



**Access to Finance for Micro, Small, and Medium Sized
Enterprises Project (P163015)**

Ministry of Finance

**Environmental and Social Management Framework
(ESMF)**

September 2017

Table of Contents

Page

Contents

Executive Summary	4
Sumário Executivo.....	Error! Bookmark not defined.
Environmental and Social Management Framework (ESMF).....	11
A. Overview.....	11
B. Introduction.....	11
C. Project Objective.....	12
D. Environmental and Social Baseline	16
E. Policy, Legal, and Administrative Framework	18
F. Potential Environment and Social Impacts of the Project.....	22
G. Implementation Arrangements	25
H. Environmental and Social Management Capacity.....	26
I. Environmental and Social Training.....	29
J. Environmental and Social Screening Process of Subprojects.....	29
K. Environmental and Social Review and Assessment.....	31
L. Monitoring, Supervision and Reporting.....	33
M. Public Consultation.....	34
N. Grievance Mechanisms.....	34
O. Budget.....	35
Annex 1. Safeguard Screening.....	37
Annex 2. General Project and Site Information.....	38
Annex 3. Sample of Screening Form.....	39
Annex 4. Sample of Environmental and Social Assessment Form	42
Annex 5. Illustrative List of Potential Mitigation Measures.....	44
Annex 6. Environmental, Health & Safety Guidelines.....	51
Annex 7. Chance-Find Procedures and Good Practice on Civil Works	52
Annex 8. Exclusion List.....	55

ACRONYMS AND ABBREVIATIONS

AFIs	Approved Financial Institutions
ANAS	National Water and Sanitation Agency
ESMF	Environmental and Social Management Framework
ESMS	Environmental and Social Management System
MAA	Ministry of Agriculture and Environment
MEE	Ministry of Economy and Employment
MF	Ministry of Finance
MIOTH	Ministry of Infrastructure, Territorial Planning and Housing
MSME	Micro Small and Medium Sized Enterprises
PCG	Partial Credit Guarantee
PFI	Partner Financial Institution
SME	Small and Medium Enterprises

Environmental and Social Management Framework (ESMF)
Access to Finance for Micro, Small, and Medium Sized Enterprises Project (P163015)
Cabo Verde

Executive Summary

Overview

1. The proposed IDA-financed Access to Finance for Micro, Small, and Medium Sized Enterprises Project (US\$15m) aims to increase access to finance for Micro Small and Medium-sized Enterprises (MSMEs).
2. The project is classified as safeguards Category FI as it will primarily finance a partial credit guarantee (PCG) scheme to be granted to Partner Financial Institution (PFI) to facilitate lending to MSME. The specific location of the individual MSMEs or sub-projects to be financed under the Project are not known at this time; they could be located anywhere in Cape Verde. The type and scale of activities may vary widely across the diverse geographic and environmental landscapes of the islands that constitute the Cape Verde archipelago. The Access to Finance Project triggers 2 of the 10 safeguard policies: i) OP4.01 Environmental Assessment, and ii) OP4.11 Physical Cultural Resources.
3. The PCG will be open to all eligible financial institutions that maintain and implement an adequate Environmental and Social Management System (ESMS), who meet prudential requirements and have demonstrated a commitment to lend to the target group. The PCG fund should have an operational manual that sets out detailed policies and procedures.

Project Objective

4. The project development objective is to increase access to finance for micro, small and medium sized enterprises. The provision of financial services, including credit, at lower cost and in an inclusive manner increases opportunities for smaller enterprises and low-income households, which promote economic growth and employment, thereby reducing poverty.

Project Description

5. The project will finance the strengthening of the partial credit guarantee (PCG) system, technical assistance to MSME borrowers and their creditors (private commercial banks - PFI) to make use of the system – including support for preparation of financial statement business plans, and loan applications – administered by the Government, and enhancements to the existing credit registry to reduce information asymmetries. The project will complement existing World Bank

projects under implementation that seek to improve the overall investment climate in Cabo Verde.

6. Component A: Partial Credit Guarantee Scheme - Under this component, the proposed Project will finance activities to: (i) support the preparation and development of the operational features for a new PCG scheme to improve access to finance for MSMEs; (ii) develop a business plan, financial model, policies and procedures for the operations of the new PCG scheme and provide training to Participating Financial Institutions (PFIs); (iii) undertake outreach and communication with PFIs and MSMEs; and (iv) capitalize the PCG scheme in the amount of US\$10 million. The scheme will apply the Principles for Public Credit Guarantee Schemes for SMEs.¹

7. This component will be implemented in two phases, as during project implementation, the Ministry of Finance will decide on the best legal and institutional approach for a sustainable PCG scheme. The decision will be based, among other, on the recommendations the World Bank provided to the Government on options for establishing such a fund, and on experience and lessons collected on phase 1. Phase 1 will involve establishing a pilot PCG scheme administered by an independent Management Company (MC) responsible for developing the business plan, financial model, operational policies and procedures, and development of criteria for the selection of PFIs. The MC will be selected through an international competitive bidding process. Phase 2 will involve the establishment of an independent fund to provide partial credit guarantees in a sustainable manner. Phase 2 would commence following the adoption of a legal framework for a fund with independent management to administer the PCG scheme. The independent management will be selected through an international competitive bidding process. That fund would have to comply with all World Bank fiduciary requirements in order to administer the funds.

8. Component B: Technical Assistance to MSMEs to enhance the quality of MSME's business models, plans, financial statements, and loan applications. This component will share the costs of consultancy services to improve MSME's ability to generate and share business and financial information as well as loan applications with financial institutions in a clear and complete manner, including improved quality of financial statements. The financial support should not exceed \$5,000 per beneficiary and should be matched by at least the same amount from the beneficiary. A competitive mechanism with time-bound application windows will be used to select the MSMEs that will receive TA. The technical assistance program will be complemented with an outreach and marketing strategy to encourage uptake, including through partnering with local organizations such as rural associations and cooperatives.

¹ World Bank Group. 2015. *Principles for public credit guarantee schemes for SMEs*. Washington D.C.

9. Component C: Credit Reporting System - This component will support the central bank in its efforts to upgrade and expand the coverage and depth of its public credit registry, in line with the General Principles for Credit Reporting. It will also support measures to establish effective oversight of credit reporting systems, including of a system where the credit registry operates in cooperation with private credit bureaus.

Component D: Institutional Capacity Building and Project Implementation - This component will support institutional, organizational, and regulatory aspects required for a sustainable implementation of the new framework to increase access to finance for MSMEs. It will finance the provision of advice for technical and economic optimization of existing public support mechanisms for MSME financing. It will also cover the project implementation costs (coordination, procurement, financial management, monitoring, and evaluation)

Potential Environmental and Social Impacts

10. The expected impacts of the project are as follows:

(a) Component A - moderate risk - this component will finance the capital for the PCG scheme; establish the operational manual that sets out detailed requirements on policies and procedures the PFIs must comply, including Environmental and Social safeguards on loan selection, in order to join the project. The exact location, nature, scale and scope of the potential impacts can only be known during implementation. Beneficiary MSMEs are expected to engage in diverse types of activities, some of which may have negative environmental and/or social impacts and risks. However, these negative impacts are likely to be minor, localized, and reversible and can be mitigated through proper environment and social screening, application of simple measures and environmental good practices, especially given the nature and small size of the transactions and the limited credit to be made available to MSMEs (\$10,000-50,000 on average, and up to \$400,000 - the maximum amount of loans will increase with the years). This ESMF therefore ensures that such impacts are identified, avoided, minimized and adequately mitigated. The ESMF also includes the list of those transactions that are not eligible for project support.

(b) Component B - Low risk with possible indirect positive impact - this component will provide support to eligible MSMEs and PFIs. This component will also develop a manual for setting out processes and forms/templates used for grant application, disbursement, financial management, procurement, and monitoring and evaluation. There is the potential to increase the MSMEs' capacity to include environmental and social considerations into business plans and feasibility studies.

(c) Component C - no negative impacts expected - this component will support the central bank (BCV) in its efforts to upgrade and expand the coverage and depth of its public credit registry, in line with the General Principles for Credit Reporting.²

(d) Component D - moderate - this component will finance the provision of consulting services for technical and economical optimization of existing public support mechanisms for MSME financing, and it will also cover the project implementation costs (coordination, procurement, financial management, monitoring, and evaluation). The risk derives from the latter on the event that this ESMF is not adequately implemented. To mitigate this risk, the PCG Management will include a part-time environmental and social safeguards specialist and the senior business advisors will receive training on environment and social safeguards. Besides, the staff of UGPE, PFI, MSMEs will also receive training and the PCG Management will seek their continuous engagement on environmental and social issues.

11. As stated above, although the project is not expected to have significant nor irreversible direct environmental or social impacts, it could have potential direct and indirect adverse impacts though of moderate to low magnitude. In order to address these potential concerns an Environmental and Social Management Framework (ESMF) is being prepared and presented in this document. As the mechanism of funding is a partial credit guarantee, the activities will be implemented by third parties (MSMEs awarded credit by the PFIs), therefore the ESMF includes an exclusion list which will serve to inform the criterion “eligible expenditure”.

12. The World Bank Environmental Assessment (OP/BP 4.01) and Physical Cultural Resources (OP/BP 4.11) safeguard policies are triggered for this project. The objectives of OP/BP 4.01: Environmental Assessment are to inform decision makers of the nature of the environment and social risks, and ensure that projects proposed for Bank financing are environmentally and socially sound and sustainable. The objectives of OP/BP 4.11: Physical Cultural Resources, are to avoid, or mitigate, adverse impacts on cultural resources (movable or immovable objects, sites, structures, groups of structures, and natural features and landscapes that have archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural significance) from development projects that the World Bank finances.

13. The policy for Physical Cultural Resources (OP/BP 4.11) has been triggered because of the prevalence of ecotourism-related MSMEs in Cabo Verde, which can negatively affect national heritage sites. The ESMF includes chance find guidelines for PFIs, in case any chance finds occurs during subproject implementation.

² The World Bank. 2011. *General Principles for Credit Reporting*. Washington D.C.

14. Although MSMEs that benefit from credit guarantees could invest in agriculture, the project will exclude sub-projects intended to finance the purchase of hazardous pesticides, and subprojects that may lead to substantially increased pesticide use. If the sub-projects include new land-use development or changed cultivation practices in an area; significant expansion into new areas; diversification into new crops in agriculture; intensification of existing low-technology systems, any ESIAs/ESMPs should include ecologically based Integrated Pest Management measures.

15. The project will not finance activities involving dams. In Cape Verde it would be possible to imagine loans for SMEs to undertake activities involving dams. For example, sand is required and some dams are experiencing sedimentation problems. However, the loans to MSMEs tend to be small and subprojects could require complex studies and safety measures.

16. The PCG will not guarantee activities that can lead to conversion or degradation of Natural Habitats. There are farming and livestock activities inside protected areas, but these are done in designated areas only and there are guards in the parks. The ESMF includes preventive measures for avoiding encroachment or negative leakage on natural habitats. It is not expected that the guaranteed MSMEs will invest physically in forest ecosystem. However, their agricultural activities may induce indirect deforestation. The ESMF provides guidance to prevent such risks. No land take is expected for the project and the PCG will not guarantee investments or activities that result in land acquisition leading to economic or physical displacement. This restriction is part of the exclusion list in the ESMF and Operations Manual, including a rigorous screening process for potential future investments.

Implementation

17. PFIs will be key on implementing this ESMF. Eligible PFIs are required to develop and maintain, in the form of an Environmental and Social Management System (ESMS), effective environmental and social systems, procedures and capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner. Where the PFI can demonstrate that it already has an ESMS in place, it will provide adequate documented evidence of such an ESMS, indicating which elements (if any) will be enhanced or modified to meet the World Bank Group standards. The PFI will review and adjust, in a manner acceptable to the Bank, its ESMS from time to time, including when the environmental and social risk profile of its portfolio changes significantly.

