

FINANCIAL INTERMEDIARY: ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM ARRANGEMENT

I. BACKGROUND ON IDCOL'S ENVIRONMENTAL AND SOCIAL SAFEGUARD FRAMEWORK (ESSF)

1. Infrastructure Development Company Limited (IDCOL) developed an environmental and social appraisal manual (ESAM) in 2000 in response to the requirements of the World Bank in processing Private Sector Infrastructure Fund (PSIF). ADB financed \$165 million to IDCOL through Public–Private Infrastructure Development Facility (PPIDF) in 2008. As per ADB's environmental and social safeguards for financial intermediaries (FIs), an environmental and social management system had to be developed. Hence, environmental and social safeguards framework (ESSF) was prepared by IDCOL in 2008 and was built upon the ESAM that was in operation at IDCOL. It also drew operational experience of ESAM (albeit limited) in the context of PSIF.

2. At the time of ESSF preparation in 2008, ADB had three safeguard policies—the Policy on Involuntary Resettlement (1995), the Policy on Indigenous Peoples (1998), and the Policy on Environment (2002). These policies outlined internal safeguard policy compliance processes. Operations manuals (OM) sections F1/F2/F3 elaborated these procedures and requirements.

3. The ESSF 2008 composed of the environmental management system (EMS) framework and the social safeguards framework (SSF) applicable to all transactions under Public–Private Infrastructure Development Facility (PPIDF) and was prepared to meet the Government of the People's Republic of Bangladesh (the Government) and ADB environmental and social safeguards FIs. The ESSF was applicable for all outputs and subprojects financed from ADB resources by IDCOL, through direct lending and refinance operations and to both public and private sector companies. The ESSF applied at the project-level for components A and B and for biogas and biomass power plants financed under component C. For solar energy projects financed under component C, ESSF applied at the program-level.

4. Since the preparation of the ESSF in 2008, an environmental and social management framework (ESMF) has been prepared for the World Bank-supported Second Additional Financing for Rural Electrification and Renewable Energy Development (RERED) Project in June 2011, which finances solar home systems (SHSs) that are also covered under component C of PPIDF. Hence, IDCOL has undertaken the task to update and harmonize the ESSF prepared in 2008 with ADB's Safeguard Policy Statement (SPS), Bangladesh Bank's Environmental Risk Management (ERM) and ESMF for RERED project.

- (i) Environmental and social policy;
- (ii) Operational steps viz. environmental and social procedures as practiced in project processing and in the project life cycle;
- (iii) Institutional structure to operate the ESSF and allocation of responsibilities;
- (iv) Capacity development plan at IDCOL, guidance. and checklists; and
- (v) Annual environmental and social auditing and/or reporting and updating of the ESSF.

II. REVISED ESSF FOR IDCOL

A. Objectives of ESSF

5. The ESSF will assist IDCOL in achieving the following objectives:
- (i) Assess infrastructure projects being funded by IDCOL, for their environmental and social (E&S) impacts, early in the project lifecycle or IDCOL's entry in the project whichever applicable;
 - (ii) Identify and fulfill all E&S obligations put forth by various external stakeholders (government institutions and global financial institutions [GFIs] such as ADB, World Bank, International Finance Corporation, etc.);
 - (iii) Ensure E&S legal compliance of the projects;
 - (iv) Influence and mandate (as relevant) clients and downstream agencies to ensure legal compliance and manage E&S risks; and
 - (v) Defines and outlines policies, procedures, roles, and responsibilities for managing impacts, risks, and effects on environment, involuntary resettlement (IR), and indigenous peoples (IP) of subprojects that are financed by IDCOL.
6. The ESSF shall be applicable to all components and subprojects financed from ADB resources by IDCOL as well as other funds operated by IDCOL, through direct lending and refinance operations to both public and private sector companies at project and programmatic levels.

