Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 09/21/2019 | Report No: ESRSC00639
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>AFRICA</td>
<td>P168577</td>
<td></td>
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</tbody>
</table>

Project Name: Financial Inclusion and Entrepreneurship Scaling Project

<table>
<thead>
<tr>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance, Competitiveness and Innovation</td>
<td>Investment Project Financing</td>
<td>9/24/2019</td>
<td>11/14/2019</td>
</tr>
</tbody>
</table>

Borrower(s):
Ministry of Finance, Economic Planning and Development

Implementing Agency(ies):
Ministry of Industry, Trade and Tourism, Reserve Bank of Malawi

Proposed Development Objective(s):
The Project Development Objective is to enhance private enterprise growth and job creation in Malawi by increasing MSME’s access to financial services and improving their capabilities.

Financing (in USD Million)

<table>
<thead>
<tr>
<th>Total Project Cost</th>
<th>Amount</th>
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<tr>
<td></td>
<td>60.00</td>
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</table>

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 project will address the PDO mostly through a private sector and market-led approach. Activities under this project will be structured under four mutually reinforcing components, namely: (a) Increasing financing available to MSMEs; (b) Developing entrepreneurship and firm capabilities for MSMEs; (c) Developing alternative MSME financing by enhancing structures and instruments for long-term finance; and (d) Enhancing the financial infrastructure and strengthening the environment for supporting MSMEs. Digital innovation, skills and entrepreneurship especially for women and youth will be an underlying and cross-cutting element across the four components.
(a) Increasing Financing available to MSMEs: This component will focus on increasing MSMEs access to affordable finance, targeting women and the youth. Activities to be covered under this component will include the following: (i) a Line of Credit (LOC) to provide affordable funds to eligible financial intermediaries for on-lending to creditworthy MSMEs and entrepreneurs as well as export-oriented SMEs that require longer term financing to fund investment and working capital; (ii) A Partial Credit Guarantee (PCG) to support the underwriting of guarantees to financial institutions that are extending credit to MSMEs; and (iii) Technical Assistance (TA) support to PFIs that access the LOC and PCG financing support, and to strengthen the PFIs' ability to meet MSME credit demand using appropriate, innovative, sustainable, and efficient products and services.

(b) Developing entrepreneurship and firm capabilities for MSMEs: This component will facilitate the improvement of entrepreneurship and firm capabilities through demand side interventions. Activities covered under this component will include the following: (i) Strengthening the entrepreneurship and firm capabilities ecosystem to improve the survival and growth rates of entrepreneurs and MSMEs by developing a stronger innovation and entrepreneurship ecosystem and talent base. This subcomponent will administer matching grants, challenge funds, performance contracts, and capacity building through TA to MSME/Entrepreneur support intermediaries, including support to business incubation and/or acceleration Hubs. (ii) Capacity building support to entrepreneurs and MSMEs to improve the survival and the growth rates of entrepreneurs and MSMEs in Malawi through direct capacity building support to MSMEs: This will administer business plan competitions, matching grants, challenge funds, and other capacity building support for entrepreneurs and MSMEs through participating intermediaries. Entrepreneurs and MSMEs who graduate from the project support with viable business plans, will be linked to PFIs. Entrepreneurs will be linked with business mentors that can provide more practical and hands-on professional knowledge. Communities of Practice for women and youth will be established, where necessary, to facilitate these linkages. (iii) Supporting financial literacy (FL) schemes and Entrepreneurship awareness initiatives, targeting entrepreneurs, MSMEs and the general populace, including supporting integration of financial education in primary school and primary teacher training curricula and the development of financial literacy (FL) awareness programs for women and youth: To broad FL initiatives, support will specifically target educating women and people living in rural areas. Entrepreneurship awareness programs will aim at increasing the visibility of entrepreneurship opportunities and supporting larger businesses in fostering entrepreneurship. Further support will be provided to raise awareness about financial consumer protection rights. (iv) Establishing market linkages for MSMEs to improve the currently limited or non-existent access to markets: This will focus on identifying and implementing specific mechanisms to target women and youth. In addition, the project will explore the use of ICT technologies for market price information to address the price information asymmetries affecting efficient access to markets among farmers.