18. The PFI's ESMS will include the following elements: (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

19. The PFI's risk analyst will be required to screen sub-projects for environment and social impacts, and alignment with national policies and regulations, to determine their eligibility to benefit from the PCG. For each subproject, the PFIs will include requirements of environmentally sustainable and socially sound development in line with this ESMF. The PFIs will also monitor compliance of the beneficiary MSME with the mitigation measures, and will report to the PCG.

20. The PCG Management will have the overall responsibility for ensuring that any environmental or social impacts are appropriately addressed, and producing annual reports for the World Bank and the National Directorate of Environment on the status of compliance with the ESMF. Although the project's environmental and social impacts are likely to be negligible, monitoring for unexpected environmental and social impacts will nevertheless be conducted on a regular basis by project staff, in particular the PCG Management. The PCG Management will do a periodic control (quarterly, during the first year; every six months from thereon), by sampling, to confirm that the credit operations are in line with safeguards best practices. The PCG Coordinator and Safeguard Specialist will request the PFI to conduct visits to those MSME beneficiaries who had to prepare action plans as a condition for loan approval, to verify implementation of any identified mitigation actions, and to provide support on their improvement as necessary. Furthermore, implementation of the ESMF will also be verified in the field by the World Bank team as part of its regular supervision missions.

21. In principle subprojects that require preparation of ESIA under Cape Verdean legislation are excluded from PCG. However, in the event that the final beneficiary (borrower from the commercial bank) has already prepared an ESIA, and in accordance with Cape Verdean regulations and processes this has been approved or conditionally approved by the National Directorate of Environment, the PFI risk analyst will review the process and make a determination whether: it is adequate and accurate in identification of environmental and social impacts; that appropriate measures have been identified to avoid, minimize, or mitigate those impacts; that the applicant has the commitment and the capability to manage the impacts as proposed. Moreover, the PFI will request evidence that timely and appropriate consultation with directly affected people, local communities, and interested stakeholders has taken place on the findings and recommendations of the ESIA before PCG approval.

22. For all Category B sub-projects in the portfolio, the PFI will ensure and collect evidence that the MSME is implementing and monitoring the management of environmental and social impacts in a manner consistent with this ESMF, including the development and implementation of Corrective Action Plans, and ESMP/ ECOP. The PCG Management will review more in depth these operations. For Category C transactions (e.g., TA activities), the PCG Management will carry out random check to verify absence of impacts and compliance with national legislation including permitting.

23. In addition, the PCG Management will screen for any negative media/ NGO coverage/

reports on environmental and social aspects of its portfolio clients on a regular basis, and retain records of all findings. The PCG Management will agree to make its monitoring and supervision reports available on a business confidential basis to World Bank counterparts upon request.

24. Implementation costs of this ESMF are subsumed in the project's activities. Safeguards training of the PCG Management employees, project staff and appropriate ministerial staff will be conducted early on in the project. The Safeguards Specialist will be contracted on a part time basis and expected to provide on average around 50 days of support per annum over the lifetime of the project. This consultancy is estimated to cost of up to \$40,000. In addition, a budget provision of \$20,000 has been made to cover the costs of training, and \$10,000 for *ad hoc* environmental studies should the need arise.

25. Lastly, a detailed monitoring system will be designed and implemented for the Assess to Finance Project as a whole. Environmental and social indicators will be integrated into this system and monitored and reported on a regular basis.

26. The preparation of this ESMF has followed an extensive consultation process with various stakeholders at national level, namely Ministry of Finance, Ministry of Agriculture and Environment (DN Environment and DG Agriculture) and Ministry of Economy and Employment (MEE). A one day workshop has been held for discussion among stakeholders, including commercial banks. Moreover, since this is an interactive process, further consultations will be done throughout project implementation.

27. Synthesis of Environmental Consideration

Environmental work	Responsibility
Identification of the sub-project site and description of characteristics relevant to the safeguard analysis	MSME
Screening and determination of mitigation measures or instrument to be prepared	PFI
Integration of environmental clauses into subprojects	MSME
Appraisal/approbation of subprojects	PFI
Implementation of environmental clauses and reporting on specific subproject	MEME
Supervision of MSMEs beneficiaries and report to PCG	PFI
Overall supervision and reporting on the status of compliance with the ESMF	PCG

Environmental and Social Management Framework (ESMF)

Access to Finance for Micro, Small, and Medium Sized Enterprises Project

Cabo Verde

A. Overview

28. The proposed IDA-financed Access to Finance for Micro, Small, and Medium Sized Enterprises Project (US\$15m) aims to increase access to finance for Micro Small and Medium Enterprises (MSMEs).

29. The project is classified as safeguards Category FI as it will primarily finance the strengthening of the partial credit guarantee (PCG) system, provide technical assistance to MSME borrowers and their creditors (private commercial banks) to make use of the system – including support for preparation of financial statement business plans, and loan applications –, and enhancements to the existing credit registry to reduce information asymmetries.

30. In order to address potential safeguards concerns, this Environmental and Social Management Framework (ESMF) was prepared to govern the project. As the mechanism of funding is a partial credit guarantee, the activities will be implemented by third parties (MSMEs awarded credit by the PFIs), therefore, the ESMF will include an exclusion lists which will serve to inform the criterion “eligible expenditure”.

B. Introduction

Country Context

31. Economic activity in Cabo Verde is mostly conducted by small, mostly informal, firms dispersed across nine inhabited islands. In 2015, the business sector was comprised of 9,403 formal firms providing 53,839 jobs and by an estimated 33,000 informal units providing close to 40,000 jobs. Micro and small-sized enterprises (MSMEs) constitute 98 percent of firms operating in Cabo Verde, providing more than 40 percent of jobs and a significant share of the economy. About two thirds of formal firms in Cabo Verde are located on the islands of Santiago and São Vicente.

32. Banks dominate the financial sector with more than 85 percent of assets. Assets and loans are concentrated in the top two banks (out of eight licensed banks). Liquidity is high and liabilities are predominantly deposits from residents, migrants, and Government entities. The downturn in the tourism and real estate caused non-performing loans (NPLs) to increase to 17 percent of total loans at end-2016. As a result, banks’ capacity to finance new projects is limited. Profitability is low with average return on assets of 0.3 percent since 2012.

33. Access to credit is not widespread. Domestic credit to the private sector has declined from 66 percent of GDP in 2011 to 60 percent of GDP in 2016 as banks increased the share of its assets deposited with the central bank and lent to the Government and State-Owned Enterprises (SOEs). MSMEs, in particular, face significant financing constraints. A 2014 survey showed that only 26.5 percent of total credit to enterprises goes to micro and small enterprises. Banks cite poor business prospects, limited collateral, lack of proper accounting, and the general macroeconomic environment as the main reasons for restricting credit. Treasury bonds paid an average interest rate of 5 percent in 2016 and were perceived as more attractive than private lending. The microfinance sector is very small with less than 1 percent of total assets in the sector and reliant on donor funding to maintain its operations.

34. The average cost of finance in real terms is high. Lending rates for loans of up to one year are around 10 percent in real terms. In 2015 the average interest rate spread (lending minus deposit rates) was 7.4 percent compared with 6.4 percent in middle-income economies or 6.9 percent in low middle-income economies. High operating costs, due in part to operating branches on an archipelago and lack of sufficient economies of scale, contribute to high lending costs. Financial reporting and auditing practices are absent in most firms. Two thirds of registered firms do not have proper accounting³ and this creates obstacles to accessing bank credit: according to a recent BCV study, 92.5 percent of businesses that received bank credit had organized accounting. Although those registered firms with organized accounting represent 96 percent of total turnover, banks believe that most of these financial reports are not credible because they are not properly audited and because they are prepared primarily for submission to the tax authorities; confusion between personal and business bank accounts and financial flows is also common. Accounting standards are not enforced in the general business community.

C. Project Objective

35. The project development objective is to increase access to finance for micro, small and medium sized enterprises. The provision of financial services, including credit, at lower cost and in an inclusive manner increases opportunities for smaller enterprises and low-income households, which promote economic growth and employment, thereby reducing poverty.

Project Description

36. The project will finance the strengthening of the partial credit guarantee (PCG) system, technical assistance to MSME borrowers and their creditors (private commercial banks) to make

³ Instituto Nacional de Estadística. 2017. *Estatísticas de Empresas. Inquérito Anual às Empresas*.

use of the system – including support for preparation of financial statement business plans, and loan applications –, and enhancements to the existing credit registry to reduce information asymmetries. The PCG will be open to all eligible financial institutions who meet prudential requirements and have demonstrated a commitment to lend to the target group. The project will complement existing World Bank projects under implementation that seek to improve the overall investment climate in Cabo Verde.

37. The project comprises of the following four components

Component A: Partial Credit Guarantee Scheme (USD\$10.7M)

38. Under this component, the proposed Project will finance activities to: (i) support the preparation and development of the operational features for a new PCG scheme to improve access to finance for MSMEs; (ii) develop a business plan, financial model, policies and procedures for the operations of the new PCG scheme and provide training to Participating Financial Institutions (PFIs); (iii) undertake outreach and communication with PFIs and MSMEs; and (iv) capitalize the PCG scheme in the amount of US\$10 million. The scheme will apply the Principles for Public Credit Guarantee Schemes for SMEs.⁴

39. This component will be implemented in two phases. Phase 1 will involve establishing a pilot PCG scheme administered by an independent Management Company (MC) responsible for developing the business plan, financial model, operational policies and procedures, and development of criteria for the selection of PFIs. The MC will be selected through an international competitive bidding process. The PIU (UGPE) will manage all fiduciary aspects of the PCG, including issuing certificates of guarantee and claim pay-out as directed by the MC. Capitalization of the PCG will take place upon the adoption of operational guidelines, corporate governance instruments, and internal and external controls satisfactory to the Bank.

40. The MC will undertake the selection of PFIs based on financial and prudential indicators and minimum performance ratios. PFIs must be licensed financial institutions that are supervised by the BCV and have internal Environmental and Social Safeguards systems that comply with the national and World Bank's environment and social policies. Besides, PFIs must maintain national regulatory ratios relating to capital adequacy, asset quality, and liquidity to be considered eligible. Only PFIs licensed and supervised by the Bank of Cabo Verde will be eligible to participate. PFIs will be subject to non-objection by the World Bank.

⁴ World Bank Group. 2015. *Principles for public credit guarantee schemes for SMEs*. Washington D.C.

41. PFIs are required to develop and maintain, in the form of an Environmental and Social Management System (ESMS), effective environmental and social systems, procedures and capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner. Where the PFI can demonstrate that it already has an ESMS in place, it will provide adequate documented evidence of such an ESMS, indicating which elements (if any) will be enhanced or modified to meet the World Bank Group standards. The PFI will review and adjust, in a manner acceptable to the Bank, its ESMS from time to time, including when the environmental and social risk profile of its portfolio changes significantly.

42. MSMEs, as defined by the Government's National Statistics Institute (INE), in all sectors will be eligible to receive guarantees, if determined creditworthy by the relevant PFI. All MSMEs with annual sales of less than CVE 150 million (equivalent to about USD 1.6 million), in line with INE's definition, will be eligible. Eligible MSMEs must have been in operation for at least two years.

43. Phase 2 will involve the establishment of an independent fund to provide partial credit guarantees in a sustainable manner. The World Bank has provided recommendations to the Government on options for establishing such a fund. During project implementation, the Ministry of Finance will decide on the best legal and institutional approach for a sustainable PCG scheme. Phase 2 would commence following the adoption of a legal framework for a fund with independent management to administer the PCG scheme. The independent management will be selected through an international competitive bidding process. That fund would have to comply with all World Bank fiduciary requirements in order to administer the funds. If the client assesses that establishment of an independent fund is viable and sustainable, then a transition road map would be developed to transfer resources from the PIU to the new fund.

