



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 08/01/2022 | Report No: ESRSC02919



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Kazakhstan	EUROPE AND CENTRAL ASIA	P174995	
Project Name	Kazakhstan MSME Financing, Digitalization, and Greening for Sustained Productivity		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	11/17/2022	2/20/2023
Borrower(s)	Implementing Agency(ies)		
Baiterek Holding	Damu Entrepreneurship Development Fund		

Proposed Development Objective

To assist the GoK in modernizing MSME credit and equity financing support programs to make them more market-based and effective, and to promote digitalization and greening of the program beneficiaries.

Financing (in USD Million)	Amount
Total Project Cost	200.00

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]

Since 2010, the Government of Kazakhstan (GoK) has been deploying several large state programs with financial and non-financial instruments to support MSMEs. However, the institutional and policy framework has not effectively propelled productivity growth and job creation among Kazakh MSMEs. The adopted Concept for MSME Development through 2030 sets an ambitious policy target of increasing the share of MSMEs in GDP to 40 percent by 2030. There is an agreement to change the public financial support for MSMEs and make it more market-driven, indirect, and better targeted. Because the change is yet to be embedded in the GoK policies, the proposed Project will support the piloting of such a gradual transition towards fair and competitive support for MSME credit and equity financing.



The Project aims to assist the GoK in modernizing MSME credit and equity financing support programs to make them more market-based and effective and to promote digitalization and greening of the program beneficiaries. The project will consist of the following components:

- (i) Seed and early-stage venture capital financing support for MSMEs implemented through Kazyna Capital Management (KCM), a public fund of funds, with the aim to improve access of startups and young, innovative SMEs (less than five years) to seed and early-stage venture capital (VC) finance. KCM belongs to Baiterek National Management Holding.
- (ii) Market-based partial credit guaranty scheme for MSMEs implemented through Damu Entrepreneurship Development Fund (DAMU) to help mitigate risk aversion of banks and microfinance organizations, ease access for collateral-constrained borrowers, shift to indirect market-friendly state support programs and improve their wider economic impact. MSME borrower eligibility will be conditioned on digitalization and greening commitments. Damu also belongs to Baiterek Holding
- (iii) Performance-Based Indicators - that can be implemented by Baiterek (to be discussed during preparation) - to make the government financial support more market-driven, indirect, and better targeted, with gradual reduction of the most market-distorting public support measures.
- (iv) Project Management component to support the Project Implementation Unit (PIU) to execute the Project effectively.

D. Environmental and Social Overview

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

Kazakhstan is a resource-rich, upper-middle-income country in Central Asia with population of 19 million and the ninth largest territory in the world. Since its independence (1991), Kazakhstan has experienced rapid growth fueled by investments in extractive industries and concentrated dependence on hydrocarbons—with little economic diversification. In 2006, the country transitioned from lower to upper middle-income status and maintains the ambition to move to high-income status. However, the concentrated economy poses risks to shared prosperity and fossil fuel dependence will draw increasing pressure from the international and domestic green transition. Recent economic downturns have demonstrated the vulnerability—namely the 2008 global financial crisis, the 2014 Russian economic crisis combined with the falling global oil prices, the 2020 COVID crisis and, most recently, the repercussion from Russia’s invasion of Ukraine. While the country has a rapidly growing economy, rural population, farmers, and pastoralists outside of the main urban centers face significant climate change risks to their livelihoods stemming from increased aridity, water management challenges and extreme weather events.

Kazakhstan's HDI value for 2019 is 0.825— which put the country in the very high human development category— positioning it at 51 out of 189 countries. However, when the value is discounted for inequality, the HDI falls to 0.759, a loss of 7.1 percent due to inequality. The average deprivation score experienced by people in multidimensional poverty is 35.6 percent (2019). Key social characteristics of the country are as follows: - 60% of the population reside in rural areas; - majority of the labor force have public employment in government and the enterprises, a third are



self-employed- most of whom registered as individual entrepreneurs and a sizable work in subsistence farming, fishery, and livestock production; -high percentage of self-employed and employed people in temporary jobs, especially in rural areas; - low level of youth employment; - large proportion of people of the NEET (Not in Education, Employment or Training) category, including fresh graduates; - level of income of the population remains one of the lowest in Kazakhstan; - women’s role, specially, in agriculture and related enterprises as well as agriculture support/ advisory measures need to be accentuated; - lack of women’s organization networks which limits advocacy activities; - high share of self-employed citizens in the total number of recipients of targeted social assistance; and - low effectiveness of active measures to end poverty, where employment remains a problem.