B. Environmental and Social Policy of IDCOL

7. IDCOL's E&S policy statement emphasizes IDCOL's sensitivity and concern to environmental and social issues, commitment towards legal compliance, and responsiveness towards E&S requirements of its development partners and is communicated to all its stakeholders. The E&S policy of IDCOL provides the necessary direction for implementation of the operational framework of the ESSF.

C. Proposed Environmental and Social Policy Statement of IDCOL's ESSF

8. IDCOL has a mandate of financing private sector for developing medium- to large-scale infrastructure and renewable energy projects in Bangladesh. IDCOL recognizes the significance of environmental, health and/or safety, and social considerations in infrastructure development and believes in sustainable development. In order to achieve the above, IDCOL is committed to:
- (i) Mainstream environmental, health and/or safety, and social (E&S) considerations in appraising and financing infrastructure projects to avoid and/or minimize adverse impacts and risks to the environment and people that may be affected;
 - (ii) Ensure compliance with all relevant E&S policy and legislative requirements and laws of the lands with which it engages and remain responsive to the E&S requirements of international best practices;
 - (iii) Avoid and/or minimize land acquisition and resettlement through selection of appropriate locations and design of projects;
 - (iv) Where land acquisition is unavoidable, compensate replacement value of such acquired land and/or property will be paid before displacement or replace with land having equal value and quality together with other facilities such as housing and basic infrastructure facilities; and

- (v) Ensure protection of vulnerable groups, such as the economically- and socially-disadvantaged, women, children, physically-handicapped, and IP and take appropriate measures to restore their livelihood as relevant.

9. The top management of IDCOL should seek approval of the E&S policy and the ESSF from IDCOL's Board of Directors. Conformance to Bangladesh Bank's ERM should also be verified formally by sharing the ESSF with Bangladesh Bank and seeking their endorsement. IDCOL should formally release a signed version of the policy for internal and external communication. This process should be followed when the policy is reviewed and updated periodically. The E&S policy statement will be reviewed periodically by the top management at IDCOL to ensure its relevance, robustness, and applicability with respect to the E&S concerns and obligations of IDCOL's operations. The review periodicity will be governed by the changes in IDCOL's business mandates, project canvas, and investment processes along with updates in relevant safeguard policies and regulation. It is proposed that a bi-annual review should be considered as a minimum.

D. Structure of ESSF

10. In order to meet all the requirements described in the preceding sections, IDCOL's ESSF has been structured to reflect the following:

- (i) Integrated E&S policy
- (ii) Screening
 - project screening based on the list of prohibited activities
 - E&S risk rating for the Project
- (iii) Operational procedures for risk mitigation and control
- (iv) Institutional structure for operation of the ESSF including allocation of roles and responsibilities
- (v) Advisory panel of experts to guide the environmental and social safeguards management unit (ESSMU)
- (vi) Capacity development plan at IDCOL for continued strengthening
- (vii) Annual E&S auditing and reporting
- (viii) Updating of the ESSF based on feedback and experience of its application to projects

E. General Operational Procedures for Environment Safeguard Framework (ESF) and Social Safeguard Framework (SSF)

11. The operational procedures described in this section are applicable to components A and B of PPIDF as well as other IDCOL funds and shall be implemented by ESSMU in coordination with the investment and loan teams.

- (i) Know-Your-Client (KYC) meeting
- (ii) Prohibited investment activities list
- (iii) Proposed E&S risk rating system
- (iv) E&S capacity of the borrower
- (v) Diverse, irreversible, and unprecedented environmental impacts

