Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: January 29-2017 | Report No: 112434

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Bangladesh	P159429		Bangladesh Investment Promotion and Financing Facility Project II (IPFF II)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
SOUTH ASIA	09-Nov-2016	28-Mar-2017	Finance & Markets
Lending Instrument	**Sector(s)**	**Theme(s)**	**Borrower(s)**
Investment Project Financing	General information and communications sector (15%), Banking (30%), Other non-bank financial intermediaries (30%), General energy sector (15%), General transportation sector (10%)	Infrastructure services for private sector development (60%), Other Financial Sector Development (40%)	Ministry of Finance
Implementing Agency			
BANGLADESH BANK			

Financing (in USD Million)

Financing Source	Amount
Borrower	60.00
International Development Association (IDA)	300.00
Total Project Cost	**360.00**

Environmental Assessment Category	Concept Review Decision
FI-1-Financial Intermediary	

Have the oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed)

No

Other Decision (as needed)

The Concept Note review authorized the preparation to continue.

B. Introduction and Context

Country Context

The economy of Bangladesh has shown remarkable resilience in the wake of the global financial crisis and a slump in global growth, attaining an average gross domestic product (GDP) growth rate of over 6.2 percent since 2010, well above the average for developing countries.[1] The gross national income per capita continued to increase, and the number of people living below the poverty line has reduced significantly over the last two decades. Gross national income per capita increased in FY15 to US$1,220, a nearly 13 percent year-on-year growth.[2] This growth has been accompanied by an overarching need for job creation, abundance of young labor force, and rapid urbanization that have led the country through a structural shift from traditional agriculture to industry and service sectors. Contribution of the industrial sector to the GDP has increased from 23 percent to 28 percent since 2010. Growth in economic activities has led to a steady decline in extreme poverty; the proportion of the population living on US$1.90 or less a day (at 2011 purchasing power parity) dropped from 44.2 percent in 1991/92 to 18.5 percent in 2010 and 12.9 percent in 2016. As a recognition of Bangladesh's achievement on the economic front, from July 2014 the country officially migrated from a low-income country to a lower-middle-income country (MIC) status. GDP growth is expected to further rise to 6.7 percent in FY17 and 6.8 percent in FY18.

The growth rate, however, falls short of what is required for Bangladesh to attain its target of becoming a MIC by 2021—a goal that the country has been pursuing and noting in strategic planning documents. Studies show that the annual GDP growth rate of Bangladesh has to be at least 8 percent to achieve the MIC status over the next five to seven years. To move to the 7–8 percent GDP growth track, both public and private investment rates must be higher than their current levels. It is estimated that the overall investment rate needs to go up from the present 26 percent of GDP to 32 percent of GDP for a 7 percent growth by 2021 and to 34 percent of GDP for an 8 percent growth.[3]

Sectoral and Institutional Context

One of the key constraints to achieving the growth target is the infrastructure gap—both in the quality and quantity of infrastructure. Foreign investors, as well as local firms, face severe shortage of land, electricity supply, logistics facilities, and other infrastructure.[4] In the power sector alone, the Government of Bangladesh (GOB) plans to reach 20,000 megawatts (MW) of power generation by 2020[5] (from the current level of 12,500 MW) suggest the need for very large investments in the generation capacity. A high level of rural-urban migration is another trend that substantially adds to the demand side pressures and calls for urban infrastructure to grow at a much faster rate. Over a 30-year period, from 1981 to 2011, urban population in Bangladesh more than tripled, from 13.54 million to 42.70 million. Over the same period the population in Dhaka, the largest city, grew from 3.44 million to 18.90 million, marking a six-fold increase. Given the trend, 10 years from now, over 60 million people, compared to the current 45 million or so, will be living in urban areas. Considering all of these factors, the 7th Five Year Plan of the GOB estimates that about US$410 billion of investment—twice the size of the current GDP—is needed to bring the country's infrastructure to a desired level.

