Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 01/08/2020 | Report No: ESRSC01041
### BASIC INFORMATION

#### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
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<tr>
<td>Africa</td>
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**Project Name**: Regional Infrastructure Finance Facility (RIFF) Project

**Practice Area (Lead)**: Finance, Competitiveness and Innovation

**Financing Instrument**: Investment Project Financing

**Estimated Appraisal Date**: 5/4/2020

**Estimated Board Date**: 6/18/2020

**Borrower(s)**: Trade and Development Bank (TDB), Common Market for Eastern and Southern Africa (COMESA) Secretariat

**Implementing Agency(ies)**: Trade and Development Bank (TDB), Common Market for Eastern and Southern Africa (COMESA) Secretariat

**Proposed Development Objective(s)**

The Project Development Objective is to support the expansion of long-term finance to infrastructure and social sectors in Eastern and Southern Africa.

#### 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 Regional Infrastructure Finance Facility (RIFF) Project aims to promote economic transformation and regional integration in Eastern and Southern Africa by extending long-term development capital to catalyze private sector investment into infrastructure and social sectors using an approach that maximizes finance for development (MFD).
The Project is structured as an Investment Project Financing with Disbursement Linked Indicators (DLIs). It has three components and two implementing agencies i.e.: (i) Trade and Development Bank (TDB) for a financial intermediary financing operation with component 1 (Infrastructure Finance Facility) and component 2 (credit enhancement instruments) aimed at scaling up TDB’s long-term project and infrastructure finance activities; and, (ii) the Common Market for Eastern and Southern Africa (COMESA) Secretariat for Component 3, a technical assistance and capacity building window for enabling environment initiatives and project preparation support.

The RIFF Project is well aligned with WB’s regional strategy for Africa which contemplates focusing on fewer and bigger operations within the core pillars of creating sustainable and inclusive growth, jobs and economic transformation, strengthening human capital, and building resilience.

**D. Environmental and Social Overview**

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

**Description of RIFF’s Components**

**Component 1: Infrastructure Finance Facility (~US$325m)**

Africa’s growing and vibrant private sector can be a major driver of the regional integration across the continent. This first component will seek to mobilize private investment by making available long-term finance to the infrastructure and social sectors. Infrastructure sectors here include: Energy, Logistics, Water and Sanitation, ICT/digital, and social sectors include health, education and housing. There will be a dedicated energy window within this component, focusing on projects with explicit development impact or as pilots to push for PPP agenda.

**Component 2: Credit-Enhancement for Increased Private Sector Participation (~US$75m)**

In Africa in particular, investment in infrastructure and the social sector faces elevated risks due to political and regulatory uncertainty, embedded risks in government concessions, exchange rate risk, as well as underdeveloped and unpredictable policy frameworks. As a result, in many cases, private sector investment cannot be realized without credit enhancement instruments. The team will explore two forms of credit enhancement: partial credit guarantee fund and tier 2 capital equivalent to TDB.

**Component 3: Technical Assistance (~US$25m)**

This component will undertake a number of complementary TA activities managed by the COMESA Secretariat i.e.: a) Support enabling environments in Member States to Promote Private Sector Participation b) Project preparation and investment promotion c) Capacity Building at TDB, Secretariat and member state levels.

**Detailed project location(s) and salient physical characteristics relevant to the ESS Assessment (geographic, environmental, social)**

The Regional Infrastructure Finance Facility (RIFF) Project is a regional collaborative initiative between the World Bank, the Trade and Development Bank (TDB) and the Common Market for Eastern and Southern Africa (COMESA)
Secretariat. TDB is a regional African Development Finance Institution which aims to support regional economic integration by fostering development. Since TDB is the main implementing agency, E&S assessment and risk management design for the project focuses on analyzing salient characteristics and parameters appropriate for Financial Intermediary (FI) lending operations where locations of the investments for which Word Bank proceeds will be used would most likely not be known before implementation or cannot be known at all in relation to specific types of lending activities (e.g. using WB loan proceeds into quasi-equity investments to strengthen the capital base of financial institutions for a specific purpose as World Bank does not do lending to FIs for “general purpose”).

Specifically, as part of its environmental and social (E&S) assessment and due diligence for Financial Intermediary (FI) projects, the World Bank assesses the following key aspects: (1) the nature and risk profile of the FI’s current portfolio prior to World Bank’s investment with a focus on infrastructure portfolio in case of the RIFF project; (2) the scope and nature of the proposed World Bank’s support; (3) the quality and comprehensiveness of the key components of the FI’s Environmental and Social Management System (ESMS), where the FI already has one in place, including any existing E&S policies and procedures, organizational capacity and competency, and current monitoring and reporting arrangements; (4) FI’s own labor and working conditions and the current policies and organizational structure for managing these aspects; and (5) FI’s current approaches for engaging with stakeholders as part of its E&S policies, procedures, and organizational capacity assessment.

[ANALYSIS OF THE ASPECTS LISTED ABOVE IS PRESENTED IN ESS9 SECTION OF THIS ESRS]

D. 2. Borrower’s Institutional Capacity

The project will be implemented by two main entities (1) Trade and Development Bank (TDB) for Component 1 and 2 and (2) COMESA Secretariat for Component 3.

