



Crisis Response SME Development Facility (SMEDeF)

Environmental Risk Management Framework (ERMF)

Volume 1

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Acronyms

CEA	Central Environmental Authority
CEC	Credit Evaluation Committee
CRV	Crisis Response Window
CSR	Corporate Social Responsibility
EAs	Environmental Assessments
ECL	Environmental Check List
ECoPs	Environmental Code of Practices
EMP	Environmental Management and Monitoring Plan
EMS	Environmental Management System
EPL	Environmental Protection License
ERMF	Environmental Risk Management Framework
GHG	Green House Gas
GOSL	Government of Sri Lanka
MOE	Ministry of Environment
MOFP	Ministry of Finance & Planning
NA	Not applicable
NEA	National Environmental Act
PFI	Personal Financing Institutes
PIU	Project Implementation Unit
PP	Project proponent
SMEDeF	Small and Medium Enterprise Development Facility
SMEs	Small and Medium Enterprises
SMF	Social Management Framework

Contents

Acronyms	2
Contents	3
1.0 Introduction and Project background	4
2.0 General Profile of Sri Lankan SME sector	6
3.0 Need of Environmental Management Framework	7
4.0 Environmental Regulatory Framework	9
4.1 Legal provisions	9
4.1.1 GOSL Environmental legislative framework	10
4.1.2 The World Bank Group Environmental Safeguards Policies	12
4.2 SMEDeF Environmental Requirements	14
5.0 SMEDeF Environmental Risk Management Framework	17
5.1 The Project Cycle	17
5.1.1 Project Screening	17
5.1.2 Project Appraisal	20
5.1.3 Loan sanction / disbursement	21
5.1.4 Project monitoring,	21
6.0 Potential Environmental Impacts and Management Strategies	23
7.0 Capacity Development Strategy	24
Annex 1: Potential Environmental Risk Levels	27
Annex 2: Possible Investment Scenarios for Environmental Analysis	29
Annex 3: ToR to conduct annual independent environmental audits	30
Annex 4: ToR to hire individual consultants to assist the PIU and PFIs	32
Annex 5: Project Details	34
Volume 2 National Environmental Policies and regulations and World Bank Environmental Safeguard Policies	

1.0 Introduction and Project Background

The Small and Medium Enterprise (SME) sector in Sri Lanka has a long historical background prior to free trade liberalization in 1970s. Though major industries took over the substantial share of the national industrial economy, SME sector continued to play a major role.

SMEs consist of both manufacturing and service sector enterprises in a wide spectrum of industry disciplines. In addition to the standalone enterprise nature, these SMEs play an important role in supply chain links to the large industry / service sectors too. The National Strategy of Government of Sri Lanka has clearly recognized the importance of SME sector and announced that the SME Sector Development as a significant array of programs aimed at making SMEs more competitive by applying modern technology to improve production processes and make SMEs more efficient.

But despite the steady economic growth of Sri Lanka over the past decade, national development and poverty reduction faces a number of challenges due to the current global economic crisis and the fragile macro-economic environment in the country. Major reasons for above included the lack of even economic growth in all areas of the country especially areas outside the Western province, reasons being inadequate infrastructure, particularly in rural areas; the stagnant agricultural sector; the decades-old civil conflict; a large fiscal deficit; access to credit and a lack of advanced skills in the labor force, and inflexibility in the labor market.

The proposed project will help reduce existing market gaps and failures that are currently constraining Sri Lankan banks from providing long to medium term finance to SMEs. The proposed World Bank facility will complement existing credit facilities and capacity building programs. The main aim of the planned Crisis Response Window (CRW) Small and Medium Enterprise Development Facility (SMEDeF) project will be to broaden and deepen the access of small and medium enterprises to medium and long-term finance, with a view to ultimately contributing to an expansion of productive activities, investment, and job creation. The project will also provide credit to SMEs in urban and rural areas and in provinces with low credit activities (i.e. the North and East; see project description).

Among the wide spectrum of risk components industries faced, environmental risk is considered as a one of the risks, due to prevailing national and international needs and pressures in protecting and conserving. 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 project will not finance pre-identified set of SMEs or sectors. Therefore, specific environmental issues have not been identified. This Environmental Risk Management Framework (ERMF) of the project will help to guide the SMEs, Participating Financial Institutions (PFIs) and Project Implementation Unit (PIU) on how to minimize potential environmental risks associated with SMEs

that will be supported under the project and a process to ensure compliance with the Sri Lanka and World Bank environmental safeguards policies.

The details of the Project Development Objective and Project Description are provided in Annex 5.

2.0 General Profile of Sri Lankan SME Sector

Currently Sri Lanka has a diverse group of enterprises. It is estimated that around 16,000 Manufacturing enterprises operate in urban areas and over 600,000 in rural areas (the rural enterprises employ over 1,500,000). It is noteworthy to see that 41% of these enterprises are engaged in production.

According to the recent (2006/07) Banking Survey done by IFC of the SME Market, in Sri Lanka, SMEs constitute 80-90% of total establishments and 20% of industrial value addition . It accounts for 70% of employment generated in the business sector. However the large scale Industries contributes 80% of total value addition in the Industrial sector.

There is no standard definition of SME globally. It can vary from country to country and sometimes even across organizations. However, for the purpose of implementing this project, the following classification will be used:

This classification uses a combination of two indicators:

- (i) Small Enterprise: LKR 10 million to 100 million asset value;
- (ii) Medium Enterprise: LKR 100 million to 400 million asset value

SMEs in Sri Lanka operate either as individual enterprises or in groups / clusters. Some of them operate in industrial estates set up mostly by the Government. Altogether, there are around 60 industrial estates run by Board of Investment, Ministry of Industries, Industrial Development Board, Urban Development Authority and private sector.

Large number of naturally formed SME clusters of different sectors exists in Sri Lanka, connected with the natural resource base of the region. Over the years, as there were no proper policy level focus on these clusters, there is potential for such industries to create environmental and social issues. These natural clusters are sources of value addition, sustainable use of resources but could also be sources of pollution and closely linked to rural livelihoods. Few of the clusters are listed below.

- Brass industries in Kandy area, Beliatte, and Jaffna
- Black smith, silver smith villages in Webada, Kothmale and Puwakdandawa
- Coir clusters in different parts of Sri Lanka
- Wood working in Moratuwa
- Cane products clusters
- Handicraft and related metal finishing clusters in Kandy area.
- Rice milling clusters in Ampara, Polonnaruwa, Anuradhapura and Tissamaharama
- Clay based product clusters (Tile, Pottery, Ornamental items and Brick)

3.0 Need of Environmental Risk Management Framework

Environmental pollution control involves high financial / capital investments and even the operation of such facilities. This means the narrow investment capacities of SMEs compared to large scale enterprises obviously face difficulties in establishing waste management / pollution control facilities such as wastewater treatment facilities at their operations. Though these enterprises establish high cost pollution control systems merely for the regulatory requirements such as Environmental Protection Licenses (EPLs), in majority of the occasions those facilities found idling due to high operational cost. These ultimately results in air pollution, pollution of water bodies and ground water sources, pollution due to solid and hazardous waste and even noise pollution. Though the scale of operation and disposal of waste by SMEs are small, due to the high national SME population and its disbursement though out the country, the expected cumulative impact can be high.