In addition to quantity, quality of infrastructure is a concern for Bangladesh. In 2014–15 the ranking of Bangladesh in infrastructure quality was 130 out of 144 countries. The gap in infrastructure quality is substantial, compared to that in countries such as India, Sri Lanka, and Thailand. With the existing state of infrastructure quality even the current level of growth may not be sustained**.** Transition to the next level of growth trajectory will be challenging unless meaningful progress in infrastructure quality development takes place in the near future. For example, roads which are generally in poor condition as compared to the quality

[1] World Development Indicators 2015.
[2] Constant 2011 U.S. dollars according to the World Bank Atlas Method.
[3] Bangladesh 7th Five Year Plan, Chapter 3.2, Page 55.
[4] World Bank Bangladesh Enterprise Survey 2013.
[5] Power Sector Road Map of the GOB 2011**.**

of roads in peer countries, will require substantial investments in the coming decades. As such, the additional imperative of quality improvement in infrastructure development process makes the investment requirement even bigger.

The 6th Five Year Plan of the GOB had estimated that the investment requirements for infrastructure would go up from 3 percent of GDP in FY10 to 7 percent of GDP in FY15. However, the actual increase in FY15 fell short by 2 percent as the actual investment stood at 5 percent of GDP. The gap in the required infrastructure spending is largely explained by the inability to get the private sector-led infrastructure investment going at the right pace. This is a key concern that the Government plans to address with vigor during the 7th Five Year Plan period. The annual investment requirements for infrastructure in the 7th Five Year Plan are in the range of 7–8 percent of GDP. Experience from the execution of the 6th Five Year Plan suggests that, going forward, annual infrastructure investments worth at least 2 percent of GDP and the corresponding long-term financing will need to come from private sector-led initiatives and from the public-private partnership (PPP) model to make this possible. To date, infrastructure in Bangladesh has been predominantly financed from the national budget revenues in tandem with international concessional financing that multilateral and bilateral development agencies extend to the Government.[6] Together, these two public sources are estimated to account for 80 percent of total infrastructure financing, equivalent to roughly 2.2 percent of GDP. According to some estimates, the volume of infrastructure financing from commercial sources needs to increase fourfold in the coming years to bridge the investment and financing gap. About 50 PPP projects, which are in the pipeline prepared by the Public-Private Partnership Authority (PPPA)[7] of the GOB, once ready to be brought to the market for financing, will go a long way in increasing the percentage of private sector-led infrastructure financing.

International comparisons with peer countries at similar levels of income suggest the infrastructure project finance (IPF, where financing is made based on cash flow from the infrastructure project itself)[8] volume in Bangladesh has potential to grow several-fold beyond the current level of 0.1-0.2 percent of GDP. However, Development of infrastructure financing, which is by nature long term, is constrained by the country's underdeveloped financial sector, as well as the limited number of 'bankable' infrastructure projects prepared/developed. The financial sector is dominated by commercial banks that engage predominantly in trade finance and some project finance usually limited to five to six years of maturity. Despite progressive improvement of the sector and a demonstrated resilience in the face of the global financial turmoil, the financial system remains weak in its capacity to allocate resources to the most productive uses, as well as to perform its term transformation function—supplying a fast-growing economy with long-term credit. Ability for longer-term lending is further plagued by impaired assets on the balance sheets of state-owned banks (SOBs) and a rising share of non-performing loans (NPLs) in the banking system. A lack of adequate levels of credit underwriting capacity coupled with deficient regulatory and institutional capability continues to exacerbate the NPL problem. As a result, sectors in need of long-term credit underinvest, constraining growth. Although Bangladesh has an existing regulatory framework allowing asset-backed securities (including project, infrastructure bonds), such transactions in the infrastructure finance segment have not yet materialized.

