



Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 03/12/2024 | Report No: ESRSA03367



I. BASIC INFORMATION

A. Basic Operation Data

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P504220	Investment Project Financing (IPF)	EMERGe	2024
Operation Name	Empowering Microfinance and Enterprises for Resilience and Growth		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Afghanistan	Afghanistan	SOUTH ASIA	Finance, Competitiveness and Innovation
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
Aga Khan Foundation - USA	Aga-Khan Foundation Afghanistan , Afghanistan Credit Guarantee Fund	23-Jan-2024	29-Mar-2024
Estimated Decision Review Date	Total Project Cost		
22-Jan-2024	16,000,000.00		

Proposed Development Objective

The Project Development Objective (PDO) is to support the demand for and supply of finance for micro and small enterprises; focusing on women's financial inclusion.

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

Yes

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]

EMERG(e) will build sustainable solutions for developing both the demand for and supply of finance for micro and small enterprises in Afghanistan - prioritizing women's financial inclusion. Given the endemic poverty, undiversified economy, rampant informality and the escalating uncertainties on the role of women in economic activity - efforts to create jobs in Afghanistan in the near to medium term need to be pragmatic and sustainable. To this end, EMERG(e) will bolster the stability of microfinance sector and will concurrently build a pipeline of bankable micro & small enterprises (particularly



those who are women led or create jobs for women). The project aims to sow the seeds for market-based channels to promote access to finance as a sustainable end of the basic services spectrum. The project has the following two components: Component 1: Supply of Finance (US\$10 million) Implementing partner: Afghanistan Credit Guarantee Facility This component's activities are divided into three categories as follows: 1. Capital Support Grants: (US\$7 million): Incentivize sponsors of microfinance providers to clean the balance sheets (of legacy non-Shariah compliant bad loans) of Microfinance Institutions (MFIs). Any monetary support for balance sheets will be deployed for originating new loans for women borrowers. 2. Product Development: (US\$1.8 million): Introduction of new Islamic credit instruments (tailor-made for women if needed) and TA support to MFIs as they transition to Islamic finance. 3. Implementation Support: (US\$1.2 million) Component 2: Demand for Credit (US\$6 million) Implementing agency: Agha Khan Foundation (AKF) The component 2 has following activities categories: 1. Credit Readiness Support: (US\$1.5 million): Support formal /informal micro & small enterprises (women owned or with strong job creation potential for women) to become 'bankable'. (micro-enterprises will be graduates from CBSGs with 1-4 employees & small firms will be early entrants into the AKF accelerator program with 5-15 employees). 2. Credit Viability Fund: (US\$3.6 million): Facilitate access and affordability as businesses transition to formal credit. 3. Implementation Support: (US\$900K)

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]

The project aims to revitalize the local economy and enhance the resilience of MFPs and their borrowers (both existing and future), as well as micro and small enterprises with a particular emphasis on women-owned businesses. The projects geographical focus will be on 15 provinces in Afghanistan (including Badakhshan, Baghlan, Balkh, Bamyan, Daikundi, Faryab, Herat, Jowzjan, Kabul, Kunduz, Nangarhar Parwan, Samangan, and Sar-e-pol).

Overall, the project is expected to have positive environmental and social benefits as the project's activities aim to promote the economic empowerment of women-led enterprises. The project does not envisage any significant or irreversible environmental or social risks. The project is not expected to impact biodiversity as the activities are confined to existing facilities. Considering, that there are no Indigenous people that meet the criteria of ESS7 in the country that could potentially benefit or be adversely affected by the Project's activities, other vulnerable groups of people such as women, IDPs, and youth could potentially be affected by the project.

The current FCV context of the country poses potential social risks such as (i) social inequalities, exclusion, and discrimination of certain categories of people, such as vulnerable and marginalized groups, and sexual exploitation and abuse/sexual harassment (SEA/SH) risks for project beneficiaries.

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 ACGF will implement Component 1 and the AKF-A will implement Component 2. AKF-USA will establish a Project Implementation Unit (PIU) in Afghanistan, staffed with individuals who meet the Bank's qualifications. The PIU will have two main responsibilities: overall project coordination for both components and project implementation, including reporting consolidation and project management. For environmental and social risk management aspects, AKF will rely on the existing resources under the Water Emergency Relief Project (P179311), which is already implemented by AKF. The ACGF and AKF-A will utilize their existing institutional arrangements with microfinance institutions (MFPs) and private sector enterprises to deliver the activities. The PIU will ensure the timely implementation of project activities in accordance with the Bank's rules and policies.