As a general policy, local banks and financial institutions are currently not liable for its borrower's environmental performance (i.e. where an industry that has borrowed funds and as part of their operations has contaminated the environment or caused pollution). However, they are exposed to indirect (credit) risk that may arise from either a borrower's inability to repay loans due to environmental issues or reduced value of collateral property (e.g. site contamination). Emerging trends in Sri Lanka, such as tightening environmental laws and enforcement, increased public pressures and litigation indicate that environmental risks have already started taking a significant role.

Taking the above into account and based on the national environmental laws and regulations and World Bank's environmental safeguards policies, a need to develop an Environmental Risk Management Framework for the project has been identified. The project has been categorized as Financial Intermediary and will be governed by the OP 8.30 of the World Bank. In line with that, the project will be also governed by World Bank safeguards category FI.

This Environmental Risk Management Framework (ERMF) document provides details of environment procedures to be adopted by PIU and PFIs for their lending operations. The procedures incorporated in this framework aim to assist the credit officers in assessing environmental risks at early stages of project life cycle and outline the risk management provisions that can be incorporated in order to ensure environmentally sound investments and guaranteeing sustainable development in the country.

PIU established under the Ministry of Finance and Planning (MOFP) will be the apex body in governing the SMEDeF. "Mahinda Chinthana" the current National development policy framework already recognized the need in promotion of sustainable development in Sri Lanka and also "pollution free Country" as the motto in this direction.

As the projects financed by SMEDeF are solely SMEs it will ensure the above by:

- Capacity building of PIU and PFI staff on managing the environmental compliance requirements of the project
- Regular forums on environmental management procedures and Green Productivity strategies and environmental problem solving sessions for their relevant staff;
- Creating awareness among borrowers and chambers;
- Strengthening Environment procedures by integrating Environmental consideration in all Phases of project life cycle;
- Updating Operations Manual at regular intervals for the effective implementation of project.

This ERMF is developed in two Volumes. The first Volume focuses on the overall environmental risk management framework and second volume provides a compilation of GOSL and the World Bank environmental safeguards policies and regulations.

4.0 ENVIRONMENTAL REGULATORY FRAMEWORK

SMEs play an important role in Sri Lankan economy. Owing to their labour intensive operations, they provide employment opportunity for substantial portion of individuals and have contributed largely towards economic development of the nation. In other words SMEs represent two out of the three main elements; Economical and Social representations in the sustainable development framework. On the other hand as the SME sector is typically associated with high adverse environmental impacts due to the sheer number of units, and some of them are dominant in resource and emission intensive trades such as metal finishing, leather tanning, dry cleaning, printing and dyeing, brewing, food processing, fish farming / processing, automobile servicing and repairing, metal fabrication, textile manufacturing, chemical production etc. Moreover, their compliance status is less than desirable resulting in adverse impacts on public life, health and environment.

Some of the defining characteristics of the SME sector which contribute to poor levels of environmental control in operations are,

- Poor business planning without following the sustainable development framework due to lack of guidance on same;
- Lack of understanding of environment, public health and safety issues;
- Limited awareness on legal and regulatory obligations;
- Poor environment practices due to non-regularized labour practices;
- Non adoption of cleaner technologies or use of expensive pollution control equipment due to low economies of scale.
- Poor compliance monitoring by the responsible agencies

Therefore, PFI will be required to ascertain that the enterprises financed under this facility have obtained the required environmental approvals and licenses.

Few among many key environmental issues of SME sector reported are;

- High shop floor pollution;
- Occupational health hazards;
- Hazardous waste generation;
- Toxic emission and discharge;
- Low energy efficiency and connected GHG emissions;
- Polluting processes.

4.1 LEGAL PROVISIONS

Though GOSL has taken initial measures in Green Economic Directives, still the Financial Institutions do not have direct obligation under Sri Lankan environmental legislations rather than their ad-hoc programmes especially aiming their Corporate Social Responsibility (CSR) needs. According to the World Bank policies as there is a mandatory requirement of safeguarding the environment (OP/BP 4.01). In addition to or in par with the national environmental legislation, World Bank environmental safeguard measures also required to be taken in to strict consideration, throughout the loan

process. Therefore, this ERMF developed by PIU has taken care of legal environmental obligations under GOSL environmental laws as well as the relevant elements of World Bank's environmental safeguard policies.

Ministry of Environment (MoE) of GOSL periodically formulates / up date environmental acts, through its regulatory and enforcement body, the Central Environmental Authority (CEA). In addition, CEA have been vested with authority to make those rules more stringent as per the requirement of the state.

4.1.1 GOSL ENVIRONMENTAL LEGISLATIVE FRAMEWORK

Sri Lankan environmental legislation has a much elaborated history even prior to independence. The present Constitution of Sri Lanka came in to operation in 1978 and also provides the basic principles of environment protection and preservation through Chapter 4, Section 27, and Item 14;

“The State shall protect, preserve and improve the environment for the benefit of the community”.

Based on above principles, GOSL has laid down various Acts including National Environmental Act No. 47 of 1980, to ensure environmental perseverance and protection. The relevant Sri Lankan Environmental legislations applicable to industry are listed below;

Acts

- National Environmental Act No. 47 of 1980
- National Environmental (Amendment) Act, No. 56 of 1988
- National Environmental (Amendment) Act, No. 53 of 2000

Regulations published under NEA

EIA Regulations

- National Environmental (Procedure for approval of projects) Regulations No. 1 of 1993 Gazette Notification Number 772/22 dated 24th June 1993
- Specifying the State Agencies which are PAAs (EIA) Gazette Notification Number 859/14 dated 23rd February 1995
- EIA amendment - (Prescribed Activities) Gazette Notification Number 1104/22 dated 5th November 1999
- EIA amendment. Gazette Notification Number 1108/1 dated 29th November 1999
- Order made under Section 23Y - Amendments to the Prescribed Activities. Gazette Notification Number 1373/6 dated 29th December 2004

Natural Resources Management

- Regulation for Prohibition of use of Equipment for exploration, mining and extraction of Sand & Gem. Gazette Notification Number 1454/4 dated 17th July 2006
- Regulation for Prohibition of use of Cultivation of annual crops in high gradient area. Gazette Notification Number 1456/35 dated 4th August 2006
- Order under Section 24(C) and 24(D) to declare Muthurajawela Buffer Zone as an Environmental Protection Area. Gazette Notification Number 1466/26 dated 13th October 2006 ;
- Order under Sections 24(C) and 24(D) to declare Thalangama Tank as an Environmental Protection Area. Gazette Notification Number 1487/10 dated 5th March 2007
- Order under Sections 24(C) and 24(D) to declare Gregory Lake as an Environmental Protection Area. Gazette Notification Number 1487/10 dated 5th March 2007.
- Order under Sections 24(C) and 24(D) to declare Maragala Mountain Range as an Environmental Protection Area. Gazette Notification Number 1560/26 dated 1st August 2008 .
- Order under Section 24(C) and 24(D) to declare Knuckles Environment Protection Area. No.1507/9 dated 23rd July 2007.

