



**The World Bank**

ACCESS TO POST-HARVEST INFRASTRUCTURE FINANCE FOR SMALL AND MEDIUM PRODUCERS  
(P173504)

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# Concept Environmental and Social Review Summary

## Concept Stage

### **(ESRS Concept Stage)**

Date Prepared/Updated: 06/30/2020 | Report No: ESRSC01476



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Mexico	LATIN AMERICA AND CARIBBEAN	P173504	
Project Name	ACCESS TO POST-HARVEST INFRASTRUCTURE FINANCE FOR SMALL AND MEDIUM PRODUCERS		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Agriculture and Food	Investment Project Financing	1/11/2021	3/18/2021
Borrower(s)	Implementing Agency(ies)		
FINANCIERA NACIONAL DE DESARROLLO	FINANCIERA NACIONAL DE DESARROLLO		

Proposed Development Objective(s)

To expand the availability of finance for post-harvest infrastructure in selected value-chains.

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>360.00</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?**

No

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

The proposed project will establish a line of credit of US\$300.0 million in the National Agricultural, Rural, Forestry and Fishing Development (FND, future Financiera Nacional Agropecuaria, FINAGRO) supported by an IBRD loan. FND will also make an in-kind contribution of US\$5M for management and development of the information systems and a Project Management Unit (PMU). The estimated total project cost of US\$360 million includes counterpart contributions from beneficiaries. The direct beneficiaries Participating Financial Intermediaries (PFIs) and their sub-borrowers; medium semi-commercial and commercial agricultural producers defined as Rural Productive Units (RPU)



associated with grain and dairy sectors. The credits will specifically support investments in grain-storage and dairy cold-chain. It will depend on the project design up to what point micro and small level RPU's will be able to access the credits. In every case, it is expected they can benefit through potential association with the borrowing RPU's and the process of aggregation of value to grains and milk.

Rural agri-food development provides an opportunity to address jobs and economic growth, contributing to socio-economic stability, environmental resilience and food security. Agriculture in Mexico represents a substantial share of natural resource use by millions of RPU's, while agriculture is highly vulnerable to climate change. Storage infrastructure for agricultural products is inadequate in Mexico, with remarkable variation between regions and states. Integrating formal financial products and services into agri-food systems can improve the socio-economic conditions of producers while improving food security and generating income opportunities.

FND is a key national vehicle for agriculture-related infrastructure investments and related technical capacity building for rural financial intermediaries through which it operates as a second-tier bank. Currently, FND is undergoing a process of institutional transformation into a larger entity, FINAGRO. The PFIs include a range of institution types and sizes across the country, including credit unions, cooperatives, deposit warehouses, financial societies of multiple objectives (SOFOMES), agricultural producer associations, and commercial banks serving the rural economy. The beneficiary PFIs will be carefully selected by FND based on their financial health, institutional capacity to on-lend, governance, and operational processes. During project preparation, the Bank will agree with FND on more specific eligibility criteria for PFIs and sub-borrowers, including on environmental and social (E&S) risk management capacity.

Adding challenges in rural Mexico, on March 11, 2020 the World Health Organization declared a novel coronavirus 2019 (COVID-19) a pandemic, which is expected to have a major impact on Mexican agriculture affecting all size of players. The project will support credit-worthy enterprises in the agriculture sector to recover from economic impacts of the pandemic.

The project is aligned with the World Bank Group's Mexico Country Partnership Framework (CPF) for FY2020-2025 (Report No. 137429-MX), which supports the National Development Plan (2019-2024). Among the three CPF focus areas of engagement, the project contributes to the first related to supporting inclusive growth and its objectives to (i) foster financial inclusion and (ii) reduce structural impediments to productivity growth, and the third on promoting inclusive and sustainable development and its objective to provide more inclusive and sustainable infrastructure services. The CPF highlights the role of the WBG to seek opportunities to crowd-in private investments.

#### **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 be implemented nationwide with credit-worthy and eligible agribusinesses. Puebla, Oaxaca, Chiapas, Michoacán, Guanajuato, State of Mexico, Veracruz, Guerrero, Hidalgo, Campeche, Tlaxcala, Querétaro, Tabasco, Yucatán, Morelos and Quintana Roo, states located mostly in the center and southern parts of Mexico, will be prioritized for investments.



The agriculture sector employs a significant share of Mexicans, representing nearly 13 percent of total employment. Particularly in central and southern states, agriculture is vital to stimulate rural economic development and reduce poverty and inequality. Agricultural land represents 57 percent of the total land area with around 5.4 million RPUs devoted mostly to the production of maize, wheat and sorghum. Among them, 22 percent are subsistence farmers without market penetration, 51 percent subsistence farmers with some market penetration, 8 percent in transition, 10 percent businesses with fragile income streams, 8 percent solid businesses, and 0.3 percent dynamic businesses. RPUs have been characterized based on a strata system ranging from E1 to E6, potential project beneficiaries including E2-E5.

Mexico presents significant regional disparities between the scale of development and growth across sectors. The structure and performance of the agriculture sector varies between the northern, central and southern states. In the north, agriculture is industrialized, commercial and export-oriented. Land ownership is concentrated, and productivity of the sector is higher than in the south, expanding to off-farm activities such as packaging and agri-food processing. The project will prioritize agri-businesses located in the center and southern parts of Mexico, where agriculture is mostly subsistence and semi-subsistence based and essential for food security. The applicable challenges, such as low productivity, poor infrastructure, and limited access to credit for small farmers, will be further analyzed during preparation and once the credit amounts are confirmed.