Domestic commercial banks lend to infrastructure primarily by way of long-term corporate finance facilities, in which repayments from project cash flows are secured by sponsor guarantees and balance sheet of the corporate group as a whole. In the case of power plants (whose tariffs are indexed in U.S. dollars), loans are denominated in foreign currency, whereas loans to most other infrastructure projects (whose revenues are denominated in Bangladeshi takas) are in local currency. Long-term infrastructure lending from domestic banks continues to face significant limitations in Bangladesh. In particular, local commercial banks face three major market gaps: (a) domestic banks do not have easy access to foreign exchange resources and thus cannot lend in foreign currency, especially long term, unless refinanced by schemes such as IPFF; (b) they are short on long-term taka resources and thus cannot lend in takas beyond six to seven years of maturity, which is shorter than the economic life of most infrastructure projects; (c) they rely on variable-rate resources (deposits) and thus cannot provide fixed rate loans although this

[6] The main multilateral agencies supporting infrastructure in Bangladesh include the World Bank, Asian Development Bank, and Islamic Development Bank. The Asian Infrastructure Investment Bank has approved a power sector loan in June 2016. Key bi-laterals include Japan International Cooperation Agency and U.K. Department for International Development (DFID; also known as U.K. aid).
[7] Erstwhile PPP office, as created under PPP Guideline 2010.
[8] As opposed to corporate financing, where financing is made based on strength of the Balance Sheet of the company as a whole.

will be the best practice for infrastructure projects. The relatively short maturity lending and the resultant refinancing risk on the part of the financiers are transferred to the private sponsors in the form of additional risk premium, leading to higher financing cost.

Bangladesh's institutional investor base (mainly insurance companies and mutual funds) is relatively small, and the country's security markets remain among the most underdeveloped in the region. There are no pension funds yet. The 34 mutual funds invest in equity securities only. The insurance sector is very small (around 1 percent premium to GDP ratio), and the state-owned life insurance company and other insurers invest their reserves predominantly in bank deposits and government securities. Market capitalization of all securities is US$39 billion, which is roughly 20 percent of GDP. The corporate bond market is inactive (only two corporate bonds are currently listed in Bangladesh), and the government debt securities, though having around 200 issues listed, lack liquidity. About 80 percent of all listed securities in the capital market are equity securities. International flow of capital has been limited because of a low country rating and country competitiveness in attracting foreign capital, as well as macro-prudential policies of the Bangladesh Bank (BB) limiting external borrowings by banks and companies. There have been no global sovereign debt issues.

The infrastructure finance agenda touches on a wide range of policy and institutional issues. On the demand side, the country needs to continue expanding the number of credit-worthy infrastructure issuers, ranging from self-standing state-owned utilities (able to borrow without the need for a state guarantee) to a robust pipeline of bankable PPP projects. On the funding side, the country needs to develop long-term sources, such as insurance companies and pension funds, and deepen its primary and secondary bond markets. Mechanisms through which state authorities control markets, such as administrative capping of interest rates on cross-border loans, may need to be reassessed to allow domestic infrastructure projects to access important financial instruments such as fixed rate loans and subordinated debt.

The country has established two non-bank development finance institutions (DFIs) dedicated to infrastructure finance, namely IDCOL and BIFFL[9]. IDCOL has been in operation for almost two decades and pioneered some of the current infrastructure financing approaches; it only provides loans, and two thirds of its current lending portfolio is dedicated to a country-wide retail solar power generation program. BIFFL was established a few years ago but only started its operational activities in earnest about a year ago; its mandate allows BIFFL to offer a variety of financing instruments to the market. International experience shows that national DFIs can help kick-start market development but could also face typical pitfalls such as insufficient credit discipline, unsustainable business model, and political capture.

[9] IDCOL – Infrastructure Development Company Limited, incorporated on May 14, 1997; BIFFL – Bangladesh Infrastructure Finance Fund Limited, incorporated on March 21, 2011.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The PDO is to increase long term financing for infrastructure and to build capacity of the local financial institutions for promote private sector-led infrastructure financing in Bangladesh.

