosed prior to project Board approval and BRD's ESMS that integrates these aspects as part of the underlying E&S policies, procedures, and screening and monitoring tools within the overall system.
The project activities will involve minimum acquisition of land for subproject activities under component one. The RPF prepared for the parent project will be adopted for the AF activities to guide the RAB during implementation. The RPF, provides a clear process that allow for voluntary market transactions in form of willing seller and willing buyer where appropriate. The RPF also provides guidance on the preparation of site specific RAPs. The voluntary land donation process is not anticipated under this project.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources Relevant

The AF activities will be governed by two principal framework instruments under the parent project, which focuses on the Management of biodiversity issues: The ESMF, prepared by RAB, will be disclosed before the project Board's approval, and the BRD's ESMS, which incorporates these aspects into the existing E&S policies, procedures, and

screening and monitoring tools as part of the overall system. There is no additional need to analyze ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources for the AF, as the analysis from the parent project is sufficient and is hereby included for completeness.

"The project is considering investments into the irrigation schemes whose locations may include marshland, modified habitats with significant biodiversity, including tree plantations serving as wildlife migration corridors; livestock pastures serving as grazing for wildlife; horticultural fields that provide pollen and nectar for bees and other pollinators; or wetlands of unidentified importance. The use of agrochemicals also poses risks to non-target species on land and aquatic ecosystem and below ground biodiversity. The project may also involve conversion of natural habitat. It will not be clear until the risk and impacts assessment process for subprojects is conducted whether this may include any critical habitats or protected areas of high biodiversity value as defined in ESS6, as well as potential aquatic impacts due to extraction of water from rivers.
Though water and land will be needed during the implementation of its planned activities, the project will take appropriate actions to avoid or minimize adverse impacts on biodiversity and natural habitats in accordance with the requirement of this ESS6. The implementing agencies will ensure that activities involving conversion of critical habitats or legally protected areas are not supported under the project (i.e. excluded from financing). Any subprojects in areas that would qualify as Critical Habitats under ESS6 would not be supported by RAB. Additionally, BRD stipulated that any activity leading to destruction of critical habitat would not be supported in its institutional ESMS under the List of Excluded Activities.
The project will identify the potential subproject-related risks and impacts on habitats and biodiversity. A Biodiversity Impact Assessment will be prepared as part of the Cumulative Impacts Assessment of the project. Where significant risks and adverse impacts on biodiversity have been identified in the process of subproject risks and impacts assessment process, a Biodiversity Management Plan (BMP) will be developed and implemented in line with ESS6 and in a manner acceptable to the Bank. The Biodiversity Management Plan may be a standalone document, or it may be included as part of the ESIAs prepared under ESS1. Particular attention will be paid to introduction of invasive species. The Project will be required to ensure that subproject activities do not intentionally introduce any new alien species unless this is carried out in accordance with the existing regulatory framework for such introduction. Deliberate introduction of any alien species with a high risk of invasive behavior will be avoided regardless of whether such introductions are legally permitted or not.
The infrastructures put in place by the project will be valorized with various commodities including rice, maize, bean, etc. Aquaculture and apiculture will be promoted in the water reservoirs and their buffer zones respectively. The project will manage planned living natural resources in a sustainable manner, through the application of good management practices, available technologies for increased and sustainable production, and sustainability standards (where available)."

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities — Not Currently Relevant

There are no Historically Underserved Traditional Local Communities as defined by ESS7 in the project areas.

ESS8 Cultural Heritage — Not Currently Relevant

Although no impacts to cultural heritage are anticipated, the project will incorporate “chance find” procedures in the ESMF when physical cultural resources are encountered during construction.

ESS9 Financial Intermediaries Relevant

The project includes Development Bank of Rwanda as an implementing agency that will lend both direct and through Participating Financial Institutions to farmers, farmer cooperatives, agri-SMEs, and other agribusiness companies that require long-term financing under component 2.1 of the project.

BRD has an existing Environmental and Social Management System (ESMS) which was assessed during project preparation and BRD was requested to update its ESMS to align with the ESF requirements in compliance with the World Bank Environmental and Social Framework (ESF), and in particular with Environmental and Social Standards (ESSs) ESS1, ESS2, ESS3, ESS4, ESS6, ESS9 and ESS10. BRD has completed such review and intends to have the updated ESMS approved by its senior management and Board. BRD will subsequently disclose the updated ESMS on its website. This is expected before project effectiveness and included in the ESCP.

The updated BRD ESMS includes all key elements required by ESS9 as follows:

Environmental and social policy: BRD’s ESMS contains clearly stated institutional policies and applicable E&S standards, including the required List of Excluded Activities.

