

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA16830

Date ISDS Prepared/Updated: 25-Mar-2016

I. BASIC INFORMATION

1. Basic Project Data

Country:	Liberia	Project ID:	P157797
Project Name:	Liberia MSME & Rural Finance post Ebola Reconstruction (P157797)		
Task Team Leader(s):	Michael Corlett		
Estimated Appraisal Date:		Estimated Board Date:	01-Mar-2016
Managing Unit:	GFM01	Lending Instrument:	Investment Project Financing
Sector(s):	Banking (20%), Payments, settlements, and remittance systems (20%), SME Finance (20%), Microfinance (20%), Agro-industry, marketing, and trade (20%)		
Theme(s):	Micro, Small and Medium Enterprise support (100%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			No
Financing (In USD Million)			
Total Project Cost:	4.80	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source		Amount	
State and Peace Building Fund		4.80	
Total		4.80	
Environmental Category:	F - Financial Intermediary Assessment		

2. Project Development Objective(s)

The Project Development Objective (PDO) is to support the development of a framework to provide MSMEs finance on sustainable terms, enhance the capacity of local private sector financial institutions to lend profitably to MSMEs and objectively measure outcomes.

3. Project Description

Project background.

While there have been a number of government led financing schemes targeting SMEs, the unmet demand for finance remains significant. To date, none of the financing schemes have sought to address the weaknesses which have held back the development of sustainable financing, particularly with regards to the supply side of credit, making banks better lenders to MSMEs. As there has been

no monitoring or evaluation of the past schemes, it is not possible to determine exactly what objectives have been achieved. These lending activities have been spread across the MFDP, Central Bank, Ministry of Commerce and Industry and the Ministry of Agriculture without coordination.

This activity will serve to improve the supply of finance available in the local economy through providing a demonstration to both Government and local banks of best practice in MSME lending. In the first instance, the project will seek to draw together all SME financing schemes into one facility, under the auspices of the MFDP but with advice from the Central Bank and implemented through local financial institutions. Rather than the directed approach followed to date, whereby parallel schemes have been directed to disperse to distinct sectors (commerce, agriculture etc.) the project will be agnostic as to sector but will focus on supporting MSME enterprises which have credible financing proposals and allow participating financial institutions greater freedom in terms of economic sector. Furthermore, the project will work with participating financial institutions to address the fundamental issues which have led to poor loan performance to date: high transactions costs, poor Contract Enforcement, a high level of Volatility in business outcomes (related to commodity prices, weather conditions etc.), poor Information as to both the willingness and ability of the client to repay loans, and reliance on collateral rather than ensuring business Cash Flows are well aligned to the terms of loans.

There starting point will be that financing will be on sustainable terms, however, the facility will support participating financial institutions to provide terms which are not currently available in the market. In particular, the project will support the provision of loans beyond the 18 months tenor currently available (the exact term to be determined at appraisal, but probably to 5 years), and will allow for deferral of payments relating to objectively identifiable disruptions (such as poor harvests, commodity price variation etc) and will focus on cash flow rather than collateral. Through the innovation component, the project will also seek to take advantage of ongoing initiatives to extend the use of mobile money in Liberia to lower transactions costs and improve the information held on borrowers (e.g. a record of payments made and received through mobile money can substitute for a lack of financial accounts and the use of biometric ID and/or the direct intercept of payments can be used to enhance loan recovery). If and only if there are identified public goods associated with providing finance to MSMEs (such as sustaining employment in the Post Ebola period in response to the systemic shock of the Ebola crisis), subsidized finance may be provided on an exceptional basis, but this will be explicit, transparent, targeted and limited both in amount and time of availability. The project will seek to ensure that populist demands for cheap money do not lead to the creation of new ad hoc schemes (and also that such funds, if necessary, are allocated on objective terms rather than as a product of clientelism).

The higher order objective of the project is to assist viable MSMEs to rebuild their businesses and maintain employment, particularly for the poorest, through enhancing their access to finance. The proposed assistance is to be catalytic in emphasizing activities which are complementary to those of the IFC, other Global Practices and other development partners. The desired immediate outcome will be to establish a development financing vehicle which will use private financial institutions and establish best practice in terms of evaluation and monitoring to replace government sponsored initiatives which have focused on disbursement and have been questioned for political motivation. In particular the activity will seek to guide the expertise of the Central Bank away from direct lending in the development finance sector.

A further objective will be to coordinate and provide monitoring for various directed lending activities of the WBG and other development partners to ensure consistency and adherence to best

practices. Various sectors in the WBG, including energy and agriculture, are exploring credit lines to SMEs in light of the unavailability of finance at this level. These activities run through the respective ministries and are not centrally coordinated or monitored in terms of their design. The project would seek to facilitate these activities and ensure balance between availability of finance between sectors. The project will focus on the finance aspects of SME lending and would coordinate with parallel WBG, AfDB and other development partner activities which provide technical assistance, mostly to borrowers.

