



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 11/29/2021 | Report No: ESRSC02434



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Moldova	EUROPE AND CENTRAL ASIA	P177895	
Project Name	Moldova MSME Competitiveness Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	1/5/2022	3/28/2022
Borrower(s)	Implementing Agency(ies)		
Republic of Moldova	PIU under Ministry of Economy		

Proposed Development Objective

The project's development objective is to increase the export competitiveness, reduce the regulatory burden, and increase access to finance for Moldovan enterprises.

Financing (in USD Million)

Amount

Total Project Cost	50.00
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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]

The PDO will be achieved through a set of activities that aim to: a) digitize government to business services and inspections and reduce the regulatory burden enterprises face; b) support the development of micro, small, and medium-sized enterprises, enhance their export competitiveness, and improve the national quality infrastructure; and c) support access to finance for enterprises through credit guarantees and improve the operations of the Credit Guarantee Fund.



The operation will have three main components:

Component 1 (USD21 million): Digitization and Regulatory Reform: to reduce the regulatory burden enterprises face. Activities under Regulatory Reform / Digitization will focus on scaling up digitization of Government to Business services (permissive documents, authorizations, etc.) promoting integrated service delivery and reducing regulatory burden for private sector and increase competitiveness in post-COVID recovery. This will be complemented with digitizing and enhancing capacity of inspections (equipping them, improving e-Inspection management system, and enabling risk-based inspections). Relevant regulatory reform as needed to implement digitization, as well as reforms linked with regulatory simplification, will complement digitization. This involves a) scale-up of digitization of government to business services (permits, licenses, approvals, notifications, etc.); b) enhance and upgrade e-Inspection system to enable proper inspection planning and implementation of field inspection visits; and c) simplification will involve process re-engineering, including export-import processes, laws and regulations to enable more conducting digital trade and services. Activities on digitizing government to business services will consider climate risks and vulnerabilities to ensure climate resilience and will directly lead to the reduction of paper consumption and reduce emissions of Greenhouse gas (GHG). The component will also build on the work carried out under the Second Competitiveness Enhancement Project on promotion of the new Competition Law and further amendments to by laws and other relevant regulation.

Component 2 (USD15 million): The Access to Finance component will support the Credit Guarantee Fund (CGF) in its provision of financial guarantees to MSMEs. The Project will support the financing needs of MSMEs by addressing the emanating credit risk through public credit guarantees. As firms, especially MSMEs, are confronted by plunging incomes and disruptions in supply chains, demand for financing increases. Access to credit for viable enterprises who have become cash-strapped is critical to preserve the private enterprise sector, avoid increased insolvencies, and maintain jobs. The Access to Finance will support public partial credit guarantees via the existing CGF. Public credit guarantees are particularly useful in the presence of high collateral requirements by banks and bank risk aversion, as in the case of Moldova. The Project will finance the provision of partial credit guarantees to MSMEs and technical assistance to strengthen CGF.

(a) The Project will support ODIMM in launching a portfolio guarantee product under the CGF. The authorities are in process of amending the legal framework to enable the provision of portfolio guarantees, which is expected to be launched in 2022. The portfolio delivery mechanism will significantly reduce the waiting period for access to credit for MSMEs and streamline the requirements for qualifying MSMEs and Participating Financial Institutions (PFIs). Implementation costs for the design of the portfolio guarantee are covered from the European Fund for South East Europe (EFSE). ODIMM is benefiting from external technical assistance with regards to elaborating a beneficiary evaluation system, estimation of credit risk exposure for each transaction, the elaboration of the operational manual / guide for issuing portfolio guarantees and the possibility to access a counter-guarantee fund. With the implementation of the new portfolio guarantee mechanism, the terms and conditions of the guarantees will be revised in order to enable expansion and flexibility on guarantee coverage, which in turn will ensure financial sustainability over the medium-term.

(b) The component will also include an amount for technical assistance for ODIMM for capacity building for ODIMM in the area of operational, financial and risk management policies, and financial reporting.

(c) The component will enhance the capacity of PFIs to address climate action priorities by providing trainings on climate change topics (adaptation and mitigation). Discussions between ODIMM and PFI will identify the existing knowledge gaps of the PFI personnel and their project-related training needs. The trainings will address climate



change adaptation and mitigation topics relevant for financial institutions in the country and in the context of international regulations (e.g., EGD, EU Taxonomy, etc.).

