ENVIRONMENTAL AND SOCIAL RISK SAFEGUARDS MANAGEMENT FRAMEWORK

MOROCCO: PILOTTING EQUITY FINANCE FOR SMALL AND MEDIUM ENTERPRISES PROJECT
## ABBREVIATIONS AND ACRONYMS

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>Bank, IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>CCG</td>
<td>Caisse Centrale de Garantie</td>
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<tr>
<td>EA</td>
<td>Environmental Assessment</td>
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<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>ESMF</td>
<td>Environmental and Social Risk Management Framework</td>
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<td>ESMP</td>
<td>Environmental and Social Risk Management Plan</td>
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<td>FI</td>
<td>Financial Intermediary</td>
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<td>GOM</td>
<td>Government of Morocco</td>
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<td>MOEF</td>
<td>Ministry of Economy and Finance</td>
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<td>MSDS</td>
<td>Material Safety Data Sheet</td>
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<td>PB</td>
<td>Project Beneficiary</td>
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<td>PIF</td>
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1. INTRODUCTION

This section of the Project Operation Manual presents the Environmental and Social Risk Management Framework (ESMF) for the Piloting Equity Finance for Small and Medium Enterprises project (the Project). One of the prerequisites of the World Bank Group (WBG) support for this Project is that Financial Intermediaries (FIs) integrate into their financing operations the requirements of environmentally and socially sound and sustainable development as identified in laws and regulations of the Kingdom of Morocco and the sustainability policies and frameworks of the participating WBG entities.

The World Bank Group has screened the proposed project components and has determined that this project is categorized as a FI – Financial Intermediary according to OP4.01. Financial institutions selected to implement investments and ecosystem support are referred to in this context as Participating financial institutions (PFIs) and includes VC investment funds, Angel/Seed fund, and the Ecosystem providers. Each PFI, and the Caisse Centrale de Garantie (CCG) the implementing agency will be required by the WBG to: (a) develop and operate an ESMS that is commensurate with the level and complexity of social and environmental risks in its portfolio, prospective business activities (investments or grants); and (b) ensure that all subprojects supported by the Bank comply with applicable national and local laws and regulations (see Annex 1 for links to applicable national laws). In addition, the following environmental safeguards policies are triggered: OP 4.04 Natural Habitats, and OP4.36 Forests. Since sub-activities are not known, the screening process described in the ESMF will identify potential risks on natural habitats and forests and mitigation measures will be prepared as needed. Potential inclusion of the agribusiness is expected, however, the expected type of business is limited to innovative packaging, marketing, processing, and distribution and does not involve production nor use of pesticide. Therefore OP4.09 Pest Management is not triggered. Any sub-activities which produce or use pesticide will be excluded from the project and listed in the ineligible activities in the Annex 2.

It is anticipated that the majority of sub-projects (investments and grants) supported in this Project will be in the services or technology sphere that will have limited environmental or social risks associated with them. However, it is recognized that there may be some business activities in which the environmental and social risks and impacts, albeit at a limited scale due to the young age and size of SMEs, may be triggered and require commensurate assessment and management, e.g., labor and working standards, inappropriate disposal of wastes, or unhealthy or hazardous working conditions. All PFIs and the implementing agency the CCG are exposed to some level of Environmental and Social (E&S) risk through the activities of their investees, which can represent a financial, legal, and/or reputational risk to the PFIs and the CCG. Accordingly, the Government of Morocco (GOM) has developed this ESMF for the Project Management Unit (PMU) housed in the CCG and the corresponding PFIs who will be making investments and grants through this program. These measures will ensure that appropriate risk management measures have been identified for implementation by the investment applicant.

Participating financial institutions (PFIs) are required to establish or arrange for proper capacities to duly implement their environmental and social risk screening and management in a manner consistent with the guidance provided in this ESMF. If a PFI does not have the capacity to implement such a system, the WBG members reserve the right to develop an Action Plan that identifies all actions necessary to meet the requirements set forth in this manual. The CCG as the project management agency will make sure that implementation of
this ESMF becomes a standard investment and grant review operation within PFIs. It should form part of the Shareholder Agreement signed between the CCG and each, Angel/Seed Investment Management Company, early stage/VC fund manager, and Ecosystem provider.

This operational manual, along with the ESMF that is established by each PFI, meets the lending requirement of the WBG that a FI has established an appropriate Environmental and Social Management System (ESMS).

2. PROJECT COMPONENTS

The Piloting Equity Finance for SMEs project includes 3 components:

Component 1: Financing Program US$44 million

The objective of this component is to cover the gap in the commercial market from the seed to the lower range of private equity and enable new and existing innovative SMEs in the project area to access appropriate risk capital throughout the different stages of early development and growth. The expectations is to co-invest equity or quasi equity alongside private sector investors in a total of approximately 100 innovative SMEs (less than 5 years old) distributed between seed, early stage and venture capital stage.

