Additional Financing Appraisal Environmental and Social Review Summary

Appraisal Stage

(AF ESRS Appraisal Stage)

Date Prepared/Updated: 01/18/2022 | Report No: ESRSAFA294

BASIC INFORMATION

A. Basic Project Data

Country	Region	Borrower(s)	Implementing Agency(ies)
Kyrgyz Republic	EUROPE AND CENTRAL ASIA	Ministry of Finance of the Kyrgyz Republic	Project Implementation Unit at the Ministry of Finance (Kyrgyz Republic)

Project ID	Project Name
P177962	Additional Financing for Emergency Support for MSMEs

Parent Project ID (if any)	Parent Project Name
P174028	Emergency Support for MSMEs Project

Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	2/28/2022	4/29/2022

Proposed Development Objective

The Project Development Objective is to support MSMEs in response to and during the recovery from the COVID-19 crisis.

Financing (in USD Million)	Amount
Current Financing	**100.00**
Proposed Additional Financing	**50.00**
Total Proposed Financing	**150.00**

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 Kyrgyz economy faces an unprecedented challenge stemming from the COVID-19 crisis with a simultaneous shock to demand through a decline in consumer willingness and ability to spend and to supply through disruptions to supply chains and labor markets. The crisis will have both an immediate and medium-term impact on the private sector, and, in turn, on the financial sector. Small and medium enterprises (SMEs) face an imminent threat in their ability to meet short-term operational needs and expenses (i.e., payroll, utility, rents, and payment to suppliers), which could bring a number of otherwise viable businesses to bankruptcy, transforming a short-term crisis into a long-term disruptor of productivity, job creation and growth. This situation will be worsened, if the financial sector decides to deleverage and reduce the availability of finance, in expectation that many of the borrowers might default in the future, thereby generating a “knock-on” effect on the economy. Without targeted interventions, the outcome could be widespread closure of SMEs and permanent, large-scale layoffs. Furthermore, the real sector crisis might create additional stress on the financial sector.

The Investment Project Financing addresses the urgent need for assistance to support the Kyrgyz Republic Government’s efforts to respond to the challenge the COVID-19 pandemic poses to the resilience of its private and financial sectors. The proposed operation aims to support the economy in weathering the impact of the crisis by (i) providing direct support to firms with short-term reimbursable financial assistance to enable them to continue their operations, and (ii) providing portfolio guarantees to financial institutions for loans extended to private firms affected by the economic impact of the coronavirus outbreak.

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 original project was prepared to support MSMEs in response to and during the recovery from the COVID-19 crisis. The project was approved by the World Bank Board of Directors on July 30, 2020. The Financing Agreement was signed on September 2, 2020, the project was declared effective on March 31, 2021. The original project is a US$50 million COVID-19 emergency response to support MSMEs that is linked to US$50 million co-financing provided by the Asian Infrastructure Investment Bank (AIIB). The World Bank's ESF which encompasses: the environmental and social policy for investment project financing; and environmental and social standards, are applicable for the entire project, irrespective of source of finance.

The original project consists of three components to support a large number of MSMEs in response to and during recovery from the COVID-19 crisis. Component 1 of the original project finances Reimbursable Financing Assistance (RFA, US$72 million, out of which US$35 million from IDA) to help businesses survive the economic slowdown and retain employees by supporting their short-term liquidity needs for operational expenses. Under the original project, it was estimated that around 60,000 MSMEs in the Kyrgyz Republic would benefit from RFA to cover operational expenditures including costs of salaries, suppliers, rent and utilities. Component 2 of the original project finances a Portfolio Risk Sharing Facility (PRSF, US$25.5 million, out of which US$13 million from IDA) to reduce the risk of deleveraging by the financial sector during the crisis and to foster credit provision to MSMEs during the recovery by sharing credit risk in MSME loans with financial institutions. Under the original project, around 5,000 MSMEs are expected to benefit from PRSF-supported credits to cover operational expenses and post-crisis investment needs. The RFA and PRSF would help reduce business closures, preserve and generate jobs, and enhance productivity and exports, which could ultimately benefit the government’s overall fiscal position and the country’s balance of

payments. Component 3 of the project finances Project Implementation, Coordination and Management (US$2.5 million, out of which US$2.0 million from IDA).