ACGF has substantial E&S risk management capacity with an adequate number of E&S staff. ACGF has an existing comprehensive ESMS and has an established track record of compliance with World Bank E&S standards under the Access to Finance Project and Strengthening Afghanistan Financial Intermediation Project (SAFI). ACGF will have the responsibility to ensure that the same ESMS requirements are cascaded to all MFPs and borrowers ensuring identification and management of E&S risks of the activities for which the loan is provided by MFPs. As part of the E&S risk management arrangements, AKF-US will ensure that ACGF demonstrates continued compliance with the requirement of ESF and relevant E&S standards including maintaining operational ESMS. Capacity support to the AKF and ACGF will be provided for the entire project implementation.

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

A. Environmental and Social Risk Classification (ESRC)

Moderate

A.1 Environmental Risk Rating

Moderate

[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 environmental risk of the project is rated Moderate. The project activities do not envisage a substantial negative impact on the environment or natural resources. Under component 1 which will be implemented by ACGF, grants will be provided to Micro Finance Providers (MFPs) to improve their capital and clear their balance sheets. Similarly, under component 2, under Credit viability fund, loans will be provided to SMEs. Given the main focus of the project is to revitalize and empower small and micro enterprises, primarily women-led enterprises, the environmental risks and impacts of these businesses are anticipated to be minor and negligible in nature. Loans that will be provided to borrowers by MFPs for business will be screened against the negative checklist to ensure funds are not used for activities with substantial environmental risks. Although the sub-sector businesses are not known at this stage, most of these enterprises are anticipated to be in the agriculture value chains, the handcraft sector, small-scale manufacturing, and so on. The anticipated risks and impacts concern waste management, resource management, pollution management, and occupational health and safety aspects, which are anticipated to be moderate in nature, given the nature of the enterprises.

A.2 Social Risk Rating

Moderate

[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]

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Overall, the project is expected to result in positive impacts, through efforts to revitalize the local economy and enhance the resilience of MFPs and their borrowers (both existing and future), as well as micro and small enterprises with a particular emphasis on women-owned businesses. However, considering the current FCV context and social fabric of the country coupled with the restriction imposed by the Interim Taliban Administration (ITA) on certain groups such as women could give rise to potential risks, such as social inequalities, exclusion, and discrimination of certain categories of vulnerable and marginalized groups. Moreover, additional potential risks such as forced labor, occupational health and safety risks, sexual exploitation, and abuse/sexual harassment (SEA/SH) risks for employees working for enterprises who are benefiting from the project intervention. In addition, the Low capacity of the targeted MFP enterprises to manage E&S risks following the Environmental and Social Framework (ESF) are additional risks that need to be considered under the project.

[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]

ESS1 is relevant for this project. Considering the project activities are mainly focused on building sustainable solutions for developing both the demand for and supply of finance for micro and small enterprises in Afghanistan with a particular focus on prioritizing women's economic empowerment. ACGF already has in place satisfactory ESMS and additional due diligence will be conducted during project implementation to determine if any additional adjustments are warranted. The relevant requirements relating to ESS1 will be incorporated into each of the contractual agreements between ACGF and MFPs. ACGF and MFPs would be required to apply the relevant requirements of other ESSs to any sub-projects with potential adverse risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage. The site and situation-specific requirements will be determined through E&S assessment of the businesses of the borrowers with the help of the ESMS tools. Also, the implementing entities will strengthen the monitoring and supervision aspects of the sub-project impacts using the Loans that will be provided to borrowers by MFPs for business will be screened against the negative checklist to ensure funds are not used for activities with substantial or higher environmental and social risks. In addition, ACGF will provide training and awareness raising to MFPs about OHS, Sanitation, and Hygiene, using First Aid Kits, etc. Given that the sub-sector of businesses are not known at this point, ACGF will develop sub-sector-specific guidelines upon their identification and together with MFPs will make sure that the borrowing enterprises follow those guidelines.