(d) RBF: The component will enhance the effectiveness of CGF products and ODIMM’s operational capacity under PBCs. To ensure that the portfolio product outreach is scalable and that financial sustainability can be achieved over the medium-term, the PBCs will focus on enhancement of financial and statistical reporting of CGF (including granular use of proceeds data), improvements in internal control and risk management policies, and establishment of a framework for monitoring and evaluation, including impact assessment. Additionally, the Project will support enhanced reporting on CGF guarantee use of proceeds including green and sustainable finance. Adding “green tags” in credit information collected under the CGF guarantees will provide a baseline on current credit flow and will inform future guarantee products that could help to achieve the country’s green and sustainable finance goals. To ensure that the portfolio product is flexible and responsive to movements in market demand, and to channel credit to policy priority sectors, CGF will assess the portfolio guarantee performance, including preliminary outreach and will conduct additional market demand assessment to align its product composition and delivery to target underserved markets (whether through product adjustments or enhancements). CGF/ODIMM will also develop an investment policy to support medium-term outreach and financial sustainability targets on the basis of augmented capital. Such investment policy should be in line with best international practices, shall be approved by the ODIMM Council, and reviewed periodically. Further, ODIMM is expected to implement an action plan toward medium-term efficient and sustainable governance and financial and operational independence, including preparing an action plan toward additional capitalization of CGF.

Component 3 (USD 13.2 million): support the development of micro, small, and medium-sized enterprises, enhance their export competitiveness. MSME Development / Export Competitiveness will support firms through matching grants, export readiness, quality infrastructure enhancement (ie. improvement in certification, accreditation, standardization), and export promotion programs. Activities under this component are interlinked and cross-support each-other. A new program initiated by ODIMM on internationalization and export readiness aims at helping aspiring local enterprises become export ready. Tools provided under this program will help companies to address some of the shortcoming at present and improve them to be able to export. The MGF is designed to provide business development services (BDS) for these as well as other companies in Moldova willing to export. BDS have proven to be very effective in reaching international markets, thus this activity fits well in the overall scheme of increasing export competitiveness. Local linkages program is aimed to help local firms to link into exporting value chains of FDIs present in the country. At present, very few FDIs source locally (22%) and local firms are not integrated in exporting value chains. Given the recent trends in near shoring and the fact that most FDIs are from neighboring countries, Moldova has an opportunity to explore this potential in post-COVID recovery. Local linkages, export readiness, and the MGF and targeted promotion programs will provide tools for this. Upgrades to quality infrastructure (ie. improvement in certification, accreditation, standardization) to enable exports to EU and other countries will be done. Finally, targeted export promotion to selected countries of interest will open opportunities for exporters to reach international markets.

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 Republic of Moldova is a country located in Eastern Europe, bordered by Romania to the west and Ukraine to the north, east, and south. The capital and largest city is Chişinău. COVID-19 led to a state of emergency in Moldova curtailing freedom of assembly and accelerating an already existing process of economic contraction and pressure on livelihoods due to effects on agricultural production of recent severe drought. Poverty is estimated to have increased by 15.5 percent in 2020. The country's population is undergoing significant demographic changes characterized by low fertility rates, rather low life expectancy and aging population, with economic and social implications, such as pressure on social security. Migration from the Republic of Moldova has progressively increased, and the number of working age population currently abroad is estimated at one third. Only a significant improvement in domestic economic and social conditions will alter the high emigration of youth and slow the rate of population contraction. Gender inequalities in education and career outcomes persist with significant gender segregation in higher education. Moldova's climate is moderately continental. Most of Moldova's territory is a moderate hilly plateau cut deeply by many streams and rivers. About 75 percent of Moldova is covered by a very rich soil, - chernozem, favoring agriculture production. Drainage in Moldova is to the south, toward the Black Sea lowlands, and eventually into the Black Sea, but only eight rivers and creeks extend more than 100 kilometers. Moldova's main rivers Dniester and Prut which are transboundary rivers.

Covid-19 has also led to loss of liquidity for export-oriented companies as they decreased supply of inputs due to lack of working capital leading to potential loss of market share. According to 2020-2021 Enterprise Survey, 54.5 percent of Moldovan export businesses reduced hours worked and registered a greater reduction of full time and temporary workers than non-exporters. Differential impacts on female-headed firms in terms of access to credit are to be assessed. Moldovan government has been characterized by constant change in recent years impacting on the ability of line agencies to build and retain capacity.

Project activities will occur across the country and are projected to involve from a few hundred up to a few thousand micro, small and medium sized enterprises (MSMEs) mainly in agricultural production, agro-processing, small-scale industry and manufacturing but potentially extending to other sectors. As defined by Moldovan law, a micro enterprise has at most 9 employees, annual turnover of up to 9 million lei or total assets of up to 9 million lei; a small enterprise has 10-49 employees, annual turnover of up to 25 million lei or holds total assets of up to 25 million lei; a medium-sized enterprise has 50-249 employees, annual turnover of up to 50 million lei or total assets of up to 50 million lei. Financial intermediation will occur via a credit guarantee fund that will partner with up to 11 domestic banks for the provision of guarantees for loans to MSMEs. Technical assistance and matching grants will also involve a range of MSMEs for preparation of business plans and purchase of equipment and materials to facilitate production (examples include moderate amounts of sewing machines, packing equipment, electricity generators, piston pumps, barrels). Matching grants are likely to target different MSMEs to those participating in the financial intermediation component with some minor overlap.

