

KENYA JOBS AND ECONOMIC TRANSFORMATION (KJET)
PROJECT
ENVIRONMENT & SOCIAL MANAGEMENT SYSTEM



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Definitions of Terms.

Environmental and Social Framework (ESF)	consists of the World Bank's Vision for Sustainable Development ; the Bank's Environmental and Social Policy for Investment Project Financing (IPF); ten Environmental and Social Standards (ESSs), which set out the requirements that apply to its Borrowers; and a Directive on Addressing Risks and Impacts on Disadvantaged or Vulnerable Individuals or Groups .
E&S Policy	means E&S Policy of KDC articulating its commitment E&S risk management and sustainable development.
EHS Guidelines	World Bank Group Environmental Health and Safety Guidelines.
E&S Officer	means a senior officer of KDC to be responsible for administration and oversight of the E&S Management System.
E&S Consultant	is the external agencies to be engaged by Bank and or KDC to undertake E&S categorization and to undertake E&S Due diligence of business activities to be financed by Bank.
Environmental and Social Management Framework (ESMF)	refers to an instrument that examines the risks and impacts of the KJET project, and those risks and impacts cannot be determined until the program or sub-project details have been identified. The ESMF sets out the principles, rules, guidelines, and procedures to assess the E&S risks and impacts.
ESIA	The process of identifying, predicting, evaluating mitigating the E&S impacts.
Environmental and Social Management System (ESMS)	The ESMS is the set of policies, procedures, tools and internal capacity to identify and manage the E&S risks posed by the subprojects.
Grievance Mechanism.	A mechanism to address affected communities' concerns and complaints.
E&S Action Plan	A plan of action acceptable to borrower to achieve compliance with the KDC's E&S standards and requirements.
Environmental & Social Due Diligence	An assessment and analysis of E&S risks and opportunities associated with a subproject being considered for financing to ensure that such risks would not present a potential liability to KDC.
Excluded Activity.	Any business or activity listed on the Exclusion List presented in Annex 4 .
Investment Project Financing (IPF)	refers to the World Bank's financing of investment projects that aims to promote poverty reduction and sustainable development. IPF supports projects with defined development objectives, activities, and results, and disburses the proceeds of Bank financing against specific eligible expenditures.

National law	refers to applicable national, sub-national or sectoral laws, regulations, rules and procedures.
Subproject	is a project or activity financed by KDC under the KJET project. Also referred to as 'borrower' and 'beneficiaries'

1 Background.

The Government's Bottom-up Economic Transformation Agenda has placed significant focus on the MSME sector by prioritizing financial inclusion for MSMEs, value chain approach to MSME products as well as sustainable job creation through the sector. In this endeavor, the Government is channeling its efforts to addressing the challenges related to low levels of firm growth, weak productivity, and eroding competitiveness in Kenya reflect various market failures, notably regulatory barriers to entry and growth and diversification of productive firms, lack of market access, and low firm capabilities.

The Kenya Jobs and Economic Transformation (KJET) Project is a World Bank funded project that aims to complement and strengthen these efforts via a whole-of-government approach to coordinate efforts across the multiple government bodies that collaborate to drive the private sector and MSME cluster agenda in Kenya.

KJET interventions are also leveraging the World Bank's diagnostics and analytics in areas of competitive clusters and jobs and economic transformation in addition to the Government of Kenya relevant key policy documents. These interventions are designed to meet the project's development objective by enhancing the market access and productivity of MSMEs as intermediate outcomes.

1.1 Introduction.

Under the KJET project, KDC will lend the World Bank funds to small and medium-sized enterprises (SMEs) that meet specific criteria, focusing on the adoption of green technologies and climate resilience. This is the addendum to the KDC's Environment & Social Management System (ESMS) approved by the Board on 28th September 2022 and was published in the KDC website on 4th November 2022. This addendum describes the Environment & Social (E&S) procedures for direct and indirect lending/investments under the KJET project of the World Bank. This addendum must be read in conjunction with the ESMS.

By implementing a robust E&S management framework, the KDC can ensure that their indirect lending practices support sustainable development, minimize E&S risks, and contribute to positive impacts in the sectors or industries they finance.

1.1.1 About KJET

The World Bank project Kenya Jobs and Economic Transformation (KJET) is designed with the following objectives;

- a. Increase private sector investments.
- b. Improve market access.
- c. Enable sustainable financing to create and improve jobs.