Funding under this component will be distributed under two sub-components as follows:

Subcomponent 1a: Angel/Seed fund (US$14 million)

One or more Angel/Seed equity fund(s) will be incorporated and managed by a competitively selected investment management company from the private sector. The Angel/Seed fund(s) will make equity or quasi equity investments alongside private co-investors in young innovative SMEs up to a maximum of US$500,000 based on criteria set forth in the project document and OM. The Angel/Seed fund manager will be responsible for screening applications managing investments, monitoring performance of the portfolio; support portfolio companies and make exits.

Enterprises receiving equity or quasi equity capital from the Angel/Seed fund will be automatically eligible to a one-time complimentary soft loan of up to US$25,500 also covered by the project. The entrepreneur through the Angel/Seed fund manager will apply for the loan to the CCG who will sign a grant/loan agreement with the enterprise.

This sub-component has a low Environmental and Social (E&S) risk and the guidelines under this ESMF should be followed. In the case of the Angel/Seed fund the CCG will ensure that they have an acceptable ESMS in place. The Management Company manager or his/her designate will review the application for meeting the eligibility criteria set forth in this ESMF, the list of ineligible expenditures included in Annex 2, and screen for environmental or social risk safeguards as explained under this ESMF (Annex 3). If any safeguards are triggered the manager will communicate this to the entrepreneur and co-investors allowing them to prepare a mitigation and management plan that will be included in the shareholder agreement.

Subcomponent 1b: Early Stage/Venture Capital (VC) fund(s) (US$30 million)

This subcomponent entails partnering with private investors in newly structured and/or existing Early Stage/VC funds. Early stage/VC funds will offer equity and quasi equity financing to innovative SMEs seeking an average investment ticket size of US$500,000. The
early stage/VC funds will be managed by private fund managers who will be responsible for screening applications, managing investments, monitoring performance of the portfolio; support portfolio companies; and make exits. The Fund manager’s fees, terms and responsibilities will be bound by the Administration Agreement and subject to review and extension or termination by the fund shareholding partners based on performance. This sub-component has a low E&S risk therefore each fund administration agreement will include an ESMS acceptable to the WB in accordance to this ESMF.

Component 2: Ecosystem Support US$4 million

This Component will support organizations within the entrepreneurship ecosystem in the project area to stimulate new innovative enterprises. This will be done under two subcomponents.

Subcomponent 2a: Pre-Seed Grants (US$2 million)

Funding under this subcomponent will support the provision of pre-seed grants up to US$20,000 each to start-up companies and/or entrepreneurs with an innovative business concept. Activities to be supported under this sub-component could include one or more of the following: proof of concept validation, collection of critical data, prototyping, market surveys, market testing and exploration, business plan preparation, company set up and registration. This sub-component has low E&S risk. Entrepreneurs and Start-up businesses do not have the resources to implement management of safeguards and therefore they should not be expected to have an ESMS in place. However, applications should be screened to ensure that they do not involve any potential activities in the list of ineligible expenditures included in this OM.

Ecosystem support providers who will be selected based on their ability to comply with technical specifications through an international call for proposals. To implement the pre-seed grants ecosystem providers will be required to follow clear guidelines for efficient, speedy and transparent evaluation of grant proposals following the guidelines in the project OM, including screening for ineligible expenditures under this ESMF.

Subcomponent 2b: Entrepreneurship Support (US$2 million)

Organizations will be selected through an international call for proposals to provide Mentoring, Investment Readiness programs, and build the Business Angel community based on criteria specified in project document and OM. This component does not have any E&S risks.

Component 3: Project Management, Coordination, and Monitoring and Evaluation US$2 million

This component will fund the PMU and all its basic operations, and administrative costs for the management and supervision of the project over the WB Project life (6 years). This component will also fund expenses related to the call for proposals, evaluation, and selection of partner funds and ecosystem support providers who will implement the activities. Projects funds will also support, training of staff, marketing and outreach of the project specifically to the regions (website, conferences), legal and administrative costs including fiduciary, safeguards, and monitoring and evaluation. This component does not have any E&S risks.
3. PROJECT IMPLEMENTATION ARRANGEMENTS

The project implementing agency is the CCG who will set up a PMU for the management, monitoring and reporting of the Project.

**Project supervision includes a Steering Committee that will meet twice a year and have broad oversight of the project’s overall direction and impact within the broader national development agenda.** Project supervision will also include a Technical Committee (TC) that will meet quarterly or more as needed to review progress on project activities and results indicators. With regards to safeguards reporting the CCG will report to the WBG as indicated in this ESMF guidelines. The TC together with the CCG will present progress on the Project to the SC and ensure linkage and collaboration with other government stakeholders working on related programs.

**The CCG’s Innovation Investment department will constitute the project management unit (PMU) and will be responsible for making the project operational by performing the following tasks:**

(a) Prepare documents and issue the call for proposals for the Angel/Seed and the early stage/VC funds, and ecosystem providers in accordance with criteria and process stipulated in the project document and OM.