(c) Developing alternative MSME financing by enhancing structures and instruments for long-term finance: This component will support activities aiming at deepening the financial sector so that it can play a more significant role in the provisioning of long-term finance for MSMEs and long-term private sector investment projects, including for infrastructure projects. Activities covered under this component will include the following: (i) supporting the development of institutional channels for long-term finance; (ii) enhancing the LTF enabling environment; and (iii) market deepening through long-term/infrastructure demonstration transactions.

(d) Enhancing the financial infrastructure and strengthening regulatory environment for supporting MSMEs: This component will aim at facilitating the financial inclusion and to increase access to finance for MSMEs by improving the infrastructure underlying the financial sector and the regulatory environment. It will build on the activities that were implemented under the FSTAP. Activities covered under this component will include the following: (i) Enhancing the
financial infrastructure and increasing financial institutions’ ability to expand their financial products and services, as well as building the capacity of stakeholders and users of these systems to encourage financial product uptake. Specifically, this will support the ensuring sustainability of operations of the MFI Hub by supporting its expansion through continued onboarding of MFIs and facilitating their linkage to the Hub; capacity building to support product development and increased usage of movable collateral registry, including through the promotion of financial literacy; strengthening the credit reporting system and promoting financial literacy initiatives to improve consumers’ understanding and utilization of the system; developing a web-based portal for the Central Securities Depository (CSD), supporting integration of the national identification (ID) system as an enabler of financial inclusion, and supporting the national payment system and the Electronic Fund Transfer (EFT) system. (ii) Leveraging the potential of Digital Financial Services (DFS), to expand the delivery of financial services to the underserved populations in a cost-efficient manner. (iii) promoting wider usage of digital financial services.

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

The proposed project scope is national and will build on its predecessor, Financial Sector Technical Assistance Project (FSTAP). It aims to support the growth of entrepreneurs and Micro, Small and Medium Enterprises (MSME) in Malawi through increased access to finance and business development services. The Project has three components. Component 1: Access to finance for entrepreneurs and MSMEs; Component 2: Entrepreneurship Development and Financial Education; Component 3: Financial infrastructure and regulatory environment. The proposed project will target significant female participation in its program that focuses on facilitating start-ups and expanding the capacity of MSMEs. The Reserve Bank of Malawi (RBM) will be the implementing agency of the project. RBM will house the PIU that would perform the accounting/reporting and funds flow. RBM will be required to develop and implement an ESMS and to require on-lending institutions to similarly develop and implement their own ESMS, or, develop mechanisms to implement the requirements of the RBM ESMS. The PIU will hire a safeguards expert who will be responsible for monitoring environmental and social risks. Whether the PIU will directly manage the lending of funds or that this function will only be performed by some other institution is not yet set at this stage. Beyond this, RBM will implement Component 3 and an element of financial education under Component 2. In terms of the implementation under component 1, lending to MSME will be channeled through several PFIs including commercial and development banks that would meet the World Bank’s eligibility criteria. The PFIs could either lend directly to entrepreneurs and firms or to other MFIs / lending institutions to on-lend to the MSMEs. Ultimately each of the participating financial institutions (PFIs) in the on-lending cascade would perform its own separate environmental and social safeguards due diligence. Capacity building on the development and implementation of ESMSs within the PFIs will be necessary. However as capacity is being developed support from RBM or qualified 3rd-parties may be necessary to ensure sub-projects are adequately managed for E&S issues.

D.2. Borrower’s Institutional Capacity

The Implementing Agency, RBM, has been involved in the implementation of the recently closed project, FSTAP. This project did not trigger any of the Bank safeguards policies and the RBM does not have prior experience in environmental and social risk management in accordance with World Bank safeguards policies nor the ESF. As the RBM has not set up an ESMS for any other project it will be necessary to ensure capacity is built and systems are in place in order to adequately manage potential impacts within RBM and the PFI cascade.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS
A. Environmental and Social Risk Classification (ESRC)

Environmental Risk Rating

The project is classified as Moderate risk from environmental perspective and as defined under the Bank's ESF due to the nature of the proposed activities and associated environmental risks. The RBM, as implementing agency, does not have experience of monitoring and managing the environmental risks and impacts of its portfolio. However, the nature and scope of the funding to be provided by the proposed project is expected only to increase access to finance and provide business development services such as facilitating start-ups and expanding of MSMEs. The proposed project activities may include financing capacity building and knowledge promotion, and development of MSME solutions. The characteristics of the MSMEs investments are not clear at this stage but it is anticipated that project activities would not generate adverse environmental impacts or substantial risks to the environment. The anticipated impacts are expected to be temporary, reversible, low in magnitude and site specific. The capital support of the proposed project to a development or commercial bank or any other financial intermediary focused on MSME lending may change the environmental risk assessment whenever there is detailed information about MSMEs investments and the scope and nature of the activities. Hence, the World Bank will undertake its due diligence on the details of the MSMEs investments and the capacity of RBM the cascade of financial intermediaries, for assessing, managing, and monitoring risks and impacts of project activities.