F. Operational Procedures of ESF**1. High risk projects**

12. For new projects categorized as high risk, the following procedures shall be followed:

- (i) The ESSMU shall visit the project area.
- (ii) The project proponent shall submit the initial environmental examination (IEE) checklist to IDCOL that was submitted to Department of Environment (DOE) while applying for location clearance.
- (iii) The ESSMU shall prepare a preliminary environmental appraisal report (PEAR) based on the risk rating, site visit, and IEE checklist. The PEAR shall also consist of conditions precedent and subsequent to disbursement. The ESSMU shall discuss these conditions with the project proponent and obtain an in-principle agreement before sending the same to IDCOL's Board for approval. The PEAR shall also be sent to ADB and an approval shall be obtained before approval of loan from IDCOL.
- (iv) The conditions to be incorporated in the PEAR shall, in addition, include the following:
 - The environmental impact assessment (EIA) shall be prepared based on ADB's safeguard requirements along with terms of reference (TOR) from DOE.
 - Once IDCOL issues the preliminary letter of support and letter of engagement, ESSMU shall conduct a detailed environmental appraisal based on the EIA and environmental management plan (EMP) report submitted by the project proponent.
 - The EIA and EMP report shall also be submitted to ADB by ESSMU for approval.
 - The requirements of IDCOL ESSF on the Government's legal compliance, implementation of EMP, monitoring, reporting, information disclosure, and grievance redress mechanism shall be inserted in the loan documentation as covenants. The project proponent shall submit the location clearance certificate (LCC) from DOE to IDCOL before loan disbursement.
 - On completing construction of the project and obtaining environmental clearance certificate (ECC) from DOE, the project proponent shall submit the same to IDCOL.
 - The project proponent shall submit half yearly monitoring reports on EMP implementation.

2. Moderate risk projects

13. For new projects categorized as moderate risk, the following procedures shall be followed:

- (i) The ESSMU shall conduct a desk review of the environmental section of the loan application form.
- (ii) The project proponent shall submit the IEE checklist to IDCOL that was submitted to DOE while applying for location clearance.
- (iii) The ESSMU shall prepare a PEAR based on the risk rating, desk review, and IEE checklist. The PEAR shall also consist of conditions precedent and

subsequent to disbursement. The ESSMU shall discuss these conditions with the project proponent and obtain an in-principle agreement before sending the same to IDCOL's Board for approval.

- (iv) The conditions to be incorporated in the PEAR shall, in addition, include the following:
 - IEE shall be prepared based on ADB's safeguard requirements.
 - The EMP shall include mitigation measures for the key issues identified for the applicable sector.
- (v) Once IDCOL issues the preliminary letter of support and letter of engagement, ESSMU shall conduct a detailed environmental appraisal based on the IEE and EMP report submitted by the project proponent.
- (vi) The IEE and EMP report shall also be submitted to ADB by ESSMU for information.
- (vii) The requirements of IDCOL ESSF on the Government's legal compliance, EMP implementation, monitoring, reporting, information disclosure, and grievance redress mechanism shall be inserted in the loan documentation as covenants.
- (viii) The project proponent shall submit the LCC from DOE to IDCOL before loan disbursement.
- (ix) On completing construction of the project and obtaining ECC from DOE, the project proponent shall submit the same to IDCOL.
- (x) The project proponent shall submit annual monitoring reports on implementation of EMP.

3. Low risk projects

14. For new projects categorized as low risk, the following procedures shall be followed:
- (i) The ESSMU shall prepare a PEAR based on review of the loan application form and risk rating.
 - (ii) The project proponent shall submit the location and/or ECC from DOE to IDCOL before loan disbursement.
 - (iii) The requirements of IDCOL ESSF on the Government's legal compliance, EMP implementation, monitoring, reporting, information disclosure, and grievance redress mechanism shall be inserted in the loan documentation as covenants, if any.
15. For all new project agreements between proponent (sponsor) and contractor, it should include prohibition of harmful or exploitative forms of forced and child labor or use of unbounded asbestos fiber during construction period.