D. 2. Borrower's Institutional Capacity

The project implementing agency, the Ministry of Economy (MoE) has prior experience implementing the Bank's safeguards policies under the Competitiveness Enhancement Project (CEP) and CEP II but is unfamiliar with the requirements of the Environmental and Social Framework (ESF), particularly with regards to Environmental and Social Standard (ESS) 9 on Financial Intermediaries. It will maintain a Project Implementing Unit (PIU) to manage all project activities. The existing PIU from the previous CEP1 and CEP II operation is resourced with one Environmental and one Social staff, in addition to regular PIU staff. The PIU will coordinate screening of activities directly for the matching grants component and will support ODIMM to establish its own environmental and social management system



(ESMS) to screen and provide due diligence on credit guarantees for the access to finance component. ODIMM (Organization for Small and Medium Enterprises Sector Development) will participate in project implementation under the PIU for Credit Guarantee Fund activities only. ODIMM has one existing environmental and social (E&S) focal point and shall hire an additional E&S specialist to implement its (ESMS) ensuring consistency with requirements under ESS9 and provide support to PFIs in the development of their ESMS. ODIMM is a public, non-commercial, non-profit institution, which operates under the MoE and coordinates with other central and local authorities, business associations, and business support providers to support development of MSMEs, especially in rural areas; provide training, facilitating access of MSMEs to financial resources, information resource and business support infrastructure. ODIMM has significant expertise in working with MSMEs across the country implementing grant and training programs financed by the EU, UNDP, private banks and other partners. ODIMM’s programmatic activities include various investments to ensure inclusion and prevent discrimination in the provision of support for MSMEs. In partnership with the EU, UNDP, private banks and other partners, its activities focus on women and youth in business, attracting remittances, second-chance financing for insolvent small enterprises, social impact investing, a model Corporate Social Responsibility national competition. The Bank will conduct introductory ESF training and capacity building for PIU, ODIMM and Participating Financial Institutions (PFI). ODIMM will deploy E&S specialist trainer to assist with capacity building in the establishment of PFI ESMS where additional efforts are required.

For the PFI MSME finance component, the ODIMM will be required to develop and implement ESMS satisfactory to the Bank for its financial guarantee delivery activities. PFIs will also be required to develop and implement their own ESMS consistent with the ODIMM ESMS and Bank requirements. Given ODIMM’s lack of prior experience in ESMS implementation, the World Bank will maintain close oversight particularly in the early stages of implementation. Project MSME sub-project activities are not expected to have large-scale, significant, and/or irreversible environmental and social impacts. Any activities of project beneficiary MSMEs which may be associated with significant impacts will be rated as high or substantial risk and will be considered ineligible for project financing.

Public Disclosure

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

A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating

Moderate

Project potential environmental risks and impacts are moderate. These risks and impacts will be generated mostly under Component 2 which will support different types of subprojects (through Portfolio Credit guarantee under ODIMM) in the area of industrial and agricultural production, agro-processing, and manufacturing. It is expected in many cases the project will provide financial guarantees for working capital, purchasing of limited amounts of raw material and equipment purchase/replacement and, respectively, the potential environmental and social risks and impacts of such financial guarantees are not expected to be significant. Screening will ensure that any MSME beneficiary activities classified as high or substantial for environmental and social risk will not be eligible for financing. The project may provide guarantees for capital expenditure (for purchase and upgrade of equipment, machinery and other physical assets) and working capital in agriculture, services, food processing, and a range of small manufacturing. Their environmental and social impacts are likely to be moderate and can be summarized as follows: (a) small-scale construction of new facilities (such as storehouses, cold storage boxes, produce sorting lines, vinification facilities): soil and air pollution; acoustic, aesthetics impacts, etc.; (b) manufacturing (small ventures in



sewing, printing, auto-repair, soap making, furniture production, shoe-making, fibre glass thread, toilet paper and others): air pollution, wastewaters, hazardous wastes, and solid waste generation, labor safety; (c) agricultural production (such as wheat, soy, corn, sunflower seeds, fertilizers and other smallholder farming with an average workforce of 30-40 personnel): soil erosion, loss of soil productive capacity, soil compaction, soil pollution, surface, and underground water pollution, health and environmental risks associated with agro-chemicals use; and (d) agro-processing (such as in plums, biscuits, milk, bread production, popcorn, wine, grapes, cattle): contribution to surface water pollution, wastes generation, odor. In addition, all these subprojects may generate risks of spreading COVID-19 infection. Under Component 3, the Project will provide support for a series of TA and consultancy activities which during the implementation and operational phases might also generate some indirect environmental risks and impacts. In particular while developing new business plans, creating new products, or improving production processes, may induce downstream MSME investment activities that generate some impacts related to air and water pollution, waste generation, labor and health risks, etc., lower than normal impacts as the Consultancy will deliver better economical and environmental friendly ways to manufacture products. Overall, all these impacts are expected to be site-specific and mostly temporary and can be easily mitigated through good project design and implementation practices. Additionally, the project will not generate impacts on biodiversity or physical cultural resources as it will not support subprojects located in protected areas, critical and non-critical habitats or culturally or socially sensitive areas, along with subprojects that might have impacts on international waterways such as the River Prut, Dniester, or Danube Delta. The expected cumulative impact of the project activities is mostly positive and will include increased income, better knowledge on best agricultural, agro-processing and manufacturing practices, with consequent improvements in the status of the environment in the country. While the existing PIU track record on implementing safeguards issues under the CEP II project is overall positive, the PIU will need to strengthen its capacity, especially on risk management related to labor and working conditions and on ESS9 in order to support ODIMM and PFIs in the preparation of ESMS.