(b) Evaluate, and select, proposals submitted by fund managers and ecosystem providers (thereby referred to as participating financial intermediaries (PFIs)) in accordance with the criteria and process stipulated in the project document and OM.

(c) Enter into agreements with PFIs1; and

(d) Request withdrawals from the Designated Account (DA) under Treasury of the MoEF.

**The CCG represents the interest of the GOM in the project and as such will:**

(a) Give strategic guidance to implementation in accordance to national objectives and the project OM.

(b) Resolve broad management and operational issues pertaining to the implementation of the project activities experienced by the Angel/Seed and early stage/VC funds, and the Ecosystem providers.

(c) Conduct monitoring and evaluation of the project indicators, and review and oversee implementation of the monitoring & evaluation and updating indicators, as well as financial safeguards and project reporting by the financial intermediaries.

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1 Shareholder Agreements with: partner private investors in Angel/Seed or early stage/VC funds; Administration Agreement with selected Angel/Seed fund manager(s), early stage/VC fund manager(s); and Grant Agreements with ecosystem support providers; and
(d) Propose changes to the OM when necessary based on non-objection from the World Bank.

4. CAPACITY ASSESSMENT AND TRAINING NEEDS

The CCG has experience through an ongoing WB financed project (MSME Development Project (P129326)) and has an ESMS in place. The CCG has a designated social and environmental coordinator tasked with screening subprojects financed by banks under the MSME Development Project and categorizing activities according to risk. All CCG operational staff including the environmental coordinator has received training on WB safeguards. The CCG has been performing safeguards screening at a satisfactory level and has properly excluded ineligible sub-projects such as Category A projects, projects leading to involuntary resettlement, activities falling under the IFC’s exclusion list and additional selected activities that are expected to have a significant negative environmental and/or social impact. To date no issue has been raised on the management of safeguards aspects at the CCG. Therefore, the Project will utilize the same staff to implement the ESMF. The CCG with assistance from the World Bank will continue to enhance its capacity on the management of environmental and social risks, which includes the screening of projects and their classification into different risk types, as well as building up knowledge about Morocco’s environmental and social laws, and the World Bank's environmental and social norms. In addition to reviewing safeguards reports, the CCG will evaluate the safeguards capacity and ESMS of the PFIs. The WB will provide safeguards training to CCG and all PFIs.

5. THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM FOR THE PROJECT

In agreeing to participate in the Project, the CCG, and each PFI accepts responsibility to the WBG for mandatory screening, assessment, and management of the environmental and social risks and impacts of proposed transactions taken under the Project in a manner that is consistent with WBG Standards as well as the financial institution’s corporate practices and policies for Corporate Responsibility.

All investments/loans/grants to project beneficiaries (BPs) provided under the Project should be subjected to an environmental review process incorporating the procedures described in this ESMF. All PFIs should use these procedures in reviewing and appraising sub-project investment/grant applications, and to inform sub-investees/grantees of environmental requirements for investment/grant appraisal, so that sub-projects can be implemented in an environmentally sound manner. These procedures and requirements incorporate the World Bank’s safeguard policies. Necessary forms and check lists are incorporated as annexes.

Following is a brief description of what should be the contents of an ESMS required by the project for PFIs. Details are provided in Annexes 3 and 4. The CCG, and each PFI can assure proper ESMS development by using the checklist provided in Annex 4.

I. **E&S Policy**: A policy, serving as a brief declaration of an organization’s commitment to sustainable development and management of E&S issues. This is often publicly disclosed but certainly always communicated internally.

II. **E&S Procedure**: The Procedure detailing how the organization addresses E&S risks and sustainability issues as part of its investment operations. Procedures are normally step by step instructions focusing on what needs to be done and by whom at various
stages of the investment cycle (including supervision). Reference is often made to guidelines. A procedure may be stand-alone or constitute part of other Operational procedures of the PFI. Procedures should be documented and communicated to ensure that all existing and new staff are aware of the process.

III. **E&S review guidelines:** These serve as guidance to the responsible officer(s) in the PFI on how to carry out the various steps outlined in the E&S Procedure. The guidelines can be simple for low risk installations and more sophisticated for high risk installations. These should help provide a guide on what to look for when conducting an E&S review and can include:

   a. A checklist of documents (such as regulatory clearances) to be reviewed
   b. Questions to ask the client during a site visit (where appropriate)
   c. Aspects to look at during the site visit such as housekeeping, visible contamination etc.

IV. **Record keeping:** This is a vital aspect of an ESMS where the review and analysis conducted and the mitigation or corrective measures required as applicable as per the Procedure are recorded in the investment decision documents.

