

Energy Smart Fund II – Subcomponent I
Environmental and Social Management System
Preliminary Manual

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1. Introduction

1.1 Overview of Energy Smart Fund II

The Government of Barbados is implementing the Energy Smart Fund II (ESF II) Program to continue to promote renewable energy (RE) and energy efficiency (EE) projects in Barbados, aimed at decreasing energy costs of the population; increase the country's energy security by reducing its dependency on imported fossil fuels; and increase local and global environmental sustainability by reducing emissions of polluting substances, particulate matter, and carbon dioxide and other greenhouse gases. To capitalize ESF II, the Government of Barbados obtained a loan from the Inter-American Development Bank (IDB). The ESF II Program will build upon the success and lessons learned from the Energy Smart Fund Program, implemented from 2010 to 2017 and also funded by the IDB. The ESF II Program is consistent with the Government of Barbados's Sustainable Energy Framework, the comprehensive policy framework within which the Energy Smart Fund Programs are implemented.

ESF II has two subcomponents: I and II. Subcomponent I includes the implementation of EE and RE projects, with a special focus on Small- and Medium-Sized Enterprises (SME). Given the role of the tourism industry both in energy consumption and as driver of the Barbadian economy, the tourism sector will be a priority of ESF II, particularly air conditioning, lighting replacement, and photovoltaic (PV) installation on rooftops. Distributed generation using RE, energy storage, and energy efficient technologies will also be eligible for funding. Special attention will be given to the promotion of innovative EE and RE measures, such as SMEs that want to adopt electric mobility in their fleets.

The IDB has classified the ESF II - Subcomponent I as category:

- B.13: a non-investment lending and flexible lending instrument, related to a financial intermediary¹; and
- FI-II (moderate risk): a financial intermediary whose existing or proposed portfolio comprises, or is expected to compromise, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures².

¹ IDB's [Environment Safeguard Policy \(OP-703\)](#)

² IFC's [Interpretation Note on Financial Intermediaries](#)

The executing agency of the ESF II Program is the Energy and Telecommunications Division (ETD) of the Office of the Prime Minister of Barbados. Enterprise Growth Fund Limited (EGFL) acts as the sub-executing agency for ESF II - Subcomponent I. EGFL is a private sector company that commenced operations in 1998 with a mandate to provide loan financing, venture capital (equity financing), business advisory services, and technical assistance to the SME sector in Barbados. In addition to managing the ESF II – Subcomponent I, EGFL provides loan and equity financing with other funds generated from the Government of Barbados, the IDB, Sagicor Financial Corporation, the Royal Bank, and the Central Bank of Barbados in sectors such as: agricultural development, EE and RE, industrial, investment and employment, innovation, small hotels, tourism, and trade receivables and liquidity.

EGFL is committed to effectively and comprehensively managing and minimizing environmental and social risk and impacts and ensuring that the projects executed under the ESF II - Subcomponent I are consistent with national requirements and IDB policies, safeguards, and requirements.

1.2 Scope and Objectives of ESMS

An Environmental and Social Management System (ESMS) is a framework that integrates environmental and social risk management into a financial institution's financial process. It is a streamlined and transparent system that promotes sustainable development and manages environmental and social risks, avoids liabilities, and maintains reputations. An ESMS covers two types of risks:

- Environmental and social risks: potential negative effects on financial sustainability due to environmental and social aspects, such as decrease in the value of an asset due to environmental and social liabilities or an increase in the probability of non-payment of a loan due to environmental and social issues.
- Reputational risk: potential damage to a financial institution's reputation due to secondary effects of being associated with a company or project that causes or is believed to cause environmental and social damages. Reputational risk is associated with: 1) relationship with companies, projects, activities, practices, or sectors that have significant public opposition or concerns, or 2) noncompliance with environmental or social requirements or a project that is not resolved properly.

This Manual presents the ESMS for the ESF II – Subcomponent I. The objectives of the ESMS are:

- Identify, assess, mitigate, and monitor the environmental and social risks and impacts of the ESF II – Subcomponent I portfolio,

- Ensure the ESF II – Subcomponent I portfolio complies with national regulations and aligns with IDB Policies and Safeguards; and
- Set a good environmental and social reputation with customers, investors, and other interested parties in the ESF II – Subcomponent I.