Social Risk Rating

Moderate

Project activities associated with the provision of matching grants for purchase of equipment and credit guarantees for working capital, manufacturing and construction works for small-scale industrial and agricultural activities are unlikely to involve significant risk of adverse impacts on workers or communities. Workforces of MSMEs participating in activities enabled by the grants and credit guarantees are typically small (average 30-40 personnel). While inspection and prevention of health and safety incidents and forms of harmful labor is reportedly weak in country, no such issues have been identified under the previous operations. Some community health and safety risks may be present depending on the nature of MSME activities supported by the credit, grants and TA activities such as risk of interaction with nearby communities during transport of equipment and machinery or during localized construction activities. No land taking is required under the project. Should any land or property be acquired by beneficiaries, it will be on a willing buyer-willing seller basis as documented by legal transaction records. Sexual exploitation and abuse and sexual harassment (SEA/SH) risks are estimated to be low but preventative measures should be put in place. Fair labor conditions and worker health and safety need to be included in the PFI's ESMS and ensured by PFIs screening for track record of participating companies and identifying labor-related risks associated with MSME activities prior to approval of credit guarantees and subsequent loans. MSMEs that use labor for production and services should have protection measures in place to avoid SEA/SH and prohibit use of forced labor and harmful child labor. A review of MSME activities supported by the previous project by sector indicates that activities associated with equipment purchase, working capital and small-scale manufacturing and construction works are unlikely to generate disproportionate impacts on vulnerable groups and are generally easily manageable through screening and site management plans. There is risk that provision of matching grants and credit financing



during COVID-19 may benefit those enterprises with existing financial capacity, and not reach rural new starters or those with insolvency records or without access to information or awareness of the program. Entrepreneurs from culturally or geographically remote communities, or female-led businesses may be more reluctant to apply and take on debt during COVID-19. Measures should be described in the ESMS to provide access to information and informed decision-making of such potential beneficiaries. ODIMM has a good track record of working with local NGOs and financial institutions to extend grants and guarantees for MSMEs nationwide. However, ODIMM does not have experience in implementing World Bank-financed projects and is not familiar with the World Bank's ESF or the provisions of ESS9. ODIMM will require additional staffing and capacity-building in order to implement its activities under the Project in accordance with ESF requirements for financial intermediation. Participating commercial banks will also require due diligence review to demonstrate that their ES management systems are in place and consistent with ESS9. The PIU will have a social specialist providing overall coordination and support.

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 project will support improvements to regulatory mechanisms (digitization of business services, e-inspection, simplification of export-import regulations for digital trade), access to finance (provision of partial credit guarantees) and matching grant funds (for business planning and equipment purchase) for MSMEs. MSME subprojects receiving loans backed by credit guarantees are mainly in small-scale agricultural production and processing associated with livestock and poultry; annual & plantation crop production; agricultural machinery (tractors, winnowers, sowing machines, etc.). Financial guarantees will be provided for loans provided to MSMEs by participating commercial banks. Such loans will be provided for working capital, purchasing of raw material, equipment purchase, and small-scale construction and manufacturing activities. These partial credit guarantees are used to back 50-80 percent of loan amounts averaging USD100,000 (but ranging from a few thousand) by commercial banks for activities such as (a) construction of new facilities (with site-specific soil and air pollution; acoustic, aesthetics impacts etc); (b) manufacturing (air pollution, wastewater, hazardous wastes, and solid waste generation, labor safety and conditions risks) (c) agricultural production (soil erosion, loss of soil productive capacity, soil compaction, soil pollution, surface, and underground water pollution, health and environmental risks associated with agro-chemicals use); and (d) agro-processing: contribution to surface water pollution, wastes generation, odor, animal welfare requirements). Matching grants will be provided for preparation of business plans and purchase of equipment and materials to facilitate production (examples include moderate amounts of sewing machines, packing equipment, electricity generators, piston pumps, barrels). These activities may generate risk of spreading COVID-19 infection. The project TA and consultancy activities may also generate indirect environmental risks and impacts. New business plans, new products, or improved production processes, and regulatory reforms might indirectly generate impacts related to air and water pollution, waste generation, labor and health risks, etc. Regulatory reforms are primarily associated with digitalization of existing mechanisms. Any revision to laws will be screened to ensure this does not involve loosening of environmental and social protections. Overall all these impacts are expected to be site-specific, mostly temporary, and easily mitigated through good project design and implementation.



