



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 11/18/2020 | Report No: ESRSC01575



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Ethiopia	AFRICA EAST	P171627	
Project Name	Financial Sector Strengthening and Access Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	8/2/2021	10/28/2021
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance	National Bank of Ethiopia, Development Bank of Ethiopia, Commercial Bank of Ethiopia		

Proposed Development Objective

To enhance financial sector stability through strengthening key sector institutions.

Financing (in USD Million)	Amount
Total Project Cost	500.00

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

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

Through a combination of results based financing and TA, the proposed project will strengthen key sector institutions and modernize the financial system in Ethiopia to foster greater financial access and stability. There are four broad themes:

i] Strengthening Financial Institutions: To enhance sector resilience and support institution building for the creation of a deep, efficient and responsive financial sector in Ethiopia.

II] Deepening Access to Finance: To deepen intermediation capacity and facilitate broader access to financial services to support growth and jobs.



III] Developing Financial Market Infrastructure: To support the diffusion of digital financial services, and development of money and capital markets in Ethiopia.

IV] Implementation Support & Capacity Building: To finance project management expenses and support implementing agencies develop institutional capabilities to ensure sustainability of FSSP results beyond the project implementation period.

The project components are detailed below:

Component 1: Supervisory strengthening of National Bank of Ethiopia (NBE) and development of a modernized liquidity management framework. This component will improve soundness and stability of the financial sector through upgraded supervisory capacity and modernizing the central bank including financial infrastructure. It will prioritize strengthening of banking regulation and supervision, development of liquidity management tools and capacity, and the adoption of financial market infrastructure for greater inclusion. The reforms and activities proposed would be in line with international good practice of financial sector reform and will use primarily TA.

Component 2: Strengthening Commercial Bank of Ethiopia's (CBE) capital base to improve solvency. This is necessary to improve stability and also lay foundations for deepening capacity to serve broader productive sectors. It aims to bolster CBE's solvency through reform linked financing. Bolstering capital is envisaged against performance based conditions that foster private sector financing, enabling the largest bank in Ethiopia to support a robust recovery from COVID-19. At a broader level, this component will address binding constraints in access to finance as well as concentration risks for CBE, enhancing financial sector depth and resilience. Through strengthening a systematically important sector institution, the component will help improve competitiveness of the financial sector.

Component 3: Reforming Development Bank of Ethiopia (DBE). This component will support the institutional reform of DBE into a catalytic and sustainable development finance institution reflecting global good practices using both TA and a results based modality to incentivize reforms. The component will additionally aim to identify market based funding options and support the institutional transition towards greater sustainability.

Component 4: Implementation Support & Capacity Building: This component will finance project management expenses and support the institutional capacity of implementing agencies to coordinate program implementation and monitor key outcomes and results.

D. Environmental and Social Overview

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

The project's current setup does not involve physical activities other than upstream technical assistance for the central bank and two state owned banks located in Addis Ababa and independent from their specific investment portfolios. The capital infusion would not be used for specific investment projects under the banks' portfolios. It is primarily aimed at bolstering the capital base to ensure stability and depositor protection. The specific direction of this project will strongly depend on the progress and outcome of upstream financial sector reform within these three institutions. Should downstream technical assistance materialize at a later stage, an additional risk assessment will evaluate if an adjustment of the project's E&S approach is required, which would be implemented only following confirmation via an exchange of letters between the World Bank and the Ministry of Finance.

D. 2. Borrower's Institutional Capacity



Ethiopia has considerable experience in the implementation of World Bank financed projects. As a result, it has gained significant know how in implementation of projects in compliance with environmental and social risk management requirements of the Bank. The NBE has prior experience including through technical assistance activities supported by the World Bank, IFC and IMF. DBE has experience in implementing Bank financed projects, including the Small and Medium Enterprise Finance Project and Women Empowerment and Development Project. CBE has no direct experience in implementing World Bank or IFC financed projects. Thus, the establishment and/or strengthening of the environment and social management systems and the institutional capacity building will have paramount importance for managing the environment and social risks and is integrated as a core aspect of the above noted project components.

This capacity enhancement intervention will also include the preparation of Strategic Environmental and Social Analysis (SESAs), which will guide the preparation/ updating/strengthening of the different Environmental and Social Management Systems for DBE, CBE, and NBE. The Stakeholder Engagement Plan will outline how reforms and performance improvement will be undertaken in close communication with the respective stakeholders. This project as well as the integrated Environmental and Social Commitment Plan will have clear provisions on activities to be carried out by the client in order to improve its capacity to manage the potential environmental and social risks that might arise in the course of implementation of this project.