The financial system of Kazakhstan is dominated by the banking sector, while the nonbank financial sector remains small. Banks comprise 87.2 percent of the total assets of all financial institutions. The banking sector consists of 22 commercial banks (called second-tier banks), of which 14 are affiliated to foreign banks, and 1 bank is wholly state-owned. Kazakhstan’s framework to support MSME development is comprehensive, and the Government deploys several large state support programs to aid MSME development. Despite state support programs, demand side factors continue to constrain MSME investability, access to finance, and much needed capital reallocation to productive businesses in non-extractive sectors. On the supply side of finance, banks perceive lending to MSMEs as too risky, especially outside of government programs. Banks compete for the same pool of eligible MSME borrowers thanks to cheap government support programs. By contrast, for the MSMEs outside of this pool, access to finance remains a major challenge.

In response the Project will address inequalities in access to finance for MSMEs in the lagging regions and improve conditions to mobilize additional resources for MSMEs for greening and digitalization nationwide. SMEs will benefit from the project's seed investments.

D. 2. Borrower’s Institutional Capacity

Baiterek National Management Holding (Baiterek), a public development institution whose sole shareholder is the Government of Kazakhstan, represented by the Ministry of National Economy, provides various forms of support to MSMEs through two of its subsidiaries: (1) Damu Entrepreneurship Development Fund (Damu). Damu is the implementation agency responsible for state financial and some non-financial support programs for MSMEs, (2) Kazyna Capital Management (KCM) is a fund of private equity funds, which also implements MSME financial support programs involving equity and quasi-equity.

Baiterek will be the borrower for the proposed Project, with the Ministry of Finance providing a counter guaranty on the IBRD loan. Baiterek will also act as the implementing agency via its two wholly owned subsidiaries –KCM and Damu. Component 1 will be implemented by KCM, while Component 2 will be implemented by Damu. KCM has some experience working with other multilateral development institutions and managing funds from EBRD, ADB, and UNDP. Baiterek will establish a Project Coordination Unit (PCU) that will be responsible for, inter alia, (i) coordinating the implementation of the Project; (ii) ensuring compliance of fiduciary and environmental and social risk management requirements; and (iii) monitoring and evaluating the Project results. The Baiterek/PCU will hire a fulltime environmental specialist and a social development consultant, who will be responsible for all environmental and social aspects of the Project. In addition, KCM will recruit and maintain one qualified environmental and one qualified social specialist to manage the E&S risk of the MSME Fund. Damu will hire one fulltime specialist, who will be responsible for all environmental and social aspects of the PFI financing under Component 2.



Baiterek Holding will be a first-time borrower from the World Bank, it may have limited institutional knowledge and capacity required for the successful project implementation. Since there are several implementation-support partners, coordination among partners is critical for the Project’s success. The World Bank will conduct a comprehensive assessment of Baiterek (as part of a separate ASA) to inform the government’s reform strategy for quasi-fiscal sector and will identify institutional weaknesses and provide recommendations on addressing them. The Project foresees two capacity building sub-components focusing on strengthening the institutional capacity of KCM and Damu.

The institutional capacity of Baiterek to comply with the Bank’s ESF requirements is also not known at this stage. The assessment of the ESF capacity and the project environmental and social risks will be finalized during the project preparation. Based on the assessment findings, ESF capacity building for the PCU and other implementation support partners staff will be included in the Environmental and Social Commitment Plan (ESCP).

