Appraisal Environmental and Social Review Summary
Appraisal Stage
(ESRS Appraisal Stage)

Date Prepared/Updated: 03/05/2024 | Report No: ESRSA03343

I. BASIC INFORMATION

A. Basic Operation Data

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P180719	Investment Project Financing (IPF)	Financial Stability Project	2024
Operation Name	Ghana Financial Stability Project		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Ghana	Ghana	WESTERN AND CENTRAL AFRICA	Finance, Competitiveness and Innovation
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
THE REPUBLIC OF GHANA	Ministry of Finance	27-Feb-2024	09-Apr-2024
Estimated Decision Review Date	Total Project Cost		
23-Feb-2024	436,000,000.00		

Proposed Development Objective

To support the recapitalization of viable banks and specialized deposit-taking institutions to contribute to financial stability.

B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project Activities

[Description imported from the PAD Data Sheet in the Portal providing information about the key aspects and components/sub-components of the project]

The government is setting up the Ghana Financial Stability Fund (GFSF) to provide solvency and liquidity support to financial institutions impacted by the debt restructuring. The solvency window of the GFSF will include Fund A1 (to be capitalized using IDA credit proceeds through this project) and Fund A2 (to be capitalized by the Government of Ghana). This project would contribute to the government’s efforts to support the recapitalization of viable financial institutions to safeguard financial stability. The project includes three components: Component 1: Capitalization of Fund A1 of the GFSF. This component would capitalize Fund A1 of the GFSF to support the recapitalization of banks and Specialized Deposit-taking Institutions (SDIs). Fund A1 would acquire Additional Tier 1 securities issued by banks and SDIs. It would provide cash to banks and SDIs in exchange for securities that qualify as capital. As a result, Fund A1 would help banks and SDIs meet the minimum capital adequacy ratios stipulated by Bank of Ghana (BoG). Bank and SDIs will use the capital provided to support their operations, including building cash reserves, extending loans, etc. Nonetheless, the capital provided will represent only up to 3 percent of the banks' risk-weighted assets. Component 2: Technical Assistance: This component will finance technical assistance to improve BoG's assessment of banking sector risks and inform the development of appropriate remedies, enhance Ghana Deposit Protection Corporation's (GDPC's) preparedness, and build the capacity of BoG, GDPC, and beneficiary banks and SDIs. Specifically, this component would finance an asset quality review for banks, technical assistance to upgrade the depositor payout system of the GDPC, and the upgrade/establishment of beneficiary banks and SDIs' Environmental and Social Management Systems (ESMSs). Component 3: Project management, monitoring and evaluation. The Ministry of Finance (MoF) – through its Financial Sector Division (FSD) — will be the responsible government counterpart and coordinating agency. The FSD has been designated as the Secretariat for the management ofFund A1. The Secretariat will be further strengthened through the recruitment of an investment management advisory firm (Investment Advisor) comprising about four people, including an investment specialist, accounting and administration officer, environmental specialist, and social specialist. This component will cover project implementation costs, including the compensation of an Investment Advisor, coordination, procurement, financial management, monitoring and evaluation, and other related costs.

D. Environmental and Social Overview

D.1 Overview of Environmental and Social Project Settings

[Description of key features relevant to the operation's environmental and social risks and opportunities (e.g., whether the project is nationwide or regional in scope, urban/rural, in an FCV context, presence of Indigenous Peoples or other minorities, involves associated facilities, high-biodiversity settings, etc.) – Max. character limit 10,000]

Ghana's population is estimated at 32.82 million people (2021 Population and Housing Census). The country has a youthful population, with approximately 57 percent of the people under the age of 25. Despite efforts to stimulate economic growth and create job opportunities, many educated young individuals struggle to secure formal employment. Ensuring that these opportunities become more accessible remains a key goal.

Labor issues in Ghana present a multifaceted challenge that encompasses various aspects of the workforce, employment practices, and labor rights. Establishing and maintaining a fair and adequate minimum wage is a recurring labor issue. Child labor continues to be a concern, particularly in sectors like agriculture, small-scale mining and service industries. Ghana is actively working to combat child labor by promoting access to quality education for its children and addressing known root causes of child labor.

Ensuring occupational health and safety is another critical labor issue. Accidents and workplace injuries, often seen in sectors like construction and mining, underscore the need for stricter safety standards and effective enforcement. Gender equality in the workforce remains a challenge, with women frequently experiencing discrimination in terms of wages access to leadership.