1. Trade and Development Bank (TDB)

Established in 1985, the Eastern and Southern African Trade and Development Bank (TDB) is a multilateral, treaty-based development financial institution, with assets of USD 6 billion. TDB approaches its interventions in a manner that pro-actively supports sustainable development, including the reduction of climate risks and expansion of clean energy – in line with the Paris Agreement and SDG commitments linked to environmental protection. To date, 70% of TDB’s energy portfolio is in renewables and half of its overall portfolio directly and indirectly contributes to SDGs (source: https://www.unenvironment.org/news-and-stories/press-release/trade-and-development-bank-unep-collaborate-climate-finance). TDB’s proactive position in integrating sustainability in its operations is demonstrated not only by the development of an Environmental and Social Management System (ESMS) on the ESG risk side, but also by actively pursuing the formulation of Climate Finance Framework, Sustainability Reporting Framework, and SDG Bonds Framework. To the extent, on November 5, 2019, TDB has signed an MoU with UN Environment Program – Finance Initiative to collaborate on climate change mitigation and adaptation actions.

TDB developed its first Environmental Policy in June 2005 supported by the Netherlands Development Finance Company FMO, which indicated a relatively long-standing commitment to sustainability at the early era of sustainable finance (for comparison, the Equator Principles originated in 2004 when global banks like Citi commenced doing the same). In 2010, TDB undertook an exercise to harmonize all its policies and procedures and the harmonized ESM policy was formally approved by the Board of Directors in September 2010. These policies provided the basis for which the environmental and social risk assessment was carried out by TDB. In 2015, the policies and procedures underwent a comprehensive review with Technical Assistance (TA) support from the African Development Bank
(AfDB). Hence, TDB’s E&S policies and procedures currently in place reference international lenders' standards, including IFC Performance Standards. Other financiers that are relying on the current TDB’s ESMS in their financing support to TDB are AFD and EIB.

As part of its initial assessment of TDB’s ESMS, WB requested the client to complete an E&S Capacity and Systems Assessment Questionnaire for Financial Intermediaries that has been standardized globally for assessment of large financial institutions. Based on the analysis of the information, supporting documents provided by the client, and independent publicly available information (including that available from credible ESG data providers), TDB’s ESMS in general meets the key requirements of the World Bank’s Environmental and Social Framework and specifically those of ESS9 in terms of all core elements of the ESMS being already in place, as described below.

a) E&S Policy: As noted above, TDB has a well-formulated E&S Policy with clearly articulated institutional commitments to integrating ESG sustainability across all its operations. This policy was approved by TDB board, this meeting another core ESMS element – senior management commitment- and is regularly updated (last update in January 2019). As required by ESS9, TDB’s policy includes a clear risk categorization scale (categories 1, 2, 3 for real sector / direct investment and category 4 for TDB’s financial intermediary lending to other FIs). TDB’s E&S Risk Policy follows a yearly review performed by external consultants to ensure that it continues to be in line with international best practice. The yearly review includes an independent review of high impact projects and provides recommendations for improvement that TDB can follow up.

CONT’D IN OTHER RISKS SECTION

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

A. Environmental and Social Risk Classification (ESRC)

Environmental Risk Rating

The project plans to support TDB's pipeline of infrastructure investments and also enable TBD to lend with a longer tenor. Many are expected to support regional integration by making credit available for final beneficiaries. Investments are expected to demonstrate positive regional economic impact, which may include a consideration for achieving positive E&S outcomes and, among other aspects, climate-related benefits in terms of both mitigation and adaptation given TDB’s institutional priorities and current initiatives in this area (described above). In terms of inherent sectoral risks, which is one of the determining factors for the risk level along with loan sizes, tenors, and types of financial instruments, initial review of the current TDB portfolio of infrastructure projects shows significant exposure to relatively high risk sectors such as agribusiness/ agriculture, transport, energy. Since the exact investments will not be known until implementation, it can be assumed that any of the thematic risks covered by WB ESSs can arise. However, based on the “phased calibrated approach” proposed in the ESRS, the level of environmental risk exposure would be mitigated by integrating a clearly defined restrictions list to limit financing to investments that involve relatively higher risk situations/ circumstances - in line with how those are formulated in the WB’s ESSs - into the overall World Bank's eligibility criteria for funding that will guide WB’s portfolio construction. Examples of such restrictions can include financing to investments with negative impacts on critical habitats or even those with unsustainable supply chains (provided it is well-defined based on relevant provisions of ESS6). It should be noted that restrictions expressed in terms of specific sectors or project categories should be avoided due to subjectivity of this
approach based on latest international good practice (with the exception of sectors that are part of high level official corporate commitments, such as coal). Restrictions would be conditioned on specific TDB actions to strengthen its ESMS. These actions would be agreed with the client and specified in the ESCP.

**Social Risk Rating**

The social risk rating for this project is high. The project will finance sub-projects through an FI in multiple sectors and in up to 22 countries in Africa. The focus is expected to be on medium to large scale infrastructure projects that are likely to result in significant involuntary resettlement impacts, complex labor management issues, and may be in areas where Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities are present, areas with a high prevalence of Gender Based Violence and Sexual Exploitation (GBV/SEA), areas affected by conflict or violence, or areas hosting refugees. TDB has an ESMS in place that recognizes the above social risks, and has experience with similar projects, but its capacity to monitor and supervise sub-projects over a large geographical area, as well as the capacity of their potential borrowers is not yet fully known. How social risks are currently being managed in practice will be further assessed during preparation. However, based on the “phased calibrated approach” proposed in the ESRS, level of environmental risk exposure would be mitigated by integrating a clearly defined restrictions list to limit financing to investments that involve relatively higher risk situations/ circumstances - in line with how those are formulated in the WB’s ESSs - into the overall World Bank’s eligibility criteria for funding that will guide WB’s portfolio construction. Examples of such restrictions can include financing to investments with large-scale resettlement (provided a clear definition of large scale is included), projects involving substantial migrant labor/ labor influx. It should be noted that restrictions expressed in terms of specific sectors or project categories should be avoided due to subjectivity of this approach based on latest international good practice (with the exception of sectors that are part of high level official corporate commitments, such as coal). Restrictions would be conditioned on specific TDB actions to strengthen its ESMS. These actions would be agreed with the client and specified in the ESCP.