This Manual is to be used by EGFL as a guide to implement the ESMS. The Manual references the project cycle established in the *Smart Fund Operating Guide* (2012), incorporating the relevant environmental and social assessment and monitoring actions in each project cycle step (see Section 3). This Manual also provides the Environmental and Social Policy (see Section 2), Information Disclosure and Contact (see Section 4), and Continuous Improvement and Training (see Section 5).

1.3 Applicable Standards and Guidelines

The Applicable Standard for the ESF II - Subcomponent I and therefore the ESMS are:

- IDB's Environment Safeguard Policy (OP-703)³,
- IDB's Access to Information Policy (OP-102)⁴;
- IDB's Exclusion List⁵; and
- Barbados regulatory framework, including:
 - Barbados Sustainable Development Policy;
 - National Physical Development Plan;
 - Coastal Zone Management Plan;
 - National Strategic Plan (2005-2025);
 - Small Business Development Act 1999-23;
 - Applicable legislation; and
 - International Treaties and Conventions to which Barbados is signatory.

The ESMS follows best international practice guidelines for financial intermediary's ESMS such as IDB's Managing Environmental and Social Risks Roadmap for National Development Banks in Latin America and the Caribbean (2014)⁶ and the International Finance Corporation's (IFC) Performance Standards Interpretive Note on Financial Intermediaries (2012)⁷.

³ IDB's [Environment Safeguard Policy \(OP-703\)](#)

⁴ IDB's [Access to Information Policy \(OP-102\)](#)

⁵ IDB's [Exclusion List](#)

⁶ IDB's [Managing Environmental and Social Risks: A Roadmap for National Development Banks in Latin America and the Caribbean](#)

⁷ IFC's [Interpretation Note on Financial Intermediaries](#)

1.4 Roles and Responsibilities

Acting as the sub-executing agency, EFGL implements the ESF II - Subcomponent I's ESMS. EGFL's business model is based on an efficient organization with a lean core staff structure and an efficient process for loan processing. EGFL's Chief Executive Officer (CEO), or the COE's designee, is ultimately responsible for the implementation of the ESMS. The Investment Manager oversees and provides guidance on the implementation of the ESMS and the Investment Unit, comprised of the Investment Analysts, is in charge of carryout and documenting the environmental and social process and other activities, as required, described in this Manual.