The project will have 4 components as follows;

- **Component 1: Strengthening Business and Investment Enabling Reforms (EUR 9.4 million):** Aims to improve the business and investment climate, particularly for exporters and foreign direct investment (FDI).
- **Component 2: Enhancing MSME Cluster Competitiveness (EUR 79.7 million):** Focuses on addressing market failures hindering MSMEs' productivity and market linkages.
- **Component 3: Scaling Up Green Financing and Strengthening Climatic Resilience for SMEs:** Promotes sustainable investments and climate adaptation initiatives and provides access to funding for green technologies and practices.
- **Component 4: Project Management, Monitoring and Evaluation (EUR 9.4 million):** Ensures effective implementation, tracking, and communication of project outcomes.

Component 3 is designed to support Small and Medium Enterprises (SMEs) in adopting green technologies and improving resilience to climate risks. It emphasizes mobilizing private capital for environmentally sustainable practices and providing financial solutions to address climate-related challenges. KDC is instrumental in implementing and managing financial mechanisms under this component which is subdivided into two parts;

(i) Subcomponent 3.1: Scaling Up Green SME Financing (€39.4 million)

Green Investment Fund (GIF):

Mobilizes long-term, risk-adjusted capital (equity and mezzanine financing) for green investments in sectors such as energy efficiency, sustainable irrigation, and electric transportation.

(ii) Subcomponent 3.2: Strengthening MSMEs' Climatic Resilience (€2.8 million)

Climate Disaster Credit Facility:

Provides concessional, non-collateralized credit to MSMEs affected by climate disasters such as droughts and floods.

This component will be implemented by State Department of Investment Promotion (SDIP), which will provide oversight over Kenya Development Corporation (KDC) for KDC-implemented activities. This component is complementary to other components and World Bank operations in Kenya, including the existing Supporting Access to Finance and Enterprise Recovery (SAFER) and Kenya Industry and Entrepreneurship Project (KIEP) projects.

1.2 E&S Requirements for MSMEs.

Each beneficiary will put in place and maintain an ESMS to identify, assess, manage, and monitor the E&S risks and impacts of subprojects on an ongoing basis. The ESMS will be commensurate with the nature and magnitude of E&S risks and impacts of subprojects, the types of financing, and the overall risk aggregated at the MSME level.

The ESMS will include the following elements: (i) E&S policy; (ii) clearly defined procedures for the identification, assessment and management of the E&S risks and impacts of subprojects; (iii) organizational capacity and competency; (iv) monitoring and review of E&S risks of subprojects under KJET; and (v) external communications and grievance management mechanism.

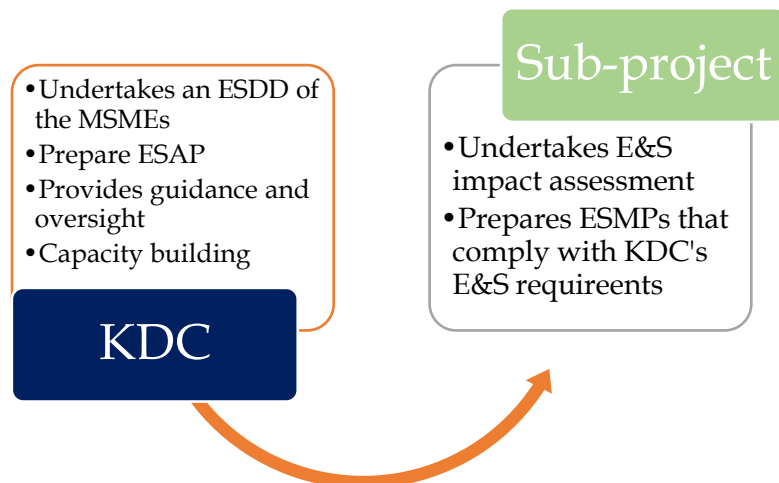
Other requirements include:

