

Promoting Innovation for Inclusive Financial Access Project



SFD المنجوق الاجتماعي للتنمية
Social Fund for Development

Environmental and Social Management Framework

Executive Summary

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E.1. Introduction

E.1.1. Background

The Promoting Innovation for Inclusive Financial Access (PIIFA) Project is building upon the on-going Enhancing Access to Finance for Micro and Small Enterprises (EAFMSE) Project which was launched in 2010 and is being implemented by the Social Fund for Development (SFD) with support from the World Bank. Through the EAFMSE Project's line of credit (US\$ 300 millions) the project aimed at improving enterprises access to finance, with the objective of creating employment and entrepreneurship opportunities for MSEs. Through gender mainstreaming, the project has also promoted women's economic empowerment, and improved the quality of life of their families and children. Moreover, it has played an instrumental role in helping to narrow geographic disparities by targeting poor rural villages that were previously underserved. All this has ultimately led to poverty reduction, and improvement in the standard of living of those who were adversely affected by the deteriorating economy and contributed to shared prosperity in Egypt at critical times of transition.

The PIIFA Project is providing an additional US \$ 300 million to continue and build on the achievements of the EAFMSE Project and will be also implemented by the SFD, the apex institution, and mandated by Law 141 of 2004 as well as Prime Ministerial Decree 318 of 2013, to lead and coordinate the MSE development sector in Egypt.

An Environmental Management Plan (EMP) has been prepared for the EAFMSE Project in 2010, and this EMP included measures to be adopted by the implementing agency to ensure the compliance with environmental screening and assessment procedures according to the Egyptian environmental legislation and the World Bank Safeguard Policies. This Environmental and Social Management Framework (ESMF) has been prepared following the measures of the EMP of the EAFMSE project, building on its achievements and recommending measures to overcome the confronted obstacles. The EMP of the EAFMSE Project has been re-disclosed alongside this ESMF in order to provide a complete overview of the environmental and social measures identified for both projects.

E.1.2. Objectives of the ESMF

The main objective of the Environmental and Social Management Framework (ESMF) is to provide general policies, guidelines, and procedures to be integrated into the implementation of the PIIFA Project. This Framework has been developed to identify the environmental and social requirements needed to ensure that all sub-projects are in compliance with the national environmental protection laws, regulations and guidelines in Egypt, and the World Bank's safeguards policies. The ESMF provides guidance which will ascertain that environmental and social issues are being addressed effectively for the successful appraisal, design, and implementation of the sub-projects.

E.2. Legislative Framework

E.2.1. Egyptian Legislation

Environmental Law No.4/1994, as amended by Law No.9/2009, and its Executive Regulation are the main legislation governing environmental protection in Egypt. The Environmental Law stipulates that an Environmental Impact Assessment (EIA) should be prepared for projects, which are associated with potential environmental impacts, as a precondition for obtaining a license. The entity responsible for the enforcement of the Environmental Law is the Ministry of State for Environmental Affairs (MSEA) through the Egyptian Environmental Affairs Agency (EEAA)

EEAA has issued updated Guidelines for the rules and procedures of undertaking EIAs, in which projects are classified to 3 classes of EIAs according to their expected impacts on the environment, these Classes are A, B, and C ascending respectively from lower to higher impacts on the environment¹. It is worth noting that the Guidelines indicate that projects located in sensitive areas (such as natural protectorates, archeological areas, areas next to shorelines or Nile Banks ... etc.) should be upgraded one level in its EIA classification. In addition to the three EIA Classes the Guidelines include a list of relatively small scale projects that do not require an EIA, these projects just require to fulfill special environmental conditions identified for each type of project. Many of the PIIFA sub-projects would be under this category of projects.

Further to Law 4/1994, there may be other specialized laws that govern the environmental and social performance of some projects according to the type, location and activities of the project. Examples for such laws include Law 93/1962 for projects that discharge wastewater to a sewage network, Law 38/1967 for General Cleanliness, Law 12/2003 which is the Labor Law, Local Decrees in Governorates that organize landuse issues and Engineering Codes of Practice related to environmental issues.

E.2.2. World Bank Safeguard Policies

The World Bank (WB) has identified 10 environmental and social safeguard policies that should be taken into consideration in its financed projects. None of these safeguard policies will be triggered except for Operational Policy (OP 4.01) for Environmental Assessment.