Other salient social characteristics of the project include a high prevalence of gender and ethnic marginalization, social and economic exclusion of youth, high incidence of crime and violence in some states, and accessibility issues in the south. Especially Indigenous and Afro-Mexican women are worst off in many categories of social outcomes. In the agriculture sector, gender inequality persists as female farmers own only 10 percent of the land they work on and are subject to higher productive exclusion. Access to land and natural resources directly impacts their livelihoods.

Given the type of the planned project investments, their salient environmental and social characteristics can be determined once the actual intervention sites are known, including the determination of the most convenient source of renewable energy technologies for the storage facilities. An Exclusion List will be applied to avoid any investment located in sensitive areas or otherwise with potentially high or substantial E&S risks or impacts.

An outbreak of COVID-19 has spread rapidly across the world since late 2019. As of April 29, 2020, the outbreak has resulted in an estimated 16,752 cases and over 1,569 deaths in Mexico. Containment and mitigation measures necessary to limit the spread are reducing economic activity worldwide, closing businesses and increasing unemployment. Impacts of COVID-19 on the Mexican agricultural sector could potentially include interrupted supply of food to wholesale and retail locations, increased production costs due to limited availability of inputs, and diminished labor productivity. The project will tackle some of these challenges through enhanced storage facilities.

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

The project will provide financing through FND, one of Mexico's national development banks. Financing and developing PFIs form an important part of the growing FND focus on promoting financial inclusion in rural areas. FND is undergoing a process of institutional transformation into FINAGRO that will integrate three other entities: Fideicomiso de Riesgo Compartido (FIRCO) and Fondo de Capitalización e Inversión del Sector Rural (FOCIR) for risk capital functions; and Aseguradora Agropecuaria Mexicana (AGROASEMEX) for insurance functions. Therefore, FINAGRO will not only offer rural credit but also risk capital and insurance services. The coordination and



management of the credit facility will be done by a PMU within FINAGRO, comprised of current FND and FIRCO staff and supported by FINAGRO’s own resources.

FND will channel the project funding applying an Environmental and Social Management System (ESMS), which will screen out any credits that could lead to high or substantial risks or impacts outlined in paragraphs 11, 14 and 16 of the World Bank Environmental and Social Standard (ESS) 9 on Financial Intermediaries. The ESMS requirements will consequently focus on compliance with national laws and regulations, including guidance on applicable international good practices. If any of the impacts set out in paragraphs 11, 14 and 16 is present, the subproject will need to be excluded or adjusted to eliminate the higher-risk aspects.

Since 2014, FND has an E&S policy and a voluntary ESMS for its first-tier operations above a threshold of 4M UDIs (Mexican unidad de inversión not subject to inflation); around US\$1.1M. In July 2019, FND signed the “Sustainability Protocol” of the Mexican Banking Association (ABM) to promote provision of financial products and services focused on climate change mitigation and overall material efficiency. PFIs that request FND financing in second-tier operations still have limited capacity to incorporate e.g. climate change related E&S risk management to their portfolio, as concluded by a 2019 assessment FND contracted on its PFIs. It considered the feasibility of the PFIs adopting a portfolio-wide ESMS to comply with the Equator Principles, and concluded that the size of most of the PFIs is not compatible with said level of E&S management effort due to related costs. By Appraisal, the Bank will conduct a capacity assessment of the PMU and agree with FND on how to assess for PFIs’ capacity and identify necessary training, procedures and other strengthening measures to ensure they can effectively comply with the project’s ESMS requirements based on national law and regulations and guidance on international good practices.

Regarding experience with Bank-financed operations, since late 2015, FND has been implementing an FI operation called Expanding Rural Finance (ERF, P153338), for which an Additional Financing (AF, P169156) was approved in March 2019, but is not yet effective. Currently, the ERF has 234 eligible PFIs and a portfolio of 170,000 credits to 140,000 rural micro-, small and medium enterprises with an average credit size of US\$1,800. The ERF is a Category B project under the Bank Operational Policy 4.01 on Environmental Assessment, and further triggers the safeguards on Natural Habitats, Pest Management, Forests, and Indigenous Peoples. It has an Environmental Management Framework and Indigenous Peoples’ Planning Framework that were updated for the AF. Part of the PFIs are Regional Indigenous Funds, which have developed business plans suited for IPs instead of Indigenous People Plans. Given the minor scale of the credits, the EMF covers them through booklets on good practices on water use, prevention of land degradation, management of waste and chemical products, livestock, aquaculture and forestry production, and occupational safety and hygiene. Since early 2019 FND reforms, follow-up, monitoring and reporting on the safeguards performance of the ERF continues to require strengthening.

Public Disclosure

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

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

Moderate

#### Environmental Risk Rating

Moderate

The project will focus on post-harvest processes combined with use of renewable energy sources and energy efficiency technologies to power them. It is expected to generate important environmental and other benefits, given



it will improve post-harvest storage conditions and thereby decrease post-harvest losses, improve competitiveness of beneficiaries, and overall conditions in productive areas, as well as increase use of renewable energy sources. Greenhouse gas (GHG) emissions will be reduced by the installation of renewable energy sources and the reduction of food losses, and potential inclusion of biodigesters as an energy source would also improve effluent management.

The planned construction activities could lead to minor soil or water pollution and/or issues related with waste management or occupational or community health and safety, the latter applying also to operation stage and pest management issues. Such impacts would be site-specific and manageable through proper screening and assessment of the eligible and approved investments, including careful site selection in observance of factors of E&S sensibility. The implied environmental risks and potential negative impacts of the planned project activities are not considered significant or irreversible and can be addressed with straight-forward mitigation measures and good practices. Further, the project's ESMS will include an Exclusion List to screen out any activity with the potential to generate substantial or high risks/impacts including from the primary production chain, such as environmentally harmful land use changes like deforestation, significant adverse impacts on any type of natural habitats or cultural resources, and uncontrolled or increased use of agrochemicals, and other impacts and risks as outlined in paragraphs 11, 14 and 16 of ESS9, further described under each ESS below.