The project will not generate impacts on biodiversity or physical cultural resources as it will not support subprojects located in protected areas, critical and non-critical habitats or culturally or socially sensitive areas, or subprojects that might have impacts on international waterways (River Prut, Dniester, or Danube Delta). E&S risks appear to be limited due to the small scale of each activity and general disbursement throughout the country, but adverse cumulative impacts should be monitored annually and managed at a portfolio level in the ESMSs for component two and ESMF for component three. Activities proposed under the project are not expected to cause temporary or permanent physical or economic displacement or loss of assets. Activities that require involuntary resettlement will be deemed ineligible for financing. Land or property transactions by beneficiaries under the project will be conducted on willing buyer-willing seller basis as evidenced by records to be provided by the grant beneficiary. The project is not expected to disproportionately impact vulnerable and disadvantaged groups however measures should be in place to prevent child or forced labor. Measures will be explored to support inclusion of women-led businesses and others struggling to access finances through the provision of credit guarantees for cultural and capacity reasons.

The PIU will prepare an Environmental and Social Management Framework (ESMF) which will outline assessment and mitigation requirements for TA and matching grants provided to beneficiaries under component three. This will include procedures, criteria, and responsibilities for subproject screening for identifying those which might require an Environmental and Social Impact Assessment (ESIA) and/or a simple Environmental and Social Management Plan (ESMP). The ESMF will also identify recommendations for improving environmental performance of proposed activities by specifying opportunities for sound positive alternatives (e.g., energy efficiency, recycling and reducing waste generation, etc.). The ESMF will also describe potential E&S impacts and generic mitigation measures for common groups of TA activities and matching grants at all stages - from identification and selection, through the design and implementation phase, to the monitoring and evaluation of results. The document will outline the matching grants-specific E&S documents (outlines of ESMPs, ESMP Checklists) and/or main requirements for TORs for ESIA studies (especially for matching grants that support development of new business plans). Furthermore, the ESMF will provide a monitoring plan format that includes monitoring indicators, timing, methods, institutional responsibilities, etc. in all phases of project implementation.

The PIU will work with ODIMM to develop, implement and maintain an apex (first level) ESMS to guide development and implementation of ESMS of beneficiary PFIs. The ODIMM ESMS will be commensurate to the risk of its financial activities with adequate capacity in place to inform its PFI decision-making processes on provision of credit guarantees. Details of the ODIMM ESMS are discussed under ESS9 section. Prior to credit guarantee approval, all beneficiary firms will be assessed for E&S risks and impacts in accordance with ODIMM's ESMS approved by the World Bank. Where activities for which MSMEs are requesting loans are likely to have minimal or no adverse risks or impacts, ODIMM and PFIs will require compliance with Moldova environmental, social, labor and OHS laws. Where necessary, MSME's compliance with ESSs will be ensured through the application of E&S action plans in line with PFI's ESMS. ODIMM will require all PFIs to categorize any MSME activity that involves significant risks and impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage as high or substantial risk, and screen these out as ineligible for financing in accordance with the project's terms and conditions. As part of the credit guarantee approval procedure, E&S due diligence will be conducted by each PFI as part of their own ESMS and approved by ODIMM. Both ODIMM and PFIs will have adopted acceptable ESMSs before they disburse any project funds.



The PIU will coordinate screening of activities directly for the matching grants component and will support ODIMM to provide screening/due diligence on provision of credit guarantees. The ESMF will be prepared prior to appraisal for application to the non-FI component activities of the project. Labor Management Procedures (LMP) and stakeholder engagement procedures required in the ODIMM ESMS are to be prepared by effectiveness and in the PFI ESMS are to be in place prior to their participation. The PIU and ODIMM will prepare and agree with the Bank prior to Appraisal on an exclusion list to be included in the ESMS and ESMF detailing the range of activities ineligible for financing, either through provision of matching grants or through loans backed by credit guarantees. Activities with risk of resettlement, and significant risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity, and cultural heritage will be excluded. An Environmental and Social Commitment Plan (ESCP) will be prepared, disclosed and consulted on prior to appraisal.

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

The use of borrower framework is not being considered due to significant discrepancies between ESF requirements and national legislation.

ESS10 Stakeholder Engagement and Information Disclosure

The MOE PIU will prepare an overall project Stakeholder Engagement Plan (SEP) by Appraisal which will identify potential project-affected and other interested parties, and will outline measures for engagement with these stakeholders. The SEP will be prepared based on preliminary consultations with stakeholders. The SEP will specify the institutional roles and responsibilities, timeline, and budget for conducting the stakeholder engagement. Key stakeholders are expected to include MSMEs that would potentially benefit from the project, ODIMM and PFIs, local administrations at municipal, regional, and district levels, as well as national government institutions, such as different units within the MOE. Other interested parties may include other IFIs, NGOs, or organizations that support the MSME sector and engage with ODIMM. The SEP will promote engagement of female-led businesses, MSMEs led by entrepreneurs from disadvantaged groups or regions.