According to Operational Policy (OP 4.01) for Environmental Assessment, borrowers should carry out an Environmental Assessment (EA) from a category that corresponds with the scale, nature and

¹ Class A is equivalent to Category C in the WB screening of projects according to OP.4.01, Class B is equivalent to Category B and Class C is equivalent to Category A, as shall be further explained

extent of the potential environmental and social impacts. According to these factors, OP 4.01 classifies projects into 4 categories, in which the first three categories are similar to EEAA classification system (but in contrary with EEAA system Category A is likely to cause maximum impacts and C are associated with the least impacts), while the fourth category is the Financial Intermediary (FI) Category which involves investment of Bank funds through a financial intermediary, in subprojects that may result in adverse environmental impacts. The PIIFA project is considered as an FI Category as part of the finance, involving small enterprises, will be channeled through intermediate banks.

In appraising FI projects, the Bank reviews the adequacy of country environmental requirements relevant to the project and the proposed EA arrangements for subprojects, including the mechanisms and responsibilities for environmental screening and review of EA results. When necessary, the Bank ensures that the project includes components to strengthen such EA arrangements, and if the Bank is not satisfied that adequate capacity, among the implementing institution, exists for carrying out EA, all Category A subprojects and, as appropriate, Category B subprojects-including any EA reports-are subject to prior review and approval by the Bank. It is worth noting that none of the sub-projects are expected to be classified as Category A, according to the Environmental Assessment Policy OP-4.01, and there will be a pre-condition that sub-projects should be either of Category B or C.

E.2.3. Comparative Assessment of National Legal Framework and WB Requirements

The Country Environmental Analysis (CEA) report for Egypt prepared by the WB indicates that the features of the Egyptian EIA system are generally compatible with the corresponding features of World Bank Operational Policies (OP 4.01), but with few gaps regarding the preparation and follow up of the environment management plans, the consultation, disclosure and dissemination of the EIA reports. After 2005, when the CEA was issued, there have been significant improvements in the EIA systems that have, to a great extent, bridged those gaps. Importance of public participation and information dissemination was practically demonstrated in the year 2008, both among investors and regulating authorities, after a public opposition has resulted in changing plans for establishing a major fertilizer plant in an area with high tourist value in Damietta Governorate. The requirements for consultation and dissemination of EIA reports have been officially added to the EIA requirements in the new Guidelines issued by EEAA in 2010, these Guidelines have been made with support from the WB and in compliance with its general requirements. The social aspects have been also integrated in the new Guidelines, through the EIA definition in the Guidelines, EIA screening process, description of baseline conditions, assessment of impacts, analysis of alternatives and preparation of management plans.

The project screening system according to the new EIA Guidelines is compatible to a great extent with the classification system of OP 4.01. Although the screening process comprise subjective evaluation, the possibilities that a sub-project could be classified by EEAA in a less severe class than OP 4.01 are very limited.

After the classification of sub-projects the EIA preparation procedures are well defined in the Guidelines. The EIA approval is well integrated in the licensing system for new projects, as this approval is a precondition for granting the license by Local Authorities for projects that requires an EIA. Also, satisfying the requirements of other laws, such as Law 93/1962 and Law 12/2003, is well integrated in the licensing procedures, as the approval of concerned bodies, such as the sewerage authority, the labor office and the civil defense, is also a precondition for granting the project license.

In conclusion, it is believed the existing EIA system and licensing procedure according to the 2010 EIA Guidelines generally address OP 4.01 requirements, even though the examples given for projects classification according to the Guidelines may not be identical with the corresponding classification according to OP 4.01 the possibilities for under-classifying a Category A project among the PIIFA sub-projects are considered negligible. Accordingly, the compliance with the selection criteria of sub-projects that eliminates Form C (or Category A according OP 4.01), the licensing requirements during the appraisal of sub-projects and the follow-up procedures recommended in this ESMP are believed to effectively manage the environmental and social issues related to these sub-projects.