G. Operational Procedures of SSF

1. High and moderate risk projects

16. All subprojects that have not yet received a preliminary letter of support (PLS) by IDCOL, at the time of ADB's loan effectiveness, are considered as new projects. This case will represent situation of regular project processing and monitoring. The procedural steps for this case are set out below:

- (i) Brief the project proponent on the ESSF during the KYC meeting. Explain the environmental and social safeguard policy requirements in the completion of the loan application form.
- (ii) In preparing loan application, it is strongly advised that the subproject proponent be familiar with the environmental and social policy requirements of the Government.
- (iii) The environment and social safeguard specialist of the ESSMU shall visit the project area.
- (iv) The ESSMU should study thoroughly feasibility report of the project, detailed design of the project, and other relevant documents submitted by the project proponent before the field visit.
- (v) The site visit should comprise project specific observation, focus group discussions (FGDs), and key-informant discussions with all project-related primary and secondary stakeholders.
- (vi) The ESSMU shall prepare an initial poverty and social assessment (IPSA) describing general socioeconomic features of the project-influenced people including existing poverty level on them. In addition, this assessment should include gender-related information of project influenced and/or affected people and potential project impact on reducing poverty and other social inequalities as a result of the project.
- (vii) The IPSA should contain basic social impact screening checklists for IR and IP.
- (viii) The IPSA shall also be sent to ADB and other GFIs (if required).
- (ix) An approval shall be obtained from the GFIs (if relevant) before loan approval from IDCOL.
- (x) Based on categorization of project impacts on project influenced and/or affected people, the following reports shall be prepared by the project proponent;
 - Resettlement plan (RP)
 - Indigenous peoples development plan (IPDP)
- (xi) The social impact assessment (SIA) is a technical report prepared at the instruction of the lenders and prepared on behalf of the project proponent. The SIA would report the results of the social impacts, focusing on the likely IR effects and impacts on indigenous peoples of the proposed subproject. The SIA would be based on quantitative and qualitative project-site investigations by a qualified social science professional. The extent of the SIA should be proportionate to the expected IR and impacts on indigenous peoples, as indicated by the initial screening for the preliminary project appraisal. Based on the impacts, a resettlement entitlements matrix shall be prepared by the project proponent.
- (xii) The project proponent should submit required social safeguard reports to ESSMU for review and all finalized report/s shall be submitted to IDCOL for approval.
- (xiii) Approved RP and IPDP shall be sent to ADB and other GFIs (if required).
- (xiv) Once the loan sanction letter is issued, all approved reports by IDCOL, ADB, and other GFIs (if required) shall be posted in their websites for information disclosure.
- (xv) Monitor whether the conditionality has been met, especially on approvals of RP and/or IPDP has been achieved. For projects with an RP and/or an IPDP, monitoring should be quarterly; for subprojects with short plans, monitoring should be semi-annual. Project proponent should make social monitoring reports available to affected people. All monitoring reports should be sent to ADB and other GFIs, and disclosed publicly to affected stakeholders.

- (xvi) Continue monitoring progress on the subproject through monitoring reports received from the project proponent. Conduct field visits if required.

2. Low risk projects

17. For new projects categorized as low risk (ADB categorized as C), the following procedures shall be followed:

- (i) Brief the project proponent on the ESSF during the KYC meeting. Explain the environmental and social safeguard policy requirements in the completion of the loan application form.
- (ii) In preparing loan application, it is strongly advised that the subproject proponent be familiar with the environmental and social policy requirements of the Government.
- (iii) The environment and social safeguard specialist of the ESSMU shall visit the project area.
- (iv) The ESSMU should study thoroughly feasibility report of the project, detailed design of the project, and other relevant documents submitted by the project proponent before the field visit.
- (v) The site visit should comprise project specific observation, FGDs, and Key-informant discussions with all project-related primary and secondary stakeholders.
- (vi) The ESSMU shall prepare an IPSA describing general socioeconomic features of the project-influenced people including existing poverty level on them. In addition, this assessment should include gender-related information of project influenced and/or affected people and potential project impact on reducing poverty and other social inequalities as a result of the project.
- (vii) The IPSA should contain basic social impact screening checklists for IR and IP.
- (viii) The IPSA shall also be sent to ADB and other GFIs (if required).
- (ix) An approval shall be obtained from the GFIs (if relevant) before loan approval from IDCOL.
- (x) Once the loan sanction letter is issued, all approved reports by IDCOL, ADB, and other GFIs (if required) shall be posted in their websites for information disclosure.
- (xi) Monitor whether the conditionalities have been met. Project proponent should make social monitoring reports available to affected people. All monitoring reports should be sent to ADB and other GFIs, and disclosed publicly to affected stakeholders.
- (xii) Continue monitoring progress on the subproject through monitoring reports received from the project proponent. Conduct field visits if required.