- (i) The MSME will review and adjust, in a manner acceptable to the KDC, its ESMS from time to time, including when the E&S risk profile changes significantly.
- (ii) The MSMEs will comply with any exclusions in the legal agreement and apply relevant national law for all subprojects and World Bank ESSs as relevant.
- (iii) The MSMEs will monitor the E&S performance of the subprojects in a manner proportionate to the risks and impacts of the subprojects and provide regular progress reports to its senior management.
- (iv) The MSMEs will promptly notify the KDC of any significant accidents or incidents associated with subprojects.
- (v) The MSMEs will submit to the Bank annual E&S monitoring reports on the implementation of its ESMS, including E&S performance of the subproject.
- (vi) The MSMEs will conduct stakeholder engagement in a manner proportionate to the risks and impacts.
- (vii) The MSMEs will put in place a Grievance Management Policy for external stakeholders proportionate to the risks and impacts of the subprojects.
- (viii) The Green Investment Fund (GIF) will disclose through their website their ESMS.
- (ix) The MSMEs will have in place and maintain appropriate labor management procedures and strategies, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, employee grievance mechanisms and occupational health and safety, Emergency preparedness and response plan(s), Code of conduct including relating to SEA/SH, Child labor / forced labor and HIV/AIDS awareness strategies. The MSME will provide adequate documented evidence of such procedures to KDC.

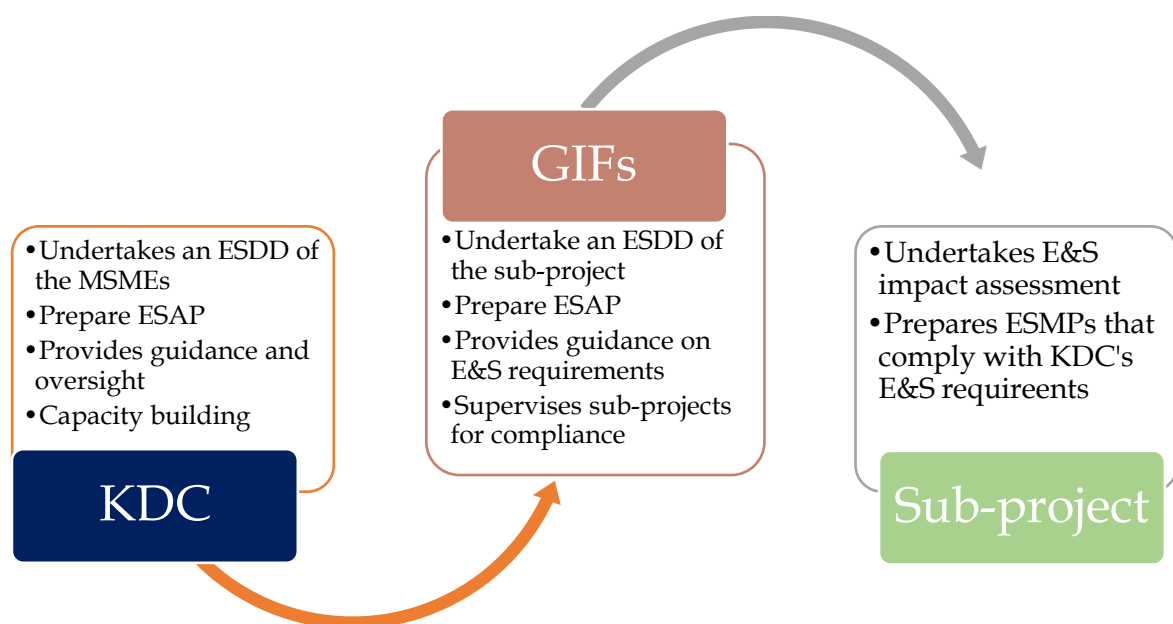
2 E&S Procedures.

E&S management for indirect lending involves integrating E&S considerations into the lending practices of the KDC. In indirect lending the E&S responsibilities are cascaded down to the MSMEs as shown in the following figures.