E.3. Description of the Project

The project consists of a line of credit of US\$300 million to the Government of Egypt that will be channeled through the SFD. SFD would then on-lend to Financial Intermediaries (FI) that would ultimately reach the end beneficiaries, namely MSEs. Numerous innovative mechanisms will be tapped on to enhance access to finance. At the borrower level, this will take the form of new financial products for MSEs (financial leasing, venture capital); specific designs that would mitigate the hurdles faced by certain excluded market segments (i.e. women, youth); new delivery channels that would expand outreach in underserved villages (post offices); and addressing unmet demands (Islamic finance). At the institutional level, innovations will be centered around new partnerships between banks, MFIs and the Post to broaden the array of commercial providers in the market. All this will contribute to improving financial intermediation, enhancing access to finance for different segments of the society, which will ultimately contribute to the creation of sustainable private sector jobs.

Project beneficiaries will be: (i) microenterprises, defined as enterprises with paid-in capital of less than LE 50,000 and up to 5 workers; and (ii) small enterprises, defined as enterprises with paid-in capital of between LE 50,001 and LE 1 million, and up to 50 workers. The project will make funds available to the selected Micro-Finance Institutions (MFIs), NGO's and Banks who in turn will lend the funds to eligible beneficiaries.

A Project Implementation Unit (PIU) within the SFD will be responsible for implementing the project. SFD will be responsible for ensuring compliance of project activities to the fiduciary and safeguards arrangements for the project. The PIU will supervise the FIs and NGOs and other financial institutions which will disburse the funds to the beneficiaries.

E.4. Environmental and Social Issues

The environmental and social issues associated with the implementation of sub-projects are expected to be relatively minor due to the small scale of the projects.

By definition the project will achieve many socioeconomic benefits and it is designed to maximize these benefits. Target beneficiaries are based on an impact evaluation which was conducted on April, 2013 to evaluate the impacts of the project on gender empowerment, job creation, and poverty alleviation through enhancing finance for MSEs. The main findings highlight the need for more effective targeting for sectors that create more job opportunities, such as industry which, for example, absorbs four times as much labor as the trade sector. Furthermore, findings show there is a need for some improvement in facilities such as incubators, one-stop-shop, and training, especially on technology. These aspects will be considered during the project implementation.

In addition to the socio-economic benefits, some sub-projects could have positive environmental impacts if the sub-project itself has an environmental objective, such as providing environmentally friendly products and services (i.e. energy saving products, recycled products, waste management services). The ESMF includes certain measures for documenting such benefits, if any, during the project implementation.

Micro and small enterprise have limited-if any-negative impact on the surrounding environment. The small portion of these enterprises that might have potential negative effect include, for example; blending and production of dyes, metal plating, foundries, textiles, brick making, automobile repair shops, and different workshops (carpeting, metal formation ... etc.). It is worth noting that the average finance provided by the EAFMSE project for each microenterprise was about L.E. 5,000, and accordingly the environmental and social issues associated with such scale of projects could be negligible.

The exact impacts of the sub-projects could not be identified at this stage of the project because the sub-projects are not yet identified, however the typical key impacts associated with these micro and small facilities include:

- Improper disposal of waste
- Handling of chemicals and hazardous substances
- Air emissions resulting from fuel combustion and spraying activities
- Consumption of resources and causing pressure on infrastructure
- Noise and foul odors caused by some facilities

E.5. Management Framework

E.5.1. Mitigation and Monitoring of Negative Impacts

The implementation of environmental and social mitigation measures for minimizing negative impacts will be carried out by the MSEs during the implementation of each sub-project. The Environmental and Social Management Framework (ESMF) is focusing on the screening procedures that should be taken by the SFD during the selection of sub-projects and supervision, monitoring and evaluation of the impacts during project implementation.

The screening process of sub-projects should be carried out according to the requirements of EEAA Guidelines for EIA, which generally addresses the requirements of OP 4.01 as mentioned earlier. The WB will periodically review the EA process carried out by the SFD, through reviewing progress reports and possibly reviewing some EIAs prepared for Form B projects.

The classification of the projects according to EEAA Guidelines will be to 4 classes: Form B projects, Form A projects (equivalent to Category C according to WB OP 4.01 classification), Special Conditions projects and projects that do not require specific environmental safeguard measures. It is worth noting that Form C projects are not eligible to be among the sub-projects, therefore, the screening criteria includes elimination of Form C projects, as well as any project that will be associated with certain sensitivity or sever impacts, from the selection process of sub-projects.