Waste Management

- National Environmental (Protection and Quality) Regulation (EPL) -1990. Gazette Notification Number 595/16 dated 8th January 1990. (rescinded by Gazette Notification Number 1534/18 dated 01-02-2008
- Regulation for Prohibition of manufacture of polythene or any product of 20micron or below in thickness. Gazette Notification Number 1466/5 dated 10th October 2006.

Environment Protection

- National Environmental (Protection and Quality) Regulation (EPL) -1990. Gazette Notification Number 595/16 dated 8th January 1990. (rescinded by Gazette Notification Number 1534/18 dated 01-02-2008
- Amendment to National Environmental (Protection & Quality) Regulations (EPL) - 1990. Gazette Notification Number 617/7 dated 2nd July 1990.
- Gazette Notification No. 1159/16 dated 22.11.2000 (rescinded by Gazette Notification No. 1533/16 dated 25.01.2008)
- Gazette Notification No. 1533/16 dated 25.01.2008
- Gazette Notification No. 1534/18 dated 01.02.2008

Air quality/ Noise

- Motor Traffic (emission control) Regulation Number 817/6 dated 3rd May 1994.

- Ozone Depleting substances and Natural Environment (Ambient Air Quality) Regulations 1994. Gazette Notification Number 850/4 dated 20th December 1994.
- Amendment to National Environment (Ambient Air Quality) Regulation 1994. Gazette Notification Number 1562/22 dated 15th August 2008.
- Amended Regulations (Air Emission, Fuel and Vehicle Importation standards) Gazette Notification Number 1137/35 dated 23rd June 2000.
- National Environment (Air Emissions, Fuel & Vehicle Importation standards) Amended Regulations. Gazette Notification Number 1295/11 dated 30th June 2003.
- National Environment (Noise Control) Regulations 1996. Gazette Notification Number 924/12 dated 23rd May 1996.
- Regulation published under Section 23W. Gazette Notification Number 1309/20 dated 10th October 2003

Some of above legislations may not necessarily or directly be relevant to some of the SMEs.

4.1.2 THE WORLD BANK GROUP ENVIRONMENTAL SAFEGUARDS POLICIES

The World Bank group, in its operational directives has stipulated that all investments made should be environmentally sustainable. Since PIU involved in obtaining and disbursing a financial facility received from World Bank, SMEDeFs' operational procedures needs to be consistent with those of the World Bank.

The environmental safeguards and concerns of the World Bank group are endorsed by operational policies of the group. These policies form the guiding principles for assessing the environmental and social acceptability of the project. The World Bank's safeguard policies are listed below and detail form given separately in operation manual.

- OP 4.01 - Environmental Assessment
- OP 4.04 - Natural Habitat
- OP 4.09 - Pest Management
- OP 4.11 - Physical Cultural Resources
- OP 4.12 - Involuntary Resettlement
- OP 4.20 - Indigenous People
- OP 4.36 - Forest
- OP /BP 4.37 - Safety of Dams
- OP /BP / 7.50 - Projects on international waterways
- OP / BP 7.60 - Projects on disputed areas

As it was noticed Environmental Assessment (OP 4.01) is more relevant to the project, more details given below

Operational Policy 4.01 – Environmental Assessment

Two Policy objectives and relevant operational principles are listed below;

Objective 1:

To help ensure the environmental soundness and sustainability of investment projects

Operational Principle

Use a screening process for each proposed project, as early as possible, to determine the appropriate extent and type of environmental assessment (EA) so that appropriate studies are undertaken proportional to potential risks and to direct, and, as relevant, indirect, cumulative, and associated impacts. Use sectoral or regional environmental assessment when appropriate.

Objective 2

To support integration of environmental aspects of projects into the decision making process.

Operational Principles

1. Assess potential impacts of the proposed project on physical, biological, socio-economic and physical cultural resources, including transboundary and global concerns, and potential impacts on human health and safety;
2. Assess the adequacy of the applicable legal and institutional framework, including applicable international environmental agreements, and confirm that they provide that the cooperating government does not finance project activities that would contravene such international obligations;
3. Provide for assessment of feasible investment, technical, and siting alternatives, including the "no action" alternative, potential impacts, feasibility of mitigating these impacts, their capital and recurrent costs, their suitability under local conditions, and their institutional, training and monitoring requirements associated with them;
4. Where applicable to the type of project being supported, normally apply the Pollution Prevention and Abatement Handbook (PPAH) Justify deviations when alternatives to measures set forth in the PPAH are selected;
5. Prevent and, where not possible to prevent, at least minimize, or compensate for adverse project impacts and enhance positive impacts through environmental management and planning that includes the proposed mitigation measures, monitoring, institutional capacity development and training measures, an implementation schedule, and cost estimates;
6. Involve stakeholders, including project-affected groups and local nongovernmental organizations, as early as possible, in the

preparation process and ensure that their views and concerns are made known to decision makers and taken into account. Continue consultations throughout project implementation as necessary to address EA-related issues that affect them;

7. Use independent expertise in the preparation of EA where appropriate. Use independent advisory panels during preparation and implementation of projects that are highly risky or contentious or that involve serious and multi-dimensional environmental and/or social concerns;
8. Provide measures to link the environmental assessment process and findings with studies of economic, financial, institutional, social and technical analyses of a proposed project;
9. Provide for application of the principles in the table to subprojects under investment and financial intermediary activities
10. Disclose draft EA in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders

4.2 SMEDEF PROJECT ENVIRONMENTAL REQUIREMENTS

In par with the GOSL various environmental safeguards, PIU will incorporate such guidelines in its operational manual, which has been developed based on GOSL regulations and World Bank policies (refer ERMF Volume 2).

These requirements create the guiding principles based on which this Environmental Risk Management Framework has been formulated. PIUs Environmental requirements for this framework will be as follows.