Component B: Technical Assistance to MSMEs (USD\$3M)

44. The availability of PCGs and other financial products for MSMEs needs to be complemented with technical assistance to enhance the quality of MSME's business models, plans, financial statements, and loan applications. This component will share the costs of consultancy services to improve MSME's ability to generate and share business and financial information as well as loan applications with financial institutions in a clear and complete manner, including improved quality of financial statements. The financial support should not exceed \$5,000 per beneficiary and should be matched by at least the same amount from the beneficiary. The technical assistance program will be complemented with an outreach and marketing strategy to encourage uptake.

45. The technical assistance program will be managed by a professional service provider and will be coordinated with the PCG scheme via partner financial institutions. The technical assistance will have an M&E framework to allow impact evaluation of the use of public funds to subsidize private sector investments.

Component C: Credit Registry Enhancement (USD\$0.8M)

46. Credit information systems are a crucial component of the financial infrastructure that promotes access to finance and financial stability. Comprehensive and well-functioning credit reporting reduces information asymmetries, supports efficient credit allocation, and strengthens credit risk management.

47. Specifically, the project will finance the following:

- (a) Consulting services to the BCV to assess gaps in its existing registry and opportunities for upgrades including by expanding data availability (e.g., connecting with other databases, such as tax administration, social security, and customs, and by providing gender disaggregated and geo-located data), improving the client interface, providing new value-added services, and workshops designed to build consensus on required actions to improve credit reporting system in Cabo Verde;
- (b) Hardware and software development for the public credit registry, as identified by the needs assessment;
- (c) Consulting services to improve reporting templates for commercial banks for regular reporting of loans outstanding (by number and value) among corporate, household and public sector, and within its corporate category for MSMEs according to common definitions. This could also entail modifications to reporting requirements for microfinance institutions to capture the number and value of loans to MSMEs; and
- (d) Consulting services for the design and implementation of an electronic database for collection and processing of economic and financial data of non-financial corporations (*Central de Balanços*) to enable a more efficient collection of financial statements to be used by the tax and statistical authorities.

Component D: Institutional Capacity Building and Project Implementation (USD\$0.5M)

48. This will support institutional, organizational, and regulatory aspects required for a sustainable implementation of the new framework to increase access to finance for MSMEs. It will finance the provision of advice for technical and economic optimization of existing public

support mechanisms for MSME financing. It will also cover the project implementation costs (coordination, procurement, financial management, monitoring, and evaluation).

D. Environmental and Social Baseline

49. Coastal erosion, soil degradation, deforestation and the mismanagement of limited water resources all have a severely negative effect on the country's growth prospects, and the cost of environmental damage will likely be borne most heavily by the poor. In addition, as a small-island nation Cabo Verde faces significant additional challenges associated with climate change, especially rising sea levels and the increased frequency of severe weather patterns, which may provoke increasing droughts and flooding.

50. The country faces a environmental-social problem of sand extraction from beaches, with the consequent saline intrusion in farmlands. Entire families resort to this heavy labour due to lack of income generation alternatives, or due to tradition. Although legislation on illegal sand extraction, transportation and trade exists, it is not implemented, and many public entities and even GoCV bodies still purchase sand from illegal origin. Projects to make sand available from alternative sources, such as "mechanical" sand, import of sand and off-shore extraction are still not major.

51. There have been improvements on the process of Environmental Impact Assessment (EIA) and post EIA monitoring. However, it is not uncommon that even public works start without the required EIA. The number of audits, not only to industry but also to different undertakings as aggregate production "pedreiras", hotels etc have increased, but application of fines and sanctions is still constricted. There are persistent law enforcement challenges.

52. A water and sanitation reform is taking place, the technical regulator ANAS, and municipal and multi-municipal utilities of water and sanitation are being established. Solid waste management is very limited, as is the national conscience on environmental hygiene.

53. Progress on biodiversity depends almost exclusively on externally funded projects, in particular by the GEF via UN, and the sub-sector still shows little sustainability. To circumvent that Resolution n.º 36/2016 has approved the National Business Strategy for Protected Areas.

54. The forest management capacity in the country – responsibility of Ministry of Agriculture - is weak, a forest inventory has been concluded in 2013, but the elaboration and implementation of forest management plans was paused. Invasive species continue to be a problem that is adequately addressed only inside some protected areas, and not at all outside. Marine resources management namely regarding update of fisheries management plans and inspections are at acceptable level (in particular having in mind the limitation of equipment and resources).

55. Climate change is still not addressed in an integrated way in the country, and climate change related projects are conceived and implemented on an ad-hoc basis. There is an Interministerial Committee on the issue that is also the Designated National Authority for Kyoto Protocol, but it does not meet regularly.

56. In the last few years, there has been significant progress in including environmental considerations in Tourism – with the publication of the Tourism Master Plan containing a program on environment and the publication of legislation (including the framework law) addressing environment protection and value, code of conduct towards environment, besides the eco-tourism and rural area tourism legislation. However tourism inspection is understaffed.

57. With respect to the practical management of tourism development, DGT has the mandate for developing and overseeing implementation of the tourism policy and vision for the country, and there were two institutions responsible for on-the-ground planning, promotion and management of the Integrated Tourism Development Zones⁵ (ZDTI), namely the Sociedade de Desenvolvimento de Boa Vista e Maio (SDBVM) and Cabo Verde Investimentos (CVI). The collaboration between these institutions was very limited and while SDBVM's approach to ZDTI management attempts to integrate environmental aspects into its planning and development, CVI lacked the staff and capacity to do so, and expressed it was not its mandate. Decree-Law 41/2016 extinguished CVI and established Cabo Verde TradeInvest, passing the responsibilities of managing tourism areas to MEE.

58. Cabo Verde's economic growth over the past decade has resulted in poverty reduction. Using a national poverty line of USD 5.4 per person per day, poverty fell from 58 percent in 2001 to 35 percent in 2015 while extreme poverty, defined as PPP USD 2.9 in 2015, fell from 30 to 10 percent. Over the same period, the share of income of the bottom 40 percent increased from 12.4 percent to 15.3 percent.⁶ Unemployment was 15 percent in 2016. Cabo Verde outperforms its peers on most non-monetary dimensions of poverty, including life expectancy, maternal mortality, net primary school enrolment, and access to an improved water source. Cabo Verde's average life expectancy, estimated at 73.4 years of age, is the highest in Sub-Saharan Africa. Similarly, education outcomes put Cabo Verde at the top of Sub-Saharan Africa: the adult literacy rate is estimated at 88 percent, although disparities continue to persist between men and women.

⁵ ZDTI is an area of soil foreseen for tourism use, administered by a specific entity and which according to the law should be managed according to a Tourism Management Plan, by a specific entity. Municipalities do not have jurisdiction on ZDTI.

⁶ The Government expects to publish updated poverty figures in late 2017 analyzing data from a comprehensive household income expenditure survey conducted in 2016.

59. Gender issues have gained a strong visibility, with remarkable results, and ranks 36 in the world according to the Global Gender Gap Report 2016 from World Economic Forum. There are public policies implemented by the government, and strong governmental and civil society entities dealing with the issue. Despite the gains, there are still issues. One of the issues is sexual violence against children and women and sexual harassment against women. Although the law promotes that men and women receive the same salary, reports state that women have to make a big effort to achieve leadership positions and are implicitly required more skills (education, foreign language, etc.) than men both in private and public spheres. On the other hand, there is higher failure rate within the boys as regard to girls, and higher rate of grade repetition and dropouts, particularly in secondary education. Moreover, as in general Women gained access to health care (through the feminist movements and civil society organizations committed to gender equality), there is a situation of inequality on access to health from men (lower life expectancy at birth and high mortality rate due to external causes).

60. Civil protection has recently been reformed, with the publication of the base law in 2012. There are civil protection centers in 16 municipalities, but 17 out of 22 municipalities do not have fire fighters. About 5 regional commands will be established. There is a contingency plan that includes all municipalities. Besides emergencies in general, the plan includes volcano eruptions, fires.

61. There is some legislation on health and safety at work, but there are limited regulations. So far the level of conscience of workers and supervisors and managers on these issues is incipient.

E. Policy, Legal, and Administrative Framework

62. Cabo Verde has an established regulatory and institutional framework that ensure the integration of environmental and social considerations at the project and program level:

- Law n°86/IV/93 (June 25) is the Environmental Framework Law. It establishes the basis for environment policy development and implementation in Cape Verde, and defines the general principles and objectives of the natural environmental components and the protection of their quality as well as the human environmental components.
- Legislative Decree 14/97 (July 1) regulates the Framework Law on Environment and establishes the fundamental principles for environmental management and protection with the aim of enhancing the natural resources and combating pollution of various nature and source. Legislative Decree 14/97 was last derogated by Decree-Law n.º 18/2016 (March 18) which defines the legal framework for aggregate extraction.

- Law Decree 29/2006 (March 6) establishes the legal regime of Environmental Impact Assessment of all public and private projects, which may have an impact on the environment. The list of projects submitted to ESIA is attached to the decree.

63. Democratic governance in Cabo Verde is based on the articulation between central government and the municipalities (22 in total), both with rights and responsibilities without intermediate bodies. There are delegations of some ministries that cover several municipalities, but are distributed by islands or by areas of islands according to isolation, population, and volume of activities in a specified sector rather than by geographic distribution.

64. Municipalities are autonomous bodies, with their own patrimony and finances (they can charge some taxes) and with the possibility of regulate some matters. Within the framework of the ongoing decentralization reform, municipalities have an important role on the implementation of environmental policies and measures, as they are the public bodies closer to populations and small companies.

65. Institutional responsibilities are distributed across a variety of agencies. Those with key linkages to the project include (i) Ministry of Finance which will superintend the PCG; (ii) Ministry of Agriculture and Environment, which is inter alia responsible for overarching policies on agriculture and on environment; (iii) Ministry of Infrastructure, Territorial Planning and Housing, responsible for major infrastructure as well as territorial planning and housing, and decentralization; (iv) National Environmental Council, which supports articulation of policies and cooperation between public and private sector; (v) National Water and Sanitation Agency (ANAS) is the competent authority on water and sanitation (including wastewater and solid waste), regulates the service, issues licenses for public water domain use, manages investments, etc; (v) within MAA, National Directorate of Environment which is the main agency for environmental management and protection including EIA functions, and DG Agriculture and Rural Development responsible for the design, implementation, and coordination of activities on agriculture, forestry, livestock, rural engineering and extension services; (iv) within MEE, General Directorate of Energy, Industry and Commerce; General Directorate of Maritime Economy - which includes fisheries, General Directorate of Tourism and Transports regulate most of the economic activities candidate to benefit from the Partial Credit Guarantee. Besides, the Delegations of Rural Development, Environment, and Fisheries, are the decentralized bodies of MAA, and several directorates of MEE implementing ministerial policies, including those in the environment, and supporting the population and SMEs.

66. Moreover specific instruments have been created, such as Social Sustainability for Tourism Fund (Resolution 94/2013); Environmental Fund and Ecological Tax (Law 76/VII/2010 amended by Law 17/VIII/2012); and Development Fund for Inter-island maritime transportation

(Resolution 4/2015); Fund to Support Culture (Resolution 38/2002) and Culture Bank (Regulatory Decree 4/2015).

67. National legislation and international obligations assumed by Cabo Verde provide a fair protection of environment. Cabo Verde has a comprehensive framework of legislation on the main environmental components. Cabo Verde has the right to the environment granted by its Constitution and reflected in a Framework Law of Environment and its Regulation. Specific policies and legislation have been enacted for the following environment components: air, water, waste, soil, chemicals, noise, biological diversity, and protected areas. Environmental Impact Assessment legislation, as well as environmental licensing exists, although a revision is expected to occur. There is lack of regulations in some environmental components which difficult the implementation and enforcement of the general rules and guiding principles. These are the cases particularly of air, waste, and water. There is a new water and sanitation code and regulations are being finalized. Besides, the legal regime of aggregate extraction has been updated in 2016 and there has been a Resolution issued in February 2017 to strengthen measures to stop illegal extraction of sand from the beaches. The law also establishes the Tourism Special Zones which are areas identified as having special vocation for tourism supported by its potential endogenous or which have significant potential for future tourism development, and are classified as Zones of Integral Tourism Development (ZDTI's) and Zones of Reserve and Protection of Tourism (ZRPT's), and can be superposed to protected areas. These Zones are managed by Tourism Management Plans.