In response to the crisis' severe impact on MSMEs, the Government of the Kyrgyz Republic has requested a US$50 million scale-up additional financing (AF) of the original project to broaden support to MSMEs. The scale-up AF will be able to leverage the original project's implementation structure. Through the AF, the project will be able to support a larger number of MSMEs with greater resources, helping MSMEs retain employees and make urgently-needed investments including towards acceleration of their digitalization and transition to green economy.

The proposed scale-up AF, with total funding of US$50 million, will finance the same three components as in the original project. For component 1, the eligible expenses under the RFA window will be expanded to cover MSMEs' expenses related to their recovery from the COVID-19 crisis. The original project envisages that the RFA covers operational expenses of MSMEs, such as payroll, supplies, rent, and utilities, to keep the lights on and businesses alive while the lockdown and other immediate restrictive measures have been in force. The RFA disbursements under the AF will also focus on the recovery aspect of the project development objective and cover working capital and medium-term investment expenses of beneficiaries, including their investment towards digitalization and green economy. Except for the change in eligibility for the RFA to include investment expenses, under the AF, the project's overall design, its components and activities will remain the same as in the original project.

The measures to address social and environmental risks in the parent project remain relevant.

D. 2. Borrower's Institutional Capacity

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The AF will be implemented using the same implementation arrangements that were agreed upon under the original project. The parent project and AF management will rest with a Project Implementation Unit (PIU) under the Ministry of Finance (MOF). The PIU performs fiduciary, environmental and social framework, and monitoring and evaluation functions for the entire project. The PIU delivers services through: (i) the Guarantee Fund (GF); and (ii) participating financial institutions. In addition to this project, this PIU is implementing three World Bank financed projects:

(i) Integrated Dairy Productivity Improvement Project and its AF (P155412 and P174318) – the closing date is January 15, 2026 ;

(ii) KAREP (P151789) – for KAREP, the PIU implements only fiduciary part – the closing date is February 28, 2022; and

(iii) Capacity Building PFM 2 (P155148) - the closing date is August 31, 2022.

With these projects, the PIU has equipped itself adequately with respect to fiduciary requirements; however, with respect to implementing the Bank's Environment and Social Framework (ESF), the PIU will need to increase its capacity. The MOF /PIU has an assigned specialist to manage and monitor the environmental and social risks. Considering AF, two technical staff – one environmental and one social specialists will be in place.

Under Component 1, MOF selected and signed an agreement with eight commercial banks to act as Selected Disbursement Administrators (SDAs) to disburse the RFA, acting as disbursement agents on behalf of the

Government. The Project Implementation Unit (PIU) will monitor and coordinate with them throughout project implementation. The implementation arrangements as well as eligibility criteria, acceptable to the Bank, have been developed by the PIU as part of the RFA procedural manual. Currently, the PIU has staff experienced with World Bank Projects overseeing environmental and social issues. However, as the AF will increase the amount of funding and expand the activities, to ensure a timely performance and a proper monitoring of compliance with ESSs, the PIU will appoint an environmental specialist and a social development specialist to ensure compliance with the environmental and social standards. These staff are expected to be onboard by May 2022.

Under Component 2, it's expected the GF will recruit a consultant/consulting company to support Participating Financial Institutions (PFIs) and to prepare and implement an environmental and social management system (ESMS) in accordance with the Bank's ESSs relevant to the project. The implementation arrangements as well as terms and conditions of the PRSF are specified in the PRSF Procedural Manual.

Subcomponent 2.2. finances the capacity building to the GF, PFIs and other stakeholders, as well as the upgrade in the GF's management information system to support the rollout and monitoring of the PRSF. The additional financing will mainly be used to finance capacity building in the GF and PFIs in light of the agreed scale-up of PRSF operations.