In Ghana, MSMEs are a bigger part of the loan portfolio of Specialized Deposit-Taking Institutions (SDIs), while the larger commercial banks have more SMEs and small corporates as they tend to have more stringent requirements for MSME lending which consequently makes MSMEs a smaller part of their portfolio. The banks and SDIs support a diverse range of sectors, each with its own unique environmental and social considerations. These sectors include construction, mining, manufacturing, agribusiness, forestry, fishing, services, transport, electricity, water, and gas.

Growth of MSMEs has been found to have a link with economic growth and poverty alleviation. MSMEs are contributing to economic growth, mainly to employment and job creation. According to the GSS, they accounted for 83 percent of persons engaged in 2015. The jobs created and employment offered by the MSMEs generally improve the welfare, standard of living, income levels and social stability of people across the country. MSMEs tend to employ vulnerable groups, including women, youth, and low-skilled workers. They often operate in labor intensive, low valued-added sectors, and tend to pay low wages. Since the key environmental and social risks would arise mainly from the activities of financial institutions' borrowers, the beneficiary institutions will have to ensure that they have in place an effective and functional environmental and social management system (ESMS) to identify, manage, and monitor environmental and social risks associated with their lending activities.

D.2 Overview of Borrower's Institutional Capacity for Managing Environmental and Social Risks and Impacts

[Description of Borrower's capacity (i.e., prior performance under the Safeguard Policies or ESF, experience applying E&S policies of IFIs, Environmental and social unit/staff already in place) and willingness to manage risks and impacts and of provisions planned or required to have capabilities in place, along with the needs for enhanced support to the Borrower – Max. character limit 10,000]

The MoF—through its Financial Sector Division (FSD) —will have the institutional responsibility for coordination and management of the project, including environmental and social risks management, procurement of goods and consulting and non-consulting services, Financial Management and reporting, M&E. The existing FSD PIU will also serve as the PIU for this project. The MoF has prior experience in implementing Bank-funded projects with ample capacity for managing social and environmental risks and impacts. Specifically, the project will be managed by the FSD team managing the Financial Sector Development Project (P161787) and Development Finance Project (P169742).

Under the Ghana Development Finance Project (GDFP), the MoF has gained substantial experience in coordinating the establishment and supporting the initial operationalization of the Development Bank Ghana (DBG), a financial intermediary which had no track record in the management of E&S risks. The DBG has been satisfactory so far in applying its Environmental and Social Management System (ESMS). Despite this prior experience, the scope of this project requires the MoF to recruit one Environmental and Social Specialist who will ensure adequate risk identification and evaluation, mitigation and management, monitoring and reporting. These roles, including the provision of targeted environmental and social risk management training, monitoring and technical assistance to the beneficiary institutions, will remain at the MoF until project closure. Additionally, where needed, these specialists will support the upgrade/establishment of beneficiary banks and SDIs' ESMSs to meet World Bank requirements.

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

A. Environmental and Social Risk Classification (ESRC) Substantial

A.1 Environmental Risk Rating Substantial

[Summary of key factors contributing to risk rating, in accordance with the ES Directive and the Technical Note on Screening and Risk Classification under the ESF – Max. character limit 4,000]

The potential environmental risks of the Project are expected to be substantial. The project through the GFSF will provide capital support to beneficiary banks and SDIs impacted by the Domestic Debt Exchange Programme (DDEP), and ultimately the banks and SDIs will use the funds to support their operations (hold cash reserves, make loans, buy securities, etc.). End-borrowers will mostly be individuals, Micro-, Small and Medium-sized Enterprises (MSMEs) or organizations expected to be involved in the project are most likely in sectors such as services, agriculture, forestry and fishing, construction, mining, and manufacturing which poses significant environmental risks. The businesses and operations of both existing and potential borrowers or clients of the beneficiary financial institutions may pose indirect or direct environmental risks. Borrower operations in agriculture may include agrochemicals, use of improved seed variety, crop production, use of farm machinery, processing of agricultural products, and seed supply. Some potential environmental risks may include erosion, land degradation, forest degradation, habitat disturbance and destruction and threat to native biodiversity (particularly if genetically modified seeds are used), as well as soil and water pollution and poisoning of non-target organisms associated with the use of pesticides. Pesticide use can also expose communities to health hazards. Similarly, manufacturing operations may include production of raw materials and processing activities with potential risks, including air, noise, soil and water pollution; generation of hazardous and non-hazardous wastes; electronic waste and occupational health and safety risks; community health and safety risks; and unsustainable use of natural.