68. Cabo Verde is also a party to the main Multilateral Environmental Agreements, and participates actively in the international arena. All these international obligations are part of national law but have not in many cases been reflected in national policies and regulations and are therefore difficult to implement. The secretariats of these MEA often make available technical assistance and funds for implementation.

69. Several structural documents of the GoCV that enable the integration of environmental and sustainable development considerations on the planning process, such as Poverty Reduction and Growth Strategy Paper (2012-2016) or the National Action Plan for Environment (2004-2014) are currently outdated.

70. The National Action Plan for the Environment II, PANA II 2004-2014, used to be the main policy instrument for environment management in Cape Verde, but is no longer being implemented. PANA II implementation followed an integrated approach in which different sectors and all the municipalities are supposed to intervene. In this way two sets of plans existed, the sectorial plans (Planos de Acção Inter-sectoriais⁷, PAIS, some of which are cross-sectoral)

⁷ There are 9 PAIS: i) Environment and sustainable management of water resources, ii) Environment and Public Health; iii) Environment and Biodiversity iv) Environment and Territorial Planning; v) Environment and Education,

and the municipal plans (Planos de Acção Municipais, PAM). A new PANA was scheduled to be drafted in 2016, but the process stopped.

71. Currently the Environmental Fund supports projects of municipalities, central government entities and companies and organizations through a semi-competitive process. Yearly Directives for Investment on Environment are established that will define the priorities in terms of investment on environment by the Environmental Fund. But no longer term integrated plan is currently active. There are environmental components plans, such as the Waste Management National Plan (Decree-Law n.º 32/2016), or the National Plan for Environmental Education 2013-2022 (Resolution n.º 10/2014).

72. The environment line ministry is presently integrated in the Ministry of Agriculture and Environment, and the National Directorate of Environment counts with staff in 4 departments – EIA and prevention; Environmental information and environmental quality monitoring; Nature Conservancy; and Environmental Sanitation. The MAA is represented in the different islands by MAA delegations. Usually there is only one environmental officer in these delegations, unable to address all responsibilities, and requests for support to the DG Environment cannot always be satisfied.

73. The process of decentralization on environment is still not achieved. Each municipality, except for the larger ones, tend to be a rather small entity, with limited staff and financial resources, some have an environmental department others an environmental team. Additionally, municipalities where no water utility company exists still superintend their Autonomous Water and Sanitation Services. Municipalities cannot relate directly with donors, they need to submit the project proposal to Ministry of Finance and Planning that will then try to mobilize the funds and negotiate fund allocation. Municipalities have seen their resources for environment, particularly for running costs decreasing since 2009. The Environmental Fund has been changing through years regarding the scheme to allocate funds to municipalities and currently municipalities can access investment funds (or rather funds for projects) through a bidding process. Not all municipalities have the capacity to write appropriate proposals, and they may seek support from municipalities' association ANMCV experts. Municipalities face challenges in terms of their capacity for adequate operation and maintenance of existing infrastructure, equipment and services. The integration of municipalities into water and/or sanitation multi-municipal utilities might help to increase efficiency and reduce costs - but for the time being municipalities are still supporting the emergent utilities.

74. Since 2010 a spatial planning reform has been ongoing which has strongly increased planning in the country. Spatial planning legislation has been updated, the National Directive of Spatial Planning is being implemented, 7 Territorial Planning Regional Schemes (EROT) have been elaborated – although the ones on Fogo and St. Antão are suspended – and 20 Municipal Master Plans have been enacted. Trainings and seminars with the municipalities' staff have been ongoing throughout the process. In July 2010, the Unit of Autarchic and Territorial Inspection has started operation, and the Spatial Planning Institute (planning, geodesy, cartography, registry) has been established in 2014. Currently new legislation is required to allow law enforcement, otherwise there are no penalties for non-compliant municipalities. The next step will be the elaboration of the Coastal Zone Management Plans, which are regulated by Decree-Law n.º 14/2016.

75. The renewable energies sub-sector has undergone a strong improvement, namely increased knowledge of resource, adoption of legislation promoting renewable energy production, adoption of a plan of action, and the construction of wind farms and solar power plants in different islands. The renewable energy penetration jumped from 3% in 2009 to about 23% in 2014. Since 2014, there has been no significant new renewable energy infrastructure, while there has been a consolidation and renovation of the thermal power plants and distribution lines. According to ELECTRA the renewable energy penetration in 2016 fell to 18.5%.

76. The Programme of the Government 2016-2021 establishes some principles of environmental protection, sustainable use of resources and social equity, which will serve as basis for the development of strategies, plans and programs.

F. Potential Environment and Social Impacts of the Project

77. For the project, World Bank Safeguard Policies apply. The Access to Finance Project triggers 2 of the 10 safeguard policies: i) Environmental Assessment, and ii) Physical Cultural Resources. The policy for Physical Cultural Resources (OP/BP 4.11) has been triggered because of the prevalence of ecotourism-related MSMEs in Cabo Verde, which can negatively affect national heritage sites.

78. The expected impacts of the project are as follows:

(e) Component A will finance the capital for the PCG scheme; establish the operational manual that sets out detailed requirements on policies and procedures the PFIs must comply, including Environmental and Social safeguards on loan selection, in order to join the project. The exact location, nature, scale and scope of the potential impacts can only be known during implementation. Beneficiary MSMEs are expected

to engage in diverse types of activities, some of which may have negative environmental and/or social impacts and risks. However, these negative impacts are likely to be minor, localized, and reversible and can be mitigated through proper environment and social screening, application of simple measures and environmental good practices, especially given the nature and small size of the transactions and the limited funding to be made available to respective MSMEs (\$10,000-50,000 on average, and up to \$400,000 - the maximum amount of loans will increase with the years). This ESMF therefore ensures that such impacts are identified, avoided, minimized and adequately mitigated. The ESMF also includes the list of those transactions that are not eligible for project support.

Degree of Potential Risk	Moderate
Risks	Failure to comply with the permitting system in Cape Verde, which exposes MSMEs to regulatory sanctions; poor MSME practice in the control of emissions and waste; poor MSME planning for effects on historical or cultural assets, traffic patterns, community safety, labor health and welfare; agricultural practices that might pose risks to the health or the environment; credit risks for lenders, associated liability, and reputation of lenders.
Impacts	Closure of MSMEs, fines or delays, escalation of costs for production, increased insurance cost; environmental pollution, loss of biodiversity or cultural resources; damage to cultural resources; reduced community safety, accidents and injuries to workers; liability of MSME and lender; damaged reputation of MSME and lender from media coverage, citizen campaigns, government investigations.
Mitigation Measures	PFI to screen MSMEs for E&S compliance and performance to verify eligibility for PCG; provide liaison and guidance for regulatory and technical issues; ensure guarantee agreements include E&S requirements; periodically supervise and report. PCG Management to monitor the implementation of this ESMF (quarterly, during the first year; every six months from thereon)

(f) Component B of the project will share the costs of customized consulting services to improve MSME's ability to generate and share loan applications as well as business and financial information with financial institutions in a clear and complete manner, namely through (i) information systems that can provide sources of data for credit assessment (e.g., electronic invoicing systems; incentives for firms to make transactions through deposit accounts to help financial institutions monitor cash-flows); (ii) preparation and/or improvement of quality of financial statements; and (iii) preparation and/or improvement of business plans/models and feasibility studies

for new ventures. The financial support should not exceed \$5,000 per beneficiary and should be matched by at least the same amount from the beneficiary. The program is open to all registered and privately-owned MSMEs (i.e., annual revenues lower than CVE 150 million) that do not have credit from a licensed financial institution and have paid taxes in the last two years. The project will also finance activities that can strengthen the accounting and auditing professions in Cabo Verde and the financial institutions (banks and microfinance institutions)' capacity to service MSMEs. The program will be coordinated with the PCG scheme via partner financial institutions.

Degree of Potential Risk	Low
Risks	No negative environmental or social risks are identified under this subcomponent.
Impacts	If the technical assistance includes environmental and social aspects, there can be indirect positive impact with MSME: increased capacity to include environmental and social considerations into business plans and feasibility studies.
Mitigation Measures	Capacity building activities, regulatory liaison, compliance technical support.

(g) Component C will support the central bank (BCV) in its efforts to upgrade and expand the coverage and depth of its public credit registry. It will also support measures to establish effective oversight of credit reporting systems, including of a system where the credit registry operates in cooperation with private credit bureaus. The project will assist the Recipient in producing more detailed data to better inform policy interventions to support access to finance by MSMEs.

Degree of Potential Risk	Low
Risks	No negative environmental or social risks are identified under this subcomponent.

(h) Component D The project will support institutional, organizational, and regulatory aspects required for a sustainable implementation of the new framework to increase access to finance for MSMEs. It will finance the provision of consulting services for technical and economical optimization of existing public support mechanisms for MSME financing. It will also cover the project implementation costs (coordination, procurement, financial management, monitoring, and evaluation).

Potential Risk	Moderate
Risks	Failure to implement ESMF with associated risks
Impact	Associated impacts from different subcomponents and non-release of potential positive impacts. Potential positive impacts from increased awareness and capacity of PFIs and MoF.
Mitigation Measures	Part time environmental and social specialist in the PCG Management, engagement of UGPE, PFI, MSMEs in training activities.

79. Given the direct potential for minor, reversible and site-specific environment and social impacts under Component A, this ESMF has been prepared. It is expected that most of the beneficiary MSMEs will not have adequate capacity in managing even minor environmental or social impacts. The Partner Financial Institutions have their own environmental and social safeguards procedures. This ESMF ensures that the potential impacts are identified, avoided, minimized and adequately mitigated. The ESMF also includes the list of those transactions that are not eligible for project support (Annex 8). The PFI risk analyst will be required to screen PCG applications for environment and social impacts, alignment with national policies and regulations, and integrate into the PCG requirements of environmentally sustainable and socially sound development in line with this ESMF. PCG Management will do a periodic control (quarterly, during the first year; every six months from thereon), by sampling, to confirm that the credit operations are in line with safeguards best practices.

G. Implementation Arrangements

80. To ensure proper coordination and supervision of the project, the Financial Reforms Committee chaired by the Minister of Finance will serve as the project steering committee and provide overall guidance and oversight on project implementation. The committee will include representatives from the BCV and from the Ministry of Economy and Employment.

81. The Ministry of Finance will be responsible for project implementation. Its Unit for the Implementation of Special Projects (*Unidade de Gestão de Projetos Especiais* - UGPE) — which has implemented several development projects since it was established in 1999 — will be responsible for implementing the project with overall fiduciary responsibility. UGPE will have responsibility for the day-to-day project management and coordination of project-related activities, including overall responsibility for, among others: (a) ensuring timely implementation of the project in accordance with the Project Implementation Manual (PIM); (b) preparing progress reports, including updates to the results framework, budgets, and procurement plans; (c)

overseeing project activities under its direct responsibility and of project-related activities to be carried-out by other entities; (d) managing project finances and maintaining consolidated Project accounts; and (e) developing and maintaining a system of monitoring the project performance indicators.

82. For the phase 1 of the PCG implementation, the PCG Management will be a competitively selected firm, with a team consisting of a coordinator and two business advisors, with support from (part time) environmental and social safeguards specialist. For the phase 2 of the PCG implementation, an independent PCG Management will also be competitively selected. Can be or not the same entity and configuration on both phases.