Additional to the above, the environmental risk rating for the project reflects the following initial assumptions and challenges: (i) FND will adopt an ESMS for the project, including an Exclusion List that screens out all H and S risk subprojects; (ii) the baseline ESMS of FND doesn't apply to second-tier lending and its application is voluntary, while the ESMS for this project will have to be complied with at the second-tier level; (iii) a need to define a minimum baseline capacity of the PFIs that currently execute FND's second-tier lending and provision of technical assistance (TA), capacity building and overall field support and supervision as deemed necessary; (iv) the PMU has currently limited human resources to focus on the E&S risk management during project preparation, a situation that relates to a national austerity budget and drastic cuts in public personnel; (v) the project is the first Bank-financed operation that FND will implement under the World Bank's Environmental and Social Framework; and (vi) the ongoing institutional merge of FND with three other financial entities to FINAGRO.

To mitigate the above risk factors, the Bank team will collaborate with the assigned FND and FIRCO, future FINAGRO, personnel, to establish a work plan to cover the ESF requirements applicable to the project under ESS9 on Financial Intermediaries. The Bank and FND will agree upon an obligatory but proportionate, risk based and efficient ESMS to secure avoidance of negative impacts and facilitate generation of E&S value added. FND's existing ESMS will be used to assess lessons learned through a review of current performance, develop streamlined procedures for adequate risk management with minimum burden on project execution or limitation of demand for the credits.

Due consideration will be placed on the E&S capacity of the eligible PFIs to determine the most opportune financing arrangements and define the most viable strategy forward with the project's E&S risk management at the PFI level.

### **Social Risk Rating**

Moderate

The social risk rating for the project at the Concept Stage is considered Moderate. Based on the analysis of the targeted project activities, it was determined that the project is not likely to cause significant risks or negative impacts on human populations. Project activities, including investments in energy efficiency and renewable energy integral to



storage and cold chain facilities, will contribute to food security by reducing post-harvest losses and improving long-term food availability through better storage and commercialization. Access to reliable energy in agribusinesses can result in safer working environments. Improved technical capacity of enterprises through TA for preparing business plans is also expected to benefit RPUs.

Direct beneficiaries of this project include PFIs and their sub-borrowers, and small, medium semi-commercial and commercial agricultural producers (to be further defined during preparation). It will depend on the project design up to what point micro and small level RPUs will be able to access the credits. Overall, the project is expected to provide positive social impacts, such as access to credit for small and medium-scale agri-businesses, strengthened food security and, in the COVID-19 context, support for the agriculture sector to recover from economic impacts of the pandemic.

While overall social benefits are positive, the main social risks associated with the proposed project include: (i) technical capacities of FND and PFIs to comply with World Bank’s E&S standards and availability of sufficient human resources to implement, monitor and report on different ESMS requirements and procedures as detailed in the present ESRS; (ii) limited TA and capacity building to implement good practices, national standards and post-harvest infrastructure actions; (iii) local labor practices that might not align with the objectives and criteria of Environmental and Social Standard (ESS) 2 on Labor and Working Conditions at the community or producer level; (iv) depending on the project design, risk of exclusion of eligible enterprises led by vulnerable groups, including indigenous, youth and women-owned enterprises; and (v) the need to support them to meet the requirements to access credits or other financial products.

These risks can be defined in more detail once the actual size of credits is determined, and the typology is defined including exclusion of any activity with high or substantial risks/impacts such as resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on community health and safety, labor and working conditions, or cultural heritage. These will be addressed further under the respective ESS. Further, the ESMS will apply a participatory approach during project implementation, including detailed and clear communication messages and call for proposals to beneficiaries that emphasize good practices, including related codes of conduct.

## **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:***

ESS1 is relevant for the project. The World Bank’s due diligence on assessing the project’s E&S risks and impacts is based on related assessment conducted under a similar Mexican, World Bank-financed project “Grain Storage and Information for Agricultural Competitiveness” (ALGRANO, P160570) that closed in January 2020. ALGRANO was implemented by the Ministry of Agriculture and Rural Development (SADER) and counted with close collaboration from the International Maize and Wheat Improvement Center (CIMMYT), which has strong technical capacity, field presence, E&S dimensions incorporated in program activities, including sustainable technologies (traditional seeds,



diagnostic tools, conservation agriculture, and post-harvest technologies). While the implementing agency and implementation modalities were different, the ALGRANO investments were very similar to the investments planned under the new FI project, and its Environmental Management Framework (EMF) and Indigenous Peoples' Planning Framework (IPPF), coupled with the FND instruments and ESMS, provide a solid basis for the preparation of this project's E&S instruments. Said instruments include a thorough analysis of the national E&S legal framework applicable to the project, identification of impacts and mitigation measures, and an example training program with a participatory approach to promote adoption of sustainable and environmentally-friendly management practices both for technicians and beneficiaries. The training program covers, inter alia, grain and legume pests and their control techniques in line with integrated pest management during storage phase; training in related occupational health and safety (OHS) in terms of handling, use and storage of pesticides and hazardous substances; post-harvest grain and legume management and good practices; and identification and implementation of measures to mitigate negative environmental impacts. Together with the FND baseline ESMS, these instruments will serve as a solid basis to establishing a project-specific ESMS that will also cover the targeted investments in facility-based renewable energy and energy efficiency technologies and potentially technical aspects of dairy subsector, and the new aspects introduced to be analyzed and addressed under the ESF.

