



# SUPPLEMENTAL GUIDELINES FOR SCREENING MSME APPLICATIONS



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## 1) Introduction

This Supplemental Guidelines has been prepared by the Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) to assist Participating Lenders (PL) to effectively screen (Review) MSMEs loan applicants. The purpose of the Review is to ensure that a MSME loan applicants business operation does not negatively affect the environment, human health, safety and security, communities and threaten biodiversity and cultural heritage.

This Guideline is to be used by the PLs and their staff and is this is an adjunct, training, supplemental, explanatory user's tool (or words to that effect) and that the original ESMF has not changed and in case of any apparent conflict or uncertainty the users should adhere to the ESMF. The ESMF . The ECPCGC Environmental and Social Management Framework (ESMF) can be viewed in detail at <https://ecpcgc.org/environmental-and-social-management-framework/>

**PLs and their designated representatives are required to read, understand and acknowledge these Guidelines and the ESMF, and consider them as fully binding upon them to effectively screen MSME loan applicants' business operations for environmental and social risks.**

## 2) Environmental and Social Risk Screening Procedures

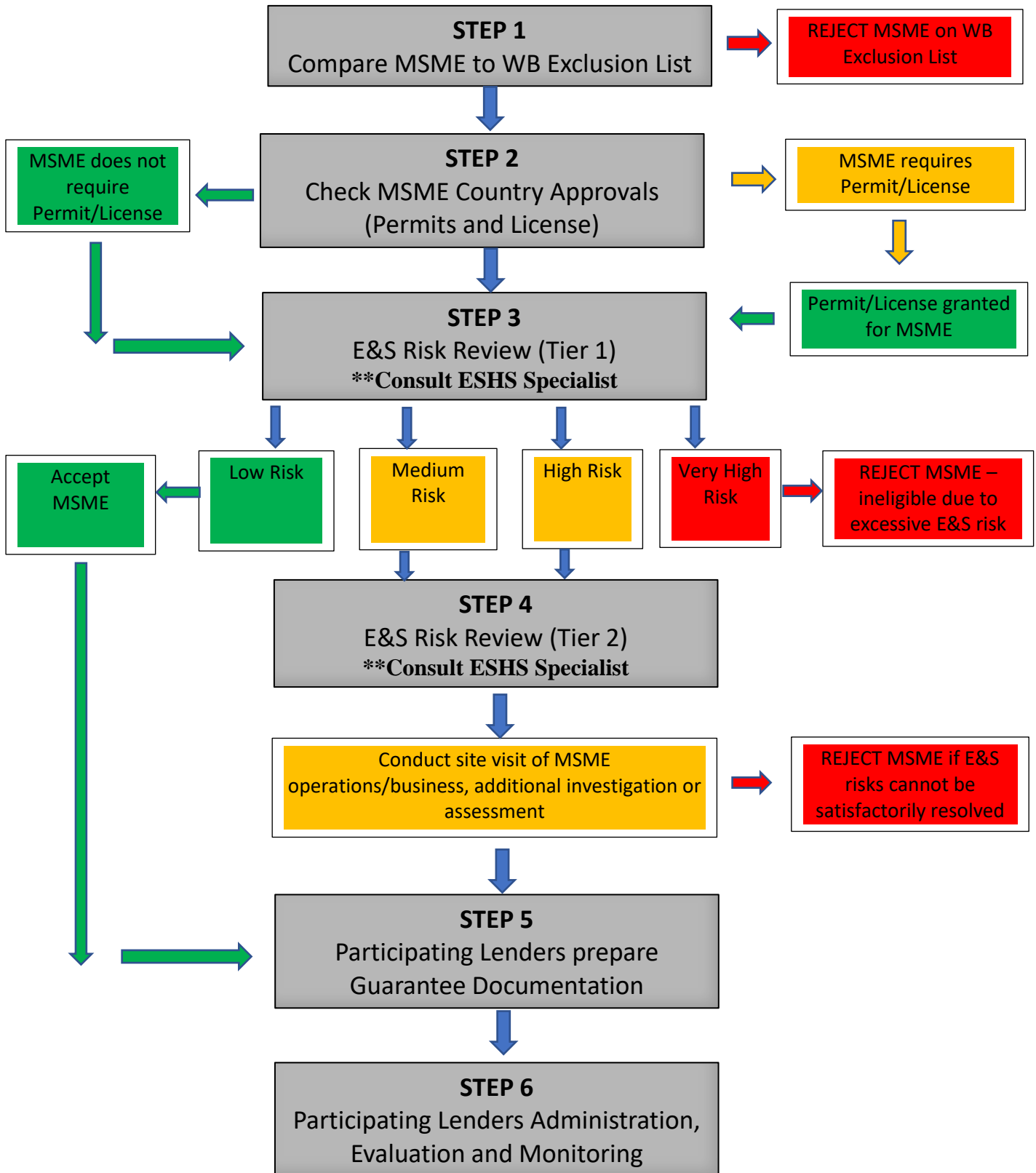
PLs will be required to screen all MSMEs loan applications against the following documentation to ensure eligibility for funding and that the MSME loan applicant's operations/business does NOT negatively affecting the environment, human health, safety and security, communities and threaten biodiversity and cultural heritage.