**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:*

CONT'D FROM ESS9 SECTION

2. Scope and Nature of the Proposed WB Support and its E&S Implications

B) Credit-Enhancement for Increased Private Sector Participation (Component 2). Credit enhancement instruments may be required to de-risk the project finance investments themselves, or to strengthen the balance sheet of TDB to mobilize greater amounts of private capital to support its infrastructure business line. The options currently considered are (a) partial credit guarantee fund set up by TDB and (b) tier 2 capital equivalent to TDB. The scope and nature of physical E&S risks and impacts under this instrument would be largely similar to those under Component 1, however the nature of World Bank’s exposure to these risks would be different. The first instrument would carry direct exposure to E&S risks of the investments for which guarantees may be provided and the second instrument carries mostly reputational E&S risk exposure to TDB with a quasi-equity instrument where World Bank support will
enable TDB to strengthen its ability to raise capital in the form of bonds from capital markets to fund its infrastructure business line. For Component 2, the approach to E&S risks and impacts mitigation measures will be assessed during project preparation based on the selected option.

C) Technical Assistance to COMESA (Component 3). The TA activities will focus on creating enabling environment to attract private capital. These activities include project preparation support to transformational projects with regional impact at scale i.e. feasibility studies to prepare the identified projects to bankability and investment promotion activities. As part of this process, it is possible that the preparation of E&S studies and risk mitigation instruments will be supported under the project, and those will need to comply with the relevant provisions of the World Bank ESSs, in addition to receiving necessary approvals as required by each country's regulatory framework. COMESA's capacity to carry out these activities effectively will be further assessed during project preparation.

ESS1: Overview of the relevance of the Standard for the Project

Since IDA has not worked before with TDB, a “phased calibrated approach” is proposed to address potential Environmental and Social (E&S) risks. Based on the proposed concept of the “phased calibrated approach”, the RIFF project would adopt the following steps in the process of avoiding, mitigating, and offsetting/compensating for E&S risks and impacts:

1. Exclusion List. Exclusion list is the first basic step in calibrating portfolio construction strategy from E&S perspective. Since the majority of DFIs have used this basic negative screening approach for about past 20 years, with proven effectiveness, TDB’s ESMS already incorporates an exclusion list which is a combination of negative screens of the DFIs that have financed TDB so far (as part of a common approach to strengthen TDB’s ESMS among them as various points in time). World Bank would propose to strengthen TDB’s corporate exclusion list with items World Bank traditionally requires as some of them are currently missing (e.g. financing of tobacco).

2. List of Restricted E&S Activities. Based on successful adoption of this approach in other WB FI projects recently, it is proposed to develop and agree with TDB a list of restricted activities conditioned on TDB’s E&S capacity. A list of restricted activities will be agreed with TDB, and in a first phase, IDA will only allow TDB to finance projects with relatively limited E&S risks and impacts that TDB has the capacity to mitigate, based on the World Bank assessment of its current institutional ESMS. IDA would then review TDB’s track record, and upon satisfactory review, would allow TDB to finance projects with more complex and diverse ranges of E&S risks and impacts. This first phase could be defined by a number of projects and will serve as a “learning curve” for TDB and IDA. This approach allows proportionate changes to be made, in case the assessment changes as preparation progresses. The preparation work will focus on engaging with the client and broader set of stakeholders to define and agree the list of restricted activities. Examples of potential restricted activities to become part of the list are given in the ESRC section of the ESRS.

3. Process of E&S Risks and Impacts Identification. TDB is expected to have robust procedures for screening, review and approval of E&S assessment instruments, E&S due diligence, and E&S monitoring and reporting during implementation. Robust Environmental and Social Impact Assessments (ESIAs), as well as additional studies that will inform preparation of thematic risks and impacts management plans would be required (eg. Biodiversity Management Plans) for investments supported by the World Bank. Since the exact investment projects and their
locations will not be known until RIFF enters implementation phase (except for possibly two-three investments, to be confirmed), it can be assumed that any of the thematic risks covered by WB ESSs can arise and be covered in the identification and assessment of E&S risks and impacts process. Therefore, the IDA will require TDB to take all the requisite measures to ensure that the subprojects receiving Bank financing will comply with applicable country legislations of the countries where TBD makes the investments and the WB’s related environmental and social standards. All investments - which would constitute project or corporate finance for which WB’s ESSs are most readily applicable - are expected to comply with the relevant provisions of the World Bank ESSs. More specifically, ESS1, ESS2, and ESS10 will be applicable to TDB and all of the ten ESSs would be relevant to all investments based on the outcomes of the identification and assessment of E&S risks and impacts process.

Specific Initial Considerations for Each Project Component

COMPONENTS 1 and 2 (in case of Project Finance and Quasi-Equity instruments). In the case of the LoC and credit enhancement support extended to TDB by the World Bank, all investments - which would constitute Project Finance for which WB's ESSs are most readily applicable - are expected to comply with the relevant provisions of the ten World Bank ESSs.

