

**INTEGRATED SAFEGUARDS DATASHEET
APPRAISAL STAGE**

I. Basic Information

Date prepared/updated: 06/21/2010

Report No.: AC5427

1. Basic Project Data

Country: Sri Lanka	Project ID: P121328	
Project Name: Crisis Response SME Development Facility		
Task Team Leader: Cecile Thioro Niang		
Estimated Appraisal Date: June 7, 2010	Estimated Board Date: September 21, 2010	
Managing Unit: SASFP	Lending Instrument: Financial Intermediary Loan	
Sector: General industry and trade sector (25%);Micro- and SME finance (25%);General finance sector (25%);Banking (25%)		
Theme: Small and medium enterprise support (100%)		
IBRD Amount (US\$m.):	0.00	
IDA Amount (US\$m.):	0.00	
GEF Amount (US\$m.):	0.00	
PCF Amount (US\$m.):	0.00	
Other financing amounts by source:		
	BORROWER/RECIPIENT	0.00
	Financing Gap	58.00
		58.00
Environmental Category: F - Financial Intermediary Assessment		
Simplified Processing	Simple <input type="checkbox"/>	Repeater <input type="checkbox"/>
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

2. Project Objectives

The Project Development Objective is to improve access to finance (including term finance) for SMEs affected by the Global Financial Crisis in Sri Lanka. Targeted participating financial institutions (PFIs) will include state owned, private commercial and licensed specialized banks with a national branch network. Targeted end-beneficiaries will include new and existing SMEs in need of financing whose businesses suffered from the effect of the crises (including the GFC and the Conflict), as a way to support SME growth and economic recovery.

3. Project Description

The proposed Crisis Response SMEDeF would consist of a risk sharing facility available to both public and private participating financial institutions (PFIs) . Selection of PFIs in the line of credit and partial credit guarantees facilities would be based on clearly defined eligibility criteria that would ensure minimum performance and profitability of the PFIs and focus on SME banking. The Project Implementation Unit (PIU) will launch a selection process upon approval of the Project by the World Bank Board of Directors. In preparation of the selection process, with support from an external law firm, the PIU will

prepare draft subsidiary agreements that will be signed with PFIs upon Project effectiveness.

The project uses an incentive approach to support bank downscaling to supply credit to SMEs. The incentive approach would combine the provision of appropriate financing instruments to banks (line of credit and guarantee facility) with commitments from participating banks to strengthen their SME lending capability over time. Since the success of the facilities will depend on the application of modern SME lending technologies and risk control procedures, while the banks can independently access the line of credit or partial credit guarantee facility, technical assistance will be mandatory under both facilities. If a bank participates in both facilities, the mandatory technical assistance requirement would only apply for one of the two facilities. The project would also provide complementary technical assistance at the SME level to increase their #bankability#. Annex 4 provides a detailed description of the project components. The following components are proposed:

Component 1: Financing and Risk Sharing Facility (Proposed allocation: US\$ 41 million)

a. A line of credit to PFIs to refinance short term and long term SME loans (US\$28 million): Based on expected demand, the World Bank would provide a credit line to participating licensed commercial and specialized banks for SMEs. Access, modalities and pricing would include features such as competitive interest rates and maturities in line with on-going commercial practices and consistent with the OP 8.30 guideline, to ensure that no market distortions are created and the technical assistance under component 2a. would be mandatory for all PFIs. This refinancing facility will provide loans with a maximum maturity period of 10 years including a maximum grace period of 2 years.