One of FND's objectives is to broaden financial inclusion by providing access to new accredited beneficiaries who have historically lacked access to credit and other financial products. FND is working on developing an inclusion policy, currently under review, that aims at addressing structural barriers and providing strategies to target beneficiaries, such as IPs and Afro-Mexicans, youth and women-owned SMEs, among others. The policy will provide guidelines that could be included in the ESMS as a way to mitigate possible risks of exclusion.

During preparation, the Bank team will look at gender-based violence (GBV) issues and identify available service providers that can be used as part of a referral pathway for any GBV case possibly identified within the context of the project activities. The ESMS will also look into risks related to child and forced labor. While this risk is considered medium to low, given the potential medium-sized beneficiaries involved, risk of child labor will be addressed through the Exclusion List and a code of conduct included in the ESMS. The ESMS will also look at health and safety of communities particularly where civil works will take place, including good practices to prevent spread of COVID-19.

The Bank, through the project, will provide FND/PFIs a line of credit to finance targeted eligible investments. FND will implement the project through PFIs, and FND and the PFIs will monitor and manage the E&S risks and impacts of their portfolio of investments through an ESMS at FND as deemed satisfactory by the Bank. The ESMS will apply only to the Bank-financed line of credit; not to all FND's operations. PFIs will manage risks and impacts in accordance with the FND ESMS, which will have to be complied with at the second-tier level. The ESMS will screen out any credits that could lead to high or substantial risks or impacts outlined in paragraphs 11, 14 and 16 of ESS9 on Financial Intermediaries. The ESMS requirements will consequently focus on compliance with national laws and regulations, including guidance on international good practices. If any of the impacts set out in paragraphs 11, 14 and 16 is present, the subproject will either need to be excluded or adjusted to eliminate the higher-risk aspects.

The FND ESMS will cover three main stages to address ESS9 compliance: (i) an Exclusion List that will be used to screen out any substantial or high risk activities that would involve e.g., resettlement, adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage; (ii) the selection process of eligible investment proposals based





on evidence of compliance with national legal requirements (e.g., on permits and authorizations); and (iii) commitment and monitoring of implementation of the project's good practice guidance.

The ESMS will limit eligible project investments to those of maximum moderate E&S risks/impacts as part of the eligibility criteria. During construction/rehabilitation and operation of the storage facilities, E&S mitigation measures and good practices will be applied under support and supervision by the responsible technicians following the applicable national regulations and recommendations on international good practices, depending on the type of storage. The overall project supervision will be conducted by FND through implementation of the ESMS.

The ESMS will be designed, developed and approved by FND in a manner satisfactory to the World Bank preferably prior to Board approval (depending e.g. on the institutional change process from FND to FINAGRO), and in any case before any PFI can be declared eligible or any subproject can be approved. The ESMS will be maintained and implemented throughout project implementation to meet the relevant ESF requirements. FND will also develop a stakeholder mapping and analysis and a project-level Stakeholder Engagement Plan (SEP) in accordance with ESS10. FND will consult the ESMS (including IPPF and Labor Management Procedures) and the SEP before Appraisal and update them when needed through project implementation.

As this is the first ESF project for FND, the Bank team will provide continued capacity building and support on an as-needed-basis throughout project preparation and implementation.

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

None.

**ESS10 Stakeholder Engagement and Information Disclosure**

ESS10 is relevant for the project. FND will develop and implement a project-level SEP that will be consulted and disclosed prior to project Appraisal and updated as needed during project implementation. FND will conduct adequate consultations with a broad range of relevant actors, including community-based organizations, producer organizations, academia, local and state governments, potential beneficiaries, etc. FND will implement the project through PFIs.

Given circumstances related to COVID-19 and related containment measures adopted by the GoM, the project-related consultations, as well as civil works, supervision arrangements and other project implementation and management aspects will be adapted in line with relevant Bank and Government guidance as necessary at the moment of each action. Consultations during project preparation will most likely need to be adapted to digital formats, including but not limited to electronic correspondence, written questionnaires to identified stakeholders, video-conference sessions, telephone surveys, among others. Social media and other traditional communication channels can also be used to provide project-related information. As containment and social distancing measures relax, FND/FINAGRO will assess the level of risk and propose additional means of consultations such as limited gatherings or meetings with small focus groups.

Regarding a Grievance Redress Mechanism (GRM) under the ongoing ERF project, FND has several client feedback mechanisms, including a web-based client feedback form managed by its Social Communication Unit, an email



address, telephone number, and an internal Control Office. The majority of the PFIs are covered by the National Commission for Protection and Defense of Users of Financial Services (CONDUSEF in Spanish), a Government agency that functions as an advocate for users of any type of financial services in Mexico. CONDUSEF collects complaints from PFI clients and publishes regularly summaries of the actions taken to address them. Grievances can be submitted through local GRM channels as well as by email centralized ways (for example, email). In areas with presence of IPs, grievances can be submitted in indigenous languages as most of PFIs present in such areas have staff with knowledge of local languages. Most of the complaints are submitted through the PFIs' GRM channels and resolved locally. FND has committed to provide the Bank a detailed description of functioning, monitoring and reporting of investment-level GRM and subsequently strengthen them as needed to establish a consolidated mechanism that utilizes existing windows and addresses project grievances and allows for monitoring and reporting.