83. PFIs will be the only visible entity to the end-beneficiary (the MSME) of the PCG. The PFIs are licensed financial institutions that are supervised by the BCV and have internal systems that comply with the national and World Bank's environment and social policies. Besides, the PFI must demonstrate they maintain and implement effective environmental and social systems, procedures and capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner.

84. For component B, a specialized entity to manage the TA program will be competitively selected. The TA manager will have a private sector orientation and a track record in delivering this type of technical assistance, either in Cabo Verde or in other similar settings, to ensure quality of service providers and that prices charged are in line with market realities. The TA program will have a manual for setting out processes and forms/templates used for funding application, disbursement, financial management, procurement, and audit. The TA manager will conduct regular meetings with financial institutions.

85. The World Bank will provide implementation support to the project through regular supervision, follow up, and monitoring of the implementation of this ESMF. Moreover, the World Bank will work closely with the PCG Management during first year of the project to ensure sufficient capacity for ESMF implementation is in place. The World Bank Team will include qualified Environment and Social Development Specialists, who will also assist in the capacity building of UGPE and the PCG Management. The environmental and social training program is presented below.

H. Environmental and Social Management Capacity

86. The PCG Management will have the responsibility to ensure the PFIs are implementing safeguards adequately. The PCG Management's business advisors will be specifically trained to

implement the ESMF, including a review of the World Bank safeguards at project start. The part-time safeguards specialist, with experience in both environmental and social issues, will provide guidance to and assist the PCG Management to develop capacity on ESMF issues and monitor its implementation. This specialist can also provide guidance or assistance to PFIs to improve their safeguards procedures.

87. The (part time) environmental and social safeguards specialist shall:

- Analyze PFIs safeguards policy and procedures to assess their alignment with World Banks safeguards policies and this ESMF and propose and monitor implementation of necessary changes, if necessary;
- Ensure that PFIs are complying with their policies and procedures and that all PCG benefiting loans have been adequately screened and are being monitored by the PFI;
- Within five business days of becoming aware, notify the World Bank of any significant social, labor, health and safety, security or environmental incident, accident, issue, or circumstance with respect to any financing activities covered by the PCG;
- During supervision, ensure that all the transactions for MSME comply with government regulations;
- Report periodically to UGPE on the status of implementation of ESMF. UGPE will report to the World Bank Team as part of the project progress report.

88. In order to be eligible, the PFI must submit to the PCG Management its Environmental and Social Management System, which will include the following elements: (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. If need be, the PFI will review and adjust its ESMS, in a manner acceptable to the Bank. From time to time, including when the environmental and social risk profile of its portfolio changes significantly, the PFI is requested to review and update its ESMS in a manner acceptable to the Bank.

89. The PFI will provide a safe and healthy working environment. The PFI will have in place and maintain appropriate labor management procedures, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms and occupational health and safety. The PFI will provide adequate documented evidence of such procedures.

90. The PFI's risk assessment team will be responsible for screening individual applications for eligibility under the PCG against eligibility criteria, including the list of ineligible activities; screening of applications to determine environment and social issues and impacts, categories, policies triggered and the transaction-specific instruments and measures that need to be put to manage these impacts.

91. It is expected that the PFIs will:

- Comply with the List of Ineligible Activities under the Project (Annex 8). This list includes activities prohibited by international environmental agreements or where the World Bank Group considers financing inappropriate because the significance of associated environmental and social risks outweighs the benefits.
- Take measures as deemed necessary including site visits if necessary to validate that the end beneficiary has appropriately identified in its application the environmental and social risks and measures needed to manage them in project implementation.
- Monitor compliance of PCG beneficiaries in line with this ESMF and the related action plans developed (i.e. ESMP).
- Develop, and maintain, grievance redress mechanisms, as provided in this ESMF to ensure that those with grievances to the transactions supported under the project have avenues for redress.
- Ensure that the proposed activity covered by the PCG complies with all national environmental legislation and regulations. PFIs shall ensure that all necessary permits or licenses need to be presented by the final beneficiary of the loan, before the PCG for that loan can be approved.
- Within five business days of becoming aware, notify the PCG Management of any significant social, labor, health and safety, security or environmental incident, accident, issue, or circumstance with respect to any financing activities covered by the PCG.
- Ensure that where applicable all project-affected people are aware of the respective investments and were consulted before approval of the investment. Disclosure of respective instruments (environmental audit, ESMP, ESIA, etc.) should be done before the application is approved.
- Submit to the PCG Management periodic reports on the implementation of the ESMF.

92. The PFIs are responsible to ensure that their transactions meet the eligibility criteria. Therefore PFIs will ensure that the MSME manage environment and social impacts through the preparation and implementation of measures, including consultations and disclosures of specific safeguard instruments, and provide support if necessary.

I. Environmental and Social Training

Environmental and Social Training Program

PARTICIPANTS	TRAINING TOPIC	TRAINING MODALITY	DURATION	TRAINER
PCG Management PFIs MF staff	Introduction to World Bank safeguard policies, & specific project environmental and social safeguard requirements and procedures.	Workshop (within first six months of effectiveness)	1-3 days	Consultant
Relevant government institutions and PFIs.	Environmental and social aspects – national framework and regulations.	Workshop (may be provided at year one and year three)	1-2 days	Consultant
PFIs and their client MSMEs	General Environmental and Social awareness raising, ESMF processes and procedures, including the Completion of Environmental and Social Screening Checklist, preparation of ESMP, ESIA, etc.	Quarterly (or more frequent if needed)	1-2 days	PCG Management Safeguard Specialist or Consultant

J. Environmental and Social Screening Process of Subprojects

PCG Proposals

93. Subprojects supported by the PCG must satisfy national and World Bank environmental and social requirements as well as this ESMF. The PFIs will prepare a brief description of each subproject which the loan finances, namely what the PFI considers are likely to be environmental or social risks and issues of concern with respect to the activities (see form in Annex 2 and 3), and categorize the project in accordance with this ESMF.

Screening and Categorization of environmental and social risk

94. The choice of categorization will have the following implications:

- *Category A:* These are subprojects that are likely to have significant adverse environmental and social impacts that are sensitive, diverse or unprecedented, or transactions whose impacts affect an area broader than the sites or facilities subject to physical works. These project can affect a larger area for example, a dam, a larger industry, larger scale farming or forestry, use of pesticides of high risk or of large quantities, waste treatment operations. It is highly unlikely that Category A transactions will be proposed by eligible applicants, namely as the cost and time associated with assessing such impacts and developing mitigation measures will likely be quite considerable even for the maximum loan amount (up to \$400,000). Loans for category A subprojects will not be eligible for PCG funding.
- *Category B:* The subprojects may have environmental or social risks that are less adverse and more limited than category A level, their impacts are site-specific and largely reversible, which could be readily identified and reliably mitigated through good practices known to the sector, including those described in World Bank Group Environmental, Health and Safety Guidelines (EHSs). The PFI (and later the PCG Management when monitoring⁸) will verify that: (1) supported activities comply with applicable national environmental and social laws and regulations, and World Bank safeguard policies, including eligibility criteria of the ESMF; (2) appropriate environmental permits are obtained prior to support; and (3) investments do not contravene the List of Ineligible Activities presented in Annex 8 of this Framework. The principles and methods of categorization section of this ESMF provides the characteristics of transactions that typically trigger Category B categorization.

Examples of category B projects:

- Small agro-food industries,
- Aquaculture and Marine Culture (this may be Category A if larger scale or if a number of such small projects do exist or are planned in the vicinity),
- Renewable energy (depending on the size)
- Some types of small industries, depending in the activities (namely hazardousness of possible gaseous, liquid or solid emissions),
- Small maintenance and modernization projects,
- Tourism in newly developed areas (this may be Category A in the context of a location in a natural park),
- Hotel development or redevelopment with a capacity of between 50 and 120 rooms as well as any restaurant with capacity between 60 and 250 place settings,
- Any recreo-tourist development with an area between 2 and 20 ha,
- Manufacture of building materials,
- Cinemas (hygiene and safety, ex fire prevention),

⁸ It is of paramount importance that the manuals to be developed by the Access to Finance for Micro, Small, and Medium Sized Enterprises Project focus on evidence gathering.

- Wholesale and retail trade (hygiene and safety ex prevention against Fire, waste management),
 - Construction of Office buildings,
 - Agriculture projects that include new land-use development or changed cultivation practices in an area; significant expansion into new areas; diversification into new crops in agriculture; intensification of existing low-technology systems (any required ESIAs/ESMPs should include ecologically based Integrated Pest Management measures).
- *Category C:* The subproject is likely to have minimal, low-risk or no environmental or social risks associated with it. No further environmental and social assessment work is required after screening, but there is need to verify compliance with national regulations and relevant permit requirements as well as to monitor implementation of the activities; any environmental and/or social impacts that may occur will be addressed as per this ESMF. Category C transactions are expected to be the bulk of PCG supported loans given the limited size of the support and eligibility criteria. Examples of Category C transactions include: purchase of business development services, financial services, IT services; Training; purchase of equipment on an artisanal scale; small commerce, etc. All subloans of less than \$10,000 equivalent are classified as category C.

Transactions not eligible for financing under the Project:

95. Besides transactions with significant adverse impacts, some transactions are not allowed under the Project for financing because of higher costs and time associated with preparation of impact assessment and development of mitigation measures, and given the limited capacity of the project in managing such impacts in line with World Bank safeguard policies. The list of these transactions is provided in Annex 8, and include those transactions typically prohibited by international environmental agreements or where the World Bank Group considers direct financing inappropriate because of the significance of associated environmental and social risks.

K. Environmental and Social Review and Assessment

Principles and Methods of Screening for Risk Review

96. Screening is the first step in the environmental assessment process, which will assign the subproject in question to one of the three categories (A, B or C) or exclude subprojects that are in the exclusion list. This categorization will decide the nature of further environmental and social assessment. The significance of impacts may be described in different ways: the simplest approach is the presence or absence of impacts, and qualification of degree of impact as minimal,

moderate, significant, or highly significant. In assessing degree of impact or risk, it is appropriate to take into consideration type, scale, location, timing, and sensitivity of the impact. A key factor to consider is whether the impact is reversible, and if so, the rate of recovery. Annexes 3 and 4 provide sample forms for screening.

97. The PFI will submit to the PCG Management a list of subprojects that should benefit from credit guarantee (with some basic information that will confirm that each subproject meets the eligibility criteria, as well as its safeguards categorization). For sub-projects of Category B, the PFI will have the records ready to be assessed by the PCG Management. The PCG Management when performing monitoring of implementation of safeguards - which will be done on a sample of projects for each PFI - will ensure that the environmental and social risks and impacts have been adequately identified and that the PFI is monitoring the implementation of the Action Plan. The PCG will reserve the right to reject subprojects that do not meet the eligibility criteria (including safeguards criteria).

Environmental and Social Review and Assessment for Category C Transactions

98. If the likely environmental and social risks and impacts are determined through the screening process to be very low or negligible, the transaction is a Category C and no further environmental review and assessment is required. However, results of the safeguard screening should be included in the PFI's list of subprojects submitted to the PCG. Also, the PFI should ensure that the activity the loan will support meets the national requirements including permitting and monitor implementation of such transactions to address any environmental and/or social impacts that may result.

Environmental and Social Review and Assessment for Category B Transactions

99. For Category B transactions, the environmental and social risks and impacts are perceived to be manageable, site specific, reversible and with established remedial and good practice measures, as described in the appropriate WBG Environmental Health and Safety Guidelines.

100. The PFI may carry out an environmental and social impact review on these proposed category B transactions as well as on existing facilities which focuses on two elements: (a) compliance of existing facilities and operations with relevant environmental (including occupational health and safety) and social laws, regulations, and World Bank policies' requirements; and (b) the nature and extent of environmental and/or social impacts, including contamination to soils, groundwater, and structures, as a result of past/ on-going activities and proposed transactions. The scope and depth of the audit or review should be commensurate to potential impacts and type of transactions.