b. Partial credit guarantee facility (PCG) to reduce the banks' risk of lending to SMEs (US\$13 million): The purpose of the guarantee facility would be to backstop commercial lenders' losses in cases of defaults by SME borrowers. This well tested instrument would provide an additional incentive for commercial banks to engage in short to medium term lending to SMEs. The guarantees would be issued on a portfolio basis, on first demand, and the loan portfolios eligible for guarantees would consist of commercial banks' loans to new SME borrowers. GoSL/IDA would provide a limited first loss guarantee on a 50/50 cost sharing basis with PFIs. The guarantee would cover all risks, and be payable on first demand when a loan is in default for a specified number of days. The PIU will manage the IDA PCG (PCG-A), with support from a guarantee administrator to be selected early during project implementation. In addition, the IFC has expressed interest in acting as a second loss partner in a second partial credit guarantee scheme (PCG-B), in selected private banks on a sector portfolio basis, in the renewable energy, agribusiness and possibly tourism sectors. The World Bank IDA-IFC Secretariat concurs on the use of IDA for the facility and its related operating guidelines. By sharing the credit risk with PFIs, the guarantee would leverage lending from banks to SMEs by up to ten times the amounts committed by GoSL/IDA.

Component 2: Policy and Capacity Enhancement for SME Banking (Proposed allocation: US\$12 million)

a. Capacity enhancement for lending institutions and SMEs (US\$7 million): In partnership with the IFC and other development agencies, the project would provide technical assistance on a matching basis to the commercial banks benefitting from the credit line or partial credit guarantee, in order to i) help build their capacity to provide lending services to SMEs and ii) ensure that SMEs have the capacity to effectively utilize loans from the banks for the growth of their businesses. The project will include capacity enhancement and technical assistance to SME clients, provided by the PFIs at the branch level. Since capacity enhancement activities will be a covenant to accessing component 1 funds, PFIs will be expected to design the training and capacity building activities with the PIU. The PIU will procure consultants with experience in SME banking to perform a diagnostic of each PFI's capacity needs to establish the type and extent of training and technical assistance required to service the SME sector profitably and sustainably.

b. Support to Strengthen the Enabling Environment for SME Banking (US\$1 million): The project would provide technical assistance to improve creditors rights and the country's insolvency regime.

c. Implementation support for the Project Implementation Unit (PIU) (US\$4 million): This would include building expertise to manage the project, recruiting an external audit firm to monitor the credit guarantee program, undertaking a detailed impact evaluation framework for assessing the impact of the project on the targeted clients and other implementation support activities.

The project would in addition include an unallocated funding window of US\$5 million, which would be available for additional funding for any of the above components.

The envisaged project is to be implemented through a Project Implementation Unit (PIU) under the Development Finance Department (DFD) of the Ministry of Finance. The PIU will be staffed with qualified personnel and capable of satisfactorily implementing all aspects of the project. Its responsibilities will also include: (i) on-lending to PFIs for final lending to sub-borrowers (ii) ensuring effective functioning of the on-lending facility to final borrowers through PFIs; (iii) on-going monitoring of the PFIs to ensure compliance with project criteria; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank; and (v) monitoring and evaluation based on key project development indicators.

4. Project Location and salient physical characteristics relevant to the safeguard analysis

The proposed activities under the project will be across Sri Lanka. The reach of the project outside the Western Province into the rest of the country would be closely monitored.

5. Environmental and Social Safeguards Specialists

Ms Asta Olesen (SASDS)

Ms Darshani De Silva (SASDI)

6. Safeguard Policies Triggered	Yes	No
Environmental Assessment (OP/BP 4.01)	X	
Natural Habitats (OP/BP 4.04)		X
Forests (OP/BP 4.36)		X
Pest Management (OP 4.09)		X
Physical Cultural Resources (OP/BP 4.11)		X
Indigenous Peoples (OP/BP 4.10)		X
Involuntary Resettlement (OP/BP 4.12)		X
Safety of Dams (OP/BP 4.37)		X
Projects on International Waterways (OP/BP 7.50)		X
Projects in Disputed Areas (OP/BP 7.60)		X

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts: The project will be categorized under safeguards category FI. The SMEs that will be supported are not known at Appraisal and there, in order to rule out any potential environmental or social impacts, the client has prepared a Social and Environmental Assessment and Management Framework which will serve as a guide to manage any potential social and environmental impacts including an exclusion/negative list of activities that will not be eligible for financing.