The SFD has classified types of enterprises to 5 main sectors and other subsectors according to the most common business activities practiced by these enterprises. This classification has been reviewed in order to compare it with EEAA EIA classification for projects and a tentative evaluation of the EIA class for each subsector has been done. This tentative evaluation should be checked by EEAA during the project implementation, it will be required by the SFD to ask EEAA advice about the correct classifications of these subsectors, through official inquiry at an early stage of the project.

According to the tentative classification of subsectors and the general screening requirements of OP 4.01, it is recommended that some types of sub-projects should be eliminated from the PIIFA project, including:

- Sub-projects that are classified as Form C according to EEAA Guidelines
- Sub-projects that are located in natural protectorates, such as the Nile islands, shorelines within 200 meters from high water mark, or Nile Banks. These sub-projects are excluded to ensure that there are no impacts on natural protectorates..
- Sub-projects that may involve involuntary resettlement or acquisition of new lands out of designated industrial/commercial/farming zones or areas allocated by the Local Authority for the type of activity of the sub-projects.

- Sub-projects including tobacco production. Because of the indirect impacts of consuming tobacco are significant on indoor air quality, especially in public places it is recommended to exclude these subprojects from the PIIFA project.

Following the screening process the SFD should make sure that EIA Form preparation, for relevant projects, has been done by the MSEs and the approvals of EEAA have been granted. Disbursement of the funds to the sub-project should be conditional to having the official approval of EEAA for Form A and Form B projects. The mitigation measures identified in these EIA Forms and approved by EEAA should be annexed to the contract made between NGO/MFI and the MSE. For the projects of Special Conditions the SME owner should have a list of the requirements relevant to his sub-project also annexed to the contract. The contracts with these enterprises should also include commitments to SMEs to report on its environmental management plans on quarterly basis; these quarterly reports should include the progress of implementing the mitigation measures included in the EIAs and the conditions of EEAA.

During the implementation of the sub-projects the SFD will follow-up the implementation of the mitigation measures for the Class A and B projects, the special conditions of relevant projects and projects with environmental benefits through following up the reports presented by the SMEs and through auditing to selected samples of facilities.

E.5.2. Lessons and Experience of EAFMSE EMP Implementation

The Environmental Management Plan (EMP) prepared for the EAFMSE Project in 2010 indicated that the implementation of the EMP measures was mainly the responsibility of the Environmental Policies Program (EPP) which was then responsible for environmental management in the SFD. The designated measures to be carried out during different phases of the project cycle, according to this EMP, included the following:

- Environmental Screening and Recording of Outcomes: in which the sub-projects are classified according to their potential impacts on the environment. The sub-projects, according to this screening, are classified to Class A, B (according to EEAA classification) or not needing environmental conditions for EEAA approval.
- Environmental Assessment of Sub-projects: in which environmental assessment Forms A or B are prepared as appropriate
- Appraisal and Approval of Sub-projects: This includes the appraisal and approval of the projects according to the results of the environmental assessment step. The approval of EEAA should be secured during this step. The EMP mentioned that Regional Environmental Focal Points (REFPs) with the help of Head Quarters Environmental Focal Point (HQEFP) should make sure that these approvals are granted.
- Implementation and Operation of Sub-projects: During this step the measures identified in the previous steps should be implemented by the project beneficiaries under REFP monitoring and supervision.

- Monitoring, reporting and evaluation of sub-projects: in which REFPs shall monitor sub-projects on periodic basis. REFPs are required to prepare quarterly reports, to include the results of the above tasks, and these quarterly reports should be fed to into a software program that facilitates the follow-up of sub-projects status. The EPP should review these quarterly reports and prepare a collective annual report on the EMP measures to the SFD's Managing Director.
- Training and Capacity Building Programs: Targeting EPP, REFPs and HQEFPs staff under three main themes: environmental strategic planning, annual and baseline reporting and environmental auditing

The implementation of these measures is considered to be sufficient base for the implementation of the PIIFA Project ESMF, taking into consideration the screening measures indicated earlier. One the main obstacles that has been encountered during the implementation of the EAFMSE project EMP was the understaffing of the EPP, however, the SFD has decided improve the integration of environmental assessment to its projects through upgrading the EPP to be the Environmental Department (ED) under the Central Sector for Human and Community Development (CSHCD), this has been issued through a Decree from the SFD Secretary General, in March 2013. This upgrade is expected to be an important step for improving the capacity of the SFD in terms of environmental management; however, providing the ED with adequate resources and staffing is vital for its successful operation.