The PIU will establish a project-level Grievance Redress Mechanism (GRM) and maintain it throughout project implementation dedicating sufficient resources, and staff time to GRM management. The GRM will be revised to update provisions for appropriate procedures and capacity to handle complaints associated with SEA/SH S including referral to specialist national service providers. The PIU will compile an annual report summarizing stakeholder engagements, and implementation of the grievance mechanism. This report will provide a summary of all public consultation issues, grievances received and progress of resolution. Stakeholders should be provided with awareness information on the availability of the grievance mechanism and its potential uses. The GRM will be publicly disclosed, revised and updated.

The SEP and GRM will guide ODIMM and PFIs to prepare stakeholder engagement procedures consistent with ESS10 and integrate them into the ODIMM ESMS and PFI ESMS to ensure effective consultation on the implementation of the credit guarantees and sub-loan activities. They will supplement the external communications mechanisms to be prepared by PIU and participating PFIs in their ESMS for receiving and addressing any project-related feedback or grievances. PFIs that select and provide credit loans backed by the partial guarantees may be required to engage in additional outreach and engagement with their prospective beneficiaries. PIU will support ODIMM to monitor stakeholder engagement activities and ensure that they are provided with timely GRM reports from PFIs and MSMEs.



PFI will be made aware of the project SEP and GRM and their responsibilities for receipt, response and reporting on complaints and should have the capacity, staff, and resources to comply.

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

The project will mostly involve government workers (staff of different government agencies and the MoE), and contracted workers (consultants providing technical advise in the PIU and on subproject activities). The staff of ODIMM and other government agencies, and the PIU (including E&S specialists), are civil servants who will remain governed by their existing public sector agreements. Staff of ODIMM will participate in delivery of the access to finance component for provision of credit guarantees. For the matching grants component the PIU will hire relevant consultants to complete this task. For matching grants, ODIMM will only be engaged as other institutions to participate in validation and technical committees. The PIU and contracted consultants will be involved in screening grant applications, selecting sub-projects for grant financing and monitoring implementation of grant-financed activities. There is no intent to use voluntary community labor for implementation of activities. Civil works contractors hired by MSMEs may be involved in small scale construction activities and for transport and installation of equipment procured under the matching grants and loans. Entrepreneurs benefitting from support under the project will commit to adhere to national legislation and any relevant measures under the ESMF and ESMS. Subprojects screened as involving significant risks to labor rights, health and safety of employees, and child or forced labor will be excluded from financing.

Moldova's legal frameworks for core labor standards including freedom of association and collective bargaining, prevention of forced and child labor (minimum working age is 16), discrimination and equal opportunity, and occupational health and safety are broadly consistent with international standards. However, labor is in chronic shortage in Moldova and this has been exacerbated by the COVID-19 pandemic. Weaknesses are recognized in the enforcement and inspection of non-compliances by the labor inspectorate, which lacks sufficient numbers of inspectors to cover the workforce. Within the country there is potential for occurrence of harmful labor in primary agricultural work, according to a 2019 EU survey of core labor standards. However these are largely considered risks associated with the informal sector.

Labor Management Procedures (LMP) are to be prepared for the project ESMF and the ODIMM and PFI ESMS for the credit guarantees. In their ESMS, ODIMM and PFIs will review their HR policies for consistency with ESS2 and apply measures to strengthen their LMP where necessary, such as develop clear worker grievance redress mechanisms and codes of conduct to prevent and manage incidents of SEA/SH. PFIs will be required to adhere to national labor laws as well as all rules under their respective HR and ESMS policies. LMP are to include measures to ensure that participating PFIs screen for and monitor activities to prevent occurrences of harmful child or forced labor and that grievance mechanisms are available for direct and contracted workers. Activities that involve significant risk of child or forced labor will not be financed under the project. Measures to mitigate the impact of Covid-19 on worker health and safety will be included in the LMP.