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

A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating

Moderate

Environmental risk rating of the project is classified as moderate. No large scale physical construction or civil work is expected in the scope of the project. The project will mainly address the development and provision of competitive credit access and equity finance to a wide range of MSMEs working in all sectors in Kazakhstan through the KCM Hybrid MSME fund “The Fund” (sub component 1.1) and through co-investment in DAMU to support Green and digital capabilities of beneficiaries (sub-component 2.2). The main environmental risks of the Fund (component 1.1) relates to the ability of the Fund Manager to implement an Environmental and Social Management System (ESMS) to manage the E&S risks of its MSME portfolio in line with the World Bank ESS9 requirements for financial intermediaries. As part of the ESMS, PFIs will conduct screening of eligible MSMEs. Only those MSMEs whose business activities are judged to be of moderate or low environmental and social risks will be eligible for project support. The PCU 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 PCU will also maintain a list of activities (E&S exclusion list, including a list of potential subprojects with likely high and substantial E&S impacts/risks) that cannot be financed by project funds that include major civil works or other activities that would increase the overall environmental and social risks of the project. The key E&S risks are related to occupational health and safety (OHS), dust, noise, water use, energy use and waste management resulting from the subprojects to be implemented by the MSME beneficiaries. These risks are expected to be site specific, temporary and can be readily addressed through standard mitigation measures and compliance with national environmental and social laws and the ESF. The overall supported portfolio risk is thus considered moderate. Any investee MSME’s business activities rated as high and substantial environmental and social risk will not be eligible for financing. Given that component 2.2 entails the provision of partial credit guarantees (PCG) for consultancy services for greening operations to beneficiary MSMEs and financing of digital upgrades such as software and hardware upgrades to support digitization of beneficiary MSMEs. The E&S risk of this component is considered low as it relates to the management and disposal of electronic waste.

Public Disclosure



Social Risk Rating

Moderate

The Project will substantially contribute to institutional strengthening of the MSME policy institutions, as well as to the inclusion/shared prosperity agenda by addressing inequalities in access to finance for MSMEs in the lagging regions and improving conditions to mobilize additional resources for MSMEs for greening and digitalization. The project will invest in a) improved access of green/digital startups and young innovative SMEs to seed/early-stage venture capital finance; b) Partial Credit Guarantee (PCG) scheme for MSMEs to help mitigate risk aversion of banks and microfinance organizations, ease access for collateral-constrained borrowers, address regional disparities in MSME access to finance; c) public co-investment to boost MSME investability and entrepreneurial capabilities for digitalization, greening, and innovation; and d) establishing performance-based conditions at Baiterek to improve MSME access to finances. The key social issues relate to: (i) exclusion/ inclusion – providing an opportunity to all eligible financial institutions to participate and derive benefits from the project which would in turn ensure that most needed MSMEs do receive loans and, at the same time, avoid covering other MSMEs that are unqualified and/or too risky; (ii) sensitizing KCM and Damu, Fund Managers and PFIs to adopt and adhere to the ESF requirements; and (iii) an 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 remote areas and disadvantaged regions 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) women entrepreneurs may find it more difficult to comply with loan requirements due to family obligations, culture or other reasons, causing them to stay away from entrepreneurial activities. Exclusion/ Inclusion errors can be contained by careful drafting of the rules of participation, including the eligibility criteria for participation of PFIs, MSMEs and SMEs. Capacity support and capacity building will help sensitize the financial institutions. Finally, an appropriate Stakeholder Engagement Plan (SEP) will be an important tool for accomplishing effective outreach. All of these measures will be crafted as a part of the overall project design; hence, the risk is rated Moderate at this stage, and will be revisited during project preparation.

Public Disclosure

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 project will have positive social impacts as it will improve financial intermediation, access to finance for MSMEs, and enhance competitiveness, thus creating more and better jobs in the country. The PCG scheme under Component 2 will help financial institutions mobilize more deposit resources, benefiting depositors while also brings more resources at disposal for financial institutions. At the same time, the PCG will share credit risk with financial institutions while building their capacity to lend to MSMEs, thus helping financial institutions to expand and improve their MSME portfolio. The project will also help MSMEs to improve access to finance and enhance competitiveness, thus creating more and better jobs. The PCG, using a portfolio approach, will be able to support access to finance for a relatively large number of MSMEs. A smaller number of SMEs will benefit from the hybrid seed and early-stage



venture capital funds to be managed by competitively selected private fund managers under Component 1. These support to MSMEs will translate into private sector-led job creation.

The main environmental and social risks and impacts of investee MSME business activities, through the Fund and PFIs, are anticipated to be labor and working conditions, OHS, dust, noise, water use, energy use and waste management at the sub-project level. These are expected to be site-specific, temporary and can be readily addressed through standard mitigation measures and compliance with national laws.