2. Environmental and Social Policy

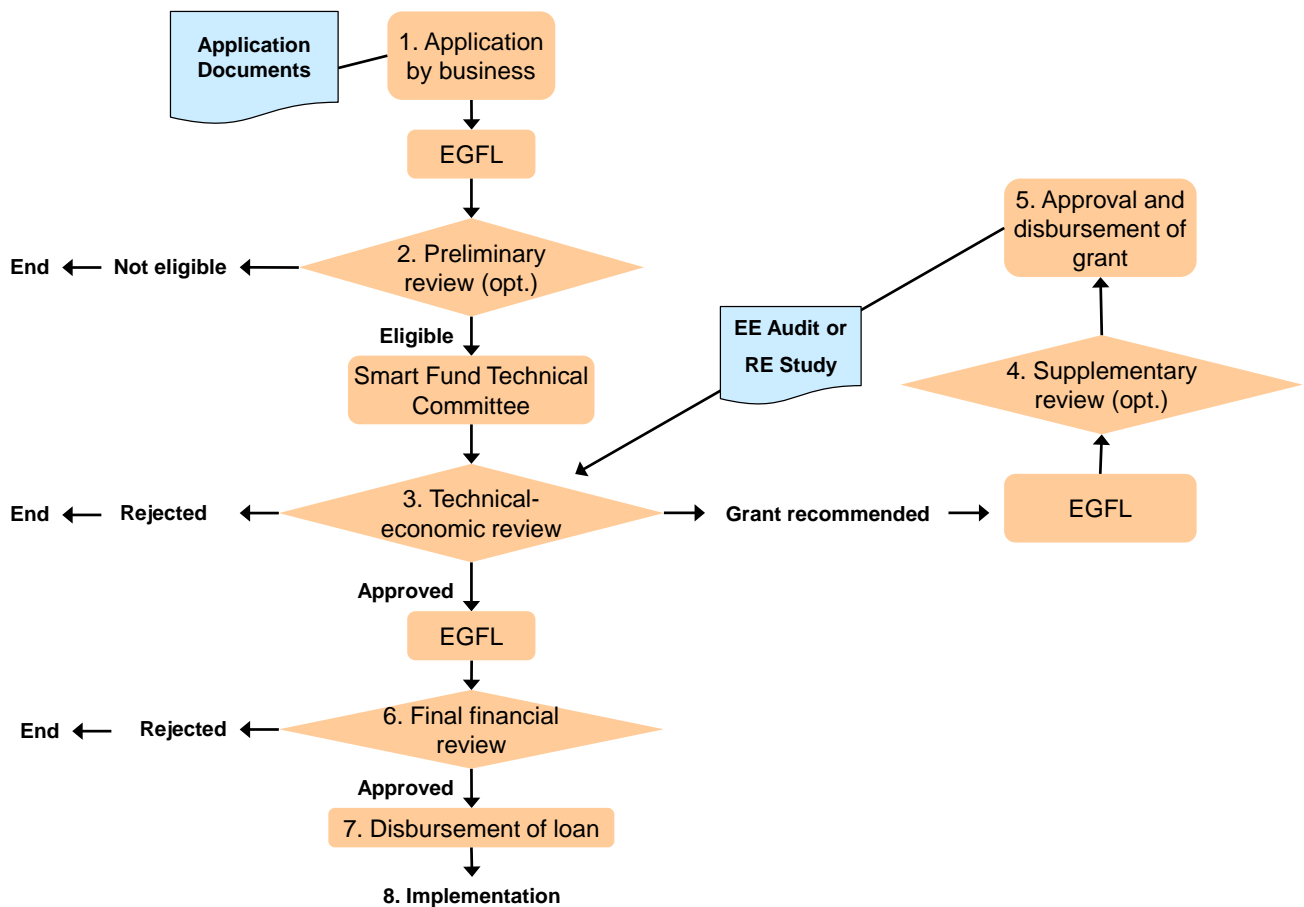
The ESF II - Subcomponent I will:

1. Finance projects that increase the use of viable RE and EE technologies in Barbados, with a special focus on SMEs and the tourism sector.
2. Ensure compliance with national regulations in all projects financed.
3. Ensure alignment with the IDB Policies and Safeguards, especially the Environment Safeguard Policy (OP-703), in all projects financed.
4. Integrate the ESMS into the ESF II - Subcomponent I's financial cycle.
5. Ensure technical and financial capacity to be able to effectively implement the ESMS, including training those responsible for implementing the ESMS in environmental and social risk management.
6. Report annually to investors and stakeholders on the ESMS and the environmental and social performance of the ESF II - Subcomponent I.
7. Evaluate and improve continuously the effectiveness and proper implementation of the ESMS.
8. Communicate and reinforce this policy to the EGFL organization.

3. Environmental and Social Management Process

The environmental and social management process allows identifying and managing environmental and social risks and impacts during the ESF II - Subcomponent I's financial cycle (see Figure 1). The following sections describe the process to be carried out, referencing the financial cycle steps of the ESF I Program for EE and RE projects.

Figure 1. Referential Financial Cycle of ESF II, Subcomponent I



3.1 Application by Business

An applicant business submits an application and the required documentation for a proposed project to EGFL. No actions are required in this step in relation to the environmental and social management process.

3.2 Preliminary Review (optional)

EGFL conducts a brief preliminary review to confirm eligibility of the proposed project. The eligibility criteria are described in the *Smart Fund Operating Guideline* (2012), which includes: (i) eligible customers such as businesses operating in Barbados with priority for SMEs; (ii) eligible projects such as EE or RE projects; and (iii) eligible technologies such as EE and conservation technologies, including efficient lighting technologies, certified appliances, certified refrigerators, power monitors for energy conservation, other energy saving equipment; and distributed scale RE technologies, including solar water heaters, hybrid solar PV/thermal systems, and small solar PV systems.