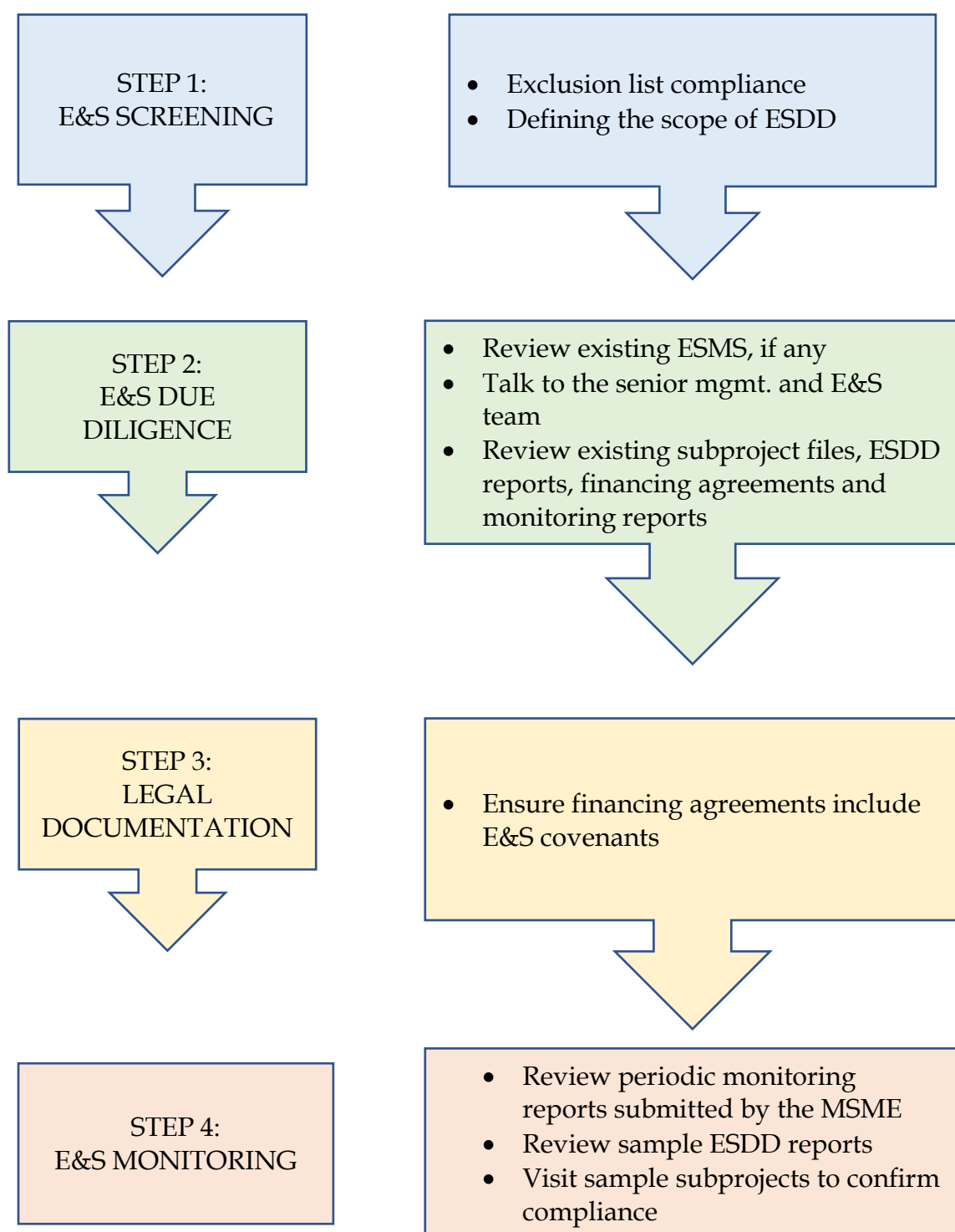
Component 3.1:



Component 3.2:



Screening Process.



2.1 Step 1: E&S Screening.

The objective of the E&S screening is to ensure the proposed activities of the MSME meet the project exclusion lists for the KJET project. As a priority, the MSMEs should not undertake any activities on the exclusion list. If the proposed activities for which

the MSME is seeking funding are on the exclusion list, the concerned MSME will be informed, and the investment will be rejected from further consideration.

2.2 E&S Due Diligence (ESDD) of MSMEs:

When conducting Environmental and Social Due Diligence (ESDD) of MSMEs, KDC must review the E&S capacity of the MSME. Reviewing the E&S capacity of MSME involves assessing its policies, practices, and performance in managing E&S risks and integrating sustainability considerations into its operations. While undertaking the ESDD, the following steps should be implemented:

2.2.1 *Review E&S Policies and Commitments:*

- Evaluate the MSME's E&S policy, guidelines, and commitments.
- Assess the comprehensiveness and alignment with international standards and best practices.

2.2.2 *Assess Organizational Structure and Resources:*

- Evaluate the MSME's organizational structure and presence of dedicated E&S teams or personnel.
- Assess the adequacy of staffing levels, expertise, and access to external E&S consultants or specialists.
- Determine if there are clear roles, responsibilities, and reporting lines for E&S management.