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

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

Environmental Risk Rating — Moderate

The environmental risk of the project is Moderate. The project will provide support to MSMEs through Reimbursable Financial Assistance facilitated by SDAs (Component 1) and a Portfolio Risk Sharing Facility facilitated by the State Guarantee Fund that could be used by PFIs (Component 2). The SDAs, PFIs, and beneficiary MSMEs have not been identified so the proposed investment activities for the project are unknown. Under Component 1, the RFA will be used to cover operational expenses including payroll, rent, utilities, and goods and services. Prior to issuing any RFA, the PIU will prepare a eligibility criteria, acceptable to the Bank, that will govern how the DSAs select RFAs. The selection criteria will ensure that expenses covered by the RFA do not involve works, even minor rehabilitation, or land acquisition. Under Component 2, the PRSF could be used by PFIs to partially guarantee short-term credits and overdrafts, restructured MSMS loans that were in good standing prior to the COVID-19 crisis, and new MSME loans. The PIU will require PFIs to develop and implement an Environmental and Social Management System (ESMS), acceptable to the PIU and the World Bank, to classify and manage the environmental and social risks of their financing activities. In addition to the ESMS, PFIs will conduct screening of eligible MSME Only those MSMEs whose business activities are judged to be of moderate or low environmental and social risks will be eligible for project support under Component 2. At the MSME level, simple streamlined environment and social due diligence procedures that includes screening against the prescribed eligibility criteria and compliance with national laws can serve as underlying framework for addressing environmental and social risks and impacts. The PIU will submit an evaluation report of a proposed PFI and its ESMS to the Bank for no objection before it can be included in the Project. The PIU will also maintain a list of activities that cannot be financed by project funds that include major civil works or other activities that would increase the overall environmental risk of the project. Given the PIU's lack of prior experience in ESMS implementation under the World Bank ESF, the World Bank will maintain oversight, particularly in the early stages of implementation. In summary, Project activities are not expected to have large-

scale, significant, and/or irreversible environmental and social impacts. Environmental risks are expected to be site specific, temporary and can be readily addressed through standard mitigation measures and compliance with national laws.

Social Risk Rating Moderate

Social Risk is rated Moderate. The original project and AF is meant to support MSMEs survive and recover from the COVID-19 pandemic impacts. There are two broad categories of support: one, Reimbursable Financial Assistance (RFA); and other, a Portfolio Risk Sharing Facility (PRSF). The original project envisages that the RFA covers operational expenses of MSMEs, such as payroll, supplies, rent, and utilities, to keep the lights on and businesses alive while the lockdown and other immediate restrictive measures have been in force. The RFA disbursements under the AF will also focus on the recovery aspect of the project development objective and cover working capital and medium-term investment expenses of beneficiaries. The PRSF will be used by PFIs to partially guarantee short-term credits and overdrafts, restructured MSMS loans that were in good standing prior to the COVID-19 crisis, and new MSME loans. The guarantee will be issued for both short-term and long-term SME loans, to support firms' operational expenses as well as investment spending. Given this, key social issues relate to: (i) exclusion/ inclusion – providing an opportunity to all eligible Financial Institutions (both SDAs, and PFIs) to participate and derive benefits from the projects which would in turn ensure that most needed MSMEs do receive assistance and same time, avoid covering the other non-deserving MSMEs; (ii) sensitizing PFIs under component 2 to adopt and adhere to the ESS stipulations; and (iii) Information, Education and Communication (IEC) campaign to accomplish effective outreach so that all potential beneficiaries are fully aware of the project benefits and how to access them, and that all the stakeholders share a common understanding about the project. The drivers of exclusion is likely to be based on: (i) size/quality of operations - smaller and poorer MSMEs (relative to larger and rich entities) may find it difficult to fulfill all the formalities project would demand; (ii) geographical location - MSMEs in rural and mountainous areas may have difficulty in accessing the 'project' relative to those in urban areas; (iii) young and new startups (vs established ones) and entrepreneurs who have set up businesses recently and are struggling to break-even; and (iv) gender- women entrepreneurs may find it difficult to combat the COVID-19 situation and may stay away from entrepreneurial activities. Exclusion/ Inclusion risks are regulated by rules of the participation viz., the eligibility criteria for participation by: one, PFIs; and other, MSMEs in the RFA and PRSF Procedural Manuals. As AF will cover investment expenses under Component 1 in addition to operational costs, the list of prohibited activities (non-eligible for financing) in the RFA Procedural Manual will be updated. Capacity support and capacity building will help sensitizing the FIs. Finally, an appropriate Stakeholder Engagement Plan (SEP) updated under AF will help in accomplishing effective outreach. All these will be crafted as a part of the overall project designing and hence risk is rated Moderate.

Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) Risk Rating Low

SEA/SH risk is rated Low based on the performance of projects financed by the Bank as well as due to country and project area context, but the project is to ensure the implementation of measures to address these risks. The PFIs will adopt their Environmental and Social Management Systems to include provisions on non-discrimination for female beneficiaries and mitigation measures to address SEA/SH risks. The implementing partners' workers are expected to sign a code of conduct to ensure their workers adhere to measures to prevent SEA/SH risks at the workplaces.

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

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The proposed scale-up AF will finance the same three components as in the original project. Except for the change in eligibility for the RFA to include investment expenses, under the AF, the project's overall design, its components and activities will remain the same as in the original project.

For component 1, the eligible expenses under the RFA window will be expanded to cover MSMEs' expenses related to their recovery from the COVID-19 crisis. The original project envisages that the RFA covers operational expenses of MSMEs, such as payroll, supplies, rent, and utilities, to keep the lights on and businesses alive while the lockdown and other immediate restrictive measures have been in force. The RFA disbursements under the AF will also focus on the recovery aspect of the project development objective and cover working capital and medium-term investment expenses of beneficiaries, including their investment towards digitalization and green economy. Selected Disbursement Administrators (SDAs) will disburse the RFA, acting as agents on behalf of the government. The MoF PIU will undertake the selection, monitoring and coordination with the SDAs. The GF will provide technical assistance to the MoF PIU. The SDAs will be responsible for verifying the beneficiary eligibility and confirming the use of funds meets the project's pre-determined set of eligible operating and investment expenses.

Component 2 finances a portfolio risk sharing facility (PRSF) for eligible MSME loans. The objective is to reduce the risk of deleveraging by the financial sector during the crisis and to foster credit provision to MSMEs during the recovery by sharing credit risk in MSME loans with financial institutions. The Component will finance the establishment of and the funding for the PRSF, which will be managed by the GF. The facility will offer a fee-based partial credit guarantee to share a part of the credit risk in eligible MSME loans from eligible participating financial institutions (PFIs). As the PFIs act as financial intermediaries, Environment and Social Standard (ESS) 9 – Financial Intermediaries will be relevant to this Component 2. The facility will offer guarantee on a portfolio basis. All eligible MSME loans from the PFIs will be automatically guaranteed up to a pre-defined threshold to avoid concentration on large loans. The GF will support PFIs in addressing of environmental and social risks/impacts through the ESMSs in accordance with the Bank's ESSs relevant to the project.

The project will have overall positive social impacts as the interventions will provide immediate help to MSMEs encountering the COVID crisis and help keeping the business alive, reduce the layoff of workers by covering their operational expenses and investment needs during in the post-crisis recovery. Environmental risks are limited as Component 1 will not finance any civil works and, under Component 2, MSEMEs that involve substantial or high environmental or social risk will not be eligible for guarantees. On the social front, the following issues are to be addressed: (i) managing exclusion/ inclusion errors; (ii) addressing the limited environment and social capacity of PFIs; (iii) labor management, including health and safety considerations; and (iv) outreach - through an effective and inclusive Information, Education, and Communication Campaign (IEC). To achieve the above mentioned positive environmental and social impacts, the aforementioned areas of risks must be addressed and mitigated as discussed below.

These risks are covered by ESS 1, ESS 2, ESS4, ESS 9 and ESS 10. To manage these risks, the PIU has prepared the following:

(i) Eligibility criteria for expenditure under Component 1 were developed to ensure that only operational expenses are financed. The eligibility criteria described in the RFA Procedural Manual will be re-visited and up-dated due to investment expenses to be financed under AF, as appropriate;

(ii) A guidance note and a sample table of contents for an ESMS for PFIs to ensure that all PFIs selected under Component 2 develop and implement an ESMS in line World Bank ESF requirements;

(iii) Stakeholder Engagement Plan (SEP) updates and implementation for effective outreach; and

(iv) Labor management provisions included in the Project Operations Manual that will be updated, as needed, throughout project implementation.