ESS10 - Stakeholder Engagement and Information Disclosure

Relevant

[Explanation - Max. character limit 10,000]

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ESS10 is relevant for this project. AKF has developed a detailed stakeholder engagement plan (SEP) in accordance with ESS10 which will also guide the stakeholder engagement activities of ACGF. The SEP lays out the plan for meaningful consultations and engagement with all stakeholders throughout the project lifecycle. It describes the strategy and specific engagement methods that would facilitate the effective participation of the different affected groups. The SEP also delineates the roles and responsibilities for the implementation of the SEP, as well as monitoring and reporting Mechanism(s). It describes the principles, processes, and structure of the grievance redressal mechanism(s) (GRM) for each component. The SEP will be updated and redisclosed during implementation by incorporating feedback from affected, vulnerable groups and interested parties on how they would like to be engaged during the project implementation including any feedback to further improve the project GRM system. Any changes to the SEP will be formally communicated between the World Bank and the implementing entities. AKF-US and ACGF will continue to identify and engage, through meaningful consultations, with all stakeholders, paying special attention to the inclusion of women, and vulnerable and disadvantaged groups. The SEP acknowledges the challenges of engaging marginalized and vulnerable social groups such as IDPs, returnees, pastoral nomads, and those living in remote or inaccessible areas and proposes strategies to engage with them.

ESS2 - Labor and Working Conditions

Relevant

[Explanation - Max. character limit 10,000]

ESS2 is relevant for this project. The provisions of ESS2 pertaining to direct and contracted workers will be applicable to both the implementing entities i.e. AKF and ACGF. In addition, the requirements of ESS2 pertaining to FIs will also be incorporated in the ESMS, established by ACGF which will implement ACGF labor management procedure and will apply to the MFPs and the recipients of loans. AKF will prepare a shortened and streamlined LMP which will include provisions on working conditions, management of workers relationships, and emergency preparedness and response given potential physical safety risks for project actors due to the FCV context. The LMP will also include a code of conduct relating to SEA and SH, forced labor, child labor, and grievance redress arrangements, in light of project activities, and will be prepared, disclosed prior to prior to engagement of any project workers

ESS3 - Resource Efficiency and Pollution Prevention and Management

Relevant

[Explanation - Max. character limit 10,000]

ESS3 is relevant. The anticipated risks and impacts concern waste management, resource management, and pollution management. These risks and impacts will be managed through ESMS system already established by ACGF. ACGF will also ensure that the ESMS is materially consistent with the provisions of ESS3. In addition, for component 2, AKF will develop an ESMF which will have provisions for managing the risk and impacts associated with waste management, resource management and pollution management.

ESS4 - Community Health and Safety

Relevant

[Explanation - Max. character limit 10,000]

The contextual risks of the project pose potential security risks to participating MFPs. AKF will implement and cause ACGF and participating MFPs to adhere to the project's security risk management plan and any other measures necessary to ensure consistency with the provisions of the ESF. The security risk management measures necessary for



the implementation of the Project activities and for the provision of security to Project workers and assets will be included as part of the project operations manual. As AKF has already developed a security management plan for the Water Emergency Relief Project (P179311), they will update the security risk management plan to cover the EMERGE project as well. Community Health and safety requirements, mitigating measures for GBV/SEA/SH risks and their management will be covered in the ACGF ESMS according to ESS9. The Project will develop and implement a SEA/SH action plan, in consultation with women’s organizations. Additionally, project staff will be trained on the behavioral obligations under the employees’ CoC and SEA/SH action plan implementation. The Project grievance mechanism contains stipulations for sensitive grievances, including those related to SEA/SH. The ESCP also includes appropriate actions with time-bound commitments for the mitigation of SEA/SH risks under the project.

ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement Not Currently Relevant

[Explanation - Max. character limit 10,000]

ESS5 is not relevant. The project is not expected to involve resettlement, land acquisition, and/or asset loss as there will be no new construction under the project. The project will not support any activity that would cause land acquisition, voluntary land donation or asset loss.

ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources Not Currently Relevant

[Explanation - Max. character limit 10,000]

ESS6 is not relevant. The project is not foreseen to have impacts on biodiversity or living natural resources.

ESS7 - Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities Not Currently Relevant

[Explanation - Max. character limit 10,000]

ESS7 is not relevant as there are no communities or individuals who meet the criteria defined in the ESS7.

ESS8 - Cultural Heritage Not Currently Relevant

[Explanation - Max. character limit 10,000]

ESS 8 is not relevant. None of the project activities are expected to have impacts on tangible and intangible cultural heritage.

