Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 04/20/2020 | Report No: ESRSC01173
BASIC INFORMATION

A. Basic Project Data

Country | Region | Project ID | Parent Project ID (if any)
Afghanistan | SOUTH ASIA | P171886 | |

Project Name | Strengthening Afghanistan’s Financial Intermediation

Practice Area (Lead) | Financing Instrument | Estimated Appraisal Date | Estimated Board Date
Finance, Competitiveness and Innovation | Investment Project Financing | 5/25/2020 | 7/31/2020

Borrower(s) | Implementing Agency(ies)
Government of Islamic Republic of Afghanistan | Da Afghanistan Bank, Afghanistan Credit Guarantee Foundation (ACGF)

Proposed Development Objective(s)
The PDO is to strengthen financial sector stability, financial safety net and access to finance for MSMEs in Afghanistan

Financing (in USD Million)

| Total Project Cost | Amount
|-------------------|------
| 60.00             |      |

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]

Project Description
The project will include four components: i) Technical Assistance and Capacity Building; ii) Strengthening of Deposit Insurance Fund; iii) Strengthening of the Credit Guarantee Fund; and iv) Project Management. More specifically, Component 1 will focus on capacity building and technical assistance aimed at underpinning analytical, technical assistance and capacity building work required for all project investments funded through other components. Component 2 will provide financial support to further capitalize the Deposit Insurance Fund so as to ensure that it has
readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors’ claims, if needed, including assured liquidity funding arrangement. Component 3 will provide financial support to the Afghanistan Credit Guarantee Fund (ACGF) whose current capital stock will be fully committed in the near future to support its growth plans. Additional funding will support expansion of ACGF guarantee business and facilitate an increase in the number of participating financial institutions (e.g. commercial banks and MFIs), variety of guarantee products and in turn the volume and variety of MSME lending (e.g. outreach to women entrepreneurs in a sustainable fashion). ACGF will be providing guarantees to four existing financial institutions (FIs) for their loans to eligible small and medium-sized enterprises that comply with the activities exclusion list – please see attached document. Two additional FIs are under consideration subject to their compliance with technical and E&S criteria – the FI subprojects. In summary, these FIs (‘The Responsible FIs) will have direct responsibility for selecting and funding the ‘FI sub-projects’. Component 4 will fund the project management functions supporting overall project implementation and will be administered by the project implementation unit (PIU) housed in DAB ensuring compliance with fiduciary requirements such as procurement, financial management, and withdrawal and disbursement requests, as well as program outreach, communication and reporting. This component will fund relevant staff, consultants, training, equipment, and operational expenses.

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

Environmental and Social Overview

FIs lending activities are expected to take place throughout Afghanistan where the FIs are present (i.e. subject to security concerns). On the basis of ACGF’s current portfolio the SME lending activities are taking place in the following provinces: Badakshan, Baghlan, Balkh, Bamyan, Faryab, Herat, Jawzjan, Kabul, Kandahar, Nangarhar, Takhar, and Parwan.

SME loans guaranteed by ACGF include both working capital and investment loans for expansion of existing businesses or start-ups ranging from US$1 thousand to US$1 million with a maximum tenor of five years for demand driven sub-projects including trade, services and manufacturing activities that are compliant with the E&S risk management policy and procedures. ACGF has a well-defined categorization process for a diverse set of activities within trade, services, and manufacturing sectors. Eligible SMEs are defined as private sector entities that meet two of the following criteria: i) up to 500 employees; (ii) annual turnover of up to US$15 million; and iii) total assets of up to US$15 million. As activities by SME loan recipients guaranteed by ACGF may have some E&S risks, the contractual agreement, specifying conditions of environmental and social management systems (ESMS) between ACGF and the PFIs will be thoroughly reviewed by the Bank prior to appraisal. to ensure appropriate ES risk management of the guaranteed sub-loan portfolio.

D. 2. Borrower’s Institutional Capacity

The overall project risk rating for SAFI is substantial, reflecting the challenging risk environment. Afghanistan is a country in conflict with improving, but still extremely fragile, state and civil society institutions. High political and governance risk stem from uncertainty surrounding the outcome of the recent Presidential Elections (September 2019) and is exacerbated by macroeconomic, institutional and fiduciary risks. Afghanistan is still ranked as one of the most corrupt countries in the world with a Transparency International ranking of 172 out of 180 countries. 

According
to the national corruption survey, 72 percent believe that corruption has become a more significant problem in the last two years (Integrity Watch 2018). The borrower’s implementing capacity needs to be viewed within this uniquely challenging context.

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

A. Environmental and Social Risk Classification (ESRC)

Environmental Risk Rating

The environmental risk rating is moderate. This is a financial intermediary financing project supporting ACGF as an established entity with a strong record of E&S risk management. The FIs’ lending—guaranteed by ACGF—will exclusively focus on SME borrowers (final beneficiaries) implying relatively small loans and activities with limited environmental risk based on experience to date. The potential impacts are expected to be low in magnitude and easily mitigated (e.g. with the establishment of environmental management plan and monitoring system) and temporary in nature. For example, routine health and safety practices of small traders may not be aligned to the ESF framework but could be mitigated by the establishment of an environmental management plan and monitoring system. In case of additional relevant information is obtained during project preparation the proposed risk rating could be adjusted.