The key E&S risk of the project is the ability of KCM, as a Fund of Funds, to ensure that the newly established KCM Hybrid MSME Fund has the capacity and capabilities to identify and manage the E&S risks associated with the activities of investee MSMEs in line with the World Bank ESF. The Fund will be required to develop and implement an Environmental and Social Management System (ESMS) which will detail the policy and review procedures which will be applied to all MSME investments. The ESMS for the Fund will include documented procedures for conducting E&S due diligence and for assessing, categorizing and managing E&S risks throughout the transaction cycle i.e. screening, approval, execution and exit from investee companies. Subcomponent 1.2 will support institutional capacity building of KCM on management of hybrid funds, including institutional and human capacity building trainings for the Fund on ESMS implementation and performance reporting along with the requirements for ensuring transparency and outreach on the project benefits and activities.

In line with ESS 9 requirements for financial intermediaries, the main applicable requirements for the KCM/Fund's ESMS and Damu's ESMS are the World Bank Group (WBG) Exclusion List, E&S exclusion list of the project, the National E&S laws in Kazakhstan and the ESS.

Under Component 2 the PCG operational manual to be developed will include eligibility criteria for participation for PFIs and MSMEs, an exclusion list and E&S screening criteria, which will be incorporated in the PFIs' ESMS. Damu will ensure that each PFI shall develop, maintain, and implement an ESMS, acceptable to the Damu and the Bank, in line with the requirements of ESS 9. The updated ESMS shall include documents and procedures to ensure that the financing activities under the project are compliant with the guidance note and operational manual, the applicable national laws, and the World Bank ESSs. No disbursement will be made until PFI's have ESMSs satisfactory to the Bank. Once disbursement has been made, to ensure that the ESMS of the PFIs are functioning properly, the World Bank should (along with PCU) approve at least the first two lending done by each PFI.

Under the PCG component, DAMU through PFIs will provide consulting services to assess the MSME readiness for digital and greener technologies, as well as provide loans for digital upgrading and greening of their operations. The MSME business activities may involve rehabilitation activities works (refurbishment of buildings, server rooms etc.) and likely to impose environmental impacts associated with dust, noise from machinery, generation of hazardous and non-hazardous waste, including e-wastes. These environmental and social impacts and risks of the MSMEs activities will be assessed through the PFI's ESMS. The procedures will include initial screening & due diligence exercises of potential MSMEs to identify environmental and social risk management gaps and recommend corrective actions, where applicable. The DAMU and PFIs ESMS, satisfactory to the World Bank shall be in place prior to any MSME beneficiary financing.



Subcomponent 2.3. Institutional capacity building of Damu will invest in design and implementation of environmental and social management systems for Damu and PFIs compliance to ESS9 requirements.

Component 3 will invest in institutional improvements in Baiterek to secure project sustainability. No adverse environmental and social risks/impacts are anticipated.

The Borrower will also prepare Labor Management Procedures (LMP) for the investment part of the project which lays out the systems to be put in place to ensure that labor and working conditions. The LMP will include OHS procedures that meet the requirements of World Bank ESF (ESS2), as well as description of working terms and conditions, nondiscrimination and equal opportunity, workers' organizations, workforce protections, and a worker's grievance mechanism. The LMP requirements will be integrated into the ESMS to be established and implemented by the PFIs and Fund Manager.

The E&S monitoring and reporting: The Bank will review and approve the updated ESMSs at KCM and Damu. It will also review and approve the E&S Due Diligence reports of the first two lending subprojects of each PFI. The Bank will review semi-annual reports of the E&S Performance reports to be submitted by the Baiterek, based on E&S Portfolio Monitoring Reports submitted by KCM and DAMU.

One of the key risks relates to meaningful and effective stakeholder engagement, public and beneficiary outreach. A core part of the project design will focus on establishing an effective Stakeholder Engagement platform, transparent sharing of information in timely, clear and accessible manner and format, and an inclusive process of participation and consultation for all disadvantaged MSMEs and other interested parties. For this, the Borrower will prepare a Stakeholder Engagement Plan (SEP) in a participatory manner. It includes a grievance mechanism to address complaints about environmental and social issues in the project. The Borrower will prepare an Environmental and Social Commitment Plan (ESCP). The ESCP will set out the activities to be carried out during project implementation and could be adjusted during the project cycle in line with the evolution of environmental and social risks and impacts. SEP and LMP have to be consulted and disclosed prior to project appraisal.

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

The ESMS will be based on the Borrower Framework / applicable national laws, but shall be compliant with the World Bank ESSs.