A.2 Social Risk Rating Substantial

[Summary of key factors contributing to risk rating, in accordance with the ES Directive and the Technical Note on Screening and Risk Classification under the ESF – Max. character limit 4,000]

The potential social risks of the Project are are expected to be substantial. The businesses and operations of both existing and potential borrowers or clients of the beneficiary financial institutions may pose indirect or direct social risks. Social risks associated with projects in agriculture and manufacturing can be multifaceted, with potential implications for communities, workers, and the environment. These risks include displacement of local communities due to land acquisition, leading to disruptions in livelihoods and social tensions. Labor issues, including poor working conditions, low wages and exploitation of workers, are prevalent concerns, which may lead to social unrest and strikes. The use of child labor is prevalent in sectors that will potentially benefit from this project. Inadequate safety measures and exposure to chemicals in agriculture can pose health risks for workers and nearby residents. Furthermore, agricultural endeavors may affect access to vital resources like water, potentially sparking conflicts. Cultural heritage and traditions of local communities may be at risk due to changes in land use and economic activities, impacting social identity and cohesion. Gender, income inequality and lack of inclusion can be exacerbated if economic benefits are unevenly distributed. Insufficient community engagement in project planning and decision-making can result in resistance and conflicts. Assessment of individual borrower social risk associated with the lending will be conducted through the banks and SDI's ESMSs which will entail the policies, procedures, screening tools and exclusion lists.

[Summary of key factors contributing to risk rating. This attribute is only for the internal version of the download document and not a part of the disclosable version – Max. character limit 8,000]

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

B.1 Relevance of Environmental and Social Standards

ESS1 - Assessment and Management of Environmental and Social Risks and Impacts Relevant

[Explanation - Max. character limit 10,000]

The banks and SDIs will use the funds for various purposes, but the funds won't be segregated from their other sources of funding. Therefore, the World Bank's environmental risk management requirements will apply to the entire portfolio of banks and SDIs. Activities or operations of borrowers, primarily individuals, MSMEs, and organizations in sectors like agriculture, wholesale/retail, manufacturing, and services, may pose indirect environmental risks. For agriculture, this includes issues like erosion, land degradation, habitat disturbance, pollution, and health hazards due to pesticide use. Manufacturing operations may entail pollution, waste generation, occupational safety risks, and unsustainable resource use. The above risks are expected to be site-specific, temporary and can be readily addressed through established standard mitigation measures and compliance with the requirements of relevant ESF standards and national laws. The indirect social risks associated with projects in agriculture and manufacturing can be multifaceted, with potential implications for communities, workers, and the environment. These risks include land acquisition, leading to disruptions in livelihoods and social tensions. Labor issues, including poor working conditions, low wages and exploitation of workers, are prevalent concerns, which may lead to social unrest and strikes. Child labor sometimes occurs is in sectors that will potentially benefit from this project. Inadequate safety measures and exposure to chemicals in agriculture can pose health risks for workers and nearby residents. Furthermore, agricultural endeavors may affect access to vital resources like water, potentially sparking conflicts. Cultural heritage and traditions of local communities may be at risk due to changes in land use and economic activities, impacting social identity and cohesion. Gender, income inequality and lack of inclusion can be exacerbated if economic benefits are unevenly distributed. Insufficient community engagement in project planning and decision-making can result in resistance and conflicts. The following ESSs are relevant for the project: ESS1, ESS2, ESS3, ESS5, ESS5, ESS6, ESS8, ESS9 and ESS10. The integration of environmental and social risk management measures into the activities of the MoF and beneficiaries of Fund A1 will be governed by ESS9. ESS9 requires that MoF and the beneficiary financial institutions, establish and maintain effective environmental and social policies, systems, procedure and capacity for assessing, managing and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner, through an ESMS. The ESMSs will include: (i) an environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks and impacts of sub-projects; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of banks and SDIs and their portfolios; and (v) external communications mechanism. The assessment and management of environmental and social risk associated with activities of end borrowers will be done through the ESMSs of the FIs. Environmental and Social Management System for MoF: The MoF will establish an ESMS consistent with ESS9. The MoF has already commissioned an international consulting firm (with vast experience working in Ghana) to develop the ESMS. The ToR for the assignment has been reviewed and approved by the World Bank. The World Bank will review the ESMS prior to disclosure of its elements. Additionally, the MoF will engage and retain an Environmental and Social Specialist for the implementation of the ESMS. Both the preparation of the ESMS and disclosure of its summary, as well as the recruitment of environmental and social specialists will be made disbursement conditions. The MoF will periodically review the effectiveness of the