COMPONENT 1 (in case of MSME finance lending instrument). In case of the dedicated energy window, which will likely constitute MSME finance extended directly by TDB without additional financial intermediation using wholesale-retail financing model (i.e. extending financing through other FIs), World Bank ESSs are less readily applicable. Similarly, formal ESIAs requiring government approvals are often not applicable in the MSME sector in countries where TDB carries out its investment activities. E&S risks and impacts assessment may need to be done using other tools that derive their scope and nature from the ESSs. Examples of such tools may be exclusion criteria specific to the energy sector, E&S screening and risk mitigation questionnaires, corrective action plans suitable for application by MSMEs based on their size, loan tenors, and capabilities. Such tools and capacity to implement them effectively must be included in TDB’s ESMS.

COMPONENT 3. As part of its support to COMESA for technical assistance activities, should the preparation of E&S studies and risk mitigation instruments be supported under the project, those will need to comply with the relevant provisions of the World Bank ESSs, in addition to receiving necessary approvals as required by each country’s regulatory framework. COMESA should have the capacity to prepare E&S risk assessment instruments and conduct adequate monitoring and reporting activities, as well as manage stakeholder engagement and grievance management aspects.

Areas where “Use of Borrower Framework” is being considered:
Use of borrower framework is not being considered.

ESS10 Stakeholder Engagement and Information Disclosure
Stakeholder engagement will be required for all concerned parties including those affected by subprojects and other parties that may be involved in service delivery. For example, in a project involving land acquisition, the project affected persons, relevant civil society organizations (CSOs) and government entities that are involved in land issues would have to be engaged. Since not all subprojects may be known until implementation, the degree and specific
approaches for stakeholder engagement in line with ESS10 requirements will be determined based on each subproject’s nature and circumstances.

TDB has a stakeholder engagement plan as part of its ESMS. TDB’s current E&S Policy of January 2019 requires the beneficiaries to have proactive engagement with stakeholders and information disclosure. This has made specific provisions that require the beneficiaries to establish a mechanism to receive and facilitate the resolution of affected people’s concerns and grievances and recommends tools for the same. This would need to be further assessed in terms of its integration into TDB’s E&S management procedures, what type of procedures for external communications and complaint handling systems are in place with TDB and for situations where TDB may need to engage directly with stakeholders in addition to the beneficiary private firm, a Stakeholder Engagement Plan for this project would have to be prepared and disclosed by TDB prior to Appraisal.

This already currently available TDB SEP will be reviewed to ascertain that it is materially consistent with the requirements of ESS10. Specifically, ESS10 SEP requirements call for the following (i) the expected types of key stakeholders; (ii) requirements for the FI subproject implementers to engage with the stakeholders, especially with potentially affected Indigenous Peoples’ (IP) representatives of other vulnerable groups, as applicable to each FI subproject; (iii) the requirement for the FI to develop a SEP scaled to the project risks and impacts of the project, and tailored to the characteristics and interests of the Affected Communities; (vi) requirements for frequency of engagement throughout the project cycle; (v) procedures for feedback solicitation, recording and monitoring; (vi) the need to define the responsible party for stakeholder engagement; (vii) timeline for the engagement; (vii) budget and human resources needed to implement the SEP/SEF by the FI, and to implement subsequent SEPs by the FI subprojects.

For each subproject to be financed by RIFF, TDB will require its borrowers to conduct stakeholder engagement in a manner that is proportionate to the potential risks and impacts of the subproject. In this regard, it is expected that the relevant provisions of ESS10 will be included in TDB’s E&S procedures. Depending on the type of subproject and extent of its E&S risks and impacts, the Bank may require TDB to be engaged in stakeholder engagement. In addition, TDB will be required to put in place procedures for external communications on E&S matters proportionate to the risks and impacts of the subprojects, and the risk profile of TDB portfolio to enable TDB respond to stakeholder enquiries and concerns in a timely manner.

On information disclosure, TDB will disclose through the its website, and permit, the Bank, in writing, to disclose on the Bank’s website, a summary of each of the elements of the TDB’s ESMS. Likewise, TDB will require its sub-borrowers to disclose, in relation to subprojects financed by the Project, any project-related documents required; (a) by the application of the ESSs; (b) for any subprojects categorized as high risk in accordance with TDB’s own categorization system; and (c) any environmental and social monitoring reports relating to (a) or (b).

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 current TDB E&S Policy of January 2019 identifies labour and working conditions as a cross cutting risk across its portfolio. TDB shall not finance directly finance any project, infrastructure or trade finance activity involving Production or activities involving harmful or exploitative forms of forced labour/harmful child labour and prostitution and/or Pornography as per the current exclusion list in ESMS document.

TDB is currently monitoring the compliance of sub-projects in line with IFC’s Performance Standard 2 as follows:

- All projects have an HR policy
- TDB is working to reinforce processes within the borrowers for No Child and Forced Labor, No Discrimination, Equal Opportunities and Grievance Mechanisms
- Positive Approach on Labor conditions – PPE/C compliance,
- All projects developed emergency response capabilities and TDB is reinforcing the establishment of drill programs, including surrounding communities
- TDB is reinforcing that EHS measures being applied in the borrowers site are adopted in the supply chain

Not all sub projects will not be known until implementation, however given that the project will support relatively large scale infrastructure, labor force - including contracted workers and primary supply workers are likely to be realized. Issues such as like labor camps and associated broad range of labor issues can be expected to arise. For these and other related risks, detailed employment and labor management procedures, including procedures for the management of sexual harassment in the work place and the prevention of child and forced labor, will need to be put in place by TDB clients (borrowers). The borrowers will be expected to share their codes of conduct, and other labor management plans with TDB. These will be required to be part of the financing agreements.