Key Results

1. The PDO will be measured by the following PDO level results indicators:

a) Private capital mobilized

b) Total investments in infrastructure under IPFF II

c) Long term debt financing for infrastructure under IPFF II

d) Equity investments from private sector entrepreneurs under IPFF II

2. The following intermediate results indicators will be used to monitor progress (#):

a) At least 20 domestic financial institutions use IPFF II credit line

b) PFIs maintain eligibility criteria

c) E&S capacity developed; staff trained

d) Environmental assessments are undertaken for all infrastructure projects financed under the facility in coordination with the DoE

e) Financing volumes through innovative financial instruments deployed for financing of infrastructure

f) The capacity of financial institutions participating in IPFF II to undertake financial analysis of infrastructure projects is strengthened - number of staff trained

g) Female beneficiaries from IPFF II

h) Affected citizens' satisfaction with infrastructure subprojects

D. Project Description

It is proposed that the IPFF II project will have two broad components:

Component 1: Long Term Infrastructure Financing Component, USD 347 million. This component will provide long-term funds to participating financial institutions (PFIs) for further on-lending and investment in support of long-term infrastructure investments by private sector investors/companies.

Component 2: Technical Assistance (TA) Component, USD 13 million. This component will support infrastructure investment capacity building.

Component 1 - Long Term Infrastructure Financing Component, USD 347 million. The main purpose of this component will be to continue back-to-back on-lending facility along the lines of the IPFF I project. GOB will on-lend the borrowed funds to the participating financial institutions (PFIs) to refinance/co-finance long-term loans extended by the PFIs to the infrastructure investors. Some of the guiding principles of this sub-component are presented below:

a. PFIs meeting the pre-set eligibility criteria will be able to avail of the loan financing/refinancing;
b. Subject to meeting the eligibility criteria, private-sector commercial banks (including foreign banks duly licensed in Bangladesh) and non-banking financial institutions (NBFIs) will be able to become PFIs. Furthermore, the two state-owned Development Finance Institutions (DFIs) – BIFFL and IDCOL – which are licensed NBFIs will also be eligible to participate as PFIs;
c. The on-lending will be done as partial debt financing to the infrastructure investment proposal. Private sponsors will typically bring 25 percent or more of the total project cost as equity. In order to increase leverage ratio of the IDA funds and to increase private capital mobilization from the market, IPFF II shall aim to finance maximum of 50 percent of the total cost of the financing proposal.[10] As a matter of principle, IPFF II will seek to be the fill-gap facility, minimizing its share per sub-project and thus encouraging maximization of market sources of funding.

In addition to conventional debt, the long-term financing component will support leveraging to the market through innovative and diverse financial instruments. The instruments will include innovative debt instruments such as promoter/sponsor loans, mezzanine financing, takeout financing facilities, specialized project/infrastructure bond investments, etc. In addition, equity and credit guarantees/credit enhancement[11] may also be piloted. BIFFL will take the lead in development of innovative instruments and piloting the same based on market response and the design will be agreed with the Bank. Regardless of the type of instrument and nature of claim (debt/equity) associated with the transaction, the financing to PFIs will be in the form of on-lending (debt).[12] As such, at the BB/Government to PFI level, treatment of financing parameters will be the same across regular debt financing and other financial instruments, including equity and guarantees. Tentatively US$30 million will be earmarked in Component 1 for the innovative financing instruments; in case less than a full indicative amount is used for this purpose, the funds will be utilized for traditional on-lending.

Component 2 – Technical Assistance (TA) Component for infrastructure investment capacity building, USD 13 million. The key objective of Component 2 is to continue the TA provided under IPFF I and to further build and strengthen the ecosystem of long term infrastructure financing in Bangladesh. The stakeholder capacity-building needs in this area are just as important as the financing needs. Component 2 will focus on the following areas:

a. **Development of the infrastructure project pipeline, including PPPs (tentative allocation US$5 million).** Assistance will be provided to the PPPA and other government line ministries/agencies to support them in developing economically, financially, environmentally, socially, and legally feasible infrastructure projects before the issuance of project bids to the investor community. This activity will support hiring professional assistance to provide infrastructure project design, engineering, financial, environmental, and legal services.