- a. SMEDeF does not finance the following (**Exclusionary List of projects**):
 - (i) Production or trade in any product or activity deemed illegal under GOSL laws or regulations or international conventions and agreements.
 - (ii) Production or trade in weapons and ammunitions.
 - (iii) Production or trade in alcoholic beverages (excluding beer and wine).
 - (iv) Production or trade in tobacco.
 - (v) Gambling, casinos and equivalent enterprises.
 - (vi) Trade in wildlife or wildlife products regulated under CITES.
 - (vii) Production or trade in radioactive materials.
 - (viii) Production or trade in or use of unbounded asbestos fibers.
 - (ix) Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest (prohibited by the Forestry policy).
 - (x) Production or trade in products containing PCBs.

- (xi) Production or trade in pharmaceuticals subject to international phase outs or bans.
 - (xii) Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- b. SMEDeF will also not finance activities in certain sites identified to be environmentally highly significant as given below:
- (i) 100m from the boundaries of or within any area declared under the National Heritage Wilderness Act No 4 of 1988
 - (ii) 100m from the boundaries of or within any area declared under the Forest Ordinance (Chapter 451)
 - (iii) Any archaeological reserve, ancient or protected monument as defined or declared under the Antiquities Ordinance (Chapter 188).
 - (iv) Any area declared under the Botanic Gardens Ordinance (Chapter 446).
 - (v) Within 100 meters from the boundaries of, or within, any area declared as a Sanctuary under the Fauna and Flora Protection Ordinance (Chapter 469)
 - (vi) Within a distance of one mile of the boundary of a National Reserve declared under the Fauna and Flora Protection Ordinance
- c. SMEDeF will limit financing areas considered to be sensitive based on the NEA and the World Bank policies (see the list below). If PFIs make a decision to provide finances to projects within these areas, they will have to ensure that the PP has obtained necessary clearances from CEA/PAA;
- (i) Coastal zone as defined in the Coast Conservation Act No 57 of 1981
 - (ii) Any erodible area declared under the Soil Conservation Act (Chapter 450)
 - (iii) Any Flood Area declared under the Flood Protection Ordinance (Chapter 449)
 - (iv) Any flood protection area declared under the Sri Lanka Land Reclamation and Development Corporation Act 15 of 1968 as amended by Act No 52 of 1982
 - (v) 60 meters from the bank of a public stream as defined in the Crown Lands Ordinance (Chapter 454) and having width of more than 25 meters at any point of its course
 - (vi) Any reservations beyond the full supply level of a reservoir
 - (vii) 100 meters from the high flood level contour of or within, a public lake as defined in the Crown Lands Ordinance (Chapter 454) including those declared under section 71 of the said Ordinance
- d. SME's financed by SMEDeF, are required to comply with National Environmental Legislations of GOSL, specifically the National Environmental Act;
- e. PIU and or PFI will monitor the progress of compliance of environmental after financing during project implementation and operational stages.

- f. SMEDeF does not finance production or trade in Ozone Depleting Substances (ODS) subject to international phase out.

- g. SMEDeF requires that the Project Proponent (PP) has to carry out environmental assessment at their own cost and SMEDeF will not be financing such assessments, if the project falls under the list of specified industries covered under Environment Impact Assessment requirements;

- h. SMEDeF will not finance production or trade in pesticides/herbicides subject to international phase outs or bans as agreed by GOSL based on Stockholm Convention.

- i. SMEDeF requires that for projects involving pest management, the promoter have capacity to promote and support safe, effective and environmentally sound pest management programs;

- j. PFIs under SMEDeF will be required to adhere to the above requirements. Environmental Indicators would be reflected as a part of periodic audit reports, to be carried out at regular intervals.

5.0 Environmental Risk Management Framework

The main objective of this document is to recommend plans and procedures that will be built into the design of the project to ensure necessary steps are taken to manage environmental risks that may be associated with SMEs funded under the project and to ultimately ensure that the project complies with national and World Bank regulations/policies.

This section of the framework has looked at the SMEDeF's project cycle and how environmental planning can be best integrated keeping in mind that the project is (a) supporting relatively small transaction sizes (b) dealing with clients who have informal management systems (c) short duration of the project and hence the need to design procedures for identifying, planning and managing environmental risks simple and streamlined.

5.1 The Project Cycle

The ERMF will target the entire project cycle which will comprise of the following key stages:

- Project Screening
- Project Appraisal
- Loan Sanction and Disbursement
- Project Monitoring

The subsequent sub-sections explain the procedural and institutional framework to be followed by the Project Proponents (PPs), i.e. participating SMEs, PFIs and the PIU during the course of appraising and implementing each sub-loan under the project

5.1.1 Project Screening

After preliminary interactions with a potential PP, the PFI will receive a project concept note which will briefly describe the nature of the business activity in addition to other basic information such as the scale of the investment, location, etc. This project concept note will be subjected to a preliminary environmental screening which will aim to:

1. Ensure that the proposed SME does not belong to any of the industries named and listed in the 'Exclusionary List' prepared by the IFC (Section 4.2; a.) and does not fall within the locations listed.
2. Assign an appropriate classification according to pollution potential of the business
3. Determine the level of environmental assessment that may be needed to determine the mitigatory measures based on the matrix in Annex 2. (sites identified as sensitive)

Procedure to follow

Project screening would largely comprise of a desk evaluation. The PFI will basically check the nature of the proposed business activity against the Project Exclusion List (Section 4.2; a.) and site exclusion list (Section 4.2; b) and confirm the eligibility of the proposal for financing under the project. Any project concept which will fall with the “Project Exclusion List” and site exclusion list will not be considered and hence will be rejected. In addition to the environmental screening, social and financial criteria based screening too will be taken in to consideration and if the project concept is found unfeasible due to such criteria, it would be rejected although environmentally feasible.

If the project concept is accepted, it will be classified broadly according to its pollution potential and the level of analysis needed to analyse and design mitigatory measures (see Table below).

The target sectors of SMEs financed by SMEDeF are diverse in nature having correspondingly varied environmental risks associated with them. This type of environmental risk based classification is an advantage as it will facilitate early categorization of the projects into different risk levels and help identify the credit risk to the PFIs and SMEDeF, if financed without an Environmental Assessment and/or an Environmental Management and Monitoring Plan. Also, identification of the level of environmental risk at an early stage of the project life cycle is desirable since it would reduce the processing time for loan applications from non-polluting industries and help the decision makers at all levels to identify appropriate loan conditions and monitoring requirements to be followed through in the subsequent stages of the project cycle.

Primarily three environmental risk categories have been developed for classification of projects based in their pollution potential.

