

Development Bank of Ethiopia
Small and Medium Enterprises Finance
Project

Environmental and Social Risk Management
Summary of Policy and Procedures

Addis Ababa, Ethiopia

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1. Environmental and Social Policy Statement

- Development Bank of Ethiopia (DBE) recognizes that effective management of environmental and social impacts associated with its operation is critical to the success of development projects including SMEs;
- The Bank will finance projects that are technically, economically and financially viable and meet adequate environmental and social standards. Therefore, the Bank will screen and classify all projects applied for financing according to their potential environmental and social impacts;
- The Bank will assume the responsibility for conducting environmental and social due diligence and for screening, reviewing, monitoring and supervising projects throughout the project cycle¹ in conformity with the principles and requirements embodied in the environmental and social policies of the country, including environment, social, and health and safety legal requirements, as well as requirements of lenders/ investors, as applicable;
- Screening will be carried out early in the application process. The screening process will consider potential negative environmental impacts whether direct, indirect, or cumulative in nature, including environmentally related social impacts of projects;
- The Bank will ensure that its financed projects avoid adverse impacts to the environment and human health and safety occurring from the production, procurement, use, and disposal of hazardous material, including organic and inorganic toxic substances, pesticides and persistent organic pollutants;
- The Bank will not finance projects that do not comply with the country's environmental and social laws and regulations and will ensure that certain environmentally and socially harmful activities are also not financed, in accordance with the Exclusion List, as published by DBE;²
- The Bank will ensure that at a minimum the projects to be financed are environmentally friendly and socially acceptable. That is their operations:

¹In the case of DBE financing through other financial institutions, these institutions will be responsible for environmental and social due diligence, including screening.

²DBE Exclusion List may be amended from time to time.

- a) Do not add to existing pollution and ensure that maximum authorized concentration limits (as defined by Environmental Protection Agency and now the Ministry of Environment, Forest and Climate Change) are not exceeded;
 - b) Favor the use of cleaner technologies and of renewable resources, waste reduction, resource recovery and recycling. If some reason operations financed by the Bank imply undesirable consequence for the environment or related health and safety conditions, these consequences need to be fully understood, clearly identified, adequately justified and mitigating measures outlined.
 - c) Avoid degradation of forests and habitats, including but not limited to avoiding emitting pollutants to water, air, and land.
- To achieve the Bank's vision, all operational projects financed by the bank must fulfill creation of employment as one criteria to improve their living condition, and transform those employed to where they can be more productive to make better earnings;
 - For projects with detailed economic analysis and their positive and/or negative environmental and social effects are internalized as benefits and/or costs respectively, the Bank include these benefits and costs in all project appraisal report;
 - The Bank requires its customers to conduct Environmental and Social Management System (ESMS) prepared by licensed environmental and social consultant and approved by the concerned government authority for proposed projects, where applicable. The ESMS should identify the possible adverse environmental impacts and appropriate mitigating measures based on the screening findings on the proposed SME project financing. Such an ESMS may, as necessary, include an Environmental and Social Management Plan (ESMP) commensurate with the identified potential risks. The ESMP should fit the needs of the proposed SME project activity and be easy to use. The basic elements of an ESMP are:
 1. A description of the project activity;
 2. A description of potential environmental and social impacts;
 3. A description of planned mitigation measures;

4. An indication of institutional/individual responsibility for implementing mitigation measures;
 5. A program for monitoring the environmental and social effects of the project both positive and negative;
 6. A time frame or schedule; and
 7. A cost estimate and source of funds.
- The Bank will advise its borrowers to strengthen their environmental and social management systems and develop the capacity to manage environmental and social risks.

2. Roles and Responsibilities, Operational Steps and Screening Checklist

2.1 Roles and Responsibilities

All units involved in the SMEs lease financing loan process such as all branch offices i.e., Grade A,B and C, branch and district office appraisal teams and branch and district office approval teams are responsible to ensure that all financed SMEs projects are environmentally friendly and within socially acceptable manner. These working units will undertake environmental and social assessment of projects as per the requirement checklist, lease financing policy for SMEs and procedure manual for lease financing.