In addition, ESS2 will apply to TDB itself. TDB is expected to have in place and maintain appropriate labor management procedures, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms and occupational health and safety.

The Bank will review the existing TDB labor policies and labor management procedures. At the end of 2018, TDB had 139 employees and 44% were female. TDB has a formal process to assess performance and conducted a staff survey in 2018. TDB has a formal code of conduct in place, enforced through the Human Resources and Administration Department and Compliance. Annual compulsory trainings for all staff are conducted. TDB also has a formal whistleblowing mechanism in place.

ESS3 Resource Efficiency and Pollution Prevention and Management

The exact projects will not be known until implementation, however given that the project will support relatively large scale infrastructure, a wide range of pollution and resource efficiency issues is expected to arise in the supported projects.

In general, ESS3 is relevant for the project due to financing of rehabilitation or construction of new infrastructure, as subprojects may pose risk of environmental pollution and degradation of natural resources (soil, water, ecosystem services) and can result in impacts if not well identified and mitigated. Such subprojects could include construction of new infrastructure, such as roads and water treatment facilities, use of technologies, equipment, among others.
These activities may generate environmental problems by an inadequate: (i) use of inputs, including chemicals; (ii) consumption of water resources and consequent degradation of water quality and quantity (affecting users downstream); and (iii) use of gas and oil for equipment; among others.

The ESMS will consider the expected types of FI subproject-level risks and impacts and establish the applicable general requirements for mitigation measures as appropriate, considering country context and legislation as well as capacities at different levels of stakeholders and contributing agencies. The ESMS will also include specific measures for FI subproject implementation entities regarding the prevention or mitigation of pollution or degradation of natural resources (mainly soil and water) when handling hydrocarbons (oil and gas) for equipment in construction activities. The use of water, energy and raw materials should be assessed considering the mitigation hierarchy and efficient use and management of all types of material, including waste.

**ESS4 Community Health and Safety**

All the sub projects will not be known until implementation, however given that the project will support relatively large scale infrastructure, a broad range of community health and safety issues is expected to be involved. E&S risks that are typical of infrastructure project in the TDB’s geographic areas are expected. These include influx of labor (in-migration) and the related issues of gender based violence (GBV), sexual exploitation and abuse (SEA), child labour and exploitation. This contributes to the project to be categorized as high risk and thus could be potentially restricted as part of the “phased calibrated approach”. TDB is expected to have procedures in its ESMS for the management of these social risks, and to require its borrowers to have plans for the prevention and management of such risks. This requirement will be part of the financing agreements and will be submitted to TDB by the borrower prior to start of construction work. The ESMS document makes references to the potential Occupational Health and Safety risks and labour influx and has made provision for integration into its ESMS and project financing procedures. The actual application and associated gaps would need to be further assessed during the preparation phase and accordingly the needed actions for improvement would be agreed as part of ESCP.

**ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

Given the project’s focus on providing financing to medium to large scale infrastructure, sub-projects are expected to require land acquisition, restrictions on land use and/or involuntary resettlement. The scope and complexity of these resettlement impacts as well as the context in which they occur and the capacity of the sub-borrower who will be responsible for managing the land acquisition and resettlement process will greatly affect the social risk assessment of the proposed sub-projects. TDB policy, procedures and experience with resettlement will be assessed to ensure that they are materially consistent with the standard. Where gaps exist, the Bank and TDB will agree on actions in the ESCP to strengthen the TDB resettlement policies, procedures and capacity.

**ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**
The exact projects will not be known until implementation, however given that the project will support relatively large scale infrastructure, biodiversity issues are expected to arise in many, albeit not all, supported projects.

In general, ESS6 standard is relevant for the project. Some FI subprojects might (i) be located in modified or natural habitats; or (ii) potentially affect or be dependent on ecosystem services. The FI eligibility criteria will screen for subprojects that would lead to the permanent conversion of critical natural habitats (and potentially exclude those from funding based on the “phased calibrated approach” proposed).

The ESMS will provide a process for FI subproject implementing entities to identify relevant risks and impacts in line with ESS1 and ESS6, consider direct and indirect subproject-related impacts on biodiversity and ecosystem services, and identify any significant residual impacts. The process will consider relevant threats to biodiversity and ecosystem services, especially focusing on habitat loss, degradation and fragmentation, invasive alien species, overexploitation, hydrological changes, nutrient loading, and pollution. It will also consider the differing values attached to biodiversity and ecosystem services by Affected Communities and other stakeholders as appropriate. Where natural habitats might be impacted, the relevant ESS6 alignments will be applied, including consideration of subproject-related impacts across the potentially affected landscape or seascape.

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

Indigenous Peoples / Sub-Saharan African Historically Underserved Traditional Local Communities as defined by the Standard are present in many of the countries in which TBD is expected to finance sub-projects under this project. TDB has a policy on Indigenous Peoples which will be assessed for its consistency with the objectives and requirements of this standard. Where gaps exist, the Bank and TDB will agree on actions that will be required to strengthen the TDB policy and procedure. If necessary, the TDBs ESMS will be strengthened to ensure that particular national and regional contexts and the different historical and cultural backgrounds will form part of the environmental and social assessment and risk classification of proposed subprojects. TDB is committed to prohibit financing any subproject, infrastructure or trade activity that would impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples / Sub-Saharan African Historically Underserved Traditional Local Communities, without full documented consent of such people as per the current exclusion list in the ESMS policy document.