ESMS and make adjustments as needed in a manner acceptable to the World Bank. ESMS for Beneficiary Financial Institutions: Adequate ESMS will be a condition of eligibility of banks and SDIs. MoF will require them to screen, assess, categorize, mitigate and manage social and environmental risks in their business operations, especially with regards to lending to their existing/potential clients. The ESMS will require the banks and SDIs to screen against an Exclusion List that would be provided by MoF. The banks and SDIs will utilize a rigorous screening process to identify and flagged projects with potential high environmental and social risks within their portfolios. Such projects will undergo thorough assessment and scrutiny that will be consistent with ESS9 requirements. Additionally, the project will implement robust measures to manage and mitigate potential risks, ensuring adherence to environmental regulations and fostering responsible and sustainable project outcomes. The ESMS will incorporate reporting templates designed to facilitate regular reporting to the MoF and the World Bank on an semi-annual basis. These reporting templates will provide insights into the environmental and social profile and risks associated with the banks' and SDIs' portfolios. Additionally, they will serve as a mechanism for the banks and SDIs to attest that they have no exposures to excluded activities, including those that are non-aligned with established sustainability criteria. By utilizing these reporting templates, the banks and SDIs can transparently communicate their environmental and social performance, demonstrating compliance with regulatory requirements and adherence to sustainability standards. All the 23 commercial banks in Ghana and the ARB Apex Bank (which represents all the rural banks) are signatories to the Sustainable Bank Principles (SBPs) since November 2019. Generally; using the IFC's performance standards; commercial banks have established and implementing policies and procedures (at varying degrees) that guide them in incorporating E&S risks management in their due diligence processes for lending since E&S issues are seen as a commercial issue likely to affect the viability of their customers, the repayment of loans being provided and ultimately posing a risk to their own business and its wider reputation. Though the SDIs have not yet been required statutorily to develop an ESMS, they are interested in and would require support to enable them include E&S issues within their decision-making processes. A small number have operationalized ESMS largely because of their international ownership nature. But generally, the smaller financial institutions have less capacity for identifying and managing E&S related risks and impacts. Banks and SDIs requiring funds from the project (Fund A1) will undergo E&S due diligence, with a main focus on assessing their capacity to meet the World Bank's ESF requirements as well as the effectiveness of their ESMS if available. Following that, the project will provide technical assistance as needed to eligible banks and SDIs to establish policies and procedures (ESMS) and ensure loan officers have the skills to identify risks and advise borrowers on approaches to address them. Capacity support for FIs is included in the project to address capacity constraints in their support of MSMEs including E&S issues. Notwithstanding, considering the urgent need to safeguard the stability of the financial sector by providing immediate support to eligible viable banks and SDIs, banks and SDIs identified with inadequate or unsatisfactory policies and procedures (ESMS) for managing E&S risks, will still receive support from Fund A1 as long as they will be committed to use an ESMS checklist to be provided by the MoF to screen their loans. This will be an interim dispensation while these institutions develop and implement their own ESMS, to be fully in place within 6 months from the date of approval by the Investment Committee for support from Fund A1. The MoF has prepared a Stakeholder Engagement Plan (SEP) for the project. The SEP has been reviewed and will be cleared by the World Bank and be disclosed prior to appraisal. The SEP is consistent with ESS10 and provides the roadmap for project communications and conducting active consultations with stakeholders on the design and delivery of the project and management of E&S risks and impacts. The SEP outlines a) who the key stakeholders are; b) how they are to be engaged; c) how often the engagement will occur throughout the project; d) how feedback will be solicited, recorded and monitored over the project; e) who will be charged/responsible with this engagement; f) timeline for this engagement. The process of stakeholder engagement has begun during preparation with consultations with a number of government ministries, departments and agencies, international organization, banks and SDIs, BoG, and other relevant stakeholders. The client will seek stakeholder feedback and opportunities for more engagement in future and ensure that all consultations are inclusive and accessible (both in format and location) and made through channels suitable to the local context. The SEP will serve as a mechanism to help resolve social tensions and will provide accessible and comprehensible information, ensuring that stakeholders, including the public, regulators, and financial institutions, have a clear understanding of the project's objectives, processes, and implications. The SEP includes a proposed Grievance Mechanism to be used by the MoF. The grievance system will include referral pathways for handling Sexual Exploitation and Abuse (SEA) and Sexual Harassment (SEA/SH) cases and clear standard operating systems for remediating child labor cases. The MoF has prepared a draft Environmental and Social Commitment Plan (ESCP). The final ESCP will by cleared by the World Bank and will be disclosed prior to appraisal.