Social Risk Rating

The project aims to support the growth of entrepreneurs and MSMEs in Malawi through increased access to finance and business development services. The project is classified moderate social risk as defined under the Bank’s ESF due to the nature of proposed activities, which mainly focus on facilitating start-ups and expansion of MSMEs through liquidity support, Technical Assistance (TA), entrepreneurship training, financial education, institutional capacity building for BDS providers, and boosting competitiveness of MSMEs. The Reserve Bank of Malawi, will be the implementing agency of the project, and will house the PIU that would perform the accounting/reporting and funds flow. The Reserve Bank/PIU does not have experience in social risk management. However, the PIU will hire an E&S expert who will be responsible for monitoring and managing environmental and social risks and impacts of the subprojects as well as monitor portfolio risk as appropriate to the nature of financing. As further details of the characteristics of the potential MSMEs investments become available the effectiveness of local labor laws in identified sectors (e.g. child labor in the agriculture sector), and protections against discrimination will be reconsidered and the need for additional measures to meet the ESS assessed.

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

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

ESS1 will be used to identify and assess environmental and social risks and impacts and adopt the mitigation hierarchy to anticipate and avoid risks, minimize risks where avoidance is not possible, mitigate where risks have been reduced. This will be done throughout the project life cycle and will also apply to the development and implementation of sub-projects. The project will apply the relevant Environmental Health and Safety Guidelines when and where appropriate. The support of the proposed project to a development or commercial bank or any
other financial intermediary focused on MSMEs lending may change the environmental risk assessment. Hence during appraisal detailed information on the MSMEs investment and the scope and nature of the proposed rehabilitation activities will be sought to assess the capacity of the financial intermediaries for assessing, managing, and monitoring risks and impacts of project activities.

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

The operation may not use the Borrower’s E&S Framework in the assessment, development and implementation of sub projects. The borrower will be required to develop an ESMS which complies with the WB ESF and is capable of ensuring that sub-projects comply with applicable local E&S requirements.

**ESS10 Stakeholder Engagement and Information Disclosure**

Stakeholder Engagement includes the following: (i) stakeholder identification and analysis; (ii) planning for stakeholder engagement; (iii) consultations and disclosures; (iv) grievance redress systems; and (v) continuous interface with and reporting to the stakeholders. The project will recognize the importance of engagement with relevant stakeholders, beneficiaries and project affected parties throughout the project cycle. In that regard, the RBM will commence extensive consultations throughout the preparation process including consulting with key stakeholders on the design of the operation to address possible resistance at the national level. Stakeholder engagement is also necessary at the sub-project level and will be required as part of the ESMS used by RBM and PFIs. To ensure that all consultations are inclusive and accessible (both in format and location) and through channels that are suitable in the local context, the borrower will develop and implement a Stakeholder Engagement Plan (SEP) as part of the ESMS and consistent with the requirements of ESS10. The SEP will include mechanisms for setting out a Grievance Redress Mechanism (GRM). The borrower and PFIs will ensure social accountability within the GRM to empower stakeholders to voice their complaints, concerns, queries, and clarifications on the project activities and will seek to establish continuous feedback between stakeholders and RBM and the 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**

All FIs will have in place labor management procedures to demonstrate that they provide a safe and healhy working environment for personnel. This ESS is relevant according to para. 13 of ESS9, however the nature of the sub-projects are not yet defined, nor the extent of any sector or activity exclusions. However sub-projects are expected to include only low and possibly modest risks and impacts related to labor and working conditions. At this stage ESS2 is not expected to be relevant to the project however this will be reconsidered and reviewed during project preparation.