E-I	Industries with high pollution potential.
E-II	Industries associated with significant pollution, but to a lesser extent than E-I industries.
E-III	Industries that do not contaminate environment or have an Acceptable levels of discharge (Based on Standards developed by NEA (ERMF Volume 2) and the World Bank Pollution Prevention and Abatement Handbook 1998)

Determining the pollution risk level will be done using the list provided in Annex 2, which categorizes some of the common SMEs. It has to be noted that this risk classification has been developed at a sectoral level based on characteristic pattern of emissions/effluents generated by a typical facility in a particular sector in Sri Lanka. Hence, it is not cast in stone and each loan application will need to be screened against project specific information which

may sometimes justify a different judgement to what has been pre-determined in this table.

Once the pollution category is broadly determined the type of planning tool to be used to assess and mitigate environmental impacts will be determined based on the table provided in Annex 2. Example of the process is provided in the Operations Manual.

While the ERMF focuses on some of the common SME sectors, there is potential for new sectors to be developed. This means such projects will be screened and appraised case by case basis and will not be eliminated, not already identified in the potential SME list in this document.

Institutional responsibilities

Preliminary environmental screening process will be carried out by the credit officers of the PFIs using the (a) project exclusion list; (b) site exclusion list and (c) pollution classification and the planning tool to be used to prepare the impact/risk assessment and mitigation plan. Recommended assessment, planning and reporting formats for each of these different tools such as the Environmental Assessments (EAs), Environmental Management and Monitoring Plans (EMPs) and Environmental Checklist (ECL) will be provided in the Operations Manual to ensure targeted fact finding.

Once the preliminary screening is completed the results will be recorded clearly on a prescribed format and directed to the PIU for review and endorsement. The PIU's endorsement of the environmental screening decision will be an essential step. In case of ambiguities, expert opinion in decision making will be highly recommended. The PFI can refer to the PIU for any clarification pertaining to any doubt and PIU can also consult the CEA for further guidance. Details of the responsibilities for different types of projects will be provided in the Operations manual.

Once the PIU has endorsed the screening decision, the PFIs should communicate same to the project proponent along with the issuance of the loan application form and request for detail project proposals. It would be important at this stage to inform the PP clearly on the work that she/he may be required to undertake as part of environmental safeguards response. The PFI will provide the correct Terms of Reference for an EA or formats for EMP or ECL (as provided in the Operations Manual) to the PP to proceed with the above requirements.

The PIU will need to submit a sample of screening reports to the World Bank for post review. All screening reports of projects that fall within the pollution category E-I will be prior reviewed before final decision is taken on the environmental safeguards activities to be put in place as part of the loan application.

The PFI will also need to submit all screening reports and obtain a completed Basic Information Questionnaire from the Project Proponent if projects are

falling within the Prescribed List of projects under the NEA to CEA for clearance and guidance to move forward.

5.1.2 Project Appraisal

Procedure to be followed

Appraisal will be carried out on the detail proposal which will essentially include among other aspects of credit evaluation a report on the recommended environmental analysis and the mitigation plan (based on the decision from project screening). The key environmental concerns of the proposed project should be highlighted and discussed covering construction (if it's a new project or a major expansion) and operation stages along with the proposed mitigatory measures and relevant permits/approvals that may need to be obtained. On appraising the environmental report one of the following decisions will be made:

- (a) Findings are accepted and the loan can proceed to the next stage
- (b) Findings are inadequate and hence a re-submission needed filling in the gaps
- (c) Findings are accepted but the project is environmentally unfeasible and hence rejected. The PP still may have the opportunity to re-apply with a new project design.

While appraisal will also be largely a review of documents, site visits and direct observations are highly recommended at this stage to verify the facts contained in the environmental documentation.

Institutional Responsibilities

The responsibility of preparing the report on environmental impacts and mitigation will lie with the PP. In most instances they may be required to hire an expert to carry out the work.

The PFIs will be primarily responsible for appraising the loan application. Since the capacity within the PFIs to undertake a review of an environmental assessment is very low, the PIU will assist in identifying a pool of consultants at the provincial level for each province from which the PFIs can draw expertise as and when needed to get expert opinion. This approach will guarantee a sound environmental appraisal decision and will expedite the loan appraisal process all together.

Pollution prevention and abatement strategies among industries are a comprehensive subject area that is sector and industry specific. The Pollution Prevention and Abatement Handbook developed by the World Bank and the IFC Environmental, Health and Safety Guidelines for industries will be substantial aid to the PP, PIU and PFIs in assessing the environmental issues associated with the sectors covered under E-I, E-II and E-III categories. The planned capacity building programmes by the PIU also will assist PFIs in guiding SMEs with correct environmental directives.

On completion of appraisal, a loan appraisal report will be forwarded to the credit evaluation committees comprising of both the PIU and PFI staff for final review and approval. In addition, all proposals falling under EI category will need to be reviewed by the World Bank prior to granting final approval. As these industries have a high pollution potential, World Bank's clearance will be a pre-requisite to fund disbursement. However, for proposals falling under EII and EIII, World Bank prior approval is not necessary and only a sample of proposals will be reviewed at the initial stage to ensure environmental safeguards efforts are within the levels stipulated in this framework. Once all approvals are in place, the PFIs can start completing the pre-disbursement formalities. The PFIs will be responsible for communicating the decision to the PP. All projects that require clearances from the Central Environmental Authority or designated Project Approving Agency as per the NEA, should obtain clearances with those agencies at the appraisal stage.

The PIU should take the responsibility for sending in all appraisal reports for proposal that fall under the category of EI for pre-review and a sample from those falling under EII and EIII to the World Bank for post-review.

5.1.3 Loan sanction / Disbursement

During this stage the PFIs will need to identify the loan sanction conditions or the clearance conditions based on the decisions made by the Credit Evaluation Committee (CEC). Once this is done, it is essential to ensure that the loan agreement carry provisions to ensure that all aspects of the environmental management plan and/or clearance conditions are implemented by the PP and that PPs environmental performance is tied up with fund disbursements. The contract should be so designed that poor performance on the environment front will result in fund curtailment until proper action is undertaken by the PP.

5.1.4 Project Monitoring

Subsequent to disbursement of the loan, the PFIs will undertake periodic monitoring of the project to confirm that project implementation is on track. From an environmental point of view, the PFIs will need to check the progress of the environmental management measures based on which the project has been approved.

The PP will be required to report progress to the PFIs at least on a quarterly basis. The reporting could be made simple and easy if a standard progress monitoring format can be issued that covers all aspects the project has been appraised and approved upon. Monitoring by the PFIs will be largely based on these progress reports and site visits to assess compliance with EMP and clearance conditions and to identify any warning signals. The PFIs can also use experts from the pool of consultants to monitor and comment on those projects which have been rated as high/medium risk.