ESS10 - Stakeholder Engagement and Information Disclosure Relevant

[Explanation - Max. character limit 10,000]

This standard is relevant since the MoF will need to put in place procedures for external communications and stakeholder engagement on E&S issues proportionate to the risks and impacts of the credit portfolios financed by the beneficiary banks and SDIs. Stakeholder engagement particularly with banks, SDIs, insurance companies and regulated entities is critical for the overall project implementation. The MoF has prepared a Stakeholder Engagement Plan (SEP) for the project. This has been reviewed and will be cleared by the World bank and be disclosed prior to appraisal. The SEP is consistent with ESS10 and provides the roadmap for project communications and conducting active consultations with stakeholders on the design and delivery of the project and management of E&S risks and impacts.

ESS2 - Labor and Working Conditions Relevant

[Explanation - Max. character limit 10,000]

This standard is relevant since the MoF, beneficiary banks, SDIs, and borrowers will engage different categories of workers: direct workers, contracted workers, primary supply workers and community workers. It is anticipated that community workers will be contracted or be involved with borrowers' activities. The ESMSs of the MoF and beneficiary banks and SDIs will include policies, procedures and measures on Labor Management. This will include policies such as prevention of workplace sexual harassment, code of conduct for employees, equal wages, non discrimination and equal opportunity, occupational health and safety, and grievance management system for workers. The ESMSs will also include Environmental, Social, Health and Safety (ESHS) procedures including specific conditions to protect the health and safety of workers.

ESS3 - Resource Efficiency and Pollution Prevention and Management Relevant

[Explanation - Max. character limit 10,000]

This standard is relevant given that beneficiary financial institutions may provide loans to end borrowers to invest in projects in construction, manufacturing, agribusiness, high-value services sectors that may cause significant impacts on the environment and natural resources. Some potential environmental risks may include deforestation, forest and land degradation, water pollution, erosion, soil contamination, threat to native biodiversity, as well as health and safety risks associated with the use of agricultural inputs such as pesticides and fertilizers. Additional risks could include water and energy use, air pollution, and generation of hazardous and the non-hazardous wastes. The ESMS for the will include policies, procedures and measures required to avoid, minimize, abate, and, where appropriate, offset any adverse impacts to people and the environment. The ESMS will include the banks and SDIs to screen against an Exclusion List that would be provided.

ESS4 - Community Health and Safety Relevant

[Explanation - Max. character limit 10,000]

This standard is relevant given that banks and SDIs may provide loans to end borrowers that operate in communities and their activities can impact the health of a community and its people. Borrowers produce a variety of end products and byproducts in solid, liquid or gaseous forms which affect the environment negatively by polluting air, water and soil. This has resulted in eutrophication of water bodies, contamination of groundwater, soil and affected quality of life in communities. There is evidence that the risk for injury including fatalities occurs at higher rates for MSMEs compared to sectors dominated by large-sized organizations. Potential safety risks from manufacturing subprojects, may include infrastructure and equipment safety, traffic and road safety, etc.

ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement Relevant

[Explanation - Max. character limit 10,000]

This standard is relevant given that there could be potential land issues and and loss of livelihood, pertaining to end borrowers that are financed by beneficiary banks and SDIs using funds received from the MoF/GFSF's Fund A1. The banks and SDIs will avoid involuntary resettlement, economic displacement or loss of livelihood issue, by screening the relevant subprojects for these impacts in accordance with the ESMSs and excluding ineligible investments to be listed in the ESMSs. Where avoidance of such impacts is not possible, the MoF will work with Banks/SDIs to ensure that the end borrowers prepare, adopt, and implement Resettlement Action Plans (RAPs) and/or Livelihood Restoration Plans (LRPs) to the extent required by ESS5 and the ESMSs of MoF and Banks/SDIs in a manner acceptable to the Association.

ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources Relevant

[Explanation - Max. character limit 10,000]

This standard is relevant given that banks and SDIs may provide loans to end borrowers to invest in projects in construction, manufacturing, and agriculture, which may have impact on biodiversity through introduction of improved varieties, encroaching to reserve forests through agricultural activities, tapping natural resources from forests and protected areas. The Banks and SDIs will avoid adverse impacts on biodiversity and habitats by screening the relevant subprojects for these impacts in accordance with the ESMSs and excluding ineligible investments to be listed in the ESMSs. Where avoidance of such impacts is not possible, the MoF will work with Banks/SDIs to ensure that the end borrowers prepare, adopt, and implement measures and actions for biodiversity impact mitigation as required in the ESMS and consistent with ESS6.

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

[Explanation - Max. character limit 10,000]

This standard is not relevant since there are no known indigenous people in Ghana and project does not seek to undertake activities in any location that is likely to impact on any group of people with distinct characterization akin to the criteria for indigenous or traditionally underserved communities as spelled out in the ESS7.

ESS8 - Cultural Heritage Relevant

[Explanation - Max. character limit 10,000]

This standard is made relevant on a precautionary basis given that beneficiary banks and SDIs may provide loans to borrowers to invest in projects involving construction works and excavations or any other activity that may have impacts on the cultural sensitivities of communities. The ESMS for the banks and SDIs will help assess and identify potential cultural heritage risks and propose mitigation measures to manage the risks and impacts.

ESS9 - Financial Intermediaries Relevant

[Explanation - Max. character limit 10,000]

The MoF will establish an ESMS consistent with ESS9, with support from an international consulting firm experienced in Ghana. The World Bank has reviewed and approved the Terms of Reference (ToR) for developing the ESMS. The MoF will hire an Environmental and Social Specialist for ESMS implementation. Both the preparation of the ESMS and the disclosure of its summary, along with the recruitment of specialists, are disbursement conditions. The MoF will periodically review and adjust the ESMS's effectiveness in line with World Bank requirements. Adequate ESMS will be a condition of eligibility of for banks and SDIs. The adequacy of ESMS-es of the SDIs/Banks will be determined by the MoF during the onboarding process and throughout the project implementation as per ESS9 requirements. In order to receive support from the project, Banks and SDIs identified to have inadequate ESMS would be required to use the project's ESMS checklists to be provided by the MoF for loan screening. This interim measure will be in place until they fully develop and implement their ESMS within six months after receiving support. Under the ESMS, beneficiary banks and SDIs will be required to implement effective systems to screen, assess, categorize, mitigate, and manage social and environmental risks in their business operations, especially related to client lending. The banks and SDIs will screen against an Exclusion List provided by the MoF and conduct rigorous assessments of projects flagged as high risk. Robust measures will be implemented to manage and mitigate risks, ensuring compliance with environmental regulations and fostering sustainable project outcomes. The ESMS will include reporting templates for regular semi-annual reporting to the MoF and the World Bank, providing insights into environmental and social risks associated with the banks' and SDIs' portfolios. These templates will also serve as a mechanism for institutions to confirm their absence of exposures to excluded activities, aligning with sustainability criteria. Through transparent reporting, institutions can demonstrate compliance with regulatory requirements and sustainability standards, promoting responsible environmental and social performance.

B.2 Legal Operational Policies that Apply

OP 7.50 Operations on International Waterways No

OP 7.60 Operations in Disputed Areas No

B.3 Other Salient Features

Use of Borrower Framework No

[Explanation including areas where "Use of Borrower Framework" is being considered - Max. character limit 10,000]

The project will not use the Borrower Framework.

Use of Common Approach No

[Explanation including list of possible financing partners – Max. character limit 4,000]

This project will not use a common approach.