1. World Bank Exclusion List
2. Tier 1 E&S Risk Information Form (Annex 1)
3. Tier 2 E&S Risk Information Form (Annex 2)

## 3) Environmental and Social Risk Screening Process Flow

To commence the Review of an MSME loan application the following sequential **steps (1 to 6) must be undertaken, declared and completed** (See Figure 1):

Figure 1: Environmental and Social (E&S) Screening Process Flow



## 1. STEP 1: Compare MSME to World Bank Exclusion List

If any of the MSME activities fall under the **World Bank's 'Exclusion List'** below, **they are not eligible to participate in the ECPCGC because they are either illegal or represent unacceptably high E&S risk.**

- Those that are illegal under country laws, regulations or ratified international conventions and agreements
- Weapons and munitions
- Alcoholic beverages (excluding wine and beer)<sup>1</sup>
- Tobacco<sup>2</sup>
- Gambling, casinos and equivalent enterprises
- Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
- Radioactive materials or unbounded asbestos fibres
- Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest
- Polychlorinated biphenyl compounds (PCBs, a class of synthetic organic chemicals)
- Pharmaceuticals subject to international phase outs or bans
- Pesticides/herbicides subject to international phase outs or bans
- Ozone depleting substances subject to international phase out
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
- Transboundary trade in waste or waste products, except for non-hazardous waste destined for recycling
- Persistent Organic Pollutants (POPs)
- Non-compliance with workers fundamental principles and rights at work
- Significant degradation of a National Park or similar protected area
- Real estate speculation (Means purchasing real estate for the sole purpose of re-selling it at a higher price which is considered risky due to the fact that real estate speculation is built on future predictions).

## 2. STEP 2: Check MSME Country Approvals (Permits/License)

- i. MSMEs activities not found on the above 'Exclusion List' are accepted, but must be checked against the host country's Physical Planning Department laws and regulations (Permits and License).

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<sup>1</sup> This does not apply to companies for which the operations/activities related to these criteria comprise less than 10 percent of companies total annual revenue

<sup>2</sup> This does not apply to companies for which the operations/activities related to these criteria comprise less than 10 percent of companies total annual revenue

- ii. PLs must request from the MSME a **certified copy** of the relevant Permit or License. MSMEs that do not provide proof of Permits or License must be screened against the host country's Physical Planning Department/Act listing to determine whether or not a Permit or License would be required.
- iii. The MSME must submit with their application any existing environmental Permit or License, business license or other relevant documentation that they are in compliance with host country law. **All copies must be certified copies.**

### 3. STEP 3: Environmental and Social (E&S) Risk Review

- ❖ PLs must evaluate each MSME against **Tier 1 and Tier 2 E&S Information Forms** to determine the **RISK CATEGORY of the MSME.**
- ❖ PL's will complete the forms with assistance from the MSME. **MSME providing inaccurate information or incomplete forms may result in loan applications being denied or rejected.**