It is recommended that the PIU carries out independent monitoring of selected projects to make sure that compliance with the environmental management plan, permits and approvals are actually taking place.

During the operational phase, annual independent environmental audits to identify any potential environmental risks that may be emerging should also be undertaken, thereby enabling the PFI to initiate necessary follow up action to address the same.

Terms of References for identifying the pool of experts and for the independent audit are provided in Annex 3 and 4 respectively.

6.0 Potential Environmental Impacts and Management Strategies

The Project will follow NEA guidelines (ERMF Volume 2), CEA Industrial pollution Control Guidelines, World Bank's Pollution Prevention and Abatement Handbook and IFC Environmental, Health and Safety Guidelines to guide in making decision on identifying suitable environmental management strategies. Some of the potential impacts of SMEs and possible management strategies are listed below.

Potential Impacts

- Air emissions (including energy efficiency and Greenhouse Gas emissions)
- Waste water and liquid waste
- Stress on water resources, contamination of aquatic habitats and aquatic habitat alterations
- Solid Waste (including crop residues and other by-products)
- Noise pollution
- Hazardous material/waste (including toxic, corrosive, flammable, reactive, radioactive and infectious characteristics), combustion products and oil
- Health and Safety Issues
- Extraction of raw material from protected and sensitive ecosystems
- Over extraction of natural resources
- Soil erosion and loss of productive capacity
- Threats to biodiversity
- Chemical spills

Impact Management Strategies

- Project Specific Environmental Assessments and Environmental Management and Monitoring Plans
- Environmental Code of Practices
- Wastewater treatment with pre-anaerobic treatment and post aerobic treatment
- Biogas generation and use for energy purposes
- Noise abatement designs at point of noise generation
- Solid waste minimization and waste management systems
- Cleaner Production Technologies
- Environmental Management Systems
- Chemical storage and handling systems
- Health and safety management system
- Consultations with key stakeholders

7.0 Capacity Development Strategy

Based on the past experiences in loan management activities, especially the environment related finances, environment related knowledge among all stakeholder communities found to at a very low degree. Therefore as an essential need of the project, all stakeholder communities knowledge will be enhanced by conducting a series of training programmes. Two types of training programmes proposed namely;

- Environmental training for PIU staff
- Environmental trainings for PFIs

Training programmes for PIU and PFIs

This training program aims to provide PIU and PFI employees with the necessary expertise to recognize Environmental issues at the field level and develop suitable safeguards to protect SMEDeF from associated Environmental risks. These training programs would be conducted with the help of local and national training institutions and individual technical experts. Two types of training programmes offered namely;

- Awareness programmes: These sessions will be mainly conducted for the managerial grades of PFI and PFIs.
- Competence development training: These training sessions essentially cover the field experience sharing and the technical capacity needs, hence mainly targets the field offices and evaluating offices of PFIs.

Proposed Environmental Management training programmes for the PIU and PFI will be mainly consist of followings;

- Development and Industry
- Industry and Environment interactions
- International and local experiences in Industry Environment interaction
- Sustainable development
- International treaties and conventions on Environment and national commitments
- Environmental legislation in Sri Lanka
- Environmental issues directly relevant to Sri Lanka
- Productivity and Green Productivity approaches in national development
- Green productivity approach in development including;
 - Cleaner Production;
 - Waste Management (EOPT strategies)
 - International Environmental Management Systems (EMS)
- Green accounting and Environmental Economics
- Energy & Environmental management in industry
- Environmental indicators
- Energy and Environmental auditing
- Clean Development Mechanisms

If any further relevancies arise, those topics also will be taken in to consideration and training sessions will be organized accordingly. It is highly recommended to restrict above sessions to a maximum duration of 2½ hrs rather

than day-long sessions. Also it is recommended to conduct above training sessions at regional level for the benefit of PFIs rather than conducting in Colombo, taking in to consideration the effectiveness of such programmes.

These programmes should be strictly Multi Media based and highly recommend using maximum field experiences. All these programmes to be evaluated by the participants and subjected to the feedbacks form participants continual improvement is highly recommended. Substantial discussion time to be allowed for participants to clarify their subject relevant issues and for the highest effectiveness it is recommended to limit the number of participants per session to a maximum of 30. Initial programmes proposed to conduct in Colombo and later stages training programmes will be organized by PIU in coordination with the regional PFIs.

Annex 1

Potential Environmental Risk Levels (based on Pollution Categories)

S. No	Sector	Noise	Air Emission	Waste Water	Solid Waste	Hazardous Waste	Risk Cat.
1	Breweries	L	M	H	M	H	E-I
2	Cement and Lime Manufacturing	L	H	M	M	L	E-I
3	Distilleries	L	M	H	M	H	E-I
4	Dye and Dye intermediates	L	H	H	L	H	E-I
5	Electroplating	L	L	H	L	H	E-I
6	Engineering Units (Metal surface Treatment)	L	M	M	L	H	E-I
7	Fertilizer	L	M	H	M	H	E-I
8	Foundries (cast iron or non-ferrous)	M	H	L	M	M	E-I
9	Healthcare Facilities and Medical Laboratories	L	L	H	H	H	E-I
10	Laundries	L	L	H	L	M	E-I
11	Metal, plastic and rubber products manufacturing	L	M	M	M	H	E-I
12	Mineral Processing	M	M	M	M	H	E-I
13	Organic Chemical Industries	L	H	H	L	M	E-I
14	Paints and Varnishes	L	M	H	L	H	E-I
15	Pesticides	L	H	H	L	H	E-I
16	Pharmaceuticals	L	H	H	M	H	E-I
17	Pulp, paper production and paper-based products	L	H	H	M	M	E-I
18	Soap and detergents	L	L	M	L	H	E-I
19	Steel smelting	L	H	H	M	H	E-I
20	Tannery and Leather Finishing	L	L	H	M	H	E-I
21	Textile (dying & Printing)	L	L	H	L	H	E-I
22	Waste Management Facilities including metal and plastic recycling and Recycle material collection and separation	L	H	H	H	H	E-I
23	Aquaculture	L	L	M	L	M	E-II
24	Audio / video equipment repairing	L	L	L	L	M	E-II
25	Automobile / boat services and workshops	L	M	M	L	M	E-II
26	Ceramics products manufacturing	L	M	L	L	M	E-II
27	Construction material extraction (sand, metal, lime, mineral, etc)	H	M	L	L	L	E-II