The project would comprise three components:

1 SME Financing Facility Funding and technical assistance to FIs (USD 4.0 million). This would comprise three subcomponents to support on-lending to micro and small entrepreneurs.

a. Risk-sharing Instruments. Establishment of partial credit guaranty scheme; default risk to be shared 50/50 with participating banks for loans to MSMEs falling within agreed criteria.

b. Line of Credit for viable MSMEs. Provide term finance in local currency (and US\$ where appropriate) to financial institutions for onlending to MSMEs. Identification of MSMEs and credit risk to be the responsibility of participating financial institutions (although sector support provided by relevant WBG units for agriculture, energy, education, trade etc.). Financing terms to be established so as to support rather than undermine market forces

c. WB/Consultant Technical Assistance assistance to participating financial institutions to improve the quality of lending by providing expertise in design and operation of credit and risk-sharing operations, loan supervision, credit screening, cash-flow modeling etc.

2 Innovations in MSME Finance. Technical Assistance to develop use of digital financial services and new lending instruments. Link with new initiatives such as Partnership for a Digital West Africa and the ERRTF funded payments systems project to make use of mobile money, biometric ID and other innovations to lower transactions costs and improve credit information. This activity would also explore increasing use of techniques proven elsewhere but not utilized in Liberia such as leasing, factoring and warehouse receivables.

3 Establishment of Monitoring & Evaluation Framework. Establish a process for tracking disbursements of funds from this project and other financial intermediation activities to determine objectives and monitor achievements (employment, poverty and gender targeting, as well as financial performance).

A key objective of the project is to provide Government sufficient incentive to revisit the way that it addresses MSME finance, and also present a sustainable solution to the populist initiatives seen in recent years.

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The exact project locations for the sub-projects are not defined at this stage. Eligible sub-projects will be drawn from all parts of the country. The project has negative list that will be used to screen sub projects to ensure that activities that may adversely impact the environment are screened out.

5. Environmental and Social Safeguards Specialists

Gloria Malia Mahama (GSU01)

Sekou Abou Kamara (GEN01)

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6. Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The environmental Category of the project is FI. The exact activities of the sub-projects are not defined at this stage. FI will ensure that sub-projects to be financed are screened using the sub-loan environmental eligibility criteria as defined in the overall project ESMF. The impacts of this project are expected to be minor and local.
Natural Habitats OP/BP 4.04	No	The project will not have any impacts on natural habitat. The negative list screens out activities that may have adverse impacts on natural habitats.
Forests OP/BP 4.36	No	The project activities will not involve forest or forestry. The negative list screens out activities that may have adverse impacts on forest.
Pest Management OP 4.09		The project will avoid those activities that may require the application, procurement, transportation or storage of chemicals in accordance with exclusion and negative lists provided in the umbrella ESMF.
Physical Cultural Resources OP/BP 4.11	No	The project will not finance activities that may have impact on physical cultural resources. Large excavation or large movement of earth is not expected. The negative list also prohibits those activities.
Indigenous Peoples OP/ BP 4.10	No	There are no indigenous in the project areas
Involuntary Resettlement OP/BP 4.12	No	The project will not finance any activities that require the taking of land or lead to restriction of access to natural resources. The activities to be financed are mostly service and commercial activities that do not normally require land acquisition. The negative list also prohibits any activity that may require resettlement.
Safety of Dams OP/BP 4.37	No	No dam construction is involved in this project, nor will any of the project activities rely on dam structures.
Projects on International Waterways OP/BP 7.50	No	The project activities will not be supporting activities with potential impact on international water ways
Projects in Disputed Areas OP/BP 7.60	No	No project activities will take place in disputed areas.

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II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
Even though sub-project activities are not defined at this stage for practical reasons, an umbrella ESMF has been developed to guide the screening and selection of sub-projects to be financed by

sub-loans. The sub-loan environmental eligibility assessment will therefore ensure that sub-projects to be financed do not pose any large, significant or irreversible impacts on the environment.
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
N/A
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
N/A
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
The borrower has developed an umbrella ESMF that contains negative and exclusion lists to guide the screening and selection of sub-projects that will be financed by sub-loans. Both the negative and exclusion lists outline activities that will not be eligible for financing. The FIs will be responsible to ensure that the necessary environmental processes are in place for sub-projects that may require the preparation of EIAs or ESMPs. The Government of Liberia is implementing several WB-funded projects. Generally, it therefore has an appreciable understanding of the Bank environmental requirements. However, the capacity of FIs, which are yet to be identified, to implement WB-funded project is not known. It is therefore expected that the Government through the Environmental Protection Agency (EPA) of Liberia will retain an overarching role with respect to monitoring and evaluation of the FIs to deliver the WB safeguards and national regulation. The WB will also provide capacity building support to FI where required.
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Stakeholder consultations will be conducted by the borrower, and by financial intermediaries at sub-project level, where applicable. The key stakeholders would be micro, small and medium enterprises. The borrower will ensure that umbrella ESMP is consulted upon and disclosed as required by the environmental legislations of Liberia and the WB environmental policy.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	29-Jan-2016
Date of submission to InfoShop	01-Apr-2016
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	
"In country" Disclosure	
Liberia	01-Apr-2016
<i>Comments:</i>	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment			
Does the project require a stand-alone EA (including EMP) report?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
OP 4.09 - Pest Management			
Does the EA adequately address the pest management issues?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Is a separate PMP required?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
The World Bank Policy on Disclosure of Information			
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
All Safeguard Policies			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]

III. APPROVALS

Task Team Leader(s):	Name: Michael Corlett	
Approved By		
Safeguards Advisor:	Name: Agnes I. Kiss (SA)	Date: 28-Mar-2016
Practice Manager/ Manager:	Name: Mazen Bouri (PMGR)	Date: 28-Mar-2016