b. **Strengthening capacity of project stakeholders in the area of E&S risk management in infrastructure project financing (tentative allocation US$3 million)**. TA and capacity building will be provided to all key stakeholder groups (government agencies, PFIs, project sponsors, and specialized E&S assessment, audit, and monitoring firms and experts) involved in the process of identifying and managing E&S risks in infrastructure projects for which IPFF II financing is sought and in the overall pipeline of infrastructure projects developed and maintained by the PPPA and other government agencies. Specific emphasis will be laid on enhancing capacity of the PFIs for developing and implementing the ESMS—integrated in their credit risk management—that will allow them to play a more prominent role in ensuring adequate E&S standards are applied by project sponsors and monitoring projects' performance

[10] IPFF I had a statutory limit of 60 percent per sub-project. The actual average outcome for the entire project was 50 percent.
[11] Utilizing the project funds for guarantee reserves to be created.
[12] Such instruments could expand financing options to the borrowing companies and also allow traditional lenders—banks and nonbank financial institutions, institutional investors—to expand their provision of finance to the infrastructure projects on improved terms (lower interest rates, longer maturities, better currency, and structuring choices) and with more options for risk management.

against agreed action plans. In this context, and considering overall weak E&S technical capacity in Bangladesh, a 'center of excellence' for E&S issues within the infrastructure finance ecosystem could be established, with a view of such a center serving as a one-stop shop for all E&S-related advisory and capacity-building matters, serving all infrastructure development stakeholders. The component will finance operational expenses of such an infrastructure E&S center of excellence during the project implementation period. The center of excellence could be housed in one of the GOB agencies (for example, the Ministry of Environment and Forests, the Department of Environment [DoE], the PPPA, or BIFFL), depending on the optimization of service delivery to be provided by such centers. The optimal location of the center of excellence will be determined during project implementation; in the meantime, the Project Implementation Unit (PIU) will coordinate all aspects of hiring and deploying of specialized E&S consultants.

c. **Development of new long-term infrastructure finance instruments (tentative allocation US$2 million).** Assistance will primarily be provided to BIFFL, which will be responsible for creating, promoting, and deploying the new instruments, and to other PFIs and government agencies as needed, in the form of external advisory assistance, training, and twining arrangements for BIFFL with experienced foreign partners (for example, in the Organization for Economic Co-operation and Development [OECD] countries with strong financial systems and infrastructure finance traditions) for knowledge transfer in the area of infrastructure finance. One of the options for such learning and twining arrangement is with IDA supported India Infrastructure Finance Company Limited (IIFCL) and its National Investment and Infrastructure Fund.

d. **Support for project implementation (tentative allocation US$3 million).** The component will include an allocation required to fund activities of BB IPFF Cell (the PIU) and the Finance Division (FD), which will coordinate regularly for seamless implementation of IPFF II.

E. Implementation

Institutional and Implementation Arrangements

The IPFF Cell of BB will continue as the PIU for IPFF II. The current implementation arrangement for IPFF I, with BB as the implementing agency, has worked well. BB's human resource quality and institutional capacity as the central bank of the country have been instrumental to the success of the ongoing IPFF I. In the course of implementing IPFF I over the years, the BB PIU has gained substantial knowledge and skills on procurement, E&S risk management, and project financing that can be spread across the financial sector through project-based interaction with the PFIs and through other transmission mechanisms such as training workshops, periodic review, and disseminations. As in the past, leveraging BB's regulatory role will continue to go a long way in controlling adverse selection and moral hazard on the part of the PFIs. The residual credit risk of the infrastructure subprojects will remain with and be shared among the PFIs and the private sponsors. BB's role in mitigating credit risks along the line of credit chain—from the GOB to PFIs and from PFIs to project sponsors—will remain critically important to the success of IPFF II. The project steering committee (PSC), headed by the Senior Secretary/Secretary of Finance, at the MoF will continue its role on strategic oversight and policy direction.