Inclusion/ Exclusion risks. ESF's emphasis on ensuring 'inclusion' during the preparation has already influenced the broad contours of the project. Component 1, Reimbursable Financial Assistance, to combat the COVID-19 induced crisis in the immediate run, has been further categorized into two sub components. One, 1.1 is exclusively targeted micro entrepreneurs working largely through a presumptive tax regime i.e. patents (from a total pool of approximately 87,500 businesses), to enable them remain in the business and continue income earning. The other, 1.2 is to assist all small and medium businesses (from a total pool of approximately 46,500) such as to ensure that it prevents viable businesses from exiting the market disrupting the labor market and supplier relationships. Given these large numbers, avoiding errors of inclusion and exclusion assume significance. This will be chiefly addressed by ensuring strict adherence to the eligibility criteria for SDAs and MSME participation in the project. These criteria will be widely disseminated through an effective IEC. A list of SDAs and MSMEs to be covered under the program will be disclosed prominently on the websites of MOF, as well as across the SDAs in the country; and invite objections/ request for alterations etc., before according final approval. Subsequently, the eligibility criteria will be re-visited and up-dated, as appropriate, and based on the experiences/ feedback, on a quarterly basis.

ESS10 Stakeholder Engagement and Information Disclosure

The project recognizes the need for an effective and inclusive engagement with all of the relevant stakeholders and the MSMEs at large. Meaningful consultations and disclosure of appropriate information assume huge significance to ensure that the most deserving are indeed ‘included’.

The original project has prepared a SEP which serves the following purposes: (i) stakeholder identification and analysis; (ii) planning engagement modalities including effective communication tool for consultations and disclosure particularly in the context of COVID-19; (iii) enabling platforms for influencing decisions; (iv) defining roles and responsibilities of different actors in implementing the SEP; and (v) a grievance mechanism (GM) for project activities, as well as outlining the broader communications the project will support as part of project design.
PIU conducted a wide information campaign to raise awareness on the project objectives, planned activities and eligibility criteria among potential beneficiaries.

During preparation of the AF, the SEP was updated, consulted with beneficiaries and submitted for the Banks’ review. The original Project and its AF will continue communication and engagement activities with the stakeholders. The

final SEP updates will be disclosed prior to project appraisal. The SEP will be updated as necessary, during implementation.

The Grievances Redress Mechanism (GRM) is in place to address the stakeholders concerns/ grievances/ comments/ suggestions, if any, for each of the key project interventions, and for the project to address in line with the POM and the ESF. GRM information is communicated during the meetings conducted during the project implementation, it's also posted on the MOF official website and will be posted on the websites of SDAs and PFIs.

B.2. Specific Risks and Impacts

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

ESS2 Labor and Working Conditions

The project shall be carried out in accordance with the applicable requirements of ESS 2, in a manner acceptable to the World Bank, including through, inter alia, implementing adequate occupational health and safety measures (including emergency preparedness and response measures), setting out grievance arrangements for project workers (including the workers of MSMEs assisted by the project), and incorporating labor requirements into the ESHS specifications at all levels including the assisted MSMEs. These measures are documented in the POM, RFA and PRSF procedural manuals developed for the parent project.

The project is expected to have workers at three levels: (i) one, at PIU and GF; (ii) workers at SDAs and PFIs; and (iii) at the MSMEs receiving assistance from the project. Accordingly, the project will encompass the following categories of workers: (i) direct workers and (ii) contract workers – temporary or permanent laborers. Direct workers to be employed or engaged directly by the IA and the project proponents to work specifically in relation to the project. They may include civil servants, and other workers in PIU/GF staff and consultants as well as staff of PFIs. Direct workers will be governed by either the services code in case of government civil servants, corporate code of conduct for financial institutions employees, and mutually agree contracts for consultants. Contract workers will be employed as deemed appropriate by contractors and other intermediaries to perform work related to core functions of the project, details of which will be known as and when activities' implementation begins. They will be governed by mutually agreed contracts. With regard to labor requirements by PFIs, the ESMSs will set out labor policies and requirements, including terms and working conditions, nondiscrimination and worker health and safety, per ESS 9.

The Environment Health and Safety (EHS) requirements, including checklists, codes of conduct with measures to prevent Gender Based Violence/ Sexual Exploitation and Abuse (GBV/SEA); safety training etc., will be improved in the POM, RFA and PRSF procedural manuals as needed. PIU has to ensure that all workers have an access to the project specific GRM. Employees of beneficiary MSMEs and their labor risks will be addressed under the ESMS's of PFIs acceptable to the Bank. The procedures will include initial screening & due diligence exercises of potential MSMEs with a focus on OHS performance, labor terms and working conditions, and SEA/SH risks in workplaces.