V. **Categorization:** To ensure that the extent of the review is commensurate with the nature of risk, categorization is a useful step in procedures where based on basic information about a project such as sector and scale, the level of E&S risk the project could pose is determined. This also enables the PIF to determine the extent and sophistication of the E&S review. Examples of categorization are High, Medium, and Low risk or Category A, B, or C.

\[2\] Category A project will be excluded from receiving financing from the project.

\[3\] **Category A:** A proposed project is classified under OP/BP 4.01 as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works. A potential impact is considered "sensitive" if it may be irreversible (for example, lead to loss of a major natural habitat) or raise issues covered by OP 4.04, Natural Habitats; OP/BP 4.10, Indigenous Peoples; OP/BP 4.11, Physical Cultural Resources or OP 4.12, Involuntary Resettlement. It includes projects which have, one or more of the following attributes that make the potential impacts “significant”: direct pollutant discharges that are large enough to cause degradation of air, water or soil; large-scale physical disturbance of the site and/or surroundings; extraction, consumption, or conversion of substantial amounts of forest and other natural resources; measurable modification of hydrologic cycle; hazardous materials in more than incidental quantities; and involuntary displacement of people and other significant social disturbances. **Category B** A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas—including wetlands, forests, grasslands, and other natural habitats—are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; includes projects which may have impacts, but they are less likely to be “significant”. Many rehabilitation, maintenance and upgrading projects may require attention to existing environmental problems at the site rather than potential new impacts. **Category C** A proposed project is classified under OP/BP 4.01 as Category C if it has low adverse environmental and social impacts.
ANNEXE 1: References

National Laws and Decrees

1. Instruments de protection (Etude d’impact sur l’environnement)

Loi n° 12-03 relative aux études d’impact sur l'environnement
Décret n° 2-04-563 relatif aux attributions et au fonctionnement du comité national et des comités régionaux des études d'impact sur l'environnement – (4 novembre 2008)

Décret n° 2-04-564 fixant les modalités d'organisation et de déroulement de l'enquête publique relative aux projets soumis aux études d'impact sur l'environnement - (4 novembre 2008)


Circulaire conjointe du Ministre de l'intérieur et du Secrétaire d'Etat auprès du Ministre de l’énergie, des mines, de l'eau et de l’environnement pour la mise en oeuvre des décrets d'application de la loi n°12-03 relative aux études d'impact sur l'environnement (existe en version arabe seulement) – (n° D1998 (17 mars 2009)

2. Biodiversité (Faune et Flore) : Littoral, Forêt, Aires protégées Littoral

Décret PUN (BO n° 4440 du Jeudi 19 Décembre 1996)
Arrêté PUN (BO° 5132 du Jeudi 7 Août 2003)

3. Forêt

Dahir (20 hija 1335) sur la conservation et l'exploitation des forêts (B.O. 29 octobre 1917)

4. Aires protégées

Dahir n° 1-10-123 du 3 chaabane 1431 portant promulgation de la loi n°22-07 relative aux aires protégées – (B.O. n° 5866 du 19 août 2010)

5. Milieux naturels : Eau, Air, Sol Eau

Loi n° 10-95 sur l’eau (B.O. 20 septembre 1995)
Décret n° 2-97-875 du 6 chaoual 1418 relatif à l'utilisation des eaux usées (B.O. 5 février 1998)
Décret n° 2-97-787 du 6 chaoual 1418 relatif aux normes de qualité des eaux et à l'inventaire du degré de pollution des eaux – (Bulletin officiel n°4558 du 5 février 1998)
Décret n° 2-05-1533 du 14 moharrem 1427 relatif à l'assainissement autonome – (B.O. n° 5404 du 16 mars 2006)
Décret n° 2-97-657 du 6 chaoual 1418 relatif à la délimitation des zones de protection et des périmètres de sauvegarde et d'interdiction – (B.O. du 5 février 1998)
Décret n° 2-04-553 du 13 hija 1425 relatif aux déversements, écoulements, rejets, dépôts directs ou indirects dans les eaux superficielles ou souterraines – (B.O. n° 5292 du 17 février 2005)

6. Air

Loi n°13-03 relative à la lutte contre la pollution de l’air – (BO n° 5118 du 19 Juin 2003)
Décret n°2-09-631 fixant les valeurs limites de dégagement, d’émission ou de rejet de polluants dans l’air émanant de sources de pollution fixes et les modalités de leur contrôle – (BO n° 5862 du 5 aout 2010)

7. Activités : Chasse, Pêche, Etablissements classés, Energie, Carrière, Mine Chasse

Dahir (6 hija 1341) sur la police de la chasse – (B.O. 7 août 1923)
Décret n°2-11-01 ( 20 mai 2011) pris pour l’application du dahir (21 juillet 1923) sur la police de la chasse - (B.O. n° 55948 du 2 juin 2011)

8. Pêche

9. Etablissements classés
Dahir (3 chaoual 1332) portant réglementation des établissements insalubres, incommodes ou dangereux -
(B.O. 7 septembre 1914)