#### ❖ Completing TIER 1 E&S Information Form

- i. The Tier 1 E&S Information Form must be completed first (**Annex 1**). **If ALL the responses to each question (1- 18) is NO (negative), then the MSME is considered Low Risk and no further assessment is needed.**
- ii. If **ANY** responses to Tier 1 questions (**1 to 12**) are **YES (positive)**, then the MSME is considered either **Medium-Risk or High-Risk** and **the application needs to be further assessed using the Tier 2 E&S Information Form.** If any of the responses are not known, the PL must investigate with the MSME, through requesting additional information or by conducting a site visit to verify its location and baseline operating conditions. Prior to the PL requesting additional information or conducting a site investigation, **must consult the (ESHS) Specialist.**
- iii. If **ANY** of the responses to Tier 1 questions **14, 15, 16 or 17** are **YES (positive)**, then the MSME is considered ineligible due to excessive environmental and social risk and is automatically rejected.
- iv. **If the response to the Tier 1 question 18 is YES**, additional guidance must be sought from the ESHS Specialist regarding funding loans in the Kalinago Territory in the Commonwealth of Dominica.
- v. Accepted MSMEs that are classified as Low Risk will be periodically reviewed (annually) by the ESHS Specialist to ensure compliance with laws of the host country and World Bank Safeguards standards and policies.

#### **4. STEP 4: Completing TIER 2 E&S Information Form (If MSME is Medium/High Risk)**

- i. Tier 2 E&S Information Form will only be completed (**Annex 2**) by the PL, **if Step 3 (ii) and (iv) of the Tier 1 E&S Information Form are YES (positive)**.
- ii. If the response to **Tier 2 E&S Information Form question 1 is YES (positive) and NO (negative) to questions 2 to 8**, the MSME is considered **High-Risk**.
- iii. If the response to **Tier 2 E&S Information Form question 1 is NO (negative)** and the responses to **questions 2 to 8 are YES (positive) or not applicable** the MSME is considered **Medium-Risk**.
- iv. **A site visit is mandatory**, if any of the following occurs:
  - (a) the MSME is classified as Medium-Risk;
  - (b) the MSME is classified as High-Risk;
  - (c) a Permit is required; or
  - (d) a License is required.
- v. **MSMEs classified as Medium Risk or High-Risk will be subject to further assessment or investigation, after consultation with the ESHS Specialist. Additional investigation or assessment may include:**
  - A site visit, audit or inspection to assess the state of the MSMEs operations (e.g., worker health and safety, environmental health and safety, human resources, neighbouring communities).
  - Additional information:
    - (a) Site plans and photographs;
    - (b) Standard Operating Procedures; and/or
    - (c) Assessment Studies (EIA, audits, Permit requirements, Pest Management Plans or other documents).

As a result of the additional investigations or assessment, there may be recommendation to improve MSME operations compliance or reduce environmental and social risks. In these cases, the PLs and/or ESHS Specialist will included recommendations in the guarantee documentation that addresses the impacts/risks that were identified. This will normally be the case for Medium-Risk or High-Risk MSMEs.

#### **5. STEP 5: Participating Lenders - Prepare Guarantee Documentation**

- i. Following the Acceptance of the MSME environmental and social risks, Participating Lenders are in a position to accept the MSME's participation in the ECPCGC.
- ii. The outcome of the environmental and social risk evaluation is summarised and included in the documentations submitted in the approval package, as follows:

- MSMEs deemed Low-Risk will only require the use of standard, general conditions.
- MSMEs deemed Medium-Risk will require the standard, general conditions, and any special requirements if deemed necessary by the ECPCGC and/or PL.
- MSMEs deemed High-Risk will require the standard, general conditions, as well as all of the actions, monitoring plans, permit updates, periodic audits, and other necessary information from the additional investigation conducted after the Tier 2 appraisal.