2.2.3 *Evaluate E&S Management Systems and Processes:*

- Assess the MSME's E&S management systems, procedures, and processes.
- Evaluate how E&S considerations are integrated into overall risk management frameworks.
- Review the effectiveness of E&S due diligence processes, including screening, assessment, and monitoring through review of existing subproject files, ESDD reports, financing agreements and E&S monitoring reports on sample basis.

2.2.4 *Analyse E&S Risk Assessment and Management:*

- Review the MSME's approach to identifying, assessing, and managing E&S risks.
- Assess the institution's strategies and practices for mitigating and monitoring identified E&S risks.

2.2.5 *Evaluate E&S Training and Capacity Building:*

- Assess the MSME's efforts to provide E&S training and capacity-building programs for staff at all levels. Training should cover ESS 1 – 10, E&S Governance, emerging trends and challenges. Ask for training records.

- Where training has not been done, KDC will develop E&S MSMEs training manual to guide capacity building process

2.2.6 Assess Monitoring and Reporting Systems:

- Evaluate the MSME's systems for monitoring and reporting on the E&S performance of subprojects.
- Review the adequacy of reporting templates, and processes for reviewing E&S performance on an ongoing basis.

2.2.7 Evaluate Stakeholder Engagement:

- Evaluate the effectiveness of mechanisms for soliciting feedback, addressing grievances, and incorporating stakeholder perspectives into decision-making.

As part of the ESDD, conduct meetings and interviews with key personnel responsible for E&S management within the MSME. Seek clarifications, gather additional information, and address any gaps identified during the review process.

Following the ESDD, an E&S Action Plan (ESAP) should be developed to address the identified gaps in the E&S capacity and procedures. The ESAP should define the timeline for each action item.

Annex 1 and 2 provide the ESDD checklist and ESAP template respectively.

2.3 Legal Documentation.

The objective of this step is to ensure that the financing agreements incorporate all E&S requirements as defined in section 1.2 of this addendum, E&S warranties and covenants, compliance requirements and the ESAP is included to be legally binding. It is important to ensure that the MSMEs understand and agree to implement the ESAP. The ESAP is to be appended to the financing agreement.

2.4 E&S Monitoring.

MSMEs are required to monitor and manage the E&S risks and impacts of their subprojects, and monitor E&S risk, as appropriate to the nature of financing.

Each MSME should submit an annual E&S monitoring report (ESMR) to the KDC as per the format presented in Annex 3. The monitoring report should provide information on the subprojects- their E&S category and compliance status. The report should provide information on the grievances and enquiries received through the external communication mechanism of the MSME.

In addition to the annual ESMR, the KDC team will undertake supervision and review E&S documentation prepared by MSMEs on sample basis.

3 Guidance on Grievance Management Policy Development

MSME's are required to prepare a grievance Management Policy for external stakeholders in line with the World Bank's environment and social standards. The grievance management system should be integrated into the MSME's overall Environmental and Social Management System (ESMS). The grievance mechanism should be accessible, transparent, and culturally appropriate. The policy should include the following components;

- Channels for Submission: Provide multiple channels for submitting grievances, such as hotlines, email, suggestion boxes, or in-person meetings.
- Eligibility: Clearly define who can file a grievance (e.g., affected communities, employees, contractors).
- Process Flow: Outline the steps for grievance submission, acknowledgment, assessment, resolution, and feedback.
- Roles and Responsibilities: Assign roles for receiving, investigating, and resolving grievances (e.g., grievance officer, management team).
- Grievance Registration: A standardized form or process for recording grievances.
- Acknowledgment: Prompt acknowledgment of grievances, with a reference number for tracking.
- Assessment: A thorough assessment of the grievance to determine its validity and severity.
- Resolution: Development and implementation of a resolution plan, including corrective actions.
- Feedback: Communication of the resolution to the complainant and other relevant stakeholders.
- Appeals Process: A process for complainants to appeal decisions if they are unsatisfied with the resolution.