Social Safeguards

No social safeguards issues are foreseen under the project. The Social Management Framework has identified broader social risks associated with the SME lending program and has defined how these will be closely monitored during implementation. In preparation of the Social Management Framework, mapping of SMEs across districts in the targeted sectors was done, including number of employees and other relevant characteristics. This mapping and profiling helped to determine baselines and support the monitoring of the project indicators and mainstream social issues by integrating relevant procedures into lending operations and business practices and also reflect these procedures into the Operations Manual. The borrowing SMEs will be required to comply with all the relevant national labour laws and regulations. An annual Social Impact Assessment will be undertaken to assess not only the broader direct and indirect social impact of the project, equity of access and outreach, but also review on sample basis compliance with relevant national laws and regulations.

Environmental Safeguards

The project will not finance pre-identified set of SMEs or sectors and specific environmental issues have not been identified. The environmental issues associated with SMEs are expected to be varied and will depend on specificities and complexities of the sectors. While no significant issues are foreseen at this point, the possibility that such issues becoming applicable for selected SMEs cannot be completely ruled out. The Environmental Risk Management Framework (ERMF) of the project will help to minimize potential risks associated with SMEs that will be supported under the program and a process to ensure compliance with the Sri Lanka and World Bank environmental safeguards policies has been put in place. ERMF includes an environmental risk categorization of potential SME sectors in Sri Lanka and a negative list of projects that will not be eligible under this program. In addition, certain sites have been identified where projects should not be located and a list of sites that are considered sensitive and therefore would require more rigorous Environmental Assessment process based on the guidelines of the National Environmental Act (NEA) of Sri Lanka. The Framework and the safeguards section of the Operations Manual have provided the project team including the Project Implementation Unit (PIU) and Participating Financial Institutions (PFIs) with an environmental screening tool and guidelines for actions for the type of environmental safeguards actions that are feasible to take based on the likely presence/absence of environmental issues, the magnitude of issues, size of the sub-project and locality.

The PIU will also prepare a sector specific guidance document within the first three months of project effectiveness focused on SME sectors and covering baseline environmental information on existing SMEs (if available), details of potential environmental issues that could arise due to different sectors, standards to be maintained and generic environmental mitigations actions for each sector. This document will be prepared taking the World Bank's Pollution Prevention and Abatement Handbook of 1998, IFC's Environmental, Health and Safety Guidelines for Industries and Central Environmental Authority's Industrial Pollution Control Guidelines.

The participating SMEs that develop sub-projects are responsible for conducting sub-project specific Environmental Assessments (EAs) based on terms of reference developed by the PFIs or Central Environmental Authority/Project Approving Agencies and agreed with the PIU and the World Bank for high risk projects, as well as obtain the Environmental Protection Licenses and other clearances as needed. In addition, to receive assistance through SMEDeF, these sub-projects should also conform to the ERMF of the project and any other guidance documents specified.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

No potential indirect and/or long term impacts are expected.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Not applicable

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described. The project, a financial intermediary loan to be implemented by the Ministry of Finance and Planning, Government of Sri Lanka, is to be managed by the Project Implementation Unit (PIU) set up at the Ministry. The proposed PIU has environmental and social officers who will be responsible to ensure environmental and social safeguards compliance of the sub-projects that will be financed under the project. The PIU Finance has developed Environmental Risk Management Framework and Social Management Framework which are the key guiding documents to address environmental and social safeguards in the project.

1. The approach of using technical consultants from a pool of consultants pre-identified to undertake pre- environmental assessments of sub-projects will be adopted as and when required to support the Environmental Officer of PIU and PFIs. The PFIs will be primarily responsible for performing the screening and appraisal processes with the support of the PIU (where necessary) for each sub-project and the SMEs will be responsible to prepare the environmental assessments and obtain nationally applicable licenses and clearances as part of the loan application process.