2.1.1. Branch Offices

- Branch offices will conduct project environmental and social screening in conjunction with the borrowers' due diligence assessment and the findings therein will be part of the decision making process. The environmental and social due diligence process involves the assessment of the potential adverse effects of projects through site inspection and review of Environmental and Social Impact Assessment, if any;
- Branch offices will strictly monitor and follow up the implementation of environmental and social mitigation measures set out in the Environmental and Social Impact Assessment and/or Environmental and Social due diligence Assessment and/or project appraisal report. Accordingly, environmental and social compliance will be complementary to periodic follow up reports.
- Branch offices will advise borrowers to strengthen their environmental and social management systems and develop the capacity to manage actual and potential environmental and social risks.

2.1.2 Branch and district office appraisal teams

Project appraisal will focus on assessing the technical, market, financial and managerial viabilities as well as **socio-economic benefits** of the project.

2.1.3 Branch and district office approval teams

Approval teams at branch and district office will review borrowers' due diligence assessment and appraisal report based on the provision of Environmental and Social standard policy framework for SMEs of the Bank before making any decision.

2.1.4 Vice President Lease financing and Lease Financing Follow up Directorate

Vice President Lease financing of the Bank by its Lease Financing Follow up Directorate and Branch Operation Directorate, will control all branches that administer SMEs.

2.1.5 Vice President Credit Management and ECG & Special Fund Administration Directorate

Project Management team that will be established under Vice President Credit Management in ECG & Special Fund Administration Directorate will be responsible for the implementation of whole sale finance to other financial intermediaries for on-lending to SMEs. The Environmental and Social Management System Specialist that has been hired recently under Project Management team will also be directly responsible for monitoring and evaluation of environmental and social issues.

2.2 Operational Steps

1. The Branch offices should select potential customers applying for lease financing based on eligibility criteria and checklists for customer requirements;
2. The branch office collect Know Your Customer (KYC) related data of lessees and consolidate due diligence report on lease financing;
3. While consolidating due diligence assessment reports determine the acceptance or rejection of an application, positive due diligence reports also serve as important source of information for appraisal reports;
4. The branch office will screen and classify all projects applied for financing according to their potential environmental and social impacts. The screening process will consider potential positive and negative environmental impacts whether direct, indirect, or cumulative in nature;

5. The due diligence report will be signed by branch team members and approved by the Branch Manager.
6. Due diligence report and all relevant documents including the environmental and social screening result will be transferred to Branch and district office appraisal teams;
7. Branch and district office appraisal teams receive and register all documents sent to them from the CP and branches.
8. Branch and district office appraisal teams check due diligence assessment to ensure that all the necessary KYC information are obtained;
9. Branch and district office appraisal teams focus on assessing the technical, market, financial and managerial viabilities as well as socio-economic benefits of the project and can request any further clarification on the documents including environmental and social issues. The project should be not only bankable/credit worthy but also comply with strict economic, technical, environmental and social standards as outlined in this standard and relevant country legal frameworks
10. The branches, as appropriate, receives draft appraisal report;
11. The appraisal report should be signed by team members and approved by the appraisal Manager.
12. Once loan applications for financing are received, screened for appraisal by the branch and the appraisal team undertakes the appraisal of projects; it is now ready for decision by the branch and district office approval teams.
13. The branch and district office approval teams deliberates on the project due diligence assessment, appraisal reports and based on the provision of Environmental and Social screening results makes decisions on the approval or rejection of loans;
14. Once the decision is made by the loan approval team, the case with minutes of the loan approval team will be signed by all approval team members goes back to the branch for subsequent actions;
15. Once the loan is approved through the loan approval process, it comes back to the branch for facilitation and follow-up.
16. The branch undertakes project supervision and follow-up activities using both on-site and off-site supervision methods. All SMEs projects financed by the Bank should be properly monitored and complete follow-up reports should be undertaken on the projects at least

four times a year. Specific requirements for the supervision of the environmental and social management issues will be developed.

2.3 Screening Checklist

Based on the Environmental and Social Screening Checklist for SMEs, as prepared and amended by DBE from time to time, and an Environmental and Social Impact Study of the project (if one is prepared), Branch offices will conduct project environmental and social screening in conjunction with the borrowers' due diligence assessment and the findings therein will be part of the decision making process.

Appraisal teams conduct appraisal of the project by collecting the required data from different sources including due diligence report.

The Approval teams will make its decisions based on rules, regulations, policies, procedures and guidelines of the Bank. Approval teams at branch and district office will review borrowers' due diligence assessment and appraisal report based on the provision of Environmental and Social management system for SMEs of the Bank and make decision.

DBE's Environmental and Social team/ specialist will be directly responsible for monitoring and evaluation of environmental and social issues of wholesale finance to other financial intermediaries.