B.4 Summary of Assessment of Environmental and Social Risks and Impacts

[Description provided will not be disclosed but will flow as a one time flow to the Appraisal Stage PID and PAD – Max. character limit 10,000]

The potential environmental risks of the Project are expected to be substantial. The project through the GFSF will provide capital support to beneficiary banks and SDIs impacted by DDEP, and ultimately the banks and SDIs will use the funds to support their operations (hold cash reserves, make loans, buy securities, etc.). End-borrowers will mostly be individuals, Micro-, Small and Medium-sized Enterprises (MSMEs) or organizations expected to be most likely in sectors such as services, agriculture, forestry and fishing, construction, mining, and manufacturing which poses significant environmental risks. The businesses and operations of both existing and potential borrowers or clients of the beneficiary financial institutions may pose indirect or direct environmental risks. Borrower operations in agriculture may include agrochemicals, use of improved seed variety, crop production, use of farm machinery, processing of agricultural products, and seed supply. Some potential environmental risks may include erosion, land degradation, forest degradation, habitat disturbance and destruction and threat to native biodiversity (particularly if genetically modified seeds are used), as well as soil and water pollution and poisoning of non-target organisms associated with the use of pesticides. Pesticide use can also expose communities to health hazards. Similarly, manufacturing operations may include production of raw materials and processing activities with potential risks, including air, noise, soil and water pollution; generation of hazardous and non-hazardous wastes; electronic waste and occupational health and safety risks; community health and safety risks; and unsustainable use of natural.

The potential social risks of the Project are are expected to be substantial. The businesses and operations of both existing and potential borrowers or clients of the beneficiary financial institutions may pose indirect or direct social risks. Social risks associated with projects in agriculture and manufacturing can be multifaceted, with potential implications for communities, workers, and the environment. These risks include displacement of local communities due to land acquisition, leading to disruptions in livelihoods and social tensions. Labor issues, including poor working conditions, low wages and exploitation of workers, are prevalent concerns, which may lead to social unrest and strikes. The use of child labor is prevalent in sectors that will potentially benefit from this project. Inadequate safety measures and exposure to chemicals in agriculture can pose health risks for workers and nearby residents. Furthermore, agricultural endeavors may affect access to vital resources like water, potentially sparking conflicts. Cultural heritage and traditions of local communities may be at risk due to changes in land use and economic activities, impacting social identity and cohesion. Gender, income inequality and lack of inclusion can be exacerbated if economic benefits are unevenly distributed. Insufficient community engagement in project planning and decision-making can result in resistance and conflicts. Assessment of individual borrower social risk associated with the lending will be conducted through the bank's and SDI's ESMSs which will entail the policies, procedures, screening tools and exclusion lists.

The banks and SDIs will use the funds for various purposes, but the funds will not be segregated from their other sources of funding. Therefore, the World Bank's environmental risk management requirements will apply to the entire portfolio of banks and SDIs. The above risks are expected to be site-specific, temporary and can be readily addressed through established standard mitigation measures and compliance with the requirements of relevant ESF standards and national laws. Social risks associated with projects in agriculture and manufacturing can be multifaceted, with potential implications for communities, workers, and the environment. These risks include land acquisition, leading to disruptions in livelihoods and social tensions. Labor issues, including poor working conditions, low wages and exploitation of workers, are prevalent concerns, which may lead to social unrest and strikes. Child labor sometimes occurs is in sectors that will potentially benefit from this project. Inadequate safety measures and exposure to chemicals in agriculture can pose health risks for workers and nearby residents. Furthermore, agricultural endeavors may affect access to vital resources like water, potentially sparking conflicts. Cultural heritage and traditions of local communities may be at risk due to changes in land use and economic activities, impacting social identity and cohesion. Gender, income inequality and lack of inclusion can be exacerbated if economic benefits are unevenly distributed. Insufficient community engagement in project planning and decision-making can result in resistance and conflicts.

The following ESSs are relevant for the project: ESS1, ESS2, ESS3, ESS5, ESS5, ESS6, ESS8, ESS9 and ESS10. The integration of environmental and social risk management measures into the activities of the MoF and beneficiaries of Fund A1 will be governed by ESS9. ESS9 requires that MoF and the beneficiary financial institutions, establish and maintain effective environmental and social policies, systems, procedure and capacity for assessing, managing and monitoring risks and impacts of subprojects, as well as managing overall portfolio risk in a responsible manner, through an ESMS. The ESMSs will include: (i) an environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks and impacts of sub-projects; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of banks and SDIs and their portfolios; and (v) external communications mechanism. The assessment and management of environmental and social risk associated with will be done through the ESMSs for the FIs. Environmental and Social Management System for MoF: The MoF will establish an ESMS consistent with ESS9. The MoF has already commissioned an international consulting firm (with vast experience working in Ghana) to develop the ESMS. The ToR for the assignment has been reviewed and approved by the World Bank. The World Bank will review the ESMS prior to disclosure of its elements. Additionally, the MoF will retain an Environmental and Social Specialist for the implementation of the ESMS. Both the preparation of the ESMS and disclosure of its summary, as well as the recruitment of environmental and social specialists will be made disbursement conditions. The MoF will periodically review the effectiveness of the ESMS and make adjustments as needed in a manner acceptable to the World Bank. ESMS for Beneficiary Financial Institutions: The MoF will require beneficiary banks and SDIs to have effective ESMSs to screen, assess, categorize, mitigate and manage social and environmental risks in their business operations, as part of the verification of the eligibility criteria when banks and SDIs apply for fund A1. They will be required to commit to address any deficiencies in ESMS and can receive TA under the project. Banks and SDIs will agree to use standardized templates to report regularly on the riskiness of their portfolios and attest that they have no exposures or have not increased exposures to excluded sectors. The reporting templates will be part of the ESMS.