In relation to the environmental and social management process, EGFL confirms that the proposed project is not included in IDB's Exclusion List⁸, and that the proposed project has: (i) the corresponding governmental or corporate approvals, permits, and consents to be able to be implemented; and (ii) certifications of energy savings such as Energy Star or Barbados National Standards Institute (BNSI), if applicable.

Based on the review, EGFL can deem a proposed project as eligible, and the process continues, or ineligible, and the process stops.

3.3 Technical and Economic Review

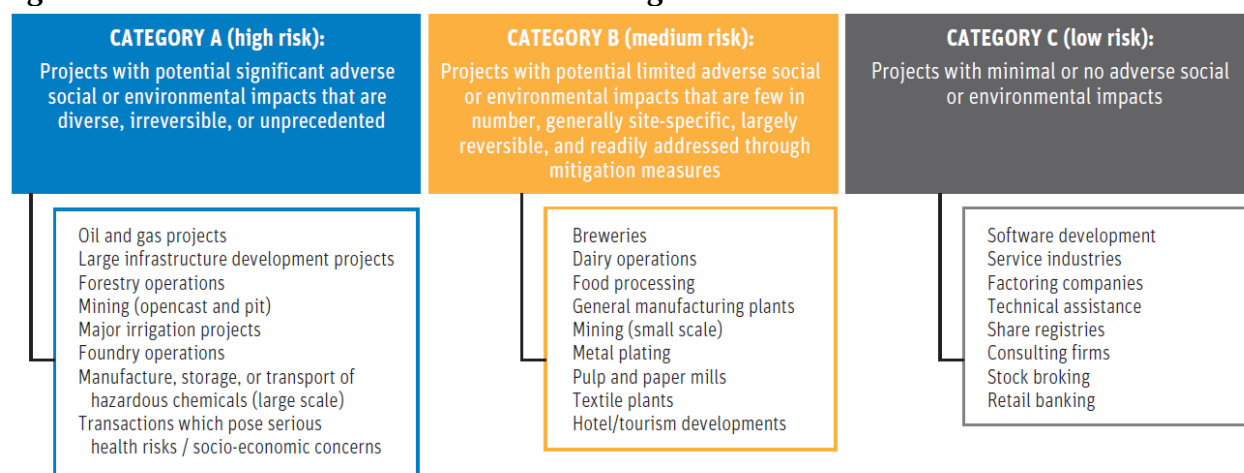
EGFL forwards the proposed project application to the Smart Fund Technical Committee (SFTC), who assesses its technical and economic viability based on the eligibility criteria of projects and technologies described in the *Smart Fund Operating Guideline* (2012). The SFTC can a) approve the proposed project if it is deemed technically and economically viable, b) reject it if it is deemed technically and economically not viable, or c) recommend a proposed project for a grant to support its further preparation.

In relation to the environmental and social management process, after SFTC approves a proposed project, EGFL carries out an environmental and social review to identify the main risks and impacts and their corresponding mitigation measures, and establish an environmental and social risk categorization for the proposed project. The project benefits are also identified in the review. The review is carried out based on the information provided in the application (Step 1) and considering the Applicable Standards (see Section 1.3). EGFL uses the Environmental and Social Review Format (see Annex A) to document the review results.

⁸ IDB's [Exclusion List](#)

Projects are categorized as Category A, B or C based on the degree/magnitude of potential environmental and social risks and impacts, as defined in Figure 2. Annex B provides more guidance on categorization. Given the nature of ESF II - Subcomponent I, it is expected that proposed project would be categorized as Category B or C; with unlikely Category A projects.

Figure 2. Environmental and Social Risk Categorization



Source: Steward Redqueen, based on the categorization models used by IFC and the EBRD.

3.4 Supplementary Review (optional)

EGFL conducts a brief supplementary review, as needed. No actions are required in this step in relation to the environmental and social management process.