The proposed project will have a GRM accessible to different stakeholders. It will need to include clear procedures for managing claims and other feedback provided on the project, and its design will be guided by principles such as: (a) availability for beneficiaries and stakeholders respecting their sociocultural characteristics, accessibility, and needs, (b) known procedures and timeline for analyzing and resolving claims and responding to all feedback; and (c) providing for proper closure of all claims and an appeals mechanism for unsatisfied claimants. Further, the GRM will consider the Bank's recent Technical Note prepared for "Public Consultations and Stakeholder Engagement in WB-supported operations when there are constraints on conducting public meetings". The GRM will be supported by information and communication technology (ICT) as appropriate. Related to IPs, Afro-Mexicans and "ejidos" as determined relevant as the project preparation proceeds, the SEP and GRM will be tailored and include measures sensitive and respectful to their culture, e.g. the use of indigenous languages.

The SEP and GRM, as well as the other E&S instruments, will be informed by initial consultations carried out during project preparation to ensure local support for the project and to help identify project risks and impacts. Feedback from the consultations will be integrated in the project itself and other instruments as relevant, including the SEP and GRM design, which will be disclosed prior to Appraisal.

The GRM is expected to be functional by the time consultations begin, so that stakeholders can be informed of its existence and make use of it, if needed, during project preparation.

## **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**

ESS2 is relevant for the project because it and the financed credit investments will involve different types of workers, such as (i) direct workers (FND/FINAGRO staff working on the project) and (ii) consultants and other contracted workers employed by the eligible PFIs or by PFIs' beneficiaries to prepare investment-specific business plans and provide the related TA. It is expected that Government civil servants of FND will work on the project mainly on part-time basis to secure efficient project management. The referred civil servants will remain subject to the terms and conditions of their existing public sector employment agreements and arrangements, unless there is an effective legal transfer of their employment or engagement. ESS2 will apply to such Government civil servants in regard to provisions of paragraphs 17 to 20 (Protecting the Work Force) and paragraphs 24 to 30 (Occupational Health and



Safety, OHS). The FND and PFIs will ensure that the project and its investments follow the relevant requirements set under national law and ESS2 when hiring direct or contracted project workers. Contracted workers can be employed or engaged through third parties and may include contractors, subcontractors, agents or intermediaries to perform work related to core functions of the project or its investments, regardless of their location.

As part of the ESMS and its Management Programs, FND, through the Exclusion List, will screen out any subprojects that present significant or high risks related to labor and working conditions; FND will also prepare Labor Management Procedures (LMP) based on the national law, including relevant requirements and guidelines for the different types of workers engaged in the project to monitor compliance of requirements set under ESS2. The number of workers is not known at this time. Foreign labor influx-related impacts are not expected, yet construction of grain or legume storage facilities may involve temporary and limited labor influx at local level. In this case, the ESMS will outline measures to avoid or minimize the spread of diseases, including measures to avoid or minimize the transmission of communicable diseases, such as COVID-19, that may be associated with the influx of temporary or permanent contract labor. A code of conduct for workers will also be included in terms of their relation with adjacent communities to avoid violence, ensure safety of community members and particularly of women and girls. During project preparation, it will be determined whether community workers will be considered and if so, the relevant procedures will be included in the LMP.

In Mexico, informal employment of men and women is prevalent in activities linked to agriculture. Some of the risks related to informal employment include the lack of clear terms and conditions for employment and poor labor conditions particularly for vulnerable workers such as women. The ESMS/LMP will identify potential risks and include relevant mitigation mechanisms.

According to national statistics, 5.6 percent of Mexican children (ages 0-17) work in non-approved occupations and over 30 percent work in the agriculture or livestock sectors. While this risk is higher in sectors other than dairy and grain (those supported by the project), consistent with paragraphs 17 to 20 of the ESF, and to ensure that no harmful practices are supported by the project, the ESMS/LMP will provide for screening of risks of child and forced labor to include preparation of the necessary mechanisms to prevent, monitor and remedy them under project activities. The Bank team will build the capacity within FND and PFIs to prevent, identify and address use of child and/or forced labor.

Through the application of the ESMS and its LMP, FND must ensure that labor management procedures are in place for contracted workers to allow them to operate in accordance with the requirements of national law consistently with ESS2. The LMP will include measures to avoid discrimination and grant equal opportunities and measures related to OHS. The Environmental and Health and Safety Guidelines of the World Bank Group will be used as a good practice reference for OHS aspects of the LMP. Additionally, FND and PFIs will conduct regular monitoring of health, working conditions, and hours of work, as required by ESS2 in accordance with national law. PFIs will provide reference to the project-level GRM, which will also channel workers' grievances and include measures to protect workers against reprisal for its use.

Applicability of ESS2 will be further assessed, including budgetary needs, capacity building needs and supervision during preparation when more detailed information on the project activities is available focusing first on compliance



with national laws and regulations. During implementation, the ESMS and its LMP will be revisited and updated as required and as additional labor related risks or issues unfold.

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

ESS3 is relevant for the project as it will finance rehabilitation of old and construction of new grain and legume storage facilities, cool chain investments in milk production, and applicable sources of renewable energy to operate the facilities. The Exclusion List will screen out subprojects with potential significant risks or impacts on the environment. The ESMS will include guidance on applicable good E&S practices, mitigation measures, and resource efficiency investments and considerations in terms of the relevant demolition/upgrade and construction activities, as well as purchase and installation of the renewable energy and energy efficiency technologies for the targeted storage facilities. Particular attention will be paid to adequate disposal of any hazardous waste material such as asbestos, lead paint or chemicals needed in laboratories potentially required by dairy cold chain storage facilities and prevention of construction-related contamination of soil and water. The ESMS will incorporate, in addition to national laws and regulations, guidance from the World Bank Group's General Environmental, Health and Safety (EHS) Guidelines and applicable industry EHS Guidelines on Agribusiness/Food Production and Chemicals on aspects like use and handling of fertilizers and pesticides.