10. Energie
Dahir n° 1-10-16 du 26 safar 1431 portant promulgation de la loi n° 13- 09 relative aux énergies renouvelables – (B.O. n° 5822 du 18 mars 2010)
Décret n° 2-10-578 (11 Avril 2011) pris pour l’application de la loi n° 13-09 relative aux énergies renouvelables – (B.O. n° 5936 du 21 avril 2011)

11. Carrière
Dahir n° 1-02-130 du 1 rabii Il 1423 portant promulgation de la loi n° 08-01 relative à l'exploitation des carrières. – (B.O du 5 septembre 2002)
12. Mine

13. Pollution et Nuisance : Déchets, Plastiques, Pesticides Déchets

Loi n° 28-00 relative à la gestion des déchets et à leur élimination – (n° 5480 du 7 décembre 2006)
Décret n° 2-09-139 du 25 journada I 1430 (21 mai 2009) relatif à la gestion des déchets médicaux et pharmaceutique – (BO n° 5744 du 16 juin 2009)
Décret n° 2-09-284 du 20 hija 1430 (8 décembre 2009) fixant les procédures administratives et les prescriptions techniques relatives aux décharges contrôlées – (BO n° 5802 du 7 janvier 2010)
Décret n° 2.09.538 du 5 rabii II 1431 (22 mars 2010) fixant les modalités d’élaboration du plan directeur national de gestion des déchets dangereux – (BO 5830 du 15 avril 2010)
Décret n° 2-09-285 du 23 rejeb 1431 (6 juillet 2010) fixant les modalités d'élaboration du plan directeur préfectoral ou provincial de gestion des déchets ménagers et assimilés et la procédure d'organisation de l'enquête publique afférente à ce plan – (BO n° 5862 du 5 Août 2010)
Décret n° 2-09-683 du 23 rejeb 1431 (6 juillet 2010) Fixant les modalités d'élaboration du plan directeur régional de gestion des déchets industriels, médicaux et pharmaceutiques non dangereux, des déchets ultimes, agricoles et inertes et la procédure d'organisation de l'enquête publique afférente à ce plan - (BO n° 5862 du 5 Août 2010)
Décret n° 2-08-243 du 17 mars 2010 (30 rabii I 1431) instituant la Commission des polychlorobiphényles (PCB). – (B.O. n° 5826 du 1er avril 2010)

14. Plastiques
Dahir n° 1-10-145 du 3 chaabane 1431 portant promulgation de la loi n°22-10 relative à l'utilisation des sacs et sachets en plastique dégradable ou biodégradable – (B.O. n° 5862 du 5 août 2010)

15. Pesticides
Dahir n° 1-97-01 (12 ramadan 1417) portant promulgation de la loi n°42-95 relative au contrôle et à l'organisation du commerce des produits pesticides à usage agricole – (B.O. 15 mai 1997)

16. Pollution accidentelle
Décret PUN – (BO n° 4440 du Jeudi 19 Décembre 1996)
Arrêté PUN – (BO° 5132 du Jeudi 7 Août 2003)
ANNEX 2: Non-Eligible Investments and Expenditures

An Environmental and Social Management Framework (ESMF) is included in the Project operations manual that provides guidelines for screening proposals for safeguards. The list of non-eligible investments and expenditures below and the screening and management mechanism for safeguards will be included in the POM. Specifically, business proposals will be excluded from the scheme if they fall under the following categories:

IFC Exclusion List:

(a) Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under CITES.
(b) Production or trade in weapons and munitions.
(c) Production or trade in alcoholic beverages (excluding beer and wine).
(d) Production or trade in tobacco.
(e) Gambling, casinos and equivalent enterprises.
(f) Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
(g) Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
(h) Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
(i) Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
(j) Commercial logging operations for use in primary tropical moist forest.
(k) Production or trade in wood or other forestry products other than from sustainably managed forests.

Other ineligible activities

(l) Real estate purchases and any physical intervention including construction and rehabilitation.
(m) Activities that limit or deprive of individual or community’s access to land, assets or available resources.
(n) Activities that cause displacement of individual or community, involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, whether or not the affected person must move to another location, or involving the involuntary restriction of access to legally designated parks and protected areas.
(o) Activities that may adversely affect an indigenous people, or that impinge on the lands owned, used or claimed under adjudication, by indigenous peoples;

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4 This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor’s primary operations.
5 Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
6 Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child’s education, or to be harmful to the child’s health, or physical, mental, spiritual, moral, or social development.
(p) Activities which involve or introduce the production/use of pesticides
ANNEX 3: Outline for the ESMS for the Partner Financial Institutions under the Project

Background

This Environmental & Social Management System (ESMS) details the policy, procedures and workflow that will be followed for investments made by _______________ ("the Company") under the management and administration of _____________________ ("the Environmental Coordinator (or other designated officer)").