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

A. Environmental and Social Risk Classification (ESRC)

Substantial

Environmental Risk Rating

Substantial

Activities to be financed by the Project involve capacity building and upstream technical assistance; thus negative environmental impacts are not expected to be irreversible or impossible to avoid. Should the reform process lead to further downstream technical assistance, including sector and portfolio-specific assessments and guidance, there could be considerable and long-term indirect environmental impacts especially as this may increase the capacity and access to finance for the private sector, even as it is not directly supported under the project through a credit line. The project support to the private sector can have substantial environmental risks if a relevant precautionary ES risk management approach is not designed and implemented. If that would be the case, additional assessments would be required prior to specific technical assistance and the project will ensure no funding of such activities before mutual agreement with the Bank on the conclusion of such additional assessments to the satisfaction of the Bank. The assessment will also depend on positive results of the Environmental and Social Management System (ESMS) strengthening measures, funded via the project and to be implemented complementary to the reform process from an early point on. Meanwhile, capital injection into the respective Banks will not be used to fund any investments.

Social Risk Rating

Substantial

Similar to environmental risks, there is very limited immediate social risk expected from the TA-related components, except from the relevancy of standard provisions for white collar labor. As for environment risks, the social risk of upstream technical assistance is limited and and the capital infusion will not be used to fund specific investment projects under the banks’ portfolios. In case the reform process would lead to more downstream TA, including sector and portfolio-specific guidance, an assessment on ESMS readiness would need to be conducted to the satisfaction of the Association; taking into consideration the progress on the ESMS development and a limitation of risks to an

Public Disclosure



agreeable level. The funding for establishment and strengthening of respective systems and capacity (including staffing and resources) will be essential for any potential positive assessment.

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

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The implementation of this project has no direct impacts as outlined above. Initial upstream TA as well as ring-fenced capitalization will not address sectors or portfolios other than strengthening the balance-sheet needs, specifically bolstering solvency of CBE and DBE. At the same time, the TA will also support the strengthening of the ESMS in preparation of eventual further activities at a later stage and PBCs are expected to include safeguards actions. An updated assessment may be necessary, taking into account the overall progress of reforms, the project resource use, the strengthened ESMS performance via an audit, and direction of TA at that point. Such an assessment will be a decision point and the project will commit to not move forward to any downstream TA prior to the satisfaction of such an assessment to the Association.

The project will benefit the NBE, which as the central bank is entrusted with the regulatory authority to foster a sound financial system. CBE and DBE as beneficiaries have nationwide footprint in mobilizing savings (CBE is deposit taking) and supporting multi-sector public and private sector investment financing. The project will provide TA to support the formulation of upstream policies, programs, plans, strategies or legal frameworks to strengthen financial stability. Overall, there are mainly two aspects; (i) technical assistance to NBE, CBE, and DBE, and (ii) results-linked capital infusion to CBE and DBE. The technical assistance to NBE, CBE and DBE will likely involve supervisory strengthening, governance reform, capacity building and streamlining procedures for sustainable financial services. The TAs would also support a comprehensive review of business and operations including a possibly a comprehensive assessment and asset quality review of CBE. As noted above, if World Bank finance under FSSP should support any downstream technical assistance in future, it will depend on the progress of upstream reforms and medium term review of the necessary systems being in place, including the Environmental and Social Management System. This may lead to downstream short and long term implications on the environment and social aspects and thus could only be implemented after the above noted positive assessment by the Association.

The project will specifically ring-fence capital infusion from any investment portfolio of any of the banks, avoiding any association with E&S relevant concerns.

As such, an assessment of the clients' (NBE, DBE, and CBE) environmental and social risk management systems shall be conducted after the noted technical support is given for their improvement. Any further downstream technical assistance would only commence once the assessment is undertaken medium-term, proportional to the results of the potential downstream environment and social risks and impacts, complemented by the recommendations of the SESA, and CBE's and DBE's strengthened environment and social systems. As part of the TA including through possibly a PPA for preparatory and baseline studies, a Strategic Environmental and Social Analysis (SESA) will be carried out to inform the environment and social risk management approach and tools that will be required to strengthen the internal systems of CBE and DBE, as relevant. The Environment and Social Risk Management tools and approaches will be the basis to determine the ESMS for NBE, CBE and DBE and the level of capacity building requirement.



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

The project will not rely on the Borrower Framework.

ESS10 Stakeholder Engagement and Information Disclosure

For the scope of the project, both in TA and the results linked capital infusion, a focused stakeholder engagement is required to reach out to direct and indirect beneficiaries, including interested stakeholders. This should ensure consistency in messaging, creating clarity about the project development objective, and what the project finances and does not finance. This will help the project mitigate reputation and implementation risks.

The client will prepare a stakeholder engagement plan for this project. The SEP will outline the characteristics and interests of the relevant stakeholder groups and timing and methods of engagement throughout the life of the Project.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

ESS2 is relevant for this project from two perspectives. On the one hand it directly applies to project workers and employees in NBE, CBE and DBE as far as involved in the project. While this labor is not considered vulnerable and limited occupational health and safety (OHS) risks are associated with work in financial institutions, some positive improvements will be considered, e.g. gender-based violence prevention campaigns or inclusive HR policies, including a focus on gender equity. Any indirect labor impacts of downstream TA would only follow the above noted assessment following the initial round of reforms.

Hence, there shall be appropriate procedures for labor management and for management of OHS risks. The client will prepare labor management procedures (LMP) outlining provisions and guidance to manage labor issues. The assessments prior to appraisal will also identify investment-menu-specific risks, if applicable for strengthening systems even as FSSP is not supporting specific sectors through credit lines.