ESS10 Stakeholder Engagement and Information Disclosure

The project recognizes the need for an effective and inclusive engagement with all relevant stakeholders and the MSMEs at large. Meaningful consultations and disclosure of appropriate information assume huge significance to ensure that the most deserving MSMEs are indeed ‘included’ in the project. However, it may not be possible to hold large face to face engagements and so reaching throughout the country, especially MSMEs in rural areas, will be a challenge. Against this backdrop, the project will prepare a Stakeholder Engagement Plan (SEP) which serves the following purposes: (i) stakeholder identification and analysis; (ii) planning engagement modalities, including effective communication tool for consultations and disclosure; (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. The Borrower shall prepare the SEP and adopt, disclose and consult it upon prior to Project Appraisal.

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 is expected to have workers at three levels: (i) PCU staff ; (ii) project workers at KCM, Damu, Fund Manager, and PFIs; and (iii) at the MSMEs receiving loans and investments from the project. 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. The project employers will have to prevent and mitigate risks related to inequity and discrimination in employment and terms and conditions, and address challenges in organizing favorable working environment. Special attention shall be paid to ensure that working atmosphere is community friendly and all labor management practices are in accordance with the provisions of ESS 2, including the principle that all workers will be hired fairly without discrimination. These measures will be documented in labor management procedures (LMP) building on the existing corporate labor management procedures of Baiterek, KCM and Damu. The LMP will also include sections on Environment Health and Safety (EHS), with an explanation of specific instruments that will need to be prepared by the PCU. The LMP will be prepared, consulted upon and disclosed prior to the Project Appraisal.

The labor risks for PFIs will be assessed by Damu and the LMP requirements will be integrated in their existing ESMS. These instruments may include: EHS checklists, codes of conduct with measures to prevent Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH); project workers GM; safety training etc. The updated ESMS acceptable to the Bank will be a condition for the PFIs prior to issuance of financial assistance. Similarly, the labor risks for beneficiary MSMEs will be assessed through the ESMS of the PFIs and appropriate measures will be a condition of loan. 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

ESS 3 remains potentially relevant. As the main E&S risks of the project involves FIs, potential risks related to the project such as air emissions, water releases, energy efficiency and waste management at the sub-project level will be mitigated through implementation of The Fund's and the PFIs ESMSs. The ESMS which is fully discussed under ESS 9, will include all the necessary processes and procedures to ensure site specific considerations related to resource efficiency, pollution prevention and management are addressed and managed. Environmental risks of beneficiary MSMEs which might cause significant pollution impacts, will be rated as High or Substantial, and thus, will be considered ineligible for financing.

ESS4 Community Health and Safety



ESS 4 remains potentially relevant. The implementation of investee MSME business activities might cause impacts associated with the community health and safety, including SEA/SH risks. Such impacts will be identified, assessed and addressed within the scope of The Fund and the PFIs ESMS in accordance with ESS4 requirements. Sub-projects which might be associated with significant impacts rated as High or Substantial risk will be considered ineligible for financing.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

This standard is not relevant because the project will exclude any investments which require land acquisition, cause restrictions on land use and involuntary resettlement impacts.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is not relevant because sub-projects which might adversely impact biodiversity conservation and sustainable management of living natural resources will not be eligible for financing within the scope of the project.

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 Kazakhstan.

ESS8 Cultural Heritage

This standard is not relevant because sub-projects having impacts on cultural heritage will not be eligible for financing within the scope of the project.

ESS9 Financial Intermediaries

The project will provide funds to the Baibetek Holding to channel financial support for MSMEs through two of its subsidiaries KCM and DAMU. The Baibetek PCU will oversee the early stage and seed investments and partial credit guarantees for MSME loans.

Under Component 1, Baiterek would transfer the proceeds of the World Bank loan to KCM. KCM would invest the funds received from Baiterek in equity in the KCM Hybrid MSME Fund to be managed by competitively selected private fund manager(s). KCM would reinvest the revenues from the distributions and capital gains realized on its investment in the Fund in new equity investments in a follow-on Hybrid MSME Fund – The Fund. The KCM has ESMS provisions in place, which will be updated no later than 90 days after the Loan Effective Date. The Fund Manager will be required to develop and implement an ESMS in line with World Bank ESS 9 requirements for financial intermediaries. The Fund’s ESMS will include an E&S Policy and will also specify the applicable E&S requirements as the World Bank Exclusion List, National Laws and the ESSs. The ESMS will include (i) an environmental and social policy; (ii) clearly defined procedures for the identification, classification, assessment and management of the environmental and social risks and impacts of investee MSMEs; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of the investment fund; and (v) external communications



and grievance mechanism. The Fund’s ESMS will be established no later than 30 days after the Agreement signed between KCM and the Fund Manager.