28	Dairy processing	L	M	L	M	L	E-II
29	Edible oils including coconut oil	L	L	L	M	L	E-II
30	Fish /meat/poultry processing	L	M	M	M	L	E-II
31	Flour and pulse mills	L	M	L	M	L	E-II
32	Food and Fruit processing	L	L	L	M	M	E-II
33	Glass and Glass fiber based products manufacturing	M	M	L	M	M	E-II
34	Natural Rubber	L	M	L	M	M	E-II
35	Poultry Production	L	M	L	M	M	E-II
36	Printing	L	M	M	M	M	E-II
37	Sawmilling and Manufacturing Wood Products	M	M	M	M	M	E-II
38	Steel rolling mills	M	M	L	M	L	E-II
39	Stone crushers	H	M	L	L	L	E-II
40	Sugar manufacturing	M	M	M	M	L	E-II
41	Tourism and Hospitality Development	M	M	M	M	M	E-II
42	Annual/Bi-annual Crop Production	L	M	L	L	L	E-III
43	Apparel (manufacturing and selling)	L	L	L	L	L	E-III
44	Bakeries and Confectioneries	L	M	L	N	L	E-III
45	Brick Manufacturing	L	M	L	L	L	E-III
46	Computer assembling and repairing	L	L	L	L	L	E-III
47	Engineering Units (cutting and Shaping)	M	L	L	L	L	E-III
48	Food catering and Restaurants	L	L	M	M	L	E-III
49	Ice Manufacturing	L	M	L	L	L	E-III
50	Livestock Production	L	M	L	M	L	E-III
51	Plantation Crop Production	L	L	L	L	L	E-III
52	Plaster of Paris	L	M	L	L	L	E-III
53	Rice Mills	L	L	L	L	L	E-III
54	Salt and Salt Products	L	L	L	L	L	E-III
55	Soft Drinks	L	L	L	L	L	E-III
56	Spice Products	L	L	L	L	L	E-III
57	Sports good Industry	L	L	L	L	L	E-III

L = Low; M = Medium; H = High

E-I = High Risks; E-II = Moderate Risks; E = III = High Risks

Annex 2

Possible investment scenarios for determining the level of environmental analysis needed under SMEDeF

Investment Scale	Possible Project Localities	Risk Level		
		E-I	E-II	E-III
New SMEs/ Major Expansion of existing SMEs	Industrial Zone	IEE/EMP	EMP	NA
	Non-Industrial Zone	EIA/EMP	IEE/EMP	Environmental checklist
	Sensitive Areas ¹	EIA/EMP	EIA/EMP	IEE/EMP
Minor Expansions	Industrial Zone	EMP	Environmental codes and practices	NA
	Non-Industrial Zone	EMP	Environmental codes and practices	Environmental checklist
	Sensitive Areas	EIA/EMP	EIA/EMP	Environmental checklist
Reinstatement	Industrial Zone	EMP	Environmental codes and practices	NA
	Non-Industrial Zone	EMP	Environmental codes and practices	Environmental checklist
	Sensitive Areas	IEE/EMP	IEE/EMP	Environmental checklist

IEE = Initial Environmental Examination; EMP = Environmental Management and Monitoring Plan; EIA = Environmental Impact Assessment; NA = Not Applicable

¹ List of Sensitive Areas are provided in Section 4.2, c.

Annex 3

Terms of Reference to Conduct Environmental Audits for High and Moderately Polluting SMEs

Invitation for Expressions of Interest for Consulting Services to Conduct the Annual Independent Environmental Audit

1. Introduction

Sri Lanka Crisis Response SME Development Facility (SMEDeF) is World Bank financed, the Ministry of Finance implemented project with the objective to broaden and deepen the access of small and medium enterprises to medium and long-term finance, with a view to ultimately contributing to an expansion of productive activities, investment, and job creation. The project, among others, would improve access to finance (including term finance) for SMEs particularly affected by the GFC in Sri Lanka and credit is extended on market terms.

The loan is a three-year Financial Intermediary Loan consisting of a credit line and a risk sharing facility available to both public and private participating financial institutions (PFIs). Selection would be based on clearly defined eligibility criteria that would ensure minimum performance and profitability of the PFIs and focus on SME lending.

Since the lending program uses the line of credit from IDA, it would be necessary for the Project Implementation Unit (PIU), on behalf of the borrower from IDA to comply with the World Bank Group's environmental and social safeguard requirements in addition to national level requirements. In order to enable PIU achieve this requirement, an Environmental Risk Management Framework (ERMF) has been put in place. While the PIU has an officer responsible of compiling and maintaining the documentation in relation to environmental safeguards, PIU does not have the SME sector specific knowledge to ensure environmental compliance are in place of every sub-project that would be supported by this facility. In order to ensure this, the PIU will be maintaining a roster of environmental specialist in a range of subject areas related to different SMEs in Sri Lanka.

The SMEs that develop sub-projects for this facility are responsible for conducting sub-project specific Environmental Assessments (EAs) based on terms of reference developed by the Central Environmental Authority (CEA)/Project Approving Agency (PAA) or the PIU if it falls outside the purview of CEA (i.e. outside the NEA requirements), 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 guidance provided in ERMF of the project.

2. Objective

While pre-reviews on environmental safeguards requirements have taken place for each sub-project prior to approving the loans, it has been identified the necessity to assess the status of implementation of environmental safeguards requirements of projects categorized between moderate to high environmental risks. Therefore, the main objective of this exercise is to carry out an independent environmental audit of those

projects to assess the conformity to minimum safeguards requirements in place according to the requirements of CEA/PAA and World Bank.

3. Tasks and Responsibilities

The SME sub-projects to be audited will be identified by PIU in agreement with the World Bank based on the criteria specified above. Based on the identification, for each sub-project the consultant will:

3.1 Verify compliance with CEA/PAA and World Bank requirements

- 3.1.1 Obtain and review required information from the sub-project proponent, PFI and PIU including, but not limited to, environmental screening report, copies of Basic Environmental Information Questionnaire (BEIQ) / Initial Environmental Examination (IEE) / Environmental Impacts Assessments (EIA) / Environmental Code of Practices (ECoPs) / Environmental Check Lists (ECL), relevant plans, technical information, approvals/licenses of various government agencies, Environmental Management Plans (EMPs) and other mitigation plans, progress reports and pre-environmental assessment reports, World Bank clearances and conditions and any follow-up documentation.
- 3.1.2 Examine compliance record with the sub-project proponent and check with the relevant government authority if necessary, particularly in cases where there are gaps of information
- 3.1.3 Examine monitoring reports and whether standards, procedures and controls are in place to respond to safeguards requirements stipulated in ERMF and CEA.
- 3.1.4 Examine procedures of corrective action if monitoring parameters are out of monitoring limits and if such incidents are actually reported, investigated and followed up.