Environmental & Social Management System

Policy

The Company continually endeavors to ensure effective Environmental & Social management practices in all its activities, products and services with a special focus on the following:

- Ensuring that all activities undertaken by the Company are consistent with the Applicable Requirements outlined later in this document
- Ensuring that all projects are reviewed against the Applicable Requirements
- Financing projects only when they are expected to be designed, built operated and maintained in a manner consistent with the Applicable Requirements
- Making best efforts to ensure that all projects are operated in compliance with the Applicable requirements on an ongoing basis, during the currency of the Company’s financing
- Ensuring transparency in its activities
- Ensuring that the management and the shareholders of the client companies understand the policy commitments made by the Company in this area.

This Policy will be communicated to all staff and operational employees of the Company.

Signed

______________________

Effective Date

______________________
Applicable Requirements

The Company will ensure that all projects are reviewed and evaluated against the following Environmental and Social requirements (E&S):

- Category A projects are excluded from financing (including any project that involves acquisition of land and involuntary resettlement).
- The IFC Exclusion List for all projects
- The applicable national laws on environment, health, safety and social issues and any standards established therein

Procedures

While CCG ensures the compliance with WB safeguards policies, the PFIs are also responsible for considering WB safeguards and pertinent World Bank Group General and Sector Specific Environment, Health, and Safety guidelines as they are the ones with direct contact with SMEs. It is expected that the number of the PFIs will be 3-5. Therefore, participating in the WB safeguards training will be a precondition of the agreement signed between the CCG and each PFI. WB safeguards training will be offered by a safeguards specialist in the WB task team in cooperation with the safeguards specialist in the CCG.

At an initial stage of inquiry, the Environmental Coordinator (or other designated officer) within each PFI will apply WBG’s Exclusion List (see Annex 2) to the project. If the project involves an excluded activity, the prospective client will be so informed, and further consideration of financing for the project will be terminated. Otherwise, the Environmental coordinator will indicate the Applicable Requirements for the project.

When the Environmental Coordinator (or other designated officer) indicates that the project does not involve an excluded activity, but is identified as having a potentially substantive E&S risk, the prospective beneficiary will be informed that the Fund Manager will undertake (as part of the due diligence) an Environmental & Social Due Diligence (ESDD).

The Environmental Coordinator or other designated officer will undertake (or appoint a consultant to undertake) an ESDD. Depending on the complexity of the project, the ESDD can be a desk review, based on a credit officer’s site visit or require a full scale review conducted by a technically qualified person or consultant.

Prospective SMEs must provide all requested information to the Fund and the Environmental Coordinator (or other designated officer) must have concluded that the Project is expected to meet the Fund’s Applicable Safeguards Requirements (with Corrective Action if required) prior to the Fund’s decision to make an investment.

Environmental and Social performance will be evaluated on an annual basis, including status of implementation of any Corrective Actions. The benchmark for performance will be the ongoing compliance against the Fund’s Applicable Safeguards Requirements. The responsibilities for implementation of the Performance evaluation are on:

a) The beneficiary SMEs, who will provide annual reports to the Fund’s Environmental Coordinator (or other designated officer), who may follow up as required with further queries or site visits; and

b) The Fund’s Environmental Coordinator (or other designated officer), who will provide Performance Reports as per Annex 5 to the CCG Management and WBG, to be prepared on the basis of the annual reports provided to the Environmental Coordinator (or other designated officer) by the SME, as well as the ESDD and supervision conducted.

All investment agreements will contain appropriate environmental representations, warranties, and covenants requiring that projects are in compliance in all material respects with host country
environmental, health, safety and social requirements embodied by state general laws and implementing agencies and conducted in accordance with any Applicable Requirements.

**Organization and Responsibilities**

The (CCG/PFI) Environmental Coordinator is [FIRST AND LAST NAME] will have oversight for environmental and social issues, and will sign the Company’s annual environmental performance report to the WB/CCG.

The responsibilities of the Environmental Coordinator include:

- During due diligence, the evaluation of environmental compliance of a target SME company with Applicable Requirements;
- Supervising projects in the portfolio against on-going compliance with the Applicable Requirements.
- The preparation of an annual environmental performance report, based on the annual performance report prepared by the SMEs.

The Environmental Coordinator will ensure that these procedures are implemented, and that records of environmental reviews are maintained.

The Environmental Coordinator (or other designated officer) will ensure that all investment decisions are supported by appropriate due diligence documentation (including, but not limited to, an environmental section in each final Investment Memorandum). The Company will also ensure that the WBG is notified if and when the current Environmental Coordinator leaves that position, and will provide the WBG the name of the new Environmental Coordinator.

Legal Counsel will ensure that appropriate environmental representations, warranties, and covenants are incorporated in each SME shareholder agreement.

**Resources and Capabilities**

The Environmental Coordinator will work with Senior Management to ensure that adequate Company resources have been committed to allow for the effective implementation of the environmental policy and procedures of the Fund.