Compared to IPFF I, the implementation arrangements for IPFF II will include revised and more pragmatic fiduciary and E&S risk management approach. These will incorporate features from other infrastructure finance lending projects where new approaches have been successfully deployed**.** The World Bank performance standards (PSs), which may yield synergies with IFC safeguards approaches applicable to financial institutions, will play the central role in E&S risk management. Possibilities of coordination and parallel financing of infrastructure ventures between the World Bank and other multi-lateral and bi-lateral development partners (DPs) including the IFC, will be pursued. Simplification of the arrangements is expected to be achieved by applying a streamlined clearance model coupled with a robust capacity strengthening approach for assessment and management of the E&S risks and impacts — the most challenging area in infrastructure financing. IPFF II is set to proactively adopt and take advantage of the New Procurement Framework (NPF) of the World Bank, which offers flexible and fit-for-purpose procurement arrangements. A Project

Procurement Strategy for Development (PPSD) was prepared, spelling out applicable procurement approaches for this project.

The PFIs will be selected based on performance criteria used under IPFF I. The performance criteria will include financial ratios for profitability, liquidity, NPLs, quality of asset management, asset-liability mismatch, management of foreign exchange, and capacity to manage E&S risks. The criteria will be detailed in the project's Operations Manual (OM). Integrity of the PFIs' credit administration process will act as a mitigating factor to the adverse selection risk. At the stage of financial closure, the PFIs may/will have to arrange financial/credit syndication with other PFIs and non-PFI partners in the market. Quality of the PFIs' risk management process will have an impact on their selection of non-PFI syndication partners. The PFIs will submit funding applications to the PIU at BB, which by virtue of its position as the central bank of the country, has proven capacity to monitor and manage credit risk of the listed banks and financial institutions.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

F. Project location and salient physical characteristics relevant to the E&S risk management analysis (if known)

The sub-projects may be funded and implemented nationwide. Since exact locations and/or expected environmental and social (E&S) footprint of the sub-projects are not fully known at this stage (and will not be known until specific proposals are received from the client), a system-based approach coupled with capacity building will be adopted for the project, drawing from the success and lessons learned from IPFF I.

The pipeline of IPFF II is only indicative at this stage and consists of mostly medium-size infrastructure projects in several sectors. As such, the nature and magnitude of E&S risks and impacts of sub-projects is not yet known and will be assessed separately for each sub-project, as and when financing proposals will be considered by BB (the core implementing agency for the IPFF II project). The initial investments under the project will be directed mainly to sub-projects where E&S risks and impacts are expected to be comparatively low/moderate. This "staggered" approach to project implementation will allow for the necessary time to strengthen BB's, PFIs', and private sponsor companies' capacity already built through IPFF I to prepare the sub-project level E&S instruments as per requirements of the Government of Bangladesh and the World Bank. More specifically, with regard to identification of risks and impacts, building on the practice in IPFF I, ESIAs incorporating Environmental and Social Management Plans (ESMPs) will be prepared for all sub-projects and would be subject to local disclosure and consultation as per the national law and WB Performance Standards, as well as all applicable disclosure requirements of the World Bank (such as disclosure by the Bank and local PIC of the summary of ESIA for sub-projects considered high risk).

Rationale for classification as Category FI-1, FI-2, or FI-3:

In the case of IPFF II, OP/BP 4.03 (World Bank Performance Standards for Private Sector Activities) will be applicable to the project in lieu of the World Bank's Safeguard policies. OP/BP4.03 is better suited for this project given that all sub-projects are expected to constitute private sector activities and are executed through PFIs, which are commercial private sector financial institutions[13].

The project is a Financial Intermediary (FI) project and is categorized as **FI-1** in accordance with OP4.03. This categorization

[13] And in addition, two Development Finance institutions, BIFFL and IDCOL.

is based on the review of the existing IPFF I sub-project portfolio (which includes a high risk operation) and an expectation that although most of the activities financed under IPFF II would be similar to those of IPFF I and they may also involve potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented.

Application of OP/BP4.03 provides a substantial advantage for this project, as World Bank Performance Standards[14] offer significantly more clarity and guidance in these circumstances than the safeguards policies, thus enabling more comprehensive and uniform implementation across sub-projects. In addition, IFC may provide parallel financing to some of the sub-projects, hence application of OP/BP4.03 will ensure a more harmonized approach, making it easier for the client and the PFIs to follow only one set of requirements.