Preparation of the ESMS will analyze use of agrochemicals during the operational stage of the grain/legume storage facilities as a potential environmental and health risk, covering different pest management practices related to grain/legume storage supported by the project. The ESMS will include a Management Program to guide preparation of site-specific Integrated Pest Management Plans (IPMP) during project implementation. It will provide guidance on complying with national environmental and legal requirements and grain/legume storage related evaluations and permits, as well good E&S practices and standards consistent with ESS3 and ESS4. In case of grain/legume storage facilities seeking to be accredited as authorized entities to issue certificates of deposit, the specific regulations and criteria for said entities will be applied.

As part of the project preparation and applying the relevant World Bank guidelines, the Bank team will undertake a GHG accounting on the emission reductions achieved under Subcomponents 1.1. and 1.2 using the FAO EXACT tool, and if they are deemed significant, the estimation will be detailed in the Appraisal Stage ESRS.

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

ESS4 is relevant for the project. Overall, project actions are expected to decrease community exposure to E&S risks and impacts, as they will improve food storage and decrease food loss, thus strengthening resilience to increasing climate variability and change. The Exclusion List will screen out subprojects with significant risks or impacts on community health and safety. There is need to consider community health and safety in the ESMS in relation to the location of the project investments in terms of excluding e.g. sites vulnerable to extreme weather and natural events.

The ESMS will cover standard measures to secure community health and safety in project-financed activities and define mechanisms to monitor their implementation. Due consideration will be given to promotion of and training on integrated pest and vector management to secure prevention of negative health impacts among producers, their



families and the adjacent communities, as well as man-made hazards (e.g., emergencies from exposure to pesticides and agrochemicals, and accidents due to unsafe construction practices, use of equipment/heavy machinery or inadequate use of personal protective equipment, PPE). Agro-industry support may also imply issues of safe food and agricultural product handling, production, packaging, and storage. Potential need for security personnel in a specific location and the related ESF Good Practice Note “Assessing and Managing the Risks and Impacts of the Use of Security Personnel” will be covered in the ESMS in case deemed necessary during project preparation and through project implementation as applicable.

Along with relevant Bank and Government guidance, the ESMS will also include measures to reduce potential spread of infectious diseases, such as COVID-19, in subproject sites affecting workers or host communities. Among the measures to monitor the investments that require civil works and imply labor influx to communities figure assessing workforce characteristics, the entry and exit to the work site, general project site hygiene, training and communication with workers and the adjacent communities, and cleaning and waste disposal.

FND, through the ESMS, will ensure that PFIs and investments meet necessary criteria when potential risks and impacts derived from civil works are identified. Furthermore, the Exclusion List will ensure the screening out of subprojects with significant risk/impact for community safety. The ESMS will include assessments of potential worker influx in adjacent communities, presenting plans for installment of infrastructure and require the corresponding mitigation measures. Risks related with civil works particularly in rural settings where health services might be distant and waste management services limited include security of workers and the community when handling heavy machinery, adequate securing of the area where civil works take place and managing waste generated by the works and workers. In addition, contractors and subcontractors will need to commit to implementing standard codes of conduct for workers in terms of their relation with adjacent communities to avoid violence, ensure safety of community members and particularly women and girls. The ESMS will incorporate a standard code of conduct for workers and a contingency or emergency response plan at the community level (if applicable to the investment). Management of these risks will be monitored through the ESMS.

The scope of ESS4 application will be further assessed as project preparation advances and more information is available on the project activities and the modalities to implement them.

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

ESS5 is not relevant at Concept Stage as the project is not expected to cause physical displacement or any restrictions of access to land or to natural resources. The project will not finance investments that require land acquisition or result in involuntary land taking and resettlement. The financed infrastructure including the accompanying renewable energy technologies will only be built on land within the beneficiaries’ property.

To avoid potential conflicts related to land tenure, the project will ensure that all beneficiaries demonstrate corresponding rights of use of their lands as per Mexican land laws in order to access project benefits. The Exclusion List in the ESMS will ensure that any infrastructure or works will be screened for property titles, displacement of informal users, and that disputed lands are excluded (see ESS1). To avoid exclusion of small producers who don’t have land titles, the project will allow producers to demonstrate the right to use communal lands (“tierras ejidales”)



through support expressed by their governing bodies (“Asambleas Ejidales”) and thus, providing proof of communal or individual ownership of land. This is a standard practice in other projects in the World Bank portfolio in Mexico.

Relevance of ESS5 will be further assessed during project preparation.

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

ESS6 is relevant for the project as it relates to productive activities that include extraction of living natural resources from modified ecosystems and habitats and management of livestock for provision for dairy value chains. Further, it is likely that project activities take place in highly biodiverse parts of the country, yet the investments will focus on post-harvest process and dairy cold chains most likely in areas adjacent to cultivated land and with varying capacities of grain/legume storage and value-chain integration. The ESMS will identify all protected natural areas (APN in Spanish) and other valuable biodiversity areas and landscapes across the country to secure enough buffer between them and the project-financed storage facilities. Key actions for project compliance with ESS6 will be incorporated in the ESMS mainly as part of the screening process to exclude activities that may lead to loss, conversion or degradation of natural habitats. FND will commit that no project action will be promoted in areas where they could directly or indirectly induce environmentally negative land use change and affect natural habitats. The ESMS will guide relevant considerations, including conservation of native forests that co-exist with rural areas where agricultural production takes place and where storage centers will be improved, rehabilitated and/or, constructed.