Environmental and social procedures:
- BRD’s ESMS contains clear procedures for E&S due diligence across BRD’s entire portfolio of lending (which are equally applicable to lending under THE PROJECT), including a clear and well-articulated categorization process

- Importantly, BRD ESMS that initially covered only BRD’s direct lending has been strengthened by including specific and robust assessment and monitoring processes for lending via commercial FIs, whereby these Participating FIs’ (PFIs) systems and capacity for E&S can be systematically assessed by BRD

- BRD has also supplemented the ESMS with an industry guide specific to agricultural lending (annex to BRD E&S policy) which is necessary to carry out activities under the project as the sector’s risks are complex and require deeper understanding that cannot be provided by general cross-sectoral E&S risk management provisions

ESS10 Stakeholder Engagement and Information Disclosure Relevant

Stakeholder Engagement Plan (SEP) under the to provide a framework for effective and inclusive engagement with stakeholders at all stages of the Project lifecycle has been prepared and being implemented for the parent project. SEP was prepared with the overall objective of defining a plan or program for stakeholder engagement, including public information disclosure and consultation, throughout the preparation and implementation of the proposed CDAT project. The SEP outlines how RAB-SPIU will communicate with relevant stakeholders, including MINAGRI,RDB,REMA, contractors/subcontractors, private sector companies, enterprises, and includes a mechanism by which people can raise concerns, provide feedback, or file complaints about project activities or any other ancillary facility activities

related to the project. During the preparation of SEP, the CDAT project undertook consultations with a range of stakeholders, including relevant government institutions, such as RAB,MINAGRI, RDB, REMA, Local communities, private sectors, non-governmental organizations, Civil society organizations, etc. to develop mechanisms for information sharing, citizen engagement, and beneficiary feedback.
SEP has been implemented for the parent project and several stakeholders have been consulted. At the moment there is no need to update the SEP. The SEP contains :a) description of the applicable regulatory and/or other requirements for disclosure, consultation, and ongoing engagement with the Project's stakeholders. b) Outline the stakeholder consultation and communication activities throughout each step of the ESMF, and ESIAs/ESMPs as well as project implementation phases. c) Identify and prioritize key stakeholder groups, focusing on project directly affected local communities, d) Provide a transparent and inclusive strategy, action plan and timetable for disclosure of information. e) Ensuring that engagement with each group is undertaken without any form of discrimination. f) Assess the level of stakeholder interest and support for the project and enable stakeholders' views to be taken into account in project design and environmental and social performance. The project established a grievance redress mechanism (GRM) that is easily accessed to the aggrieved parties. The GRM is transparent and accountable in grievance handling as well as responding both effectively and efficiently to the grievances reported by the affected parties. The proposed GRM system meets the requirements of ESS10. This SEP will serve for the AF activities, as well. The SEP provides identification and classification of all Project stakeholders (including vulnerable groups), appropriate modes of communication/disclosure for all identified categories of stakeholders, guidance on disclosure including modes and timeframes, and records of all stakeholder engagements carried out. The SEP is a living document, which will be periodically updated and implemented throughout the Project implementation period, when necessary.

B.2 Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways	Yes
OP 7.60 Projects in Disputed Areas	No

B.3 Other Salient Features

Use of Borrower Framework No

N/A

Use of Common Approach No

None

C. Overview of Required Environmental and Social Risk Management Activities

C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required during implementation?

The current Credit Line Manual will be adjusted in line with the recommendation of the credit line evaluation.

All other parent project ES instruments remain applicable to the AF activities.

1. Environment and social Commitment plan
2. Environmental and Social Management Framework, ESMF;
3. Resettlement Policy Framework (RPF),
4. Stakeholder Engagement Plan (SEP) and
5. Labour Management Plan (LMP).
6. Subproject-specific environmental and social impact assessment (ESIA), and environmental and social management plans (ESMP)The Environmental and Social Management Plans (ESMPs) for subprojects be implemented in compliance with the ESSs. ESMPs will include, as relevant, thematic management plans, such as Emergency Response Plan (ERP).
7. A master ERP prepared that shall be adapted for each subproject, as relevant, as stated under ESS4.
8. A master Emergency Preparedness Plan (EPP) prepared by RAB and that will be adapted for each subproject involving dams, as stated under ESS4 in the ESCP.
9. A master Integrated Pesticide Management Plan (PMP) prepared by RAB and that will be adapted for each subproject involving irrigation and agriculture, as stated under ESS4 in the ESCP.
10. Environmental and Social Management System (ESMS) of BRD. Each PFI will have adequate internal E&S capacity to implement its ESMS.

III. CONTACT POINTS

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