101. A corrective Action Plan will be developed if the environmental and social impact audit or review finds that negative but manageable impacts may occur as a result of continuing implementation of on-going activities or new implementation of proposed transactions. The Action Plan may call for preparation and implementation of measures to address the impacts that are identified based on the audit. The Action Plan should also include measures to inform potentially affected people of the nature of transactions, potential impacts, mitigations measures and grievance mechanisms. The Action Plan should be attached to the subproject documentation and the assessment and verification for compliance with the proposed actions will be subject to PCG review.

102. The PFI may opt to arrange for an appropriate environmental review on its own behalf using outside expertise. At minimum, for all Category B transactions, the PFI will prepare for the records a brief summary report or memorandum identifying sources of information and relevant facts and findings that allow a determination that the application is consistent with applicable environmental and social requirements (see Annex 4, Form B).

103. In principle subprojects that require preparation of ESIA under Cape Verdean legislation are excluded from PCG. However, in the event that the final beneficiary (borrower from the commercial bank) has already prepared an ESIA, and in accordance with Cape Verdean regulations and processes this has been approved or conditionally approved by the National Directorate of Environment, the PFI risk analyst will review the process and make a determination whether: it is adequate and accurate in identification of environmental and social impacts; that appropriate measures have been identified to avoid, minimize, or mitigate those impacts; that the applicant has the commitment and the capability to manage the impacts as proposed. Moreover, the PFI will request evidence that timely and appropriate consultation with directly affected people, local communities, and interested stakeholders has taken place on the findings and recommendations of the ESIA before PCG approval.

104. The World Bank will retain rights to prior review the results of environmental and social screening, audits and corrective Action Plans, if developed, until the PCG Management is considered to have developed adequate capacity to review them independently.

L. Monitoring, Supervision and Reporting

105. For all Category B transactions in the portfolio, the PFI will ensure and collect evidence that the MSME is implementing and monitoring the management of environmental and social impacts in a manner consistent with this ESMF, including the development and implementation of Corrective Action Plans, and ESMP/ ECOP. The PCG Management will review more in depth these operations. For Category C transactions (e.g., TA activities), the PCG Management will

carry out random check to verify absence of impacts and compliance with national legislation including permitting.

106. In addition, the PCG Management will screen for any negative media/ NGO coverage/ reports on environmental and social aspects of its portfolio clients on a regular basis, and retain records of all findings. The PCG Management will agree to make its monitoring and supervision reports available on a business confidential basis to World Bank counterparts upon request.

107. The PCG Management will prepare an annual report for the World Bank and the National Directorate of Environment as follows:

- Listing of all transactions approved during the reporting period, listing environmental category (B or C) and the name and location of MSMEs receiving PCG;
- For Category B subprojects approved during the reporting period, a copy of the summary report including environmental and social assessment process findings;
- A brief summary regarding how this Framework has been implemented in transactions covered by PCG, including any material changes (e.g., to staffing, procedure); and
- Details of any negative media/NGO coverage and reports on PCG beneficiaries regarding environmental and social aspects that have come to the attention of the PCG Management and are deemed to produce reputational risk to the Government and the World Bank.

M. Public Consultation

108. The preparation of this ESMF has followed a consultation process. At a first stage the main stakeholders of the project were given the opportunity to read the draft ESMF and provide comments. These included Ministry of Finance, Ministry of Agriculture and Environment and Ministry of Economy and Employment. On a second moment, a one day workshop has been held for discussion among stakeholders, including commercial banks.

109. During the project implementation some more details for the ESMF will be established. As this is an interactive process, further consultations will be done throughout project implementation.

N. Grievance Mechanisms

110. PCG information will clearly describe the mechanisms through which people who may be affected by transactions can inform the authorities - namely Ministry of Finance or the Steering Committee - of their concerns or grievances. The PCG implementations manual will also develop and disseminate the mechanisms through which concerns or grievances will be addressed. If local communities or directly affected stakeholders approach the Ministry of Finance, the Steering Committee, or the PCG Management with reasonable and responsible claims that an activity by an MSME funded by the PCG has caused harm to them, their livelihoods, or their environment, the PCG Management will work with PFI, so that the concerns are addressed in a reasonable and responsible manner. The PCG Management will report as soon as possible such complaints to the UGPE and the World Bank. In addition, the PCG Management shall inform the aggrieved parties that if efforts by the PCG beneficiary (MSME and PFI) to resolve the issue are unsatisfactory, the aggrieved parties have the right to bring their complaints to staff in the World Bank office, at the address below:

Bureau de la Banque Mondiale
(221) 33-859-41-00
Corniche Ouest X Rue Léon Gontran Damas
Dakar, Senegal

O. Budget

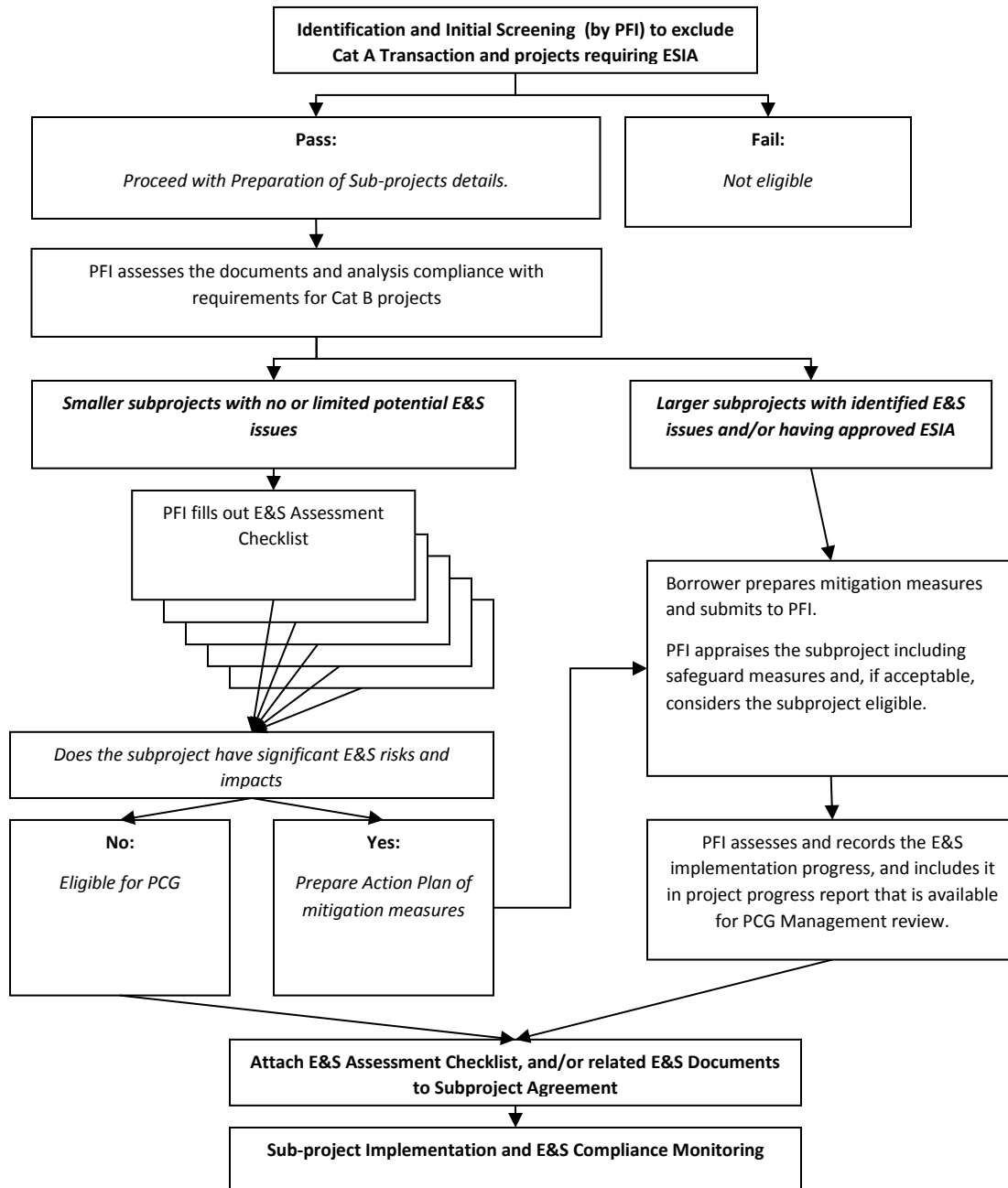
111. Implementation costs of this ESMF are subsumed in the project's activities. Safeguards training of the PCG Management employees, project staff and appropriate ministerial staff will be conducted early on in the project. The Safeguards Specialist will be contracted on a part time basis and expected to provide on average around 50 days of support per annum over the lifetime of the project. This consultancy is estimated to cost of up to \$40,000. In addition, a budget provision of \$20,000 has been made to cover the costs of training, and \$10,000 for *ad hoc* environmental studies should the need arise.

112. The PCG Management will have the overall responsibility for ensuring that any environmental or social impacts are appropriately addressed. Although the project's environmental and social impacts are likely to be negligible, monitoring for unexpected environmental and social impacts will nevertheless be conducted on a regular basis by project staff, in particular the PCG Management. The PCG Coordinator and Safeguard Specialist will request the PFI to conduct visits to those MSME beneficiaries who had to prepare action plans as a condition for loan approval, to verify implementation of any identified mitigation actions, and to provide support on their improvement as necessary. Furthermore, implementation of the ESMF will also be verified in the field by the World Bank team as part of its regular supervision missions.

113. Lastly, a detailed monitoring system will be designed and implemented for the Assess to Finance Project as a whole. Environmental and social indicators will be integrated into this system and monitored and reported on a regular basis.

Annex 1. Safeguard Screening

Schematic Safeguard Review Process



Annex 2. General Project and Site Information

Each PFI will have its own forms. The example below provides the minimum acceptable information to be gathered by the PFI. Checklist format is acceptable.

INSTITUTIONAL & ADMINISTRATIVE		
Country	Cabo Verde	
Project title		
Scope of project and activity		
SITE DESCRIPTION		
Name of site	TBD once site(s) have been selected	
Describe site location	TBD once site(s) have been selected	Attachment 1: Site Map [] Y [] N
Who owns the land?	TBD once site(s) selected. (N.B., No land acquisition permitted)	
Description of geographic, physical, biological, geological, hydrographic and socio-economic context	TBD once site(s) have been selected.	
Locations and distance	TBD once site(s) have been selected.	
LEGISLATION		
Identify national & local legislation & permits that apply to project activity	<p>Law number 86/IV/93, the Basic Law of Environmental Policy, Legislative Decree number 14/97 of July 1, whose objectives are to optimize and guarantee the utilization of natural resources.</p> <p>Decree-Law number 29-2006, of March 6, which sets the framework for the environmental evaluation of development projects. Annex XVII contains a synthesis of ESIA process in Cabo Verde, as regulated by Decree-Law number 29.</p>	

Annex 3. Sample of Screening Form

Each PFI will have its own forms. The example below provides the minimum acceptable information to be gathered by the PFI to screen for project category and potential environmental and social issues of a sub project, and to determine the instruments to be prepared for the sub project.