## 6. STEP 6: Participating Lenders - Administration, Evaluation and Monitoring

- i. Participating Lenders (PLs) will be required to maintain information on MSME performance throughout the duration of the ECPCGC Guarantee.
- ii. The ECPCGC will require PLs to provide a summary report annually with the following information for the MSMEs funded by the project:
  - 1) **Breakdown of portfolio:** Type of transaction, Industry Sector and Environmental Risk classification (low, medium and high environmental risk MSMEs).
  - 2) Describe how environmental procedures have been integrated into the transaction approval process.
  - 3) Give details of any transaction rejected on environmental grounds, in particular, for actual or perceived non-compliance.
  - 4) Give details of any other transaction rejected on environmental or health and safety grounds
  - 5) Give details of any material environmental issues associated with Participants during the reporting period, in particular:
    - (a) Any accidents / litigation / complaints.
    - (b) Any incidents of non-compliance with applicable environmental and health and safety regulations and standards, such as fines, penalties or excess fees for non-compliance.
    - (c) Any incidents of non-compliance by Participants with environmental covenants/conditionality imposed by the Bank.
  - 6) Give details of any loans/investments/guarantees etc. used to finance environmental improvements, such as; energy efficiency, waste minimization, switch to cleaner technology, reduction of permit fees or fines due to environmental improvements.
  - 7) Give details of any MSME failures due to environmental problems.
  - 8) Describe how the Participants' environmental performance is monitored (e.g., site visit by Bank staff; inspection by environmental/health authorities; copies of updated permits, reports from the Participant). Include information on monitoring of special conditions from Permits or other compliance-related items that were included in the Guarantee Agreements.
  - 9) Specify name and position of the individual(s) formally responsible for the implementation of the environmental procedures.
  - 10) State any difficulties and/or constraints related to the implementation of the environmental procedures.



## 4) Technical Guidance and Additional Information

### 4.1 ECPCGC ESMF

Further details on the ECPCGC Environmental and Social Management Framework (ESMF) can be viewed on the ECPCGC's website at <https://ecpcgc.org/environmental-and-social-management-framework/>

### 4.2 ESHS Technical Support and Guidance

If PLs require technical guidance and/or additional information in conducting an E&S review of an MSME operations, they should contact the ESHS Specialist at [eshs@ecpcgc.org](mailto:eshs@ecpcgc.org).

### 4.3 World Bank Safeguards Policies

The most updated versions of the World Bank Group Environmental, Health, and Safety Guidelines (known as the "EHS Guidelines") can be accessed at [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/ehs-guidelines](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines)

### 4.4 IFC FIRST for Sustainability

a) Further details on Environmental and Social Risk Management can be viewed at <https://firstforsustainability.org/risk-management/>

b) Further details on Environmental and Social Risk by Sector can be viewed at <https://firstforsustainability.org/risk-management/risk-by-industry-sector/>