The Loan Officers of the PFIs will review sub-project specific environmental screening and decisions taken based on the screening, sub-project specific EAs / Environmental Management and Monitoring Plans (EMPs) / Environmental Codes of Practices (EcoPs) / Environmental Check Lists (ECLs) in consultation with the PIU specifically in regards to high risk projects. The PFIs will be also responsible in advising sub-borrowers (participating SMEs) of any shortfalls or inadequacies prior to submissions of final documents. If technical understanding of the project is lacking, both PFIs and PIU should use the service of a suitable technical consultant to assist in checking if the sub-project is in compliance to the ERMF and has all required licenses and clearances and advise the sub-borrowers if they are not in place and report to PIU/PFI on their status. Depending on the sector, technology used, scope and environmental screening outcomes, certain sub-projects (as identified in the ERMF) will also require prior review of the World Bank prior to finalization of the loan approval process

One year after project commences, an independent social assessment will be undertaken to review which SMEs have benefitted in terms of sector, location, and wider social impact. This will enable the project to assess whether the project inadvertently has favored certain regions or sectors, and whether eligible SMEs are able to access the loans in a transparent and equitable manner. In case inequities, distortions or unintended negative social impact is identified, mitigatory actions would be put in place to address these.

Compliance with national labor laws and regulations falls under the mandate of the Ministry of Labor, but the annual SIA will monitor SME borrower compliance with labor laws on a sample basis, and in case on non-compliance report to the responsible authorities.

Overall monitoring of environmental compliance will be the responsibility of the PFIs. In addition, the PIU and the World Bank will monitor samples of sub-projects as part of the implementation support activities. Independent post-environmental audits will be conducted by PIU annually for sub-projects identified to consist of moderate to high environmental risks. This will ensure that participating SMEs continue to adhere to the environmental safeguards requirements particularly of risky projects.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people. The stakeholders of the project mainly include Ministry of Finance and Planning, participating financial institutions (PFIs) and the SMEs. The PIU has conducted a consultation on the proposed framework with potential PFIs and Chamber of Commerce. The PIU is also planning for a series of workshops for training and knowledge sharing for the SMEs once the project commences.

B. Disclosure Requirements Date

Environmental Assessment/Audit/Management Plan/Other:

Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	05/31/2010
Date of "in-country" disclosure	06/08/2010
Date of submission to InfoShop	06/25/2010
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	

Resettlement Action Plan/Framework/Policy Process:

Was the document disclosed prior to appraisal?
Date of receipt by the Bank
Date of "in-country" disclosure
Date of submission to InfoShop

Indigenous Peoples Plan/Planning Framework:

Was the document disclosed prior to appraisal?
Date of receipt by the Bank
Date of "in-country" disclosure
Date of submission to InfoShop

Pest Management Plan:

Was the document disclosed prior to appraisal?
Date of receipt by the Bank
Date of "in-country" disclosure
Date of submission to InfoShop

*** If the project triggers the Pest Management and/or Physical Cultural Resources, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.**

If in-country disclosure of any of the above documents is not expected, please explain why:

N/A

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes
If yes, then did the Regional Environment Unit or Sector Manager (SM) review and approve the EA report?	Yes
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	No
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes
Have costs related to safeguard policy measures been included in the project cost?	N/A
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes

D. Approvals

<i>Signed and submitted by:</i>	<i>Name</i>	<i>Date</i>
Task Team Leader:	Ms Cecile Thioro Niang	06/10/2010
Environmental Specialist:	Ms Darshani De Silva	06/10/2010
Social Development Specialist Additional Environmental and/or Social Development Specialist(s):	Ms Asta Olesen	06/10/2010
<i>Approved by:</i>		
Regional Safeguards Coordinator:	Mr Sanjay Srivastava	06/21/2010
Comments: cleared. Please refer to clearance memo dated 06/21/2010.		
Sector Manager:	Mr Ivan Rossignol	
Comments: Cleared		