especially with regards to lending to their existing/potential clients. The ESMS will include the banks and SDIs to screen against an Exclusion List that would be provided. The banks and SDIs will utilize a rigorous screening process to identify and flag projects with potential high environmental and social risks within their portfolios. Projects flagged as high risk will undergo thorough assessment and scrutiny consistent with the World Bank ESS9. Additionally, the project will implement robust measures to manage and mitigate potential risks, ensuring adherence to environmental regulations and fostering responsible and sustainable project outcomes.

The MoF has prepared a Stakeholder Engagement Plan (SEP) for the project. The SEP has been reviewed and will be cleared by the World Bank and be disclosed prior to appraisal. The SEP is consistent with ESS10 and provides the roadmap for project communications and conducting active consultations with stakeholders on the design and delivery of the project and management of E&S risks and impacts. The SEP outlines a) who the key stakeholders are; b) how they are to be engaged; c) how often the engagement will occur throughout the project; d) how feedback will be solicited, recorded and monitored over the project; e) who will be charged/responsible with this engagement; f) timeline for this engagement. The process of stakeholder engagement has begun during preparation with consultations with a number of government ministries, departments and agencies, international organization, banks and SDIs, BoG, and other relevant stakeholders. The client will seek stakeholder feedback and opportunities for more engagement in future and ensure that all consultations are inclusive and accessible (both in format and location) and made through channels suitable to the local context. The SEP will serve as a mechanism to help resolve social tensions and will provide accessible and comprehensible information, ensuring that stakeholders, including the public, regulators, and financial institutions, have a clear understanding of the project's objectives, processes, and implications. The SEP includes a proposed Grievance Mechanism to be used by the MoF. The MoF has prepared a draft Environmental and Social Commitment Plan (ESCP). The final ESCP will by cleared by the World Bank and will be disclosed prior to appraisal.

C. Overview of Required Environmental and Social Risk Management Activities

C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by implementation?

[Description of expectations in terms of documents to be prepared to assess and manage the project's environmental and social risks and by when (i.e., prior to Effectiveness, or during implementation), highlighted features of ESA documents, other project documents where environmental and social measures are to be included, and the related due diligence process planned to be carried out by the World Bank, including sources of information for the due diligence - Max. character limit 10,000]

The MoF will establish an ESMS consistent with ESS9. The MoF has already commissioned an international consulting firm (with vast experience working in Ghana) to develop the ESMS. The ToR for the assignment has been reviewed and approved by the World Bank. The World Bank will review the ESMS prior to disclosure of its elements. Additionally, the MoF will retain part-time Environmental and Social Specialists for the implementation of the ESMS. If not completed by the Board decision date, both the preparation of the ESMS and disclosure of its summary, as well as the retainment of environmental and social specialists will be made disbursement conditions. The MoF will periodically review the effectiveness of the ESMS and make adjustments as needed in a manner acceptable to the World Bank.

The MoF will require beneficiary banks and SDIs to have effective ESMSs to screen, assess, categorize, mitigate and manage social and environmental risks in their business operations, especially with regards to lending to their existing/potential clients.

The MoF has prepared a Stakeholder Engagement Plan (SEP) for the project. This has been reviewed by the World Bank. The final SEP will be cleared by the World Bank and be disclosed prior to appraisal. The SEP is consistent with ESS10 and provides the roadmap for project communications and conducting active consultations with stakeholders on the design and delivery of the project and management of E&S risks and impacts.

III. CONTACT POINT

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