Project activities may generate a range of site-specific impacts on environmental health and safety (emissions of dust and vehicle exhausts impacting air quality; noise and vibration causing disturbances; generation of hazardous and non-hazardous waste; OHS-related risks; spread of disease on construction sites. The ESMF and ODIMM and PFI ESMS will include a section on Environment Health and Safety (EHS), and this will inform the ESMPs to be developed for all site specific investments by the subproject beneficiaries, including specific tools that will need to be prepared either by the client or the contractor prior to commencement of works (i.e. EHS checklists and plans; worker codes of conduct; safety training regimens). The ESMF and the ODIMM and PFI ESMS will require to assess specific OHS risks associated with proposed provision of equipment and civil works and identify appropriate risk management and mitigation measures, following the applicable requirements of the national policies, ESS2, WBG's EHS General and sector-specific (where applicable) Guidelines, and WB's interim guidance on Covid-19 Considerations in Construction/Civil works. Potential risks related to Covid-19 to workers at construction sites shall be mitigated by implementing the latest Covid-19 protection guidelines and good practice. Contractors will be contractually required to monitor and enforce safety plans. Furthermore, the ESMS will include a section describing measures that will be used to ensure compliance with national laws and World Bank requirements relating to pesticide purchase and use and also measures to promote Integrated Pest Management (IPM) approaches and safe pesticide handling and disposal practices to reduce human and environmental exposure. These measures are to be adopted in the design of the works and to inform the construction and the procedure for monitoring and reporting with specific timebound requirements. Furthermore, the ESMS will prescribe the procedure for identifying, removing, storing, and transporting hazardous materials, including ACM, along with the requirements for the protection and training of on-site workers. The ESMS will clearly specify that all OHS-related risks and mitigation measures will need to be elaborated in detail in site-specific ESMPs and/or ESMP Checklists.

ESS3 Resource Efficiency and Pollution Prevention and Management

This standard is relevant. Activities related to manufacturing, agro-processing and industrial activities or those that require civil works, will address resource efficiency and pollution prevention and management measures through the project lifecycle consistent with WB ESF and GIIP to ensure sustainable use of resources and minimizing adverse impacts on human health and the environment. The potential risks and impacts of sub-project activities during associated civil works might include noise and dust emissions and the generation of construction wastes, including hazardous and non-hazardous waste, as well as workers health risks related to pest management activities. Waste management beyond construction related wastes will also need to be considered, especially in rural areas with weak waste management infrastructure. As such, relevant mitigation and management procedures will be outlined in the ESMF for component three activities and will apply the ESF requirements. Mitigation and monitoring measures will be further elaborated in detail in site-specific ES management plans where required by applicable national regulations, ESS3 and the ESF's mitigation hierarchy, WBG's EHS General, and sector-specific (if applicable) guidelines, and GIIP. These mitigation and monitoring actions to be specified in the site specific ES documents will include issues on pesticides and fertilizers purchase, transportation, storage, use, handling, and disposal. For component two ODIMM ESMS, and the corresponding PFI ESMS will screen for activities and risks outlined above. Any activities of project beneficiary MSMEs which may be associated with significant impacts will be rated as high or substantial risk and will be considered ineligible for project financing.



ESS4 Community Health and Safety

This standard is relevant. The potential risks and adverse impacts on community health and safety might be associated with the proposed activities under the Access to Finance component which might finance various civil works, agricultural production, agro-processing, etc. These potential risks and impacts include emissions of dust, noise, odor, and vehicle exhausts; traffic jams and traffic and road safety risks due to increased traffic volume and movements of heavy-duty vehicles; temporary road blockades and closures; increased waste and wastewater generation, underground water pollution by fertilizers and other agrochemicals. Community's potential exposure to waste (including hazardous waste), particulate matters, may lead to increased risks of health issues, resulting from poor site management, and communicable diseases relating to presence of labor (i.e., COVID-19 virus). The ESMF and ODIMM and PFI ESMS will include procedures to screen for the risks and impacts to the health and safety of project-affected communities, including groups that might be vulnerable, and relevant measures to be included in ESMPs where necessary. These will include management and mitigation measures to secure community health and safety during civil works and operations, as well as monitoring and reporting requirements. When preparing site specific ESMP documents, particular attention will be given to i) avoiding and minimizing exposure to project-related traffic and road safety risks; ii) assessing the likelihood of excessive noise and dust emission and potential exposure to hazardous waste and proposing mitigation measures (i.e., dust control, notification of risks to communities, clear procedures for handling hazardous waste). Any activities of project beneficiary MSMEs which may be associated with significant impacts on community health and safety will be rated as high or substantial risk and will be considered ineligible for project financing.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

This standard is not relevant. Sub-project activities proposed under the project are not expected to cause any temporary or permanent physical or economic displacement, loss of assets or access restrictions. The project will exclude any investments which may require involuntary resettlement, restrictions on land use, or negative impacts on assets or livelihoods of land users. Should any land or property be acquired by beneficiaries as part of activities supported by matching grants or provision of credit guarantees, it will be on a willing buyer-willing seller basis as documented by legal transaction records.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is not relevant. All activities to be financed will be implemented within existing agricultural land and settlement boundaries, the financing will not have impacts on wildlife and natural habitats will be not allowed.

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

This standard is not relevant. No indigenous peoples reside in the territory of Moldova. According to 2014 census, Minority groups residing in Moldova include Romanians (7 per cent), Ukrainians (6.6 per cent), the Turkic minority the Gagauz (4.1 per cent), Russians (4.1 per cent), Bulgarians (1.9 per cent), Roma (0.3 per cent) and others (0.5 per cent). Most minority members are scattered across the country, though the Gagauz region forms a self-governing administrative unit, while Ukrainian and Bulgarian communities live in compact settlements.