III. CONSULTATION AND DISCLOSURE

A. Public Consultation

18. **Consultation during environmental assessment.** Public consultation is not a requirement as per the Government's environmental regulations. It shall be conducted as per ADB's SPS requirements for high risk projects only.

19. **New projects.** For high risk projects, public consultation shall be conducted at the scoping stage of the environmental assessment process to identify environmental impacts of the

project as well as before appraisal after preparation of the draft EIA before receipt of location clearance certificate from DOE.

20. **Refinance and/or existing projects at an advanced stage.** For high risk projects that are sensitive, public consultations shall be carried out during implementation of EMP and the conclusion and recommendations should be incorporated into the revised EMP.

21. **Consultation for involuntary resettlement.** For all new projects, the project proponent will conduct meaningful consultation with affected persons, their host communities, and civil society for every project and subproject identified as having IR impacts. In the process of consultation, the project proponent or specific consultants who are conducting the consultation process should follow qualitative methods while carrying out other methods.

B. Information Disclosure

22. **Disclosure for environmental assessment.** For new projects, the ESSMU shall submit the following documents to ADB for disclosure on ADB's website:

- (i) For high risk projects, a draft EIA including EMP at least 120 days with additional time required for incorporating comments on the draft EIA and/or EMP prior to ADB Board consideration;
- (ii) The final EIA/IEE;
- (iii) A new or updated EIA/IEE and corrective action plan (CAP) prepared during project implementation, if any; and
- (iv) The environmental monitoring reports generated periodically (half-yearly or annually) during monitoring of project in implementation and operation phase of the project.

23. **Disclosure for social assessment.** The ESSMU shall submit the following documents to ADB for disclosure on ADB and other GFIs' website:

- (i) A draft RP and/or IPDP endorsed by the project proponent before project appraisal;
- (ii) The final RP and/or IPDP endorsed by the project proponent after the census of affected persons has been completed;
- (iii) A revised and updated RP and/or IPDP, and a CAP prepared during project implementation, if required; and
- (iv) The RP and/or IPDP monitoring reports.

24. These documents will be posted on IDCOL's website as well as that of the project proponent, if the project proponent has a website. The project proponent will provide relevant resettlement information, including information from the abovementioned documents in a timely manner, in an accessible place, and in a form and language(s) understandable to affected persons and other stakeholders.

25. All documents disclosed on ADB's website shall also be disclosed on IDCOL's website where a page shall be dedicated for disclosure for ESSF.

IV. GRIEVANCE REDRESS MECHANISM

26. The project proponent shall constitute a three-member grievance redress committee

(GRC) comprising an officer representing the project proponent, not below the rank of the implementing officer, the elected member (local body) of the project area and/or location and one member from the public who is known to be a person of integrity, good judgment, and commands respect among the community. The existence of the GRC will be disseminated to the affected persons through printed handouts providing details of the structure and process in redressing grievances.

27. The project proponent will document all complaints received, the action taken on each of them and send a report of the same every quarter to the ESSMU which shall also be communicated to ADB in the reports monitoring. The GRC will address local public grievances regarding environmental impacts of project during construction and operation. The project proponent will address issues through GRC to receive and facilitate the resolution of affected persons' concerns and grievances about physical and economic displacement and other project impacts, paying particular attention to the impacts on vulnerable groups. The GRC should be scaled to the risks and adverse impacts of the project.