Social Risk Rating

The social risk rating is moderate. As elaborated above, the project and envisaged activities have limited potential social impacts expected to be low in magnitude and easily mitigated and impermanent. ACGF has established grievance mechanism allowing the final beneficiaries to lodge complaints with FIs which if serious in nature or unresolved at FI level are addressed by ACGF. The potential social risks, such as labor or safety practices for projects
with elevated risk will be managed through existing ESMS, including with development of management plans and monitoring systems.

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:

ESS9 governing financial intermediary financing will be the applicable ES standard for the project for Component 3 (i.e. credit guarantees provided by ACGF as means to facilitate FI lending to SMEs); while ACGF already has in place satisfactory ESMS and additional due diligence will be conducted during project preparation to determine if any additional adjustments are warranted. The relevant requirements relating to ESS9 will be incorporated into each of the contractual agreements between the FIs ACGF the narrower and its Responsible FIs. ESS9 includes requirements for both ACGF and FIs to have in place ESMS. ACGF’s ESMS – including requirements for FIs’ ESMS - will be verified and approved by the Bank, covering policy, procedures, organizational capacity monitoring and reporting and stakeholder engagement. Further all subprojects (i.e. SME loans) will be implemented in accordance with national law. FIs may be required to apply the relevant requirements of other ESSs to any subprojects with potential adverse risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage. These requirements will be determined through E&S assessment of subprojects where relevant as described in the ESMS.

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

The Borrower Framework (i.e. national law) will be sufficient only for low risk projects as per the categorization of risk for guaranteed sub-loans in a process elaborated earlier. Compliance with national law is already integrated in ACGF’s ESMS for low risk subprojects.

ESS10 Stakeholder Engagement and Information Disclosure

The Implementing Agency (ACGF) will prepare a Stakeholder Engagement Plan (SEP) prior to Appraisal consistent with the requirements of ESS10. The Responsible FIs will put in place, as part of the ESMS, procedures for external communications on environmental and social matters proportionate to the risks and impacts of project activities consistent with the requirements of ESS9. The ESMS will also include details of the establishment and maintenance of systems to respond to public enquiries and concerns are recorded and responded to in a timely manner.
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 applies to the internal labor management. ACGF and the Responsible FIs will have in place and maintain appropriate internal labor management procedures consistent with ESS2, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms and occupational health and safety.

ESS3 Resource Efficiency and Pollution Prevention and Management

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.

ESS4 Community Health and Safety

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation. Community Health and safety requirements and their management will be covered in the ESMS according to ESS9.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

At this stage, this ESS is not expected to be relevant to the project. Activities that involve involuntary land acquisition and/or physical and economic resettlement will not be permitted in this project, as these activities are part of the exclusion list. Activities that involve involuntary land acquisition or economic or physical resettlement will not be permitted in this project.
ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

At this stage, this ESS is not expected to be relevant to the project. Currently it is not anticipated that any natural resources will be impacted due to the level and nature of activities discussed in the project description.

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

ESS 7 is not relevant in Afghanistan as there are no communities who adhere to the ESS7 criteria.

ESS8 Cultural Heritage

At this stage, this ESS is not expected to be relevant to the project. Relevance of this ESS will be further reviewed during project preparation.

ESS9 Financial Intermediaries

ESS9 will be the main standard applying to the project. The Responsible FIs relevant to the project would be: Afghanistan International Bank, First Microfinance Bank – Afghanistan, OXUS Afghanistan Ltd., and Ghazanfar Bank. Each of these Responsible FIs. as well as any future FIs that may be considered for ACGF guarantees, will be required to establish and maintain an ESMS consistent with the requirements of ESS9. The ESMSs should include, as provided in ESS9: E&S policy, procedures (screening, categorization, exclusions, assessments to prepare), capacity for assessing, managing, and monitoring risks and impacts of subprojects and stakeholder engagement. All sub-projects will be assessed for their environmental and social risks prior to financing. The screening mechanism, as part of the procedures, will review and categorize the subprojects based on their E&S risk and screen all Moderate and Low Risk subprojects against the project’s Exclusion List and compliance with the relevant requirements of national law. For Substantial or High Risk FI subprojects, the procedures should either screen against investing in these firms or establish a process for notification of the ACGF (and World Bank) prior to making investment decisions to upgrade the ESRC and implement adaptive management measures to ensure that relevant requirements of the ESSs can be met. The World Bank will undertake due diligence of the ESMS of ACGF and its contractual agreement pertaining to E&S requirements with its FIs.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

No
III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners
Currently there are no other financing partners envisaged under the project.

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

Actions to be completed prior to Bank Board Approval:
ACGF’s ESMS and contractual agreements with the borrowing FIs will be reviewed to ensure compliance with ESS9 requirements. Additionally, a draft ESCP will be submitted prior to board.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):
Detailed description of the nature of activities to be undertaken in the on-lending sub-projects and the mechanisms to monitor and manage and mitigate any social and environmental impacts will be reviewed.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS 15-May-2020

IV. CONTACT POINTS

World Bank
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Borrower/Client/Recipient
Borrower: Government of Islamic Republic of Afghanistan

Implementing Agency(ies)
Implementing Agency: Da Afghanistan Bank
Implementing Agency: Afghanistan Credit Guarantee Foundation (ACGF)

V. FOR MORE INFORMATION CONTACT
VI. APPROVAL

Task Team Leader(s): Andrej Popovic

Practice Manager (ENR/Social): David Seth Warren Recommended on 09-Mar-2020 at 09:32:13 EDT

Safeguards Advisor ESSA: Agi Kiss (SAESSA) Cleared on 20-Apr-2020 at 00:50:39 EDT