ANNEX 1: Tier 1 Environmental and Social Information Form

**(To be completed by Participating Lenders with MSME assistance)**

Query	Yes	No	Not Known
1. Does the MSME need a License or Permit under national law? and if so, is the License or Permit expired, out-of-date, in bad standing, or revoked?			
2. Does the MSME have outstanding fines, fees, penalties, claims, or actions?			
3. Is the MSME property contaminated with drums, pits, stockpiled chemicals? or does the property have spills, stained soils, dead vegetation, polluted waterways, or other evidence of contamination or pollution?			
4. Are there media reports or complaints from the public, the local community, or NGOs about the MSME's activities (current or proposed)?			
5. Does the MSME have emissions to the atmosphere (dust, odours, fumes) or significant emissions or noise?			
6. Does the MSME have discharges to waterways (streams, ponds, wetlands)?			
7. Is the MSME located in a natural area (forest, park, Government Reserve) near a protected area, or in an area with well-preserved vegetation?			
8. Will the MSME affect coastal or marine areas (seagrass, reefs) or involved aquaculture, fishing, or harvesting of sea resources?			
9. Does the MSME store, produce, or use hazardous materials (explosive or flammable gas, pesticides or herbicides, or toxic or reactive substances)?			
10. Will the MSME affect areas of known local, national or regional cultural or heritage resources (historic structures, antiquities or landmarks)?			
11. Could the MSME activities (current or proposed) significantly affect traffic, noise, or public safety, particularly near schools, hospitals, or sensitive zones?			
12. Does the MSME violate national law or good practice for occupational health and safety, industrial hygiene, and employee well-being?			
13. Has the MSME been involved with any significant accidents, incidents, fatalities, or worker health and safety problems in the last three years?			
14. Will the MSME activities (current or proposed) require land acquisition (other than willing buyer-seller at market price), reduce other people's access to economic resources (land, water, pasture, crops) upon which they rely, require taking of crops or temporary occupation of lands, or evict squatters?			
15. Might the MSME adversely affect vulnerable people and underserved groups (e.g., elderly poor pensioners, physically challenged, women, particularly head of households or widows, etc.) living in the area?			
16. Will the activity rely on local labour or require significant labour influx and how much?			
17. Does the MSME require construction or reliance upon a dam or reservoir higher than 10 meters, or affect rivers or water bodies between countries?			
18. Is the project being financed located in the Kalinago Territory or is the principal loan applicant of the Kalinago Community?			

I \_\_\_\_\_ confirm that the MSME loan applicant's business operations have been fully and comprehensively reviewed in accordance with the above screening criteria and is declared  Low Risk,  Medium Risk or  High Risk.

<b>Completed by:</b>	<b>Designation:</b>	<b>Date</b>
	<b>Signature:</b>	

## ANNEX 2: Tier 2 Environmental and Social Information Form

**(To be completed by Participating Lenders with MSME assistance)**

Query	Yes	No	Not Applicable
1. Does the MSME engage in work in the following sectors?			
(a) Large-scale agriculture			
(b) Mining or Quarrying			
(c) Chemical processing			
(d) Waste Management (solid or liquid)			
(e) Oil and gas processing, storage, transportation, or sale			
(f) Civil works and infrastructure (water supply, roads, electricity)			
(g) Development or conversion of previously underdeveloped land			
(h) Fishing, aquaculture, or silviculture			
(i) Manufacturing of textiles, leather, metals, or plastics			
2. If the MSME has emissions to the air or atmosphere (dust, odours, fumes), are the concentrations and volumes monitored and measured, and do they meet national standards and World Bank Environment, Health and Safety (EHS) Guidelines?			
3. If the MSME has noise emissions, are the levels measured and do they meet national standards and World Bank EHS Guidelines?			
4. If the MSME has discharges to waterways (streams, ponds, wetlands), are the discharges monitored and measured, and do they meet national standards and World Bank EHS Guidelines?			
5. If the MSME will use pesticides or herbicides, is there a Pest Management Plan in conformance with World Bank Guidelines (see section IV. C)?			
6. Is the MSME located in a natural area (forest, park, Government Reserve) near a protected area, or in an area with well-preserved vegetation, is there an assessment of any potential impacts, or other convincing evidence (reports, studies, or EIA for Permit) that negative impacts will not occur?			
7. If the MSME may affect coastal or marine areas (seagrass, reefs) or involve aquaculture, fishing, or harvesting or sea resources, is there an assessment of any potential impacts, or other convincing evidence (reports, studies, or EIA for Permit) that negative impacts will not occur?			
8. If the MSME may affect areas of known local, national or regional cultural an assessment of any potential impacts, or other convincing evidence (reports, studies, or EIA for Permit) that negative impacts will not occur?			

I \_\_\_\_\_ confirm that the MSME loan applicant's business operations have been fully and comprehensively reviewed in accordance with the above screening criteria and is declared  Medium Risk or  High Risk and additional information is required  Yes or  No.

<b>Completed by:</b>	<b>Designation:</b>	<b>Date</b>
	<b>Signature:</b>	