**ESS8 Cultural Heritage**

TDB-financed subprojects may have direct, indirect, and possibly cumulative risks or impacts on cultural heritage. TDBs ESMS prohibits financing of any subproject, infrastructure or trade finance activity impacting upon World heritage sites and other protected areas. TDB has experience with projects that have impacted cultural aspects of some of the affected communities, e.g. on matters of handling graves. TDB’s policies and procedures will be assessed to determine their adequacy to deal with all cultural issues in line with this standard. Where gaps exist, the Bank and TDB will agree on actions in the ESCP that will be required to strengthen the TDB policy and procedure.

**ESS9 Financial Intermediaries**
Risk analysis and design of the risk mitigation approach for this FI project constitutes the entire content of this ESRS.

1. Initial Review of the Current E&S Risk Profile of TDB’s Portfolio

In terms of sectoral exposure, initial review of TDB’s portfolio of project finance shows main focus on relatively high risk sectors such as agriculture, trade, industry, infrastructure, energy and tourism. According to Moody's Sovereign and Supranational Issuers' Briefing (2018), TDB's loan book is dominated by petrochemicals and agribusiness, with gross exposure of 36% and 23% in 2017, respectively. TDB conducts two major types of lending activities: (1) trade finance loans generally with maturities of less than a year to a maximum of 36 months; and (2) project and infrastructure finance loans with maturities from three to 10 and a maximum of 15 years. Both suggest moderate E&S risk exposure in terms of tenor, though it should be noted that World Bank’s involvement aims to enable TDB to lend with longer tenors. In terms of investment size and borrowing entity profile, TDB extends lending to public sector (governments and state owned enterprises, representing 63% of its portfolio as of December 31, 2018), large as well as small and medium corporations, and other FIs. The nature of TDB's operations means that it lends larger amounts to a smaller number of entities. This leads to high portfolio concentration, which can potentially increase the magnitude of E&S risks and impacts.

Energy is currently TDB's top financed sector and includes hydro, geothermal, wind, and oil and gas, with oil and gas as the top exposure sector. This will necessitate WB's project design that incorporates measures to ring-fence WB's financing from supporting oil and gas investments (even if indirectly), in line with the energy policy that integrates corporate commitments related to limiting support to this sector, along with prior commitments not to support coal. It should be noted that the current oil and gas exposure mainly relates to trade facilities provided by TDB to countries for the purchase of oil and gas. This is different from what the WB seeks to support, i.e. Project Finance for infrastructure.

2. Scope and Nature of the Proposed WB Support and its E&S Implications

RIFF's purpose is to incentivize TDB to extend long-term finance mainly to private entities in infrastructure and social sectors. Geographically, RIFF is expected to be implemented in TDB’s IDA member countries, i.e. COMESA members. While there are 22 countries that are members of COMESA, it is highly unlikely that the project will have investments in all of them as the project’s focus will be primarily on countries where there is the highest probability and enabling environment to attract private capital and the limited project funding can be leveraged to engage with investors.

The following activities considered for WB support are expected to be associated with E&S risks and impacts:

A) The infrastructure Finance Facility (Component 1)

A-1. Infrastructure Project Finance. This component plans to fund several infrastructure and social sectors projects and hence presents direct exposure to E&S risks and impacts of the clearly defined investments that would be supported from World Bank loan proceeds using Project Finance lending instrument. Investments are expected to mobilize private capital, support resilience building, jobs, and trade and investment across borders by making credit available for beneficiary entities. Beneficiary entities are expected to be mostly private sector, however there is a possibility of financing public entities as well (e.g. a public portion of a PPP if it can be expected to leverage significant
private capital). The project does not, however, envision funding to be on-lent to other FIs or FI-type entities and all infrastructure investments under this component will be made directly by TDB.

Overall, infrastructure Project Finance normally requires a lot of attention to E&S risks management including potential issues around land acquisition, resettlement, labour and working conditions, pollution, biodiversity impacts, engaging with disadvantaged and marginalized groups, GBV/SEA cases and weak stakeholder engagement and grievance management, among others. Since the specific risks and impacts cannot be known before project implementation when the specific investments will be selected for financing, it can be anticipated that a wide range of E&S risks may arise within the “long list” of investments that TDB would submit for WB's consideration. Although the project design does not envision formal restrictions on funding certain infrastructure sectors, RIFF may consider support for investments in the energy, water and sanitation, ICT/digital, and social sectors that would include health, education and housing. Given the relatively modest size of the credit line, World Bank will work with TDB to diversify the pipeline to achieve maximum positive impact. This may potentially mean financing a diversified set of smaller projects.

Other E&S risk factors include the fact that under Component 1, RIFF seeks to support TDB to expand to new markets and territories including FCV countries (for instance Burundi, Eritrea, Mozambique) and other underserved regions and sub-regions as a way of reducing concentration risk related to its loan portfolio which is currently geographically concentrated in Kenya (16 percent), Zambia (14 percent) and Sudan (13 percent) of total gross loans as of end-June 2019. Also, the proposed project seeks to support TDB to invest in infrastructure assets maintenance, which could potentially entail E&S legacy risks.

It should also be noted that the World Bank may select several “pilot” investments under this component for which precise locations would be known during project preparation, and which would then be financed by the RIFF. In those cases E&S risk identification and management instruments would have to be prepared and disclosed before World Bank Board, with the regular advance disclosure of drafts. In this regard, the RIFF project team will undertake further engagements with TDB to identify projects that are well advanced, and which the Bank would like to finance so that the E&S risk assessment and management instruments can be prepared in time for Board and in compliance with the relevant requirements of the World Bank ESSs.