The Environmental Coordinator (or other designated officer) will need to be technically qualified to be able to carry out the due diligence or review work carried out by a consultant.

The Environmental Coordinator will maintain a file of qualified environmental consultants who can be called upon to assist in conducting environmental reviews.

**Records to be maintained**

Environmental & Social Due diligence (ESDD) - This is the record of the Company’s E&S review of a project at the time of considering of the project for investment and forms E&S Supervision records for projects being supervised.

Reports to be provided to Fund management, the CCG, and to the WBG
# ANNEX 4: ESMS Checklist

<table>
<thead>
<tr>
<th>Environmental &amp; Social Aspects Screening Checklist</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project name:</td>
<td>Location:</td>
</tr>
<tr>
<td>Financing amount (US$) and financial purpose</td>
<td></td>
</tr>
<tr>
<td>Industry sector:</td>
<td>Brief project description:</td>
</tr>
<tr>
<td>Site visit date:</td>
<td>Additional technical review required:</td>
</tr>
<tr>
<td>Reviewed by:</td>
<td>□ Yes □ No</td>
</tr>
</tbody>
</table>

**Compliance with applicable requirements – check all that apply**

- Exclusion list
- National regulatory requirements
- Environmental, health and safety permits granted
- Injuries and fatalities have occurred (how and when: ________________________)
- Labor related fines (when and why: ________________________)
- Environmental incidents and fines (when and why: ________________________)

**Management systems – check all that apply**

- No written environmental and social policy:
- No written human resources policy (e.g. employment rights/non-discrimination)
- No written fire/safety plan or emergency prevention/preparedness/response plan)
- No environmental, health and safety training for employees
- No procedures for managing environmental and social risks
- No designated person in charge of environmental and social issues
- No internal process for sharing information

**Project site — check all that apply:**

- Non-urban/undeveloped land
- Proximity to river/stream/pond/lake/sea
- Proximity to protected area (e.g. forest/endangered species)/ecologically sensitive area (e.g. wetland/breeding grounds)
- Proximity to culturally sensitive/indigenous area

**Environmental issues — check all that apply:**

**Air emissions**

- Boilers
- Generators
- Vehicles and equipment
- Furnaces and incinerators
- Welding and soldering
- On-site burning

**Waste water**

- Waste water discharged to:
  - Drains and grates
  - Oil separators
  - Separation tanks or filters
  - Reed beds
  - Cut-off valves
<table>
<thead>
<tr>
<th>Solid and hazardous wastes</th>
<th>Foul sewers and septic tanks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Use of solvents</td>
<td>- De-watering/water pump out</td>
</tr>
<tr>
<td>- Use of fumigation</td>
<td>- Water treatment units</td>
</tr>
<tr>
<td>- Evaporation of chemicals</td>
<td>- Cleaning operations</td>
</tr>
<tr>
<td>- Refrigeration plant</td>
<td>- Spraying operations</td>
</tr>
<tr>
<td>- Use of exhaust ventilation</td>
<td></td>
</tr>
<tr>
<td>Solid and hazardous wastes</td>
<td>Hazardous chemicals, fuels, pesticides</td>
</tr>
<tr>
<td>- Waste generated:</td>
<td>- On-site chemicals or fuels storage</td>
</tr>
<tr>
<td>- Types of waste:</td>
<td>- Protective measures against leaks/spills</td>
</tr>
<tr>
<td>- Hazardous waste (e.g. waste oils, pesticide washings, solvents, clinical waste, asbestos)</td>
<td>- Signs of leaks/spills</td>
</tr>
<tr>
<td>- Waste disposed to:</td>
<td>- On-site spill cleanup equipment</td>
</tr>
<tr>
<td>Resource consumption</td>
<td>- Protective measures against rain</td>
</tr>
<tr>
<td>- Material used:</td>
<td>- Signs of corrosion on tanks/containers</td>
</tr>
<tr>
<td>- Use of renewable natural resources</td>
<td>- Secured storage areas against theft</td>
</tr>
<tr>
<td>- Use of tools and equipment</td>
<td>- Training on proper handling of chemicals and fuels</td>
</tr>
<tr>
<td>- Water source:</td>
<td>- Pesticide use and management</td>
</tr>
<tr>
<td>- Energy source:</td>
<td>Nuisance</td>
</tr>
<tr>
<td>- Dust</td>
<td>- Traffic congestion and obstructions</td>
</tr>
<tr>
<td>- Noise</td>
<td>- Fumes</td>
</tr>
<tr>
<td>- Odors</td>
<td>- Vibrations</td>
</tr>
<tr>
<td>- Fumes</td>
<td>- Traffic congestion and obstructions</td>
</tr>
</tbody>
</table>

20
Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.