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

The nature of the proposed sub-projects and activities are expected to cause only low and possibly moderate adverse impacts and risks related to resource use or pollution. Therefore, at this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.
ESS4 Community Health and Safety
The proposed project activities and sub-projects are expected to pose low to moderate adverse impacts or risks to local communities’ health and safety. However, as part of the ESMS, RBM and the PFIs will ensure measures to anticipate and address the health, safety and security risks and impacts on communities are put in place, including issues of non-discrimination and GBV/SEA at subproject level. Relevance of this ESS will be further reviewed during project preparation.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement
The proposed project activities and subprojects are not expected to entail any form of land taking, loss of assets, loss of livelihoods or restrictions on access. Therefore ESS 5 is not expected to be relevant in this project. This will be confirmed during project preparation and if necessary related exclusions will be included in the ESCP/FA.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources
The proposed project is not expected to involve activities which would be detrimental to biodiversity conservation or give rise to the unsustainable management of living natural resources. Hence, potential environmental risks and impacts associated with this ESS are not relevant in this project. This will be confirmed during project preparation and appropriate exclusions will be included in the ESCP/FA.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities
This ESS is not applicable because there are no groups that meet the criteria for ESS 7 in Malawi.

ESS8 Cultural Heritage
This ESS is not expected to be relevant to the project as it is anticipated that there are no planned physical civil works or excavations in new locations. This will be confirmed during project preparation and relevance of this ESS will be further reviewed at that point.

ESS9 Financial Intermediaries
The proposed project may channel financial resources to start-ups and MSMEs through a commercial bank, the Reserve Bank of Malawi or other financial institutes. Moreover, the proposed project may provide capital support to a development bank focused on MSME lending. RBM, the national financial institution in the country, will be the implementing agency of the project and will also host a PIU. The project will finance the Reserve Bank, a commercial bank, a development bank or any other financial institution to fund clearly defined activities such as MSME lending, entrepreneurship training, business plan competitions, improving financial infrastructure etc. Therefore, the requirements of ESS9 will apply to each of these activities. The financial intermediaries will be required to establish and maintain an environmental and social management system (ESMS) to be incorporated in the Operations Manual prior to Appraisal. This will include: (i) environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks and impacts of subprojects; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of subprojects.
and the portfolio; and (v) external communications mechanism. In addition the FI will require the FI subproject to conduct stakeholder engagement in a manner proportionate to the risks and impacts of the FI subproject, and which reflects the type of FI subprojects it will finance. The relevant provisions of ESS10 will be included in the FI’s environmental and social procedures. The development of a capacity building plan with appropriate budget and milestones should be developed during preparation and be included as a commitment in the ESCP. Hence, the World Bank will assess the relevance of other ESSs during project preparation in particular (i) the requirements for adoption of an ESMS including its elements, timing and how it is supported by the project and included in the ESCP; (ii) a brief overview of the local E&S requirements on which the project would rely and the ESMS would verify.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways
No
This policy is not applicable to this operation since the project will not involve activities that would affect international waterways.

OP 7.60 Projects in Disputed Areas
No
This policy is not applicable to this operation since the project will not be implemented in any area of dispute.

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners
None

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

Actions to be completed prior to Bank Board Approval:

The actions to be completed prior to approval include:
1. Confirm and document the nature and scope of sub-projects to be supported and identification of any contractual exclusions required to confirm the relevance of each ESS.
2. The entity selected to serve as the primary financial intermediary (Reserve Bank of Malawi or a commercial bank and perhaps a development bank) will develop an Environment and Social Management Systems (ESMSs) that meets the requirements of ESS9
2. Prepare the ESCP outlining material measures and actions to be undertaken over a specified timeframe

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

The measures and actions to be outlined in the ESCP will include the preparation and implementation of:-
1. ESF capacity building plan for the selected financial intermediaries.
2. List of exclusions for sub-project sectors or technologies
3. Requirements for implementation of the ESMS
4. ESMS related eligibility conditions for second tier FIs
5. Reporting and notification requirements for all components E&S aspects
6. SEP and GRM requirements for FIs
7. LMP
8. Management plan for community health, safety and security including non-discrimination and GBV at subproject level

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS 30-Aug-2019

IV. CONTACT POINTS

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Borrower/Client/Recipient
Borrower: Ministry of Finance, Economic Planning and Development

Implementing Agency(ies)
Implementing Agency: Ministry of Industry, Trade and Tourism
Implementing Agency: Reserve Bank of Malawi

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s): Gabi George Afram, Efrem Zephnath Chilima
Practice Manager (ENR/Social) Robin Mearns Recommended on 09-Aug-2019 at 15:06:6 EDT