Together with FND, PFIs that finance investments under Subcomponent 1.2 will promote sound management of animal health in terms of livestock and related international environmental good industry practices among the beneficiaries.

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

ESS7 is relevant as over 75 percent of the overall Mexican population of Indigenous Peoples (IPs) as defined by ESS7, live in the project’s prioritized intervention areas. Furthermore, IPs own a significant portion of agricultural land through "ejidos" that make up a portion of small agribusiness owners, and/or belong to farmers’ associations/cooperatives. During project preparation, it will be further assessed up to what point and where IP farmers’ associations/ cooperatives can benefit from the project, and which of the below-mentioned risks could occur.

Potential IP-related risks and challenges are associated with (i) the possible exclusion of vulnerable groups, including indigenous, youth and women-owned SMEs by not addressing structural barriers preventing them from meeting the requirements to access credits or other financial products; (ii) limited TA for capacity building to implement best practices, application of national standards within the sector and needs assessment of post-harvest infrastructure investments if funds are not provided and/or cannot reach rural IP areas; and (iii) labor practices that do not align with the objectives and criteria of ESS2 on Labor and Working Conditions at the community level. Consequently, an Indigenous Peoples Planning Framework (IPPF) will be developed to prevent these risks from materializing.



The IPPF will include the strategy for the inclusion of IPs as project beneficiaries (including the type of Indigenous Peoples Plans that should be developed by the PFIs for particular investments) that will be built into the development of FND's ESMS in order to track performance of ESS7 among PFIs' beneficiaries and ensure social inclusion of vulnerable groups. The IPPF will identify potential positive and negative impacts on IPs and provide recommendations on how to screen for and avoid adverse impacts, but also how to promote IPs participation in the project. It will contain specific guidelines on culturally adequate consultations/dialogues, as well as measures to ensure joint planning, capacity building and culturally-inclusive implementation of activities, promoting equitably distributed benefits for the population, including women and youth. The IPPF will consider lessons learned from the ERF project that FND is implementing while applying World Bank safeguards (OP 4.10) as well as from the ALGRANO project. The IPPF will contain the relevant findings and specific mechanisms through which IP and Afro-Mexicans in the project area become included in a culturally adequate manner as applicable to the project activities and can access its benefits through specific IPPs, or similar instruments as IPs' Business Plans under the ERF project, to be developed by the PFIs (whether IPPs or IP Business Plans is to be decided during preparation). Furthermore, the IPPF will include a budget and indicators for its implementation.

The IPPF will be consulted in selected project areas. Consultations will be culturally appropriate, consider traditional systems of community engagement and decision-making, and ensure participation of specific vulnerable groups within communities whose interests are traditionally underrepresented, such as women and youth. Feedback of the consultations will be integrated into the IPPF. The IPPF will be disclosed online and in locations accessible to potentially affected communities and in a culturally appropriate manner. The IPPF, as well as all other E&S instruments will include an Exclusion List to avoid adverse impacts on land and natural resources subject to traditional ownership or under customary use or occupation, including activities requiring free, prior and informed consent (FPIC). The IPPF will include measures to promote the process of aggregation of value to grains and milk, to enable small IP, Afro-Mexican and other producers to associate with the borrowing RPU so that they are able to benefit from the post-harvest storage infrastructure.

At a minimum, a draft IPPF will be developed by FND and approved by the World Bank preferably prior to Board approval (depending on the institutional change process from FND to FINAGRO), and at the latest before any subproject can be presented for approval.

### **ESS8 Cultural Heritage**

ESS8 is relevant for the project because there may be tangible and intangible cultural resources within project areas of intervention. Ancestral lands and ruins are spiritually meaningful sites for many indigenous communities, who sometimes reside in them or have collective attachment to them. Overall, no direct, indirect or cumulative impact on cultural heritage is expected under the project, as activities that might imply material impacts or cause commercial use of tangible or intangible cultural heritage will be excluded through the eligibility screening to be included in the ESMS.

The ESMS will identify the officially registered sites or objects, structures, natural features or landscapes with archaeological, paleontological, historical or any other aspect of cultural significance across the country. The ESMS will provide standard clauses on procedures and protocols to be used in bidding documents and contracts for civil



works to secure correct handling of any potential chance finds of archaeological and cultural resources during project implementation. PFIs and FND will take the necessary actions to avoid or mitigate risks and impacts in case that any chance finds surface, including immediate communication to the National Institute of Anthropology and History (INAH in Spanish).

Application of ESS8 will be further assessed during project preparation when a more detailed description of the activities is available.

### **ESS9 Financial Intermediaries**

ESS9 is relevant for the project as it will support FND in establishing and expanding second-tier lending operations to serve SMEs and producer organizations through private local PFIs. FND will assume the credit risk of the PFIs, while the latter will take on their books the credit risk of the credit users. FND will monitor and manage the E&S risks and impacts of the second-tier investments financed by the eligible PFIs through the ESMS. FND has a baseline, voluntary ESMS in place, and the Bank team will assess it in consultation with FND as project preparation proceeds to identify existing gaps that the project will need to fill through the ESMS to identify, screen and categorize, evaluate and manage the E&S risks and impacts related to the projected second-tier lending operations.