Subproject Name	
Subproject Location	
Subproject Proponent	
Subproject Type/Sector	
Estimated Investment	
Start/Completion Date	

Questions	Answer		If Yes	Documents requirement if Yes
	yes	no		
Is the proposed project likely to have minimal or no adverse environmental impacts?			Category C	No action needed beyond screening
Is the proposed project impacts limited, site specific and readily mitigated with known mitigation measures? Please provide brief justification:			Category B	Action Plan

(For sub projects classified as a Category _B) The following safeguards measures will be implemented:

1. _____
2. _____
3. _____
4. _____

SCREENING QUESTIONS	No	Unknown	Yes	MITIGATION MEASURES REQUIRED?
---------------------	----	---------	-----	-------------------------------

SCREENING QUESTIONS	No	Unknown	Yes	MITIGATION MEASURES REQUIRED?
A. NEGATIVE LIST REVIEW:				If Yes, proposal must be rejected
• Land acquisition funded by the proposed subproject (business plan)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	*If Yes, proposal must be rejected. If Unknown, additional information is required before proposal can be considered.
• Involuntary resettlement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Do the proposed activities or budget include any of the Project negative list (see Annex 8 of the ESMF) ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	If Yes, proposal must be rejected. If Unknown, additional information is required before proposal can be considered.
B. ENVIRONMENTAL TRIGGERS: Does the sub-project involve alterations or construction in areas adjacent to or within any of the following environmentally sensitive areas?				Mitigation: must comply with local regulations; ESIA is required. If unknown, additional information is required before proposal can be considered. DOCUMENTATION REQUIRED.
• Protected Area, Wildlife Reserve, Buffer Zone, or other conservation area	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Wetland	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Areas at risk of salinization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Other:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
C. POTENTIAL ENVIRONMENTAL AND SOCIAL IMPACTS WILL THE SUBPROJECT CAUSE:				Mitigation: must comply with local regulations. ESMP is required. If unknown, additional information is required before proposal can be considered. DOCUMENTATION REQUIRED.
• Impairment of downstream water quality and therefore, impairment of downstream beneficial uses of water?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Noise or dust from construction equipment and/or subproject implementation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Are there risks of soil erosion?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Adverse effect on the value of the landscape esthetics?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Are there any pollution and/or public health risks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Causes temporary or permanent loss of	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

SCREENING QUESTIONS	No	Unknown	Yes	MITIGATION MEASURES REQUIRED?
habitat, crops, agricultural land, pasture, fruit trees and domestic infrastructure?				
• Risk to generate solid and liquid waste	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Risk to affect the quality of surface water, groundwater, or drinking water resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Causes changes in the population lifestyle	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Causes incompatible uses or social conflicts between different users	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Other:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
D. REQUIRED E&S DOCUMENTS:				
• Social and Environmental Management Plan (ESMP)?	<input type="checkbox"/>		<input type="checkbox"/>	
• Full Environmental and Social Impact Assessment (ESIA)?	<input type="checkbox"/>		<input type="checkbox"/>	
• Other?	<input type="checkbox"/>		<input type="checkbox"/>	
E. OTHER REMARKS:				
F. CONCLUSIONS/RECOMMENDATIONS:				
G. SIGNING OFF:				
PROPONENT			PFI REPRESENTATIVE	
NAME:			NAME:	
POSITION:.....			POSITION:.....	
DATE:			DATE:	

Annex 4. Sample of Environmental and Social Assessment Form

Sample to be completed by the PFI for each application (to be adapted to the template to be used for information exchange between PCG Management and PFIs).

Name of project and subproject

Number.....

Local Number.....

Subproject E&S Assessment Form A (form #) –with no impacts

Applicant:	Proposal name:	Proposal number:
Application type:	SME <input type="checkbox"/> Micro <input type="checkbox"/>	Amount requested:
I certified that this subproject does not require neither safeguard measures nor safeguards instrument clearance		Date:
Screen by:		
Remarks: <i>Provide more details on the nature of the subproject</i>		

General Instructions:

- ☐ This checklist is to be completed to support the verification of a Subprojects Application. It is to be attached to the Subproject record that is to be prepared by the PFI and disclosed to the PCG Management, if requested.

Subproject E&S Assessment Form B (form #) –with limited impacts

Applicant:	Proposal name:	Proposal number:
Loan type:	SME <input type="checkbox"/> Micro <input type="checkbox"/>	Amount requested:
Screened by:	E&S Applicable Requirements: <input type="checkbox"/> Mitigation Plan Required	Date:

	<input type="checkbox"/> No Mitigation Required <input type="checkbox"/> No ESMF Clearance	
PFI recommendations for proposal improvement before submitting to PCG Management for review: Remarks:		

General Instructions:

- ☐ *This checklist is to be completed to support the verification of a Subproject record that is to be prepared by the PFI and disclosed to the PCG Management, if requested.*
- ☐ *This checklist focuses on Environmental and Social issues and concerns to ensure that social dimensions are adequately considered in subproject evaluation.*
- ☐ *The purpose is to identify its feasibility and potential environmental and social impacts of the sub-project activities. If applicable please use the “remarks” section to discuss any suggested mitigation measures.*

Annex 5. Illustrative List of Potential Mitigation Measures

The following table includes an illustrative list of mitigation measures for potential impacts that may or may not be encountered, taking also into account the exclusion list of Annex 8.

Component	Potential negative impacts	Potential Mitigation measures
Air	<ul style="list-style-type: none"> Deterioration in the air quality due to dust and gas emissions from industries Increase in emissions of greenhouse gases (mainly associated with combustion sources) Emission of noxious and harmful odors 	<ul style="list-style-type: none"> Install and operate air pollution control devices. (Ex.: electrostatic precipitators, filter collectors, dry and wet scrubbers, absorption systems, etc.). Install sufficiently tall chimneys for proper dispersion of pollutants and respect the quality criteria of the ambient air. Include measures to limit fugitive dust emissions during transport or handling of materials (use of dust suppressants on access roads and circulation areas, adequate coverage of conveyors). Plan the implementation of industrial zones so that prevailing winds will push the pollutants towards inhabited areas. For combustion systems, promote the use of cleaner fuels and emission burners reduced in nitrogen oxides. Encourage energy saving and optimization. Use equipment in their optimal operating conditions (establishment of a regular inspection program and preventive maintenance). Impose on industry standards or national emissions standards corresponding to the criteria developed by the World Bank in the guide <i>"Pollution Prevention and Abatement Handbook 1998"</i>) Ensure that odorous substances are stored in a way that limit the emission of odors and that transactions involving noxious emissions are carried out in a closed building equipped with an adequate ventilation system and sufficiently tall chimneys.
Soundscape	Increase in ambient noise	<ul style="list-style-type: none"> Close to residential areas, avoid carrying out noisy work outside normal working hours.

		<ul style="list-style-type: none"> • Provide access roads to the industrial area and businesses to avoid or circumvent residential areas. • Put in place measures to reduce or mitigate noise (screens, walls, speakers, etc.) • When available, use low-noise equipment
Water	<ul style="list-style-type: none"> • Variation in groundwater levels or decline of surface water due to water pumping for industrial needs • Variation in groundwater levels due to changes in drainage resulted from the construction of buildings and paved area • In coastal areas, possible saltwater intrusion into the aquifer if groundwater is pumped • Deterioration in the quality of groundwater and surface water following discharges of industrial wastewater • Risk of eutrophication of water receiving wastewater discharges 	<ul style="list-style-type: none"> • Establish measures to limit the use of water by industries and agriculture. • Implement economic activities in areas with high water volume where water requirements for industries/agriculture minimally affect local activities (water needs for the population, for household farmland, etc.) • If ground water is pumped for industrial/agriculture needs, ensure that the volume of water pumped is not higher than the charging level of the aquifer • Promote the development of closed systems and, especially, for cooling water systems and steam production systems (maximum recovery of condensate) • Promote the use of collected rainwater/moist water to fill water needs • Design the industrial area to allow proper drainage of surface water • Install separate systems for water collection: rainwater (rainwater from uncontaminated areas), domestic water and industrial contaminated water. This type of collection allows the design of water treatment systems that are better suited to the type of pollution to be treated. • Maintain vehicles, machinery and equipment in good condition to prevent leaks and spills of hazardous products (hydrocarbons, chemicals, etc.) and waterproof areas where leaks are most likely to occur. • Safely manage hazardous products and store them in confined areas with spill recovery equipment.
		<ul style="list-style-type: none"> • Keep vegetation along lakes and streams and near wetlands • Plan emergency measures in the event of accidental spillage • Impose criteria to industrial enterprises for wastewater discharges to protect the quality of receiving streams or apply the minimum compliance criteria developed by the World Bank in the guide <i>"Pollution Prevention and Abatement Handbook 1998"</i>

		<ul style="list-style-type: none"> • Ensure that companies implement water treatment systems required to comply with discharges criteria or pretreatment systems required for pollutant loadings that could not be treated in public facilities • Plan rejection of used waters taking into account absorption capacity of the receiving water body. • Maintain the pH content of wastewater between 6.0 and 9.0 • Prohibit the discharge of cooling water at high temperatures (the temperature of the receiving water should not rise more than 3 ° C) • Promote, where possible, recycling of used water for agriculture • For large industrial areas, build a water treatment plant to treat water discharged by industries
Soil	<ul style="list-style-type: none"> • Change the local topography • Use of fertile land for agriculture or forestry purposes • Erosion by runoff water causing sedimentation problems • Soil contamination due to hazardous spill • Use of land adjacent to the industrial area as a dumping ground 	<ul style="list-style-type: none"> • Avoid areas sensitive to erosion • Perform construction work in the dry season • Encourage the installation of the industrial zone on low productivity soils • Minimize machinery traffic areas • Avoid the construction of access roads in the axis of steep slopes; rather promote a direction perpendicular or diagonal to the slope • Use existing borrow pits rather than create new ones; after the work, restore the borrow pits stabilizing slopes and facilitating the regeneration of vegetation • Stabilize soils to reduce the risk of erosion • Require companies to manage their waste in a responsible and respectful way towards the environment (use of existing discharges, particularly for hazardous waste management, establishment of composting plant for biodegradable waste (particularly for food companies), promote recovery and recycling, etc.) • Establish controlled landfills
Ecosystems	<ul style="list-style-type: none"> • Degradation of surrounding ecosystems through exploitation of natural resources (raw materials industries) • Drainage of wetlands • Reduction of biodiversity • Destruction of habitat for some species 	<ul style="list-style-type: none"> • If natural habitats may be affected by the sub-projects, implement measures outside the transformed area to create or promote the creation of new habitats • Put in place measures to limit the spread of harmful species that may feed of released industrial waste • Establish a protection perimeter around water collection areas and sensitive ecosystems such as wetlands and wildlife habitats of endangered species

Safety	<ul style="list-style-type: none"> • Increased risk of industrial accidents related to the storage, handling, use or production of hazardous materials • Increased road traffic in residential areas 	<ul style="list-style-type: none"> • Develop health and safety plans within the industrial complex to identify, assess and fight against risks to health and safety of workers and the population. This plan must specify the rules to be followed for their protection. • Ensure that the storage facilities and handling of hazardous materials are designed using recognized design standards. • Provide control mechanisms in the project to reduce the possibility of a spill or release of hazardous materials. • Provide appropriate training to employees to ensure safety in operation. • Provide employees with protective work gear complying with safety standards. • Develop and implement safety procedures for handling hazardous materials • Develop a plan for emergency measures to reduce the consequences of potential accidents • Provide bypass roads towns and villages to avoid heavy truck traffic in residential areas
Vegetation	<ul style="list-style-type: none"> • Destruction of vegetation in the industrial area and/or in the areas assigned to the supply of raw materials for economic purposes. • Loss of forest products • In case of significant and permanent drawdown in levels of static fossil groundwater, vegetation growth is reduced, which can accelerate desertification 	<ul style="list-style-type: none"> • Do not approve sub-projects that involve aggressive deforestation (whether for the construction of industrial zones or supply of raw material to wood processing industries) • Collect forest products derived from deforestation and identify redistribution mechanisms for local population • Restore vegetation in deforested areas • Ensure the planting of native species • For implantation of food processing or textile industries, promote an ecological agriculture that is respectful of plant diversity for the supply of raw materials • Promote the development of community nurseries, preferably run by women