ANNEXES

Annex 1: ESDD Report Outline

1. Introduction.
 - 1.1 KJET Project Overview.
 - 1.2 ESDD Purpose and Scope
 - 1.2.1 Purpose
 - 1.2.2 Scope
2. Project Background
 - 2.1. General Setting
 - 2.2. Project Governance Structure.
 - 2.3. Project Description
3. Risk Assessment Methods.
 - 3.1. Legal and Policy Reference Framework.
 - 3.2. Risk and Impact Assessment.
4. Environmental and Social Due Diligence Assessment Findings and Action Plan.
5. Conclusion.
6. Appendices.
 - Photos.
 - Maps.
 - MSME Questionnaire.

Annex 2: ESDD Site Visit Report Template

1. E&S Procedures and Capacity

Name of Financial MSME	
Date of the assessment:	
ESDD form filled by (name and designation):	
Does the MSME have an ESMS policy and management commitment – check all that apply:	
<ul style="list-style-type: none"> • Policy regarding Environmental and Social (E&S) risk management 	
<ul style="list-style-type: none"> • The E&S Policy is approved by Senior Management (mention the date of approval) 	
<ul style="list-style-type: none"> • ESMS specifies types of investments/loans and activities it applies to (
<ul style="list-style-type: none"> • The E&S Policy and the ESMS disclosed on MSME's website 	
Does the ESMS process and procedures include – check all that apply:	
<ul style="list-style-type: none"> • Documented process to assess E&S impacts and risks of its projects 	
<ul style="list-style-type: none"> • ESMS specifies applicable requirements (e.g., Exclusion List/national laws/IFC Performance Standards) 	
<ul style="list-style-type: none"> • E&S due diligence process integrated with risk assessment procedures 	
Does the ESMS include a process for E&S monitoring and record keeping – check all that apply:	
<ul style="list-style-type: none"> • Process for monitoring ongoing compliance with applicable requirements 	
Does the ESMS have an internal feedback and continuous improvement mechanism – check all that apply:	
<ul style="list-style-type: none"> • Process for periodically reporting Environmental and Social performance information internally to senior management 	
<ul style="list-style-type: none"> • Continuous improvement process in place to revise and update ESMS (e.g., changes in national law/international best practices) 	
Is there provision for E&S external reporting – check all that apply:	
Annual reporting on E&S performance to lenders	
Are the ESMS roles and responsibilities defined – check all that apply:	
<ul style="list-style-type: none"> • Designated ESMS Officer 	
<ul style="list-style-type: none"> • Designated ESMS Environmental Coordinator(s) 	

• Description of ESMS responsibilities of different roles	
ESMS capacity and resources – <i>check all that apply:</i>	
• Process for communicating ESMS policy and procedures across MSME	
• ESMS includes tools (e.g., checklists/guidance notes) for its implementation.	
• Budget allocated for ESMS training	
• Training plan for ESMS implementation	

Note: Please review sample ESDD and monitoring reports for types of projects envisaged under KJET. If such projects are not there in the existing portfolio, review ESDD and monitoring reports for any 2-3 projects.

Annex 3: Incident Reporting Template

Section	Details
1. Incident Details	
Incident Date & Time	[DD/MM/YYYY, HH:MM]
Incident Location	[Exact location of the incident]
Reported By	[Name, Position, Contact]
MSME Name & Business Sector	[Business Name & Industry]
2. Incident Description	
Type of Incident	<input type="checkbox"/> Environmental <input type="checkbox"/> Social <input type="checkbox"/> Health & Safety <input type="checkbox"/> Other (Specify)
Description of the Incident	[Provide a brief but clear description of what happened]
Potential or Actual Impact	[Describe any environmental, social, or health & safety consequences]
Affected Individuals/Communities	[Details of affected people or groups, if applicable]
3. Immediate Response Actions	

Actions Taken	[Describe immediate steps taken to control or mitigate the incident]
Authorities/Stakeholders Notified	<input type="checkbox"/> Yes <input type="checkbox"/> No (If Yes, specify: [Name, Date, Contact])
4. Root Cause Analysis	
Possible Causes of Incident	[Identify underlying causes, such as equipment failure, human error, etc.]
Corrective & Preventive Actions	[Outline measures to prevent recurrence]
5. Follow-Up Actions	
Responsible Person(s) for Follow-Up	[Name, Position]
Expected Completion Date	[DD/MM/YYYY]
Additional Comments	[Any other relevant information]