ESS3 Resource Efficiency and Pollution Prevention and Management

Elements related to ESS 3 will be addressed under ESS 9. Aspects of ESS 3 shall be considered, as needed, while appraising the assistance from MSMEs including, inter alia, measures to: manage health care, and other types of hazardous and non-hazardous wastes.

ESS4 Community Health and Safety

ESS 4 is considered relevant for the AF activities, as eligibility criteria has been expanded to cover other investment activities. Under component 1, SDAs will conduct a social screening of potential community health and safety impacts before the approval of financing. Relevant community health and safety impacts and mitigation measures will be covered under the ESMS prepared by the respective FIs under component 2. With regards to the PFIs, per ESS 9, the financing agreements with PFIs will include provisions on non-discrimination for female beneficiaries and mitigation measures to address SEA/SH risks.

The exclusion lists for financed activities, acceptable to the Bank, are to be updated to exclude sub-projects with significant risks or impacts related to ESS 4, requiring additional measures. If subprojects are likely to have minimal or no adverse environmental or social risks or impacts, and national law for addressing those risks is sufficient, then these provisions should be reflected in the ESMS's of the PFIs.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Since ESS5 is not relevant for the parent project, investment activities with potential impacts under ESS5 will not be eligible for the project financing under AF as well. The exclusion lists for activities to be financed excludes sub-projects with significant risks or impacts related to ESS 5. Screening of investment activities against the exclusion lists will be conducted prior to decision to finance investment expenses.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

ESS 6 is not considered relevant for this project. Elements related to ESS 6 will addressed under the ESS9.

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

ESS 7 is not relevant as there are no indigenous peoples as described under the Standard in Kyrgyzstan.

ESS8 Cultural Heritage

ESS 8 is not considered relevant for this project. Elements related to ESS 8 will addressed under the ESS9.

ESS9 Financial Intermediaries

The project will provide funds to the Ministry of Finance to finance a Portfolio Risk Sharing Facility that is managed by the Guarantee Fund (GF). Eligible PFIs that may include Commercial Banks; and Non-Bank Finance Institutions (NBFIs) could use this facility to partially guarantee credits to MSMEs. The PIU will oversee the implementation of the PRSF. The implementation arrangements as well as terms and conditions of the PRSF are specified in the PRSF Procedural

Manual cleared by the Bank. Under Component 2, the GF will (i) support Participating Financial Institutions (PFIs) to operationalize the Portfolio Risk Sharing Facility (PRSF); (ii) prepare, disclose, adopt, and implement an environmental and social management system (ESMS) guidance note and (iii) conduct environmental and social due diligence and based on its findings develop and operationalize the ESMSs at the PFIs in accordance with the Bank's ESSs relevant to the project. All eligible PFIs will be required to establish and maintain an ESMS, satisfactory to the Bank, to identify, classify, assess, manage, and monitor the environmental and social risks and impacts of guarantees provided to beneficiary MSMEs. The Project will finance only those MSMEs whose activities involve moderate or low environment and social risks classified in accordance with the ESS 9. The PFI's ESMSes will include (i) environmental and social policy; (ii) clearly defined procedures for the identification, classification, assessment and management of the environmental and social risks and impacts of sub-projects; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of the portfolio; and (v) external communications mechanism. The ESMS should also allow for screening of MSME activities against the World Bank's and PIU's exclusion lists and compliance with national laws. All relevant aspects of ESS 2 will apply to the PFIs including maintaining appropriate labor management procedures. Each PFI will also maintain clearly defined environmental and social procedures that are proportionate to the level of potential environmental and social risks and impacts associated with the PFI's sub-projects. The GF will require all PFIs to implement an external communications mechanism in a manner proportionate to the risks and impacts of the PFI's sub-project. All relevant elements of ESSs 3-8 will be addressed under this ESS, where applicable.

All PFI's ESMSes will be shared with the Bank for approval before the commencement of financing. The ESMSes will be disclosed and PFIs will conduct consultations with potential MSME beneficiaries (including on eligibility criteria).

C. Legal Operational Policies that Apply

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

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

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

Areas where "Use of Borrower Framework" is being considered:

The Borrower's Framework will not be used.

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Ministry of Finance of the Kyrgyz Republic

Implementing Agency(ies)

Implementing Agency: Project Implementation Unit at the Ministry of Finance (Kyrgyz Republic)

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

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