The project will provide a ring-fenced line of credit to FND, under which FND and the PFIs will manage E&S risks and impacts in compliance with the ESMS, which FND will need to develop, implement, and maintain consistent with the requirements set forth under ESS9 as proportionate to the maximum moderate risk/impact level of eligible second-tier portfolio of investments. The ESMS will secure (i) careful initial screening and assessment of the investments; (ii) compliance with relevant national law and regulations and integration of international good practices; and (iii) solid monitoring and reporting procedures. The ESMS will screen out any credits that could lead to high or substantial risks or impacts outlined in paragraphs 11, 14 and 16 of ESS9 on Financial Intermediaries. The ESMS requirements will consequently focus on compliance with national laws and regulations, including reference to guidance on international good practices. If any of the impacts set out in paragraphs 11, 14 and 16 is present, the subproject will either need to be excluded or adjusted to eliminate the higher-risk aspects.

The ESMS as defined in ESS9 must include:

- (i) An environmental and social policy that will reflect the relevant national legal framework and organizational commitments and objectives;
- (ii) Clearly defined procedures for the screening of eligible investments and identification, assessment and management of the applicable E&S risks and impacts: The ESMS will establish the entry points of E&S considerations throughout implementation of specific investment activities with a special focus on initial eligibility screening to exclude any activity with potential substantial or high E&S risk/impacts as defined in ESS9;
- (iii) Management Programs (MPs) to guide incorporation of standardized measures for avoiding, minimizing, preventing or mitigating risks and impacts in accordance with the applicable ESSs and proportional to the scale and complexity of the activities and the sensibility of their location. The MPs will include guidelines e.g. for identification of the affected and interested parties and mapping of stakeholders, social risks, respective mitigation mechanisms and opportunities for inclusion of traditionally excluded groups. Other MPs will include the IPPF and Labor Management Procedures (LMP) in compliance with national regulations. Where presence of IPs is identified in an





investment’s area of intervention, or when an IP RPU self-identifies as member of a distinct indigenous ethnic group, procedures set forth in the IPPF must be implemented, including defining and developing IPs Business Plans, in accordance with previous experiences. All applicable national law will be followed as relevant to the proposed investments to be financed by the PFIs, and the ESMS will provide for complementary guidance to apply international good practices relevant to the applicable ESSs;

- (iv) Description of the necessary organizational capacity and competency, including a training plan;
- (v) Description of minimum capacity of PFIs with respective requirements for eligibility, training or special arrangements for E&S management;
- (vi) Emergency Preparedness and Response in line with national regulations and proportionate to each investment;
- (vii) External Communications and GRM: the ESMS will provide procedures for PFIs to provide public information on relevant E&S aspects of project-financed investments as well as a GRM that allows affected and interested parties, including workers, to raise issues related to the activities;
- (viii) Monitoring and Reporting of E&S risks of the FND portfolio of credits and individual investments under the project based on the relevant ESMS checklists and procedures at document level and representative samples of field visits by FND (future FINAGRO) regional personnel; and
- (ix) The criteria and procedure the FND will apply to evaluate and approve the ESMS of each PFI before declaring the PFI eligible to receive financing from the project.

**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways** TBD

The project is not expected to affect international waterways as defined in OP 7.50, yet this expectation requires further consideration as the project preparation proceeds and more information is available on the scale and technical characteristics of the project-financed basic grains and dairy storage infrastructure in the South and Center of Mexico.

**OP 7.60 Projects in Disputed Areas** No

The project will not be implemented in areas known to involve disputed areas.

**III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE**

**A. Is a common approach being considered?** No

**Financing Partners**

N/A

**B. Proposed Measures, Actions and Timing (Borrower’s commitments)**

**Actions to be completed prior to Bank Board Approval:**

The Bank team will prepare a World Bank due diligence on FND’s baseline ESMS and the related gap analysis for the purposes of the proposed project.

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The ESMS Exclusion List, in line with ESS9, paragraphs 11, 14 and 16, will be agreed upon with FND by Appraisal and included in the PAD and ESCP to ensure screening out any activity with substantial or high E&S risks/impacts.

FND will draft, disclose as advanced drafts and consult the following instruments prior to the beginning of Appraisal:

1. A project-level Grievance Redress Mechanism (GRM);
2. Draft Indigenous Peoples’ Planning Framework (IPPF);
3. Draft Labor Management Procedures (LMP);
4. Draft Environmental and Social Commitment Plan (ESCP), including the Exclusion List; and
5. Draft Stakeholder Engagement Plan (SEP).

**Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):**

Completion of and consultation on the ESMS, including a Management Program to guide preparation of site-specific Integrated Pest Management Plans (IPMP), the final SEP (with GRM), LMP and IPPF. The instruments shall be finalized preferably prior to Board approval (depending on the institutional change process from FND to FINAGRO), and in every case before approval of and disbursements for any subprojects.

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS**

15-Oct-2020

**IV. CONTACT POINTS**

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**Borrower/Client/Recipient**

Borrower: FINANCIERA NACIONAL DE DESARROLLO

**Implementing Agency(ies)**

Implementing Agency: FINANCIERA NACIONAL DE DESARROLLO

**V. FOR MORE INFORMATION CONTACT**

Public Disclosure



## The World Bank

ACCESS TO POST-HARVEST INFRASTRUCTURE FINANCE FOR SMALL AND MEDIUM PRODUCERS  
(P173504)

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### VI. APPROVAL

Task Team Leader(s):	Daniel Ortiz del Salto, Tomas Rosada Villamar, Katie Freeman
Practice Manager (ENR/Social)	Valerie Hickey Recommended on 30-Jun-2020 at 12:48:7 EDT
Safeguards Advisor ESSA	Maria Do Socorro Alves Da Cunha (SAESSA) Cleared on 30-Jun-2020 at 15:32:52 EDT