Wildlife	<ul style="list-style-type: none"> • Disruption of wildlife habitats and wildlife migration • Habitat degradation of aquatic fauna due to water contamination • Habitat degradation of avian wildlife due to the degradation of air quality and noise generated • Increased poaching due to the presence of non-resident workers • Disturbance of wildlife habitat in case of significant and permanent drawdown of levels of static fossil groundwater (excessive pumping) 	<ul style="list-style-type: none"> • Avoid discharging wastewater into breeding grounds for wildlife and migratory corridors • Put in place measures to limit the proliferation of harmful species (rats, cockroaches, scavengers, ...) • Set up a fence around the industrial area to restrict access to the site for wildlife • Control illegal fishing and hunting, especially by non-resident workers • If ground water is pumped for industrial needs, ensure that the volume of water pumped is not higher than the charging level of the aquifer
Population	<ul style="list-style-type: none"> • Demographic pressure due to the arrival of non-resident workers and immigrants attracted by new economic opportunities • Rural migration and emigration of young people especially to the city or place of establishment of industries • Temporary imbalance between men and women because of the influx of male workers and immigrants, especially during periods of site development and construction of factories • Rapid urbanization and squatting of certain neighborhoods or certain urban areas or suburbs • Arrival of hawkers and traders of all kinds to sell their goods both to construction workers as well as factory employees. 	<ul style="list-style-type: none"> • Promote as much as possible the hiring of local labor • Work closely with local communities to facilitate the integration of immigrants • Develop strategies and retention plan and rural population; or, where appropriate, monitor the arrival of rural populations and prepare adequate facilities • Establish workers camps at a reasonable distance from villages • Provide good spatial organization and an adequate management plan for a balanced spread of population • Minimize undue densification of neighborhoods in residential areas • Provide locations to accommodate traveling merchants and sanitation facilities to prevent unintended facilities and waste accumulation in peripheral plants

Quality of life	<ul style="list-style-type: none"> • Overcrowding in homes, development of promiscuity, especially during the construction period • Inappropriate living conditions for non-resident workers • Increased rates of violence and crime, particularly during the construction period, due to poor living conditions and lack of leisure facilities for young migrant workers 	<ul style="list-style-type: none"> • Creation of labor camps • Monitoring of rental property prices to accommodate immigrant workers and their families • Development of recreational and educational centers to attract and entertain youth • Strengthening of general security systems
Gender	<ul style="list-style-type: none"> • Possible feminization of rural areas following the exodus of young male workers • Risk of increased prostitution during the construction phase due to the influx of migrant workers 	<ul style="list-style-type: none"> • Prioritize the recruitment of women for similar activities • Plan actions/volunteering activities as well as income generation activities for rural women unwilling or unable to follow their husbands to town • Provide oversight measures • Creation of leisure activities to entertain young people who are away from their family and environment
Health	<ul style="list-style-type: none"> • During the operational phase, potential nuisance by noise and dust caused by heavy vehicle traffic • Poor housing for migrant workers • Risks of contamination in certain industries • Risk of accidents on construction sites for workers • Problems due to lack of equipment available for workers (latrines, showers, garbage) during the site development and construction • Increased incidence of STDs, especially HIV / AIDS due to the influx of workers • For food companies, diseases transmitted by inappropriate methods of storage, processing of raw materials and waste disposal 	<ul style="list-style-type: none"> • Develop infrastructure facility or sanitary equipment (showers, latrines, waste disposal sites) on the site and in labor camps • Recommend the use of safety headgear and other safety equipment to industry staff to limit accidents and protect them from contamination • Make available a nursing service to track and monitor staff health • Control of sanitary and safety measures in the workplace • Awareness and implementation of preventive measures to limit the spread of STDs and to fight against AIDS • Establish technical standards for monitoring fecal coliform and other bacteria that may form in raw materials and waste • Ensure that waste likely to transmit diseases are properly managed and sent to disposal facilities

Education	<ul style="list-style-type: none"> • Possible increase in school dropout rates for both girls and boys in rural and urban areas due to new job opportunities in factories 	<ul style="list-style-type: none"> • Carry out works preferably during school holidays to ensure that site development and construction works are not detrimental to the smooth running of the school year • Provide training or skills development courses to future factory workers • Implant industry at reasonable distances from homes, schools, office buildings to avoid any inconvenience • Create awareness for young people around the need for proper training in order to improve their working conditions and living standards • Promote various training needed to improve the quality of work and products made the factory or industry, but also to allow greater mobility for workers to take over different tasks within the company.
-----------	--	--

Annex 6. Environmental, Health & Safety Guidelines

1. The World Bank Group has producing and updating Environmental, Health & Safety Guidelines (EHSGs) for various industrial sectors, as well as General Environmental, Health & Safety Guidelines which covers a wide range of issues and is applicable to all industrial in addition to the sector-specific guidelines. The full set of Industry Sector EHSGs and the General EHSGs can be most readily accessed on IFC's website (www.ifc.org).

2. The IFC website is also the location where updates of the EHSGs will be posted, as new examples of good practice are identified, or as new guidelines are prepared. These EHSGs are also part of the Equator Principles. As required by the Equator Principles, the most recent version of the respective applicable guidelines should be used in the screening and review of new transactions.

3. For most investments in the services industry, the General Environmental, Health & Safety Guideline is most likely the only applicable EHSG. However, for some investments possible under the Partial Credit Guarantee, there are specific industry sector guidelines that also would apply in addition to the General EHSG. A few examples of some of these are:

- Tourism and Hospitality Development
- Telecommunications
- Mammalian Livestock Production
- Poultry Production
- Plantation Crop Production
- Annual Crop Production
- Aquaculture
- Fish Processing
- Meat Processing
- Poultry Processing
- Food and Beverage Processing.

4. It should be noted that these Industry Sector EHSGs and the General EHSG are intended to identify recognized good practice, particularly in the absence of comparable national or local legislation. Moreover, they are designed to cover a wide range of topics, especially in the case of the General EHSG, some or many of which specific topics may not be relevant or applicable to the project enterprise seeking PCG support. The EHSGs will be used by the financial institution as useful tools in the screening and review process to determine whether environmental and social risks associated with the project enterprise have been appropriately identified and managed.

Annex 7. Chance-Find Procedures and Good Practice on Civil Works

1. The Chance-Find Procedures' in this annex will be incorporated into all contracts related to civil works. It comprises 2 parts: (1) a standard clause for “chance find” procedures and (2). recommended good practices for civil works involving proper storage, use, cleanup, and disposal of the various materials used during construction for human and environmental safety.

Part (1) The “chance find” procedures:

- If the Contractor discovers archeological sites, historical sites, remains and objects, including graveyards and/or individual graves during excavation or construction, the Contractor shall:
- Stop the construction activities in the area of the chance find;
- Delineate the discovered site or area;
- Secure the site to prevent any damage or loss of removable objects. In cases of removable antiquities or sensitive remains, a night guard shall be arranged until the responsible local authorities or the National Culture Administration take over;
- Notify the supervisory Project Environmental Officer and Project Engineer who in turn will notify the responsible local authorities and the Culture Department of Province immediately (within 24 hours or less);
- Responsible local authorities and the Culture Department of Province would be in charge of protecting and preserving the site before deciding on subsequent appropriate procedures. This would require a preliminary evaluation of the findings to be performed by the archeologists of National Culture Administration. The significance and importance of the findings should be assessed according to the various criteria relevant to cultural heritage; those include the aesthetic, historic, scientific or research, social and economic values;
- Decisions on how to handle the finding shall be taken by the responsible authorities and Culture Department of Province. This could include changes in the layout (such as when finding an irremovable remain of cultural or archeological importance) conservation, preservation, restoration and salvage;
- Implementation for the authority decision concerning the management of the finding shall be communicated in writing by relevant local authorities; and

Construction work could resume only after permission is given from the responsible local authorities or Culture Department of Province concerning safeguard of the heritage.

Part (2) Recommended Practices on civil works:

1. **DO:**
 - Limited working hour during the day time, especially in residential areas, and control driving speed;
 - Minimize earth excavation and appropriate disposal of spoil;
 - Minimize opening of new borrow pits and ensure proper closure;
 - Minimize traffic congestion, dust and noise generation;

- Proper maintenance of construction equipment and vehicles;
- Provide appropriate safety sign (day and night) and closely inform local residents;
- Avoid spill of used oil and other toxic materials, including safe transportation and storage;
- Ensure access to clean water and latrines by workers and provide mosquito net;
- Avoid social/cultural conflict between workers and local population; and
- Apply good housekeeping in the construction and/or storage sites to ensure safety of workers and peoples (Gather up and remove debris to keep the work site orderly and safe; Plan and implement adequate disposal of scrap, waste and surplus materials; Keep the work area and all equipment tidy. Designate areas for waste materials and provide containers; Keep stairways, passageways and ladders free of material, supplies and obstructions; Secure loose or light material that is stores on roofs or open floors; Keep materials at least 2m (5ft) from openings, roof edges, excavations or trenches; Remove or bend over nails protruding from lumber; Keep hoses, power cords, welding leads, etc from laying in heavily traveled walkways or areas; Ensure structural openings are covered/protected adequately; Provide the appropriate fire extinguishers for the materials found on-site. Keep fire extinguisher stations clear and accessible; etc.)

2. **DO NOT:**

- Do not permit rubbish to fall freely from any locations of the project and/or access by animals (dogs, cats, pigs, etc.). Use appropriate containers.
- Do not throw tools or other materials.
- Do not raise or lower any tool or equipment by its own cable or supply hose.
- Use grounding straps equipped with clamps on containers to prevent static electricity buildup.
- Do not allow hunting of animals by workers in protected areas.

3. **SPECIAL NOTE ON FLAMMABLE/EXPLOSIVE MATERIALS:**

- Store flammable or explosive materials such as gasoline, oil and cleaning agents apart from other materials.
- Keep flammable and explosive materials in proper containers with contents clearly marked.
- Dispose of greasy, oily rags and other flammable materials in approved containers.
- Store full barrels in an upright position.
- Store empty barrels separately.
- Post signs prohibiting smoking, open flames and other ignition sources in areas where flammable and explosive materials are stored or used.
- Store and chain all compressed gas cylinders in an upright position.
- Mark empty cylinders and store them separately from full or partially full cylinders.
- Ventilate all storage areas properly.
- Ensure that all electric fixtures and switches are explosion proof where flammable materials are stored.

•

Annex 8. Exclusion List

1. The following subprojects are not eligible for financing under the project given the significant adverse impacts that will likely require more resources to mitigate than the scale of benefit and the limited capacity of the MSMEs and PFIs in managing impacts in line with the World Bank safeguard policies. Therefore, the PCG must apply the following exclusions:

- 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, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the World Bank Group considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers or use of asbestos-containing materials. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Production or activities involving harmful or exploitative forms of forced labor¹/harmful child labor².
- Production or trade in wood or other forestry products other than from sustainably managed forests.
- Production or trade in wood or other forestry products other than from sustainably managed forests. Production and distribution of construction materials is eligible provided that wood/lumber production is legally sourced.
- Subprojects involving major construction and civil works that would cause significant adverse impact and require a full ESIA report according to the national ESIA regulation and in line WB safeguard policies (i.e., category A), except in the cases in

¹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

² 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.

which an ESIA has already been approved by the competent authorities and an ESMP compliant with WB safeguard policies has been produced.

- Subprojects that will require involuntary resettlement of people.
- Subprojects that could destroy or damage physical cultural resources, i.e., resources of archaeological, paleontological, historical, architectural, religious (including graveyards and burial sites), aesthetic, or other cultural significance.
- Subprojects which involve transformation or degradation of critical natural habitats and could result in the loss of biodiversity, including any official natural protected areas such as national parks and other protected areas.
- Subprojects which require the use of hazardous pesticides or do not comply with FAO Pesticide Guidelines on Storage, Labeling, and Disposal (Rome, 1985), or that do not follow recommendations and minimum standards as described in the United Nations Food and Agriculture Organization (FAO) International Code of Conduct on the Distribution and Use of Pesticides (Rome, 2003).
- Activities involving dams.³

³ Although there are opportunities for SMEs to undertake activities involving dams (e.g., extraction of sand in dams experiencing sedimentation problems), these projects typically require complex studies and safety measures.