V. MONITORING AND REPORTING

28. The monitoring and reporting procedures apply for both ESF and SSF. The project proponent shall quarterly/semi-annually/annually prepare and submit an E&S monitoring report on the compliance with and effectiveness of the EMP/RP/IPDP/CAP to ESSMU at IDCOL. The monitoring report shall be sent to ADB for disclosure. ESSMU at IDCOL shall promptly report to ADB any actual or potential breach of compliance requirements after it comes to their notice. For high risk projects, ESSMU or hired independent E&S consultants shall visit the site to monitor implementation of EMP/CAP/RP/IPDP. Social consultants having expertise in monitoring IR and IPDP will be engaged. Monitoring of IPDP would be participative and in a culturally appropriate manner.

29. The ESSMU shall hire independent E&S consultants for conduct of annual audit of IDCOL's ESSF. Based on the review of the annual monitoring reports for high and moderate risk projects submitted by the project proponent and the outcome of ESSF audit, the ESSMU shall prepare an annual E&S performance report. A CAP shall be prepared to address the gaps identified. The same shall be submitted to ADB along with the periodic finance request (PFR). An evaluation shall be carried out at the end of each project by the ESSMU through independent consultants to understand the final outcome of implementation of the project and E&S safeguards. The lessons from this evaluation must be shared with the project proponent and used for improving the safeguards practice of IDCOL.

30. IDCOL shall establish and maintain a database of nonperforming loans due to environmental reasons, either in partial or full. If the project proponent has indicated environmental factors as one of the reasons for delays in making repayments, then this should be noted in the database. IDCOL shall include a summary of findings from ESSF annual audit in their annual report.

VI. PROPOSED INSTITUTIONAL STRUCTURE FOR ESSF IMPLEMENTATION

A. Structure of ESSMU

31. Considering the scope of the ESSF, IDCOL has set up an ESSMU. Currently, the ESSMU features under the investment branch of the organizational structure of IDCOL. It is recommended that the ESSMU be retained under the legal department considering that ESSMU

is largely carrying out risk management (on E&S issues similar to technical and financial) and has to do so in an independent manner. ESSMU will have to work in close coordination with the assistant directors during project appraisals for investments and loans for prevention and management of E&S risk in IDCOL's projects.

32. The ESSMU may be headed by an assistant director reporting to Director (legal). This would facilitate ESSMU's tasks more effectively and seamlessly. The ESSMU shall also work in coordination with the investment unit with regards to covenants on ESSF implementation requirements. The ESSMU assistant director will oversee and coordinate the application of ESSF, internal reviews, and E&S due diligence and/or appraisal process. The assistant director shall be supported by senior E&S safeguards specialists.

B. Responsibilities of ESSMU

33. The environmental safeguards specialist shall deliver the following services:

- (i) Participate in the KYC meetings with client
- (ii) Advise project proponent on completing the environmental section of the loan application form
- (iii) Review of loan application form to draw indicative term sheet
- (iv) Categorization of project
- (v) Prepare PEAR
- (vi) Issue TOR for conduct of EIA/IEE/environmental due diligence (EDD)/CAP
- (vii) Review EIA/IEE/EDD/CAP submitted for a project
- (viii) Coordinate (including hiring consultants) conduct monitoring of implementation

C. Allocation of Responsibilities

34. Project proponents shall be responsible for regular monitoring and periodic evaluation of safeguard compliance of the Project with agreed milestones and performance levels particularly for purposes of disbursement of IDCOL funds. It shall send periodic safeguard progress reports in such form and, at such times, as may be prescribed by IDCOL's ESSF.

35. The project proponent will therefore be responsible to report E&S compliance of the project to ESSMU in the formats prescribed by the ESSF.