3.2 Examine significant new risks and propose remedial actions

- 3.2.1 Assess any other critical risks to the environment that may have arisen during the project operational stages
- 3.2.2 Recommend specific actions to be taken by the project proponent to address the risks

3.3 Examine the use of Environmental Management Systems (EMS) and Cleaner Production Technologies (CPT)

- 3.3.1 Assess if the sub-projects use EMS and certified and their ability to get certified
- 3.3.2 Assess if the sub-projects have adopted any CPTs

3.3.3 Recommend for each specific sub-project how to improve their systems to get certified and possible CPTs to be adopted.

3.4 Document and submit the environmental audit report which should include (i) an Executive Summary, (ii) Overall audit opinion on the level of compliance, (iii) for each sub-project reviewed (a) a description of the sub-project, (b) the list of documents reviewed and persons interviewed, (c) observations made at the site, (d) conformity and/or deviations to guidelines (CEA and ERMF), clearance conditions (World Bank and GOSL) and plans, (e) status of progress reporting and actions taken to address issues (f) actions need to be taken to respond to negative deviations, (g) new risks and recommendations to address the risks (mitigation actions), (h) assessment in relation to EMS and CPT and recommendations and (i) any other relevant information to support the findings.

4. Application Procedure

Qualified consulting firms may apply for the assignment listed above. Applications should be submitted using the format below:

- Title of assignment
- Name and address of the firm
- Name, designation and telephone number of contact person
- Brief company profile
- Key staff members (giving priority to assignment-specific staff; for each staff member provide name, position in the team, number of years in the firm, relevant qualifications and assignment-specific experience and proficiency in languages – read, write and speak)
- Relevant experience of the firm (Details of assignment-specific tasks undertaken during the past 10 years with client references)

Expressions of interest should focus on aspects relevant to the particular assignment, and reach the PIU by [Date].

Note: Once the sample to be audited is identified and EOIs are received, PIU will request all eligible consulting forms to submit detailed technical and financial proposals.

Annex 4

Terms of Reference to Hire Individual Consultants to Assist PIU and PFIs to Review Environmental Safeguards Compliance of Sub-Projects Prior to Loan Approval

Expression of Interest for hiring individual consultants to assess environmental safeguards compliance of sub-projects

1. Introduction and Objective

Sri Lanka Crisis Response SME Development Facility (SMEDeF) is World Bank financed, the Ministry of Finance implemented project with the objective to broaden and deepen the access of small and medium enterprises to medium and long-term finance, with a view to ultimately contributing to an expansion of productive activities, investment, and job creation. The project, among others, would improve access to finance (including term finance) for SMEs particularly affected by the GFC in Sri Lanka and credit is extended on market terms.

The loan is a three-year Financial Intermediary Loan consisting of a credit line and a risk sharing facility available to both public and private participating financial institutions (PFIs). Selection would be based on clearly defined eligibility criteria that would ensure minimum performance and profitability of the PFIs and focus on SME lending.

Since the lending program uses the line of credit from IDA, it would be necessary for the Project Implementation Unit (PIU), on behalf of the borrower from IDA to comply with the World Bank Group's environmental and social safeguard requirements in addition to national level requirements. In order to enable PIU achieve this requirement, an Environmental Risk Management Framework (ERMF) has been put in place. While the PIU has an officer responsible of compiling and maintaining the documentation in relation to environmental safeguards, PIU does not have the SME sector specific knowledge to ensure environmental compliance are in place of every sub-project that would be supported by this facility. In order to ensure this, the PIU will be maintaining a roster of environmental specialist in a range of subject areas related to different SMEs in Sri Lanka.

The SMEs that develop sub-projects for this facility are responsible for conducting sub-project specific Environmental Assessments (EAs) based on terms of reference developed by the Central Environmental Authority (CEA)/Project Approving Agency (PAA) or the PIU if it falls outside the purview of CEA (i.e. outside the NEA requirements), 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 guidance provided in ERMF of the project.

The PIU invites Expressions of Interest from individual consultants to undertake assignments in the following SME sectors, as environmental safeguards specialists.

[List to be Provided at the Time of Advertising]

Short-listed applicants will be interviewed and the selected will be entered into the PIU's database of consultants. They will be contacted subsequently for specific assignments as and when the need arises.

2. Tasks and Responsibilities

The task of consultant is to review sub-project specific environmental screening and decisions taken based on the screening, sub-project specific EAs and advise the PIU and sub-project developers (participating SMEs) of any shortfalls or inadequacies prior to submissions of final loan documents. The consultant is also responsible to check if the reviewing sub-project has all required licenses and clearances and advise the developers if they are not in place and report to PIU on their status. Depending on the sector, technology used, scope and environmental screening outcomes, certain sub-projects also require prior review of the World Bank on environmental safeguards.

The consultant will be required to submit a detailed report in each review undertaken and submit to PIU.

3. Application Procedure

Qualified individuals may apply for the assignment listed above. Applications should be submitted using the format below:

- Title of assignment
- Name and contact details of applicant
- Date of birth and nationality
- Professional qualifications
- Education (Summarize university and/or specialized education giving names of institutions, dates and qualifications earned)
- Employment record (Starting from the present position list in reverse order every employment held. List dates, names of organizations, positions held and locations of assignment)
- Relevant experience (Provide details of assignment-specific tasks undertaken during the past 10 years with client references)
- SME sectors that can be reviewed (Based on the list provided earlier, indicate sectors that can be reviewed)
- Proficiency in languages – read, write and speak

Expressions of interest should focus on aspects relevant to the particular assignment, and reach the PIU by [Date].

Annex 5

Project Details

Project Development Objective

The main aim of the planned Crisis Response Window (CRW) Small and Medium Enterprise Development Facility (SMEDeF) project will be to broaden and deepen the access of small and medium enterprises to medium and long-term finance, with a view to ultimately contributing to an expansion of productive activities, investment, and job creation. The Project Development Objective is to improve access to finance (including term finance) for SMEs affected by the Global Financial Crisis (GFC) in Sri Lanka. In accordance with the requirements of OP 8.30, credit would be extended on market terms. Targeted participating financial institutions (PFIs) will include state and private commercial and licensed specialized banks with a national branch network. Targeted end-beneficiaries will include new SMEs 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 in economic recovery.

Project Description

The proposed Crisis Response SMEDeF would be a three-year Financial Intermediary Loan consisting of a credit line and a risk sharing facility available to both public and private participating financial institutions (PFIs). Selection of PFIs would be based on clearly defined eligibility criteria that would ensure minimum performance and profitability of the PFIs and focus on SME banking. The following components are proposed, working toward enabling IFC participation:

The project aims to use an incentive approach to support bank downscaling in supplying 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.

Component 1: Financing and Risk Sharing Facility

Component 2: Policy and Capacity Enhancement for SME Banking

The project would in addition include an unallocated funding window which would be available for additional funding 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.