<table>
<thead>
<tr>
<th>Name of Organization:</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Completed by [name]:</td>
<td></td>
</tr>
<tr>
<td>Position in the Organization:</td>
<td></td>
</tr>
<tr>
<td>Reporting period: From: To:</td>
<td></td>
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</tbody>
</table>

PORTFOLIO INFORMATION

<table>
<thead>
<tr>
<th>Report Covering Period</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>From:</td>
<td>To:</td>
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</tbody>
</table>

For the reporting period, please provide the following information about your portfolio where applicable:

<table>
<thead>
<tr>
<th>Company name</th>
<th>Description</th>
<th>Total exposure outstanding for most recent FY year end (in US$)</th>
<th>Average investment/transaction size (in US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
# Environmental & Social Management System (ESMS) - First Report

## Policies & Process

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has your organization developed and implemented an ESMS?</td>
<td>If yes, please attach a copy of the ESMS to this report.</td>
</tr>
<tr>
<td>If there is an ESMS already in place, have there been any updates to the ESMS or policy and procedures adopted by your organization during the reporting period?</td>
<td>If yes, please provide a copy of the updates including dates and reasons for the same</td>
</tr>
<tr>
<td>Has senior management signed off on the updated policy/procedure?</td>
<td>If yes, please provide the date and internal communication indicating the same.</td>
</tr>
<tr>
<td>Please give details of any transactions rejected on environmental, health, safety or social grounds.</td>
<td></td>
</tr>
<tr>
<td>Please state any difficulties and/or constraints related to the implementation of the environmental and social procedures.</td>
<td></td>
</tr>
<tr>
<td>Please describe how you ensure that your clients and their projects are operated in compliance with the National laws and regulations.</td>
<td></td>
</tr>
<tr>
<td>Please give details of any material environmental and social issues associated with borrowers during the reporting period in particular.</td>
<td></td>
</tr>
</tbody>
</table>

## Capacity

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please provide the name and contact information of the Environmental Officer or Coordinator who has the overall responsibility for the implementation of ESMS</td>
<td>Please describe the training or learning activities the Environmental Officer or Coordinator attended during year.</td>
</tr>
<tr>
<td>Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.</td>
<td>Please describe the training provided to the ESMS persons and other team members during year.</td>
</tr>
<tr>
<td>What was the budget allocated to the ESMS and its implementation during the year?</td>
<td>Please provide budget details including staff costs and training as well as any actual costs.</td>
</tr>
</tbody>
</table>

## Monitoring

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you check for ongoing compliance of your projects with national regulation and any other requirements?</td>
<td>If yes, please describe the process including any environmental and social considerations if applicable.</td>
</tr>
<tr>
<td>Please describe how you monitor the client and project environmental and social performance.</td>
<td>Please describe and provide supporting documents and please provide information on the number of projects here a field visit was conducted by staff to review aspects including environmental and social issues.</td>
</tr>
<tr>
<td>Please provide details of any accidents/litigation/complaints/regulatory notices and fines:</td>
<td></td>
</tr>
<tr>
<td>- Any incidents of non-compliance with the E&amp;S Requirements</td>
<td></td>
</tr>
<tr>
<td>Covenants/Conditions imposed by the Bank as a result of any noncompliance</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Reporting</td>
<td>Yes/No</td>
</tr>
<tr>
<td>Is there an internal process to report on environmental and social issues to Senior management?</td>
<td>If yes, please explain the process, reporting format and frequency and actions taken if any.</td>
</tr>
</tbody>
</table>

### Environmental & Social Management System (ESMS) – Consecutive Reports

<table>
<thead>
<tr>
<th>Process</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have there been any updates to the ESMS or procedure?</td>
<td>If yes, please provide a copy of the updated procedure and reasons for the same.</td>
</tr>
<tr>
<td>Has Senior management signed off on the changes?</td>
<td>If yes, please provide a copy of the same.</td>
</tr>
<tr>
<td>Please provide details of the implementation budget and reasons for changes from the previous year if any.</td>
<td></td>
</tr>
<tr>
<td>Were any transactions rejected on account of the IFC exclusion list?</td>
<td>If yes please provide details</td>
</tr>
<tr>
<td>Were there any difficulties and/or constraints related to the implementation of the environmental procedures?</td>
<td>If yes please provide details</td>
</tr>
<tr>
<td>Were there any material environmental and social issues associated with borrowers during the reporting period in particular?</td>
<td>If yes please provide details</td>
</tr>
</tbody>
</table>

### Supervision and monitoring

<table>
<thead>
<tr>
<th>Supervision and monitoring</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you supervise the performance of your projects?</td>
<td>If yes, please describe how you do this and the extent of coverage of your portfolio.</td>
</tr>
<tr>
<td>Do you conduct client site visits?</td>
<td>If yes, please describe the process including any environmental and social issues considered.</td>
</tr>
</tbody>
</table>

### Sustainable investments

<table>
<thead>
<tr>
<th>Sustainable investments</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have you made any investments in projects that have environmental and social benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, community development etc?</td>
<td>If yes please provide details</td>
</tr>
</tbody>
</table>