Annex 4: E&S Training Plan Template

Section	Details
1. Training Overview	
Training Title	
Objective	
Target Audience	[Who will be trained? (e.g., employees, contractors, MSMEs, suppliers)]
Training Mode	<input type="checkbox"/> In-Person <input type="checkbox"/> Online <input type="checkbox"/> Hybrid
Training Duration	
Trainer(s) Name & Contact	
2. Training Content	
Topics Covered	<input type="checkbox"/> Environmental Risks <input type="checkbox"/> Social Impact <input type="checkbox"/> E&S Regulations <input type="checkbox"/> Climate Change <input type="checkbox"/> Waste Management <input type="checkbox"/> Other (Specify)
Learning Outcomes	
Training Materials	<input type="checkbox"/> Presentation <input type="checkbox"/> Handbook <input type="checkbox"/> Case Studies <input type="checkbox"/> Videos <input type="checkbox"/> Compliance Guidelines <input type="checkbox"/> Other (Specify)
3. Training Schedule	

Date & Time	Topic
[DD/MM/YYYY]	[E&S Risk Identification]
[DD/MM/YYYY]	[Regulatory Compliance]
4. Assessment & Feedback	
Assessment Method	<input type="checkbox"/> Quiz <input type="checkbox"/> Practical Exercise <input type="checkbox"/> Group Work <input type="checkbox"/> Other (Specify)
Evaluation Criteria	[How will participants' understanding be measured?]
Feedback Collection	<input type="checkbox"/> Pre-Training Survey <input type="checkbox"/> Post-Training Survey <input type="checkbox"/> Verbal Feedback
5. Post-Training Actions	
Certification Provided?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Follow-up Support	[Any mentorship, refresher sessions, or additional resources?]
Responsible Person for Follow-up	[Name & Contact]

Annex 5: ESAP template

MSME name			
Date of ESAP/ date of compliance review			
Description of the E&S action	Responsible Person	Due date	Evidence for completion of the action

Annex 6: Annual E&S Monitoring Report Format

Name of the MSME		
Reporting period (month/year-month/year)		
Report completed by (name and designation)		
Contact e-mail address and phone number		
Date of the Report		
ESMS ACTION PLANS		
ESS Action	Current Status	Responsibility

Annex 7: ESMS Implementation and E&S Capacity

Policies & Processes		Description
Have there been any updates to the E&S Policy and ESMS adopted by your organization?	Yes/No	If yes, please provide a copy of the updated policy including date when it was issued and reasons for the same.
Has senior management signed off on the updated policy/procedure?	Yes/No	If yes, please provide the date and internal communication indicating the same.
Please describe any activities for the last FY for staff training and other internal communication		
Give details of any transactions rejected on environmental, health, safety or social grounds		
State any difficulties and/or constraints related to the ESMS implementation		
Did you conduct site visits to MSMEs facilities?	Yes/No	If yes, please provide % of projects that are covered

Capacity		
Please provide current staffing of the core E&S people as well as list other people in the organization involved with the ESMS implementation		
Has the E&S team undergone any training during the reporting period?	Yes/No	If yes, please provide details
Do you need more guidance on ESMS implementation? Please describe	Yes/No	

Annex 8: Exclusion List.

List of Activities that KDC will not finance:

1. Sub-projects categorized as High risk (per WB ESF and ESSs definition);
2. Any technical assistance (TA) activities that are classified as Type 1 as per WB Operations Environmental and Social Review Committee (OESRC) Advisory Note;
3. Activities that may cause long term, permanent and/or irreversible impacts (e.g., loss of major natural habitats including habitats of wildlife and fisheries);
4. Activities that may cause any significant loss of biodiversity;
5. Activities that have a high probability of causing serious adverse effects to human health and/or the environment;
6. Activities that may have significant adverse social impacts and/ or may give rise to significant social conflict;
7. Activities that may involve significant land acquisition, forced eviction and involuntary physical displacement;
8. Activities that would disproportionately affect the historically underserved and vulnerable groups;
9. Activities that may cause damage to cultural heritage;
10. Activities that contravene Kenya's obligations under its international agreements;
11. Activities that may involve generating large volume of e-waste causing significant irreversible adverse impacts to human health and natural resources; and
12. Activities that limit access for women and PWDs to project benefits (e.g., public offices with no ramps to, inaccessible websites, etc.).

13. Any other excluded activities as set out in the ESMF for the Project and those highlighted in the Main KDC ESMS.