3.5 Approval and Disbursement of Grant (optional)

If proposed in Step 3, EGFL approves an amount for a grant (technical assistance). No actions are required in this step in relation to the environmental and social management process.

3.6 Final Financial Review

EGFL conducts a full financial review according to its credit review practices and parameters. EGFL can approve or reject the application.

In relation to the environmental and social management process, EGFL discusses and incorporates environmental and social requirements in the loan terms and conditions.

These requirements include, as a minimum, that the project will comply with all applicable national regulations and will manage the risks and impacts identified in the Environmental and Social Review, see Step 3.3. Monitoring and reporting requirements may be included, as needed.

3.7 Disbursement of Loan

EGFL disburses the loan to the client in one or more installments, as negotiated with the client.

In relation to the environmental and social management process, EGFL confirms that any conditions precedent related to environmental and social requirements have been met prior to disbursement.

3.8 Implementation

The project is implemented and the successful applicant repays the loan based on agreed terms and conditions. Implementation is subject to monitoring and evaluation.

In relation to the environmental and social management process, EGFL evaluates project implementation and its compliance with the environmental and social requirements in the loan terms and conditions on an annual basis. If non-compliances are identified, EGFL discusses and agrees with the client on a corrective action to bring the project back to compliance.

4. Information Disclosure and Communication

The disclosure of information is intended to ensure transparency of the ESF II - Subcomponent I to stakeholders including customers (current and potential), investors, and the communities where financed projects are implemented. At the same time, it provides the opportunity for EGFL to receive and facilitate the resolution of questions, consultations, or grievances from stakeholders about the projects financed by ESF II - Subcomponent I as well as its performance in environmental and social management.

EGFL includes a summary of the ESMS's implementation in its Annual Report, published in its website: <http://egfl.bb/index.php/annual-reports/>.

EGFL's website includes a "Contact Us" page with contact information (see below) where stakeholders and third parties can present questions, consultations, or grievances related to ESF II - Subcomponent I projects.

- Web page: <http://egfl.bb/index.php/contact-us/>
- Contact Information:
 - e-mail: finance@egfl.bb
 - phone: + 1 246 417-5900
 - address: "Westgate" Monteith Gardens, Barbarees Hills, St. Michael, Barbados BB12059

EGFL responses to external communications received by these means and related to ESF II - Subcomponent I in a timely and complete manner.

Significant Events

In the event of the occurrence of a "significant event" related to ESF II - Subcomponent I projects, EGFL will communicate such event to the IDB within five days. Significant events include accidents or incidents which have or are likely to have a material adverse effect on the environment, health or safety of persons, including, but not limited to, worker fatalities, hazardous waste spills, social protest, or non-compliance with national requirements.

5. Continuous Improvement and Training

To ensure its effectiveness and relevance, EGFL monitors, reviews, and updates the ESMS when necessary. EGFL personnel involved in the implementation of the ESMS may provide feedback and comments to improve the system, its effectiveness and relevance. If necessary, the ESMS Manual is updated to reflect improvements identified by feedback or changes in the financial cycle.

EGFL will be responsible to develop and implement a training program for the personnel involved in implementing the ESMS. Such training should cover the ESMS process including roles and responsibilities, the environmental and social process, and its integration into the financial cycle, as well as the Applicable Standards. It is recommended the training program be mandatory.

6. Acronyms and Definitions

Acronyms	Definition
BNSI	Barbados National Standards Institute
CEO	Chief Executive Officer
EE	energy efficiency
EGFL	Enterprise Growth Fund Limited
ESMS	Environmental and Social Management System
ESF II	Energy Smart Fund II
ETD	Energy and Telecommunications Division
IDB	Inter-American Development Bank
IFC	International Finance Corporation
PV	photovoltaic
RE	renewable energy
SFTC	Smart Fund Technical Committee
SME	Small- and Medium-Sized Enterprises