ESS9 - Financial Intermediaries Relevant

[Explanation - Max. character limit 10,000]

ESS9 is relevant to the project. ACGF will be implementing component 1 of the project. The ACGF will use the funds to provide grants to the MFPs to help build back their capital and clean their balance sheets. All MFPs receiving grants from ACGF will be required to adhere to the requirements of ESMS developed by ACGF, consistent with the requirements of ESS9. The ESMS includes, as provided in ESS9: E&S policy, procedures (screening, categorization,

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exclusions, assessments to prepare), capacity for assessing, managing, and monitoring risks and impacts of sub-projects, and stakeholder engagement. All sub-sector businesses for which a loan is requested will be assessed for their environmental and social risks prior to the provisions of the loan. The screening mechanism, as part of the procedures, will review and categorize the sub-projects based on their E&S risk and screen all Moderate and Low-Risk sub-projects against the project’s Exclusion List. All Substantial or High-Risk sub-sector businesses should be screened against investing in these enterprises. The World Bank will undertake due diligence on the ESMS of ACGF and its contractual agreement pertaining to E&S requirements with its MFPs.

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 use of borrowers framework is not considered.

Use of Common Approach No

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

Common approach is not used for this project.

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 environmental risks of the project are expected to be moderate, given the project interventions focus on loans provided to micro and small enterprises. Although the sub-sector businesses are not known at this stage, most of these enterprises are anticipated to be in the agriculture value chains, the handicraft sector, small-scale manufacturing, and so on. The anticipated risks and impacts concern waste management, resource management, pollution management, and occupational health and safety aspects, which are anticipated to be moderate in nature, given the nature of the enterprises.

Similarly, to the environmental risks, the project's social risk is moderate, but it is not expected to have irreversible negative impacts. However, there may be potential risks related to inequality, discrimination, and gender vulnerability in loan provision, considering the country's current context. Risks of sexual exploitation, abuse, and harassment will be continuously assessed throughout project implementation. Mitigation measures will be outlined in a dedicated SEA/SH action plan addressing these risks.

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The AKF will prepare an Environmental and Social Management Framework (ESMF) prior to Project effectiveness to include provisions for screening and mitigation of the anticipated risks and impacts of activities under Component 2. ACGF has established an Environmental and Social Management System (ESMS) in line with ESS9 requirements which is being applied for loans that are guaranteed by ACGF under Component 1. The Project ensures that the MFPs commit to a proportionate application of ACGF's ESMS for all activities planned under Component 1 and the ESMF developed by AKF for all activities under Component 2, considering the expected low average loan size. The ESMF and the ESMS shall contain relevant policies, procedures, organizational capacity, monitoring and reporting, stakeholder engagement to mitigate against anticipated E&S risks. The Project will have a single Environmental and Social Commitment Plan (ESCP) covering both Component 1 and 2. Both AKF and ACGF already have grievance mechanisms in place for project stakeholders to lodge project related complaints.

To manage the moderate environmental and social (E&S) risks associated with small and micro-enterprise loan recipients, specific E&S provisions will be included in the contractual agreement between the ACGF and the MFPs (Conditional CSG Agreements). In addition, the CVF Agreements to be signed with each MPF under Component 2 will include specific provision on the management of E&S risks associated with small and micro-enterprise recipients. ACGF and AKF will implement their respective Exclusion Lists/Negative List and will train relevant MFP staff to screen against these lists. The screening of E&S risks against the Exclusion/Negative List may involve the preparation and updating of sub-sector specific guidelines, manuals, and handbooks, with the aim of enhancing the capacity of MFPs' loan officers. The Project is expected to have positive social impacts by strengthening the managerial and regulatory capacity of relevant MFPs.

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]

AKF will develop an ESMF which will have negative list, screening checklist and provisions for mitigating the risks and impacts associated with activities under component 2.

ACGF has already established an ESMS, which will be updated during project implementation.

ACGF will prepare a negative list which will be used to screen the activities for which the loan is provided by MFPs.

ACGF will develop or update sub-sector-specific guidelines for the businesses run by borrowing enterprises.

III. CONTACT POINT

World Bank



Task Team Leader: Namoos Zaheer Title: Senior Financial Sector Specialist

Email: nzaheer@worldbank.org

TTL Contact: Kiran Afzal Job Title: Senior Private Sector Specialist

Email: kafzal@worldbank.org

IV. 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>

V. APPROVAL

Task Team Leader(s): Namoos Zaheer, Kiran Afzal

ADM Environmental Specialist: Sayed Mujtaba Shobair

ADM Social Specialist: Tariq Ashraf

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