ESS8 Cultural Heritage

This standard is not relevant. Activities under the project will not involve risks to tangible or intangible cultural heritage. Sub-projects will be screened for potential impacts on known heritage sites and practices and those having impacts on cultural heritage will not be eligible for the Project support. Also, the ESMF and ESMS will outline the Chance Find Procedures which will be should be included in site-specific ESMPs for all earth-moving sub-projects.

ESS9 Financial Intermediaries

This standard is relevant. The project will finance the provision of credit guarantees to commercial banks utilizing an existing Credit Guarantee Fund (GCF) managed by the ODIMM. Both ODIMM and the PFIs are considered FIs for the purposes of the project. ODIMM and PFIs will be required to develop and implement satisfactory ESMSs with adequate capacity to manage the E&S risks of the project. The ODIMM and PFIs ESMS will include all the elements defined under ESS9, that is proportionate to the level of E&S risk of the project and will ensure that the necessary capacity, commitment and governance is in place to adequately manage the E&S risks of its lending activities. ODIMM and each PFI will designate a senior management official with oversight responsibility and sufficient number of competent technical staff to implement the ESMS

This ODIMM and PFIs ESMS will provide instructions on how subprojects will be screened for environmental and social risks and how the risk level of the guarantee beneficiaries will be monitored. The E&S procedures for each guarantee beneficiary firm will include a simple process for (i) screening against the WBG Exclusion List and the national E&S laws of Moldova; (ii) Screening, reviewing, and categorizing the subprojects according to their potential environmental and social risks and impacts within the defined eligibility criteria for the guarantee financing; (iii) applying any relevant requirement of the ESSs through the use of environmental and social action plans (ESAPs) where necessary; and (iv) monitoring any corrective actions proposed for the sub-project. The ESAPs will be prepared and implemented by MSME beneficiaries after review and approval by PFIs and ODIMM.

The ODIMM ESMS, satisfactory to the Bank, will be established before the Effectiveness Date of the Project. Each project beneficiary PFI shall prepare its own ESMS which will be reviewed by ODIMM and the PIU for consistency with the ODIMM ESMS and with ESS9 requirements. Each PFI ESMS shall be established as a condition of their participation in provision of credit guarantees for the project. If a PFI already has a corporate ESMS, it will be reviewed and strengthened by the PFI in collaboration with ODIMM as needed to ensure consistency with ESS9 and the ODIMM Bank-approved ESMS.

ODIMM and PIU will report to the Bank semi-annually on the performance of guarantee beneficiaries. The content of semi-annual reports will be detailed in the Project Operational Manual. The Bank will conduct prior review for an initial set of sub-projects of ODIMM and PFIs and thereafter conduct supervision spot checks for a number of sub-projects. The details of prior and post review will be described in the Project Operational Manual.

ODIMM and each PFIs ESMS will include guidelines for developing and implementing their own external communications mechanisms to enable beneficiaries and those who believe they are adversely impacted by the grant or credit guarantee activities to submit complaints, feedback, inquiries, and suggestions. These may involve a range of issues including those related to child and forced labor, health and safety of workers, workplace harassment. The mechanisms should allow submission of anonymous grievances.



B.3 Other Relevant Project Risks

All relevant risks that have been identified are summarized against each of the standards.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

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

No other financing partners / IFIs will be involved in the project.

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

Actions to be completed prior to Bank Board Approval:

Prior to Appraisal, the Borrower will prepare and disclose:

- Environmental and Social Commitment Plan;
- Stakeholder Engagement Plan;
- Environmental and Social Management Framework (ESMF) for component 3;
- Labor Management Procedures as part of the ESMF.
- Grievance Redress Mechanism as part of the ESMF;

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

- Designate and train staff in the PIU and ODIMM to undertake environmental and social management of the project;
- ODIMM to develop no later than project effectiveness and implement throughout project life an ESMS;
- PFIs under the project to adopt and implement ESMSs, consistent with the ODIMM ESMS as condition of participation and prior to receiving credit guarantees;
- A summary of the ESMF and ODIMM ESMS included into the POM;
- Develop a training plan for ODIMM and PFIs, with adequate budget, providers and timeframe.



C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

15-Dec-2021

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Republic of Moldova

Implementing Agency(ies)

Implementing Agency: PIU under Ministry of Economy

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s): Natalie Nicolaou, Tarik Sahovic

Practice Manager (ENR/Social) Varalakshmi Vemuru Recommended on 14-Nov-2021 at 05:46:41 GMT-05:00

Safeguards Advisor ESSA Agnes I. Kiss (SAESSA) Cleared on 29-Nov-2021 at 21:51:24 GMT-05:00