Annex A: Environmental and Social Review

Project Name:			
Project Owner:			
Project Location:			
Brief Description of Project:			
Check the box if applicable	Yes	No	N/A
Negative Impacts and Risks:			
1. The project owner does not have the consent or permit to implement the Project.			
2. The project involves construction of new infrastructure, including the need for earthwork.			
3. The project will generate waste, including solid waste and hazardous waste.			
4. The project will generate air emissions, including dust material.			
5. The implementation or construction of the project can result in worker accidents (fall, trips, and exposure to hazardous material).			
6. The project involves the transportation of large or heavy equipment.			
7. The project implementation or construction will disturb neighboring people, including noise disturbance.			
Benefits:			
1. The project is a renewable energy technology.			
2. The project is an energy efficiency or optimization technology.			
3. The project owner is an SME.			
4. The project is related to the tourism sector.			
5. The implementation of the project will generate job opportunities.			
For identified negative risks and impacts ("yes" responses above), please summarize management and mitigation measures:			
Based on the identified risks and impacts, the Project is categorized as: A / B / C			

Annex B: Definition of Environmental and Social Risk Categorization

Projects are categorized as Category A, B or C based on the degree/magnitude of potential environmental and social issues and risks:

- **Category A Projects:** operation that is likely to cause significant negative environmental or social risks and/or impacts that are diverse, irreversible or unprecedented will be classified as Category A. These include impacts that extend beyond the project site and are difficult to mitigate, or have profound implications affecting natural resources.
- **Category B Projects:** operation that is likely to cause mostly local, site-specific, and short-term environmental and social impacts that are few in number and largely reversible and for which effective mitigation measures are readily available will be classified as Category B.
- **Category C Projects:** operation that is likely to cause minimal or no negative environmental and associated social impacts will be classified as Category C.

Further guidance is provided in IFC's Interpretive Note on Environmental and Social Categorization: <http://www.ifc.org/wps/wcm/connect/18993fe1-0c0f-4b83-9959-8e021f313e6f/Interpretation+Note+on+E+and+S+Categorization.pdf?MOD=AJPERES>.

Below are illustrative examples of Category A, B, and C projects, including those that could be propose for the ESF II, Subcomponent I (in bold).

Illustrative Examples of Environmental and Social Risk Categorization

Category	Illustrative Project Example ¹
A	<p>Large dams and other impoundments</p> <p>Large infrastructure projects, including development of ports and harbors, airports, road, rail, and mass transit systems</p> <p>Large-scale tourism and retail development</p> <p>Large thermal and hydropower developments</p> <p>Extractive developments</p> <p>Construction of high-voltage overhead electrical power lines</p> <p>Large-scale primary agriculture of forestation involving intensification or conversion of natural habitats</p> <p>Projects which are planned to be carried out in sensitive locations, such as</p>

¹ This list of project examples and category is illustrative only and was compiled from a variety of sources. Factor such as scale, location, sensitivity and magnitude of impacts of a project need to be considered on a case-by-case basis to determine the actual categorization.

	<p>national parks and other protected areas identified by national or international law, and other sensitive locations of international, national or regional importance, such as wetlands, forests with high biodiversity value, areas of archaeological or cultural significance, and areas of importance of Indigenous Peoples or other vulnerable groups</p> <p>Projects which may result in significant adverse social impacts to local communities or other project affected parties</p> <p>Projects which may involve significant involuntary resettlement or economic displacement.</p>
B	<p>General manufacturing</p> <p>Medium size agribusiness operations</p> <p>Expansion of an existing infrastructure project</p> <p>Expansion of an existing industrial facility</p> <p>Expansion of agricultural operations on non-sensitive lands or process improvement</p> <p>Small scale extractives in non-sensitive areas</p> <p>Energy, energy efficiency, renewable energy</p> <p>Energy efficiency of buildings or industrial process</p> <p>Low emission transport</p> <p>Small and medium and large scale low emission power generation</p>
C	<p>Software development</p> <p>Consumer Service industries</p> <p>Retail trade</p> <p>Restaurants</p> <p>R&D companies</p> <p>Upgrade of existing renewable energy or energy efficiency equipment, with insignificant or no environmental and social impacts</p> <p>Low capital intensive production companies</p>