E.5.3. Institutional Arrangements

The environmental and social management of the project should be mainly through the SFD which is in the top level of the project hierarchy. The roles and responsibilities of the ESMF will be distributed between the three levels of the project management as follows:

- SFD will be responsible for the overall management of the ESMF, and will have direct responsibility in the screening and follow-up process
- At the intermediate level, the FIs, MFIs and NGOs will make sure that the contractual issues related to ESMF, such as ensuring environmental and social conditions are integrated in the contracts, and official papers are satisfied by the beneficiaries. Also the intermediate level entities will be responsible for coordinating the auditing and following-up by SFD to end users
- At the beneficiary level, enterprises will be responsible for the preparation of EIAs from the adequate class, and the implementation of different environmental and social conditions recommended in these EIAs and stipulated by EEAA

The ED, being the cross-cutting department responsible for environmental management, will be the responsible department for the ESMF management. Although the ED has been officially established few months ago, it still needs to recruit sufficient staff to carry out the screening and follow up measures and to achieve the mandate of the ED at large and there have been executive steps taken

by the SFD towards this. At the minimum the ED will recruit the HQEFP and REFPs to take over their roles in ESMF. Furthermore there will be a contact person in the NGOs and MFIs that will work with the SFD, this contact person will be responsible for making sure that the mitigation measures/special conditions are annexed to the contracts with the MSEs, and will also coordinate the auditing of sample facilities with the ED.

E.5.4. Capacity Assessment

The SFD has integrated environmental safeguard measures into its operation since the establishment of the EDU in November 1998, the EDU has evolved several times since then, and currently the ED has been established as a cross-cutting department in SFD. The capacity of the SFD, and its ED, is considered to be adequate to manage the implementation of the ESMF in terms of management commitment, the institutional framework, the capacity of the staff, assuming that HQEFP and REFPs will be recruited with adequate qualifications, and documented environmental management system will be in place.

The capacity of FIs, MFIs and NGOs could not be assessed at this stage because they have not been selected yet. However, the role of these organizations will be strictly administrative tasks that are within the capacity of normal administration staff expected to be within these organizations.

For the level of beneficiary enterprises, it is expected that they will need services from registered environmental consultants for carrying out the EIAs. Because the level of finance provided for each sub-project is relatively limited it is likely that some owners of small enterprises may not have sufficient funds to hire consultants, these funds could be part of the loans given to enterprises that cannot provide funds for the EIAs prior to the project start provided that the sub-project passes the screening criteria.

E.5.5. ESMF Budget

The budget for establishing the ED, recruiting the staff and developing the follow-up software will be provided by the SFD as the department has already been established within the organizational chart of the SFD and its mandate is cross-cutting and not only for the PIIFA Project. Also it has been assumed that the MSEs will cover the expenses of preparing EIA forms from their own resources or as part of their loans, as mentioned earlier, therefore the cost for preparing the EIAs was not included in the ESMF overall budget.

The budget for the ESMF is estimated at L.E. 1,000,000, in which L.E. 600,000 is allocated for training and capacity and L.E. 400,000 is allowance for technical assistance.

E.6. Public Consultation

A public consultation workshop has been carried out during the preparation of this report. An announcement for the public consultation has been placed in the website of the SFD and the bulletin boards of the SFD regional offices; this announcement is in Annex 4. Invitations for the workshop have been directed to different stakeholders.

The workshop was held on October 10th 2013 and was attended by about 60 people representing the following organizations. List of participants and photos taken during the consultation is in Annex 5:

- Banks
- NGOs
- EEAA
- Environmental Management Units in Governorates
- Different departments in the SFD and Regional Offices
- Experts and university professors

The attendees were presented with the main features of the ESMF, and an Arabic Executive Summary was made available to them. Comments and suggestions by the participants were taken into consideration during the preparation of this document.