ESS3 Resource Efficiency and Pollution Prevention and Management

ESS3 is relevant and applicable for this Project as components related to CBE and DBE could lead to an increase in consumption of resources or increase in pollution. For any technical assistance which may be planned based on these components the client will ensure that their ESMS follows provisions materially consistent with the WBG EHSGs and GIIP as per the ESS3 requirements to abate risks. This will be reflected in the client’s environmental and social commitment plan.

ESS4 Community Health and Safety

At this point of the project, no relation to local communities is foreseen, but the ESMS strengthening activities will ensure integration of ESS4 aspects into the banks’ systems. Proposed technical support to NBE, CBE and DBE is



expected to improve gender sensitivity and women empowerment by fostering increasing leadership roles for women.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

At this point of the project, no relation to land acquisition, restrictions on land use or involuntary resettlement is foreseen and any such activity would not be eligible under the project, but the ESMS strengthening activities will ensure integration of ESS5 aspects into the respective banks' systems.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

As per current project design, no funding is eligible to flow into credit lines. However, the ESMS strengthening activities will follow closely ESS6 to prepare the banks for any potential future downstream activities as a result of financial strengthening of CBE and DBE through capital infusion. The client's Environmental and Social Commitment Plan shall therefore clearly indicate that the project financed activities will be implemented in compliance with ESS6.

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

As an intervention to support country-wide activities institutions, ESS7 would be relevant in case of any direct or indirect consequences on the ground. At this point of the project, no relation to local communities is foreseen, but the ESMS strengthening activities will ensure integration of ESS7 aspects into the banks' systems.

ESS8 Cultural Heritage

No direct impact is anticipated on cultural heritage at this stage. The borrower shall avoid impacts on cultural heritage. When avoidance of impacts is not possible, the Borrower will identify and implement measures to address impacts on culture heritage in accordance with mitigation hierarchy (where appropriate, the client shall develop a cultural heritage management Plan. The ESMF shall include guidance for the respective ESMS on how to apply precautionary actions to be taken to safeguard cultural heritage in the course of implementation of sub-projects.

ESS9 Financial Intermediaries

As per current project design, no funding is eligible to flow into credit lines. However, the ESMS strengthening activities will follow closely ESS9 to prepare the banks for any potential future FI operations as well as their own investments. The respective ESMS for CBE and DBE will include environment and social procedures and capacity for assessing, managing, and monitoring risks and impacts of sub-projects, as well as managing overall portfolio risk in a responsible manner.

B.3 Other Relevant Project Risks

The project mainly involves capacity building and upstream technical assistance, where the reform process may lead to further downstream technical assistance, which is a reputation risk for the Bank. The capital infusion will not be



used to fund specific investment projects under the banks’ portfolios. However, in case the reform process lead to more downstream TA, including sector and portfolio-specific guidance which could pause a reputation risk to the Bank. The environmental and social risk mitigation measures for these reputation risks will depend on a robust environment and social systems readiness assessment and a limitation of risks to an agreeable level.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

TBD

Likely not, will depend on the subproject typology.

OP 7.60 Projects in Disputed Areas

No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered?

No

Financing Partners

Currently none.

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

Actions to be completed prior to Bank Board Approval:

Actions to be completed prior to Bank Board Approval:

- Preparation of a road map with guiding principles to strengthen the respective banks’ ESMS based on a respective capacity assessment to be conducted.
- Preparation of Environmental and Social Commitment Plan
- Preparation of a Strategic Environment and Social Analysis (SESA)
- Preparation of Stakeholder Engagement Plan (SEP)
- Preparation Labor Management Plan

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

- Outlining holding (decision) points of ineligibility of downstream technical assistance as well as use of fund for any investments.
- ESMS strengthening measures reiterating from the detailed program document.
- Institutional arrangement for environmental and social management
- Environmental and social management capacity of the implementing agencies
- Coordination between implementing agencies, as applicable, re environmental and social management
- Addressing issues of cultural heritage

Public Disclosure



C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

30-Nov-2020

IV. CONTACT POINTS

World Bank

Contact: Anuradha Ray Title: Senior Financial Sector Specialist

Telephone No: 5358+6034 / 251-011-5176034 Email: aray2@worldbank.org

Contact: Marius Vismantas Title: Program Leader

Telephone No: 5358+6112 / 251-011-5176112 Email: mvismantas@worldbank.org

Borrower/Client/Recipient

Borrower: Ministry of Finance

Implementing Agency(ies)

Implementing Agency: National Bank of Ethiopia

Implementing Agency: Development Bank of Ethiopia

Implementing Agency: Commercial Bank of Ethiopia

V. FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

VI. APPROVAL

Task Team Leader(s): Anuradha Ray, Marius Vismantas

Practice Manager (ENR/Social) Robin Mearns Recommended on 03-Sep-2020 at 09:32:18 GMT-04:00

Safeguards Advisor ESSA Peter Leonard (SAESSA) Cleared on 18-Nov-2020 at 15:46:29 GMT-05:00