A-2. Dedicated energy window. This window envisions the provision of trade finance to off-grid companies and mini-grid developers, which will likely constitute MSME Finance lending extended directly by TDB without additional financial intermediation using wholesale-retail financing model (i.e. extending financing through other FIs), unlike many other World Bank projects in this sector and thus would be experimental. Generally, MSME finance in the off-grid sector can be expected to carry limited E&S risks. These small size investments are mostly associated with small-scale land acquisition issues (including issues associated with voluntary land donation), labor and working conditions, occupational health and safety, potential for GBV risks, and some environmental risks such as added stress on community water resources. In MSME finance, E&S risk assessment and mitigation instruments are substantially different from Project Finance that is the lending instrument for the “main” Component 1 and will require a tailored approach (described below in the ESRS).

However, this window also envisions support to regional integration subprojects such as PPPs for regional grid integration (e.g. interconnectors) or regionally significant generation PPPs that serve multinational development.
These investments may involve resettlement, adverse impact on disadvantaged & marginalized groups, labour, GBV issues and other higher risk situations. Hence, nature and magnitude of E&S risks is similar to Project Finance under Component 1.

CONT'D IN ESS1

B.3 Other Relevant Project Risks

BORROWER INSTITUTIONAL CAPACITY - CONT'D

b) Protocols and procedures to carry out E&S risk management functions: TDB ESMS includes clear process flow and procedures that are linked to credit and investment cycles, which conforms to the international best practice. Those include a comprehensive decision tree/ matrix with clearly assigned responsibilities and accountabilities for each step, supported by formal guidance and tools to help the responsible persons fulfil their roles in the process consistently. TDB’s E&S procedures also include adequate management programs. From the initial review of ESMS, TDB seems to have clear steps for E&S screening of transactions which includes initial assessment of a transaction against the exclusion list and categorization. This is followed by an in-depth ESDD, which is undertaken internally by the TDB E&S staff for moderate and low risk projects or by external experts for high risk and some substantial risk projects. E&S clauses are included in the legal loan covenants.

c) Organizational Capacity and Competency: The implementation of the TDB's institutional ESMS is anchored within TDB’s Compliance and Risk Complex Department. There is an overall E&S Manager and an E&S Focal point responsible for the day to day E&S implementation activities including monitoring and supervision to ensure the transactions financed by TDB are compliant with their E&S standards. TDB has also recently hired a full-time E&S specialist with relevant experience in assessing environmental and social impacts in infrastructure projects in general, and in energy and mining projects in particular. In cases on non-compliance, they advise their clients on strategies for achieving compliance but in extreme cases of non-compliance, they may suspend financing until the non-compliance issues have been addressed.

The E&S team members sit on various credit committees to ensure E&S is taken into account at transaction onboarding and that risks are appropriately categorized and weighted (also best practice). These include the various credit committees and the Corporate Committee of the Board. In addition, there are E&S champions in various units of TDB. TDB not only monitors and supervises implementation of E&S policies but also advises their clients/borrowers on E&S management processes and tools. TDB develops its organizational capacity and competency for the effective implementation of its ESMS through the systematic integration of training for its new and existing staff members (including UNEP Fi ESRA online course, EIB E&S online training, in-house courses). The current TDB ESMS also includes provisions for training and provides a list of E&S specialists and consultants spread across various COMESA member countries. However, it is observed that the expertise of the consultants listed is limited on social impacts and risks.

d) Other key elements of the ESMS in line with World Bank ESS9 requirements are also incorporated in TDB's ESMS, such as Emergency Preparedness and Response, Stakeholder Engagement; External Communication and Grievance Mechanism; as well as Ongoing Reporting and Monitoring and Review.
Proposed Approach for Helping TDB Strengthen its ESMS and Organizational Capacity

In the course of project preparation, World Bank will further assess the strength and adequacy of TDB’s E&S policies, procedures, and organizational capacity to ascertain that the requirements are materially consistent with ESS9 and other World Bank ESSs. The World Bank will identify clear and specific gaps in TDB ESMS that would require improvement. TDB may be then advised to strengthen their ESMS and its capacity, via specific actions to be included in the ESCP. World Bank may consider linking TDB’s ESMS improvements with the RIFF E&S eligibility criteria for RIFF funding with the purpose to (a) help lower overall World Bank project risk during the initial implementation stages and (b) increase World Bank’s leverage to work with the client and ensure that TDB has adequate capacity to manage projects with more complex and diverse ranges of E&S risks and impacts. Such approach involves initially restricting World Bank’s support to investments with E&S risks and impacts of a relatively limited scope and nature until WB is satisfied with the strength of the ESMS and TDB’s ability to properly apply more complex requirements of World Bank ESSs often associated with higher risks and thus requiring the client to have specialized expertise to address those. This engagement with the client would be carried out over time as necessitated by the continuous improvement principle that is core to the concept of ESMS for FIs and would be part of the ESCP actions. This approach is described in more detail under ESS1 section of the ESRS.

Additionally, World Bank may consider supporting TDB in its efforts to attract international investors and private capital to its infrastructure business line by providing advice on how to enhance its ESMS to meet other international E&S standards such as those set by the Task Force on Climate-Related Financial Disclosures (TCFD). Such an approach would also be in line with the World Bank’s ESF strong focus on managing climate-related risks by leveraging newest market standards and external tools developed specifically for the financial sector. While not mandatory, this value-added approach will be explored with TDB during preparation.