E&S requirements will also be applicable to the TA component of the project, in accordance with OP4.03. E&S aspects with regards to the TA component of the project will focus on assessing and managing E&S risks associated with the outcomes of the TA. In addition to BB, which would manage any E&S impacts associated with the outcomes of the TA, such as new projects, in accordance with the standards and processes provided in the ESMS at BB level, it is expected that other institutions such as BIFFL and Bangladesh PPP Authority, will receive TA. Therefore, overall E&S design for the project envisions embedding E&S capacity building and awareness raising activities at all TA recipient institutions (e.g. through development of an ESMS at BIFFL, potentially incorporating Performance Standards into the preparation of PPP projects, and sensitization/ awareness/ technical training of a wide range of stakeholders involved, in line with the E&S capacity building plans for IPFF II). Additionally, development of new financial products for infrastructure finance may result in the need to adjust the E&S model for the project. To that effect, during project implementation, an analytical/strategic assessment will be done to address E&S risk management in relation to these new products once they are developed and deployed.

G Environmental and Social Specialists on the Team

1. Dr. M. Khaliquzzaman, GSU06
2. Sabah Moyeen, GSU06
3. Ekaterina Grigoryeva, GEN03

POLICIES THAT MIGHT APPLY

[14] "World Bank Performance Standards" are, in effect, IFC Performance Standards on Environmental and Social Sustainability adopted as the "World Bank Performance Standards" in 2013 pursuant WB Operational Policy 4.03. IFC Performance Standards were first introduced in 2006 and updated in 2012. IFC Performance Standards can be found here: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/performance+standards/environmental+and+social+performance+standards+and+guidance+notes

E&S Policies	Triggered?	Explanation (Optional)
OP/BP 4.03 – WB Performance Standards for Private Sector Activities	YES	OP/BP 4.03, and more specifically, provisions related to private sector activities involving Financial Intermediaries (FIs), will be applied to the project in lieu of safeguards policies. Specifically, Applicable E&S Requirements for sub-projects will consist of the following: (i) Relevant environmental and social national and local laws and regulations of the People's Republic of Bangladesh; (ii) List of Excluded Activities, based on the IFC Exclusion List, to the extent it may be applicable to infrastructure development activities[15]; (iii) List of Environmentally and Socially Sensitive Activities, and (iv) The World Bank Performance Standards 1 through 8. In particular, Eight World Bank Performance Standards will be applicable, as mandated in the OP/BP 4.03, for the management of environmental and social risks and impacts in the prospective all of the activities/ sub-projects financed by PFIs through IPFF II. The World Bank Performance Standards, as applied to sub-projects, will also include WBG Environment, Health, and Safety (EHS) Guidelines. As the sub-projects are not known at this stage, any of the eight Performance Standards may apply, based on the outcomes of the process of identification of risks and impacts for each sub-project. The project will develop and maintain an Environmental and Social Management System (ESMS), covering all levels of the project – BB, PFIs, and project sponsors – that should incorporate, as appropriate for the project circumstances, key elements of the ESMS described in Performance Standard 1 on Assessment and Management of Environmental and Social Risks and Impacts (as required by OP/BP4.03). The ESMS will also take into account Mandatory Environmental Risk Management Guidelines of the BB, as a requirement for financial institutions under the national law. Additionally, all PFIs will manage the working conditions of their own workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions, as required by OP/BP 4.03.
Projects on International Waterways OP/BP 7.50	NO	Use of this policy will depend on the exact nature of activities to be financed, and their locations (not known at this time). As part of the process of identification of risks and impacts for each subprojects, it will be required that (i) the appropriate screening is carried out to determine the application of this policy, and (ii) that **no** activities involving any international waterway (as defined in the Bank's OP 7.50), are financed under the Project.
Projects in Disputed Areas OP/BP 7.60	NO	Use of this policy will depend on the exact nature of activities to be financed, and their locations (not known at this time). As part of the process of identification of risks and impacts for each subprojects, it will be required that

[15] Even though OP 4.03 does not include an explicit requirement for the use of an Exclusion List as a policy instrument, there are precedents of successfully using IFC Exclusion List (or other similar exclusion lists) by the World Bank