Under Component 2, Baiterek would transfer the proceeds of the World Bank loan to DAMU. These funds will be separate from all the other activities of DAMU and will have its own separate accounting and funds management. There will be separation between funds under Component 2 and the existing capital of DAMU. DAMU will leverage this capitalization from the WB loan to extend guarantees on loans of eligible borrowers PFIs including qualified second-tier banks and microfinance organizations. DAMU has an established ESMS, which will be in place within 90 days of the Project Effectiveness. As part of their agreements to be signed all eligible PFIs will be required to establish and maintain an ESMS in place within 90 days of the Project Effectiveness, satisfactory to DAMU and the Bank, to identify, classify, assess, manage, and monitor the environmental and social risks and impacts of subprojects to be implemented by beneficiary MSMEs. During implementation, both the participating financial institutions and DAMU will be facilitating development of a project pipeline and will be using the IFC ESMS Diagnostic Tool to assess the quality of an ESMS and identify existing gaps at PFIs. No disbursement will be made until PFI’s have ESMSs satisfactory to the Bank. The PFI’s ESMS’s will include (i) an 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 and grievance mechanism. The ESMS will also allow for screening of MSME activities against the World Bank’s E&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. DAMU 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 and 4 will be addressed under this ESS, where applicable. The PFIs will inform potential MSME beneficiaries on the project’s investment opportunities, including the eligibility criteria and ESMS requirements. The environmental and social risks for the on lending to MSME’s will be assessed through the ESMS of the PFIs and appropriate measures will be a condition of loan.

All PFIs’ ESMSs will be shared with the Bank for approval before allowing said PFI to participate in the project. Once disbursement has been made, in order to ensure that the ESMS of the PFIs are functioning properly, the World Bank (along with PCU and Damu) will approve at least the first two lending done by each PFI.

C. Legal Operational Policies that Apply

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

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

Public Disclosure



A. Is a common approach being considered?

No

Financing Partners

No other financial partners are at this stage.

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

Actions to be completed prior to Bank Board Approval:

Prior to Appraisal, the Borrower will prepare, to a level acceptable to the World Bank, consult upon and disclose the following documents:

1. Prepare a Stakeholder Engagement Plan (SEP) and start implementing as early as possible during project preparation;
2. Prepare Labor Management Procedures for the Project; and
3. Environmental and social exclusion list of the project.

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

Prior to Appraisal, the Bank team, in consultation with the Borrower, will prepare a draft Environmental and Social Commitment Plan (ESCP), which will include:

1. The KCM and Damu will establish ESMS acceptable to the Bank no later 90 days after Loan Effective Date.
2. All eligible PFIs will be required to establish an ESMS, satisfactory to DAMU and the Bank, within 90 days after Project Effectiveness and maintain it and report on its performance on regular basis throughout project implementation.
3. Environmental and social risks and impacts assessment of loan and investment subprojects will be conducted prior to approval of financing based on the updated ESMS in place by the implementing agencies and partners;
4. Incorporating and implementing the project's LMP provisions into the ESMS of KCM/Fund, Damu and PFIs;
5. Continued implementation of the SEP to ensure stakeholder engagement throughout project implementation and beyond project closure;
6. Ensure PFIs and Fund Manager's ESMS compliance with the Banks ESS requirements and regular reporting; and
7. Capacity building to enhance the environmental and social performance of the implementing agency and key stakeholders in ESF application and ESS compliance.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

17-Oct-2022



IV. CONTACT POINTS

World Bank

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Borrower/Client/Recipient

Borrower: Baiterek Holding

Implementing Agency(ies)

Implementing Agency: Damu Entrepreneurship Development Fund

V. FOR MORE INFORMATION CONTACT

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 Web: <http://www.worldbank.org/projects>

VI. APPROVAL

Task Team Leader(s):	Martin Melecky, Katerina Levitanskaya, Mariana Iooty De Paiva Dias
Practice Manager (ENR/Social)	Varalakshmi Vemuru Recommended on 30-Jul-2022 at 03:22:40 GMT-04:00
Safeguards Advisor ESSA	James Peter Moore (SAESSA) Cleared on 01-Aug-2022 at 14:09:54 GMT-04:00