2. COMESA Secretariat

TA support will likely include funding for preparation of E&S instruments to COMESA Secretariat. COMESA is an existing counterpart under the “Great Lakes Trade Facilitation Project” and is already familiar with Bank’s E&S requirements. However, COMESA’s current capacity would be assessed and actions shall be included in ESCP as needed. This would likely include increasing its E&S capacity and undergoing adequate training to enable COMESA Secretariat to prepare E&S instruments in line with international investors’ standards and disclosure requirements, including but not limited to World Bank ESSs, as this will increase the attractiveness of the proposed projects to private sector and hence be in line with the overall RIFF objectives.

OTHER RELEVANT PROJECT RISKS

The project is a regional project and therefore carries significant contextual risks given varying regulatory environments in the countries where investments will be implemented. TDB is an institution of the Common Market for Eastern and Southern Africa (COMESA). Officially headquartered in Bujumbura, Burundi, and Mauritius, TDB has regional hubs in Kenya, Zimbabwe and Ethiopia. The bank has been running its operations from Nairobi since 1994. Every project financed by the World Bank will be expected to meet national regulatory requirements in each of the countries, as well as the relevant requirements of the World Bank Environmental and Social Standards. On the other
hand COMESA is headquartered in Zambia and is an existing counterpart for another Bank funded project which is currently experiencing problems in implementation.

Other relevant E&S risks will be further determined during project preparation.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

Analysis of the TDB’s current portfolio indicates that there are hydro projects that are supported in several countries. If such projects are supported by the World Bank, they would need to be assessed for the applicability of this policy. Excluding such projects from World Bank support will also be considered during project appraisal and an exclusion incorporated in the financing agreement in this case.

OP 7.60 Projects in Disputed Areas

Analysis of the TDB’s current portfolio indicates that, given the regional nature of the client’s portfolio and operations, the risk of project locations in disputed areas may exist. If such projects are supported by the World Bank, this policy will apply. Excluding such projects from World Bank support will also be considered during project appraisal and an exclusion incorporated in the financing agreement in this case.

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? Yes

Financing Partners

TDB’s current E&S policies and procedures have been developed with support from multiple development finance institutions, FMO, AfDB, AFD, and most recently, EIB. World Bank’s review of TDB’s ESMS will build on the work done by these partners. In addition, EIB’s most recent investment with TDB is currently under preparation, though the infrastructure component of EIB’s credit line is expected to be limited in amount. The World Bank will engage with EIB during project preparation to see whether a common approach with EIB should be developed.

EIB’s investment focuses on Climate Action sub-projects and will generally generate positive environmental impacts, notably by reducing energy consumption, GHG emissions and thus helping to mitigate climate change, however, they may include renewable energy and infrastructure projects that may carry substantial to high environmental and social risks. These projects will be allocated under the so-called climate action window of this operation. EIB has prepared detailed eligibility criteria, among which are also detailed E&S requirements for each eligible sub-sector. These requirements include negative E&S screens (e.g. no subprojects involving resettlement in some cases, or significant negative impacts on areas with high biodiversity value and nature conservation areas would not be eligible). World Bank will explore, among other things, the possibility of harmonizing the ESMS procedures with EIB’s approach to achieve overall consistency in TDB’s infrastructure portfolio construction under a common set of criteria with equalized E&S risk characteristics.

Additionally, UNEP Finance Initiative has signed a memorandum of understanding with TDB on November 5, 2019, to collaborate around a number of areas critical to the global environmental agenda and help TDB green its portfolio and
make it more climate-friendly (https://www.unenvironment.org/news-and-stories/press-release/trade-and-development-bank-unep-collaborate-climate-finance). World Bank shall seek opportunities for the RIFF project to collaborate and benefit from this larger engagement and any tools that may be developed as a result of this work.

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

**Actions to be completed prior to Bank Board Approval:**

The following actions are planned during project preparation:

1. Further in-depth assessment of TDB's portfolio and pipeline to determine the risk profile of the project.
2. In-depth assessment of TDB's capacity, including actual number of E&S personnel available for the RIFF project, based on the number of countries that will be involved.
3. Preparation of E&S screening / eligibility criteria that define E&S risks and impact of a relatively limited nature and scope for implementing the calibrated approach, and E&S risks and impacts that may be included in a list of restricted activities.
4. Agree on list of restrictive/exclusion activities for World Bank supported sub projects.
5. Assessment of E&S capacity of COMESA to manage E&S aspects of the technical assistance component.
6. In-depth assessment of TDB's own policies and procedures related to labor and working conditions for compliance with ESS2 (this may include preparation of a Labor Management Procedure).
7. Preparation of the ESCP for TDB and, if relevant, for COMESA.
8. Determining the scope and level of stakeholder engagement needed prior to project approval and carrying out required actions accordingly (with potential preparation of a Stakeholder Engagement framework/ guiding approach to be integrated in TDB’s ESMS).
9. Preparation and disclosure by TDB of the E&S risk identification and draft management instruments for sub projects with locations and physical characteristics known before World Bank Board.

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

Further steps on strengthening the ESMS, including institutional capacity and mandatory training, will be included in the ESCP, along with E&S risk and impact identification, screening and mitigation, and monitoring and reporting requirements.

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS**

| 31-Mar-2020 |

| IV. CONTACT POINTS |

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Safeguards Advisor ESSA Nathalie S. Munzberg (SAESSA) Cleared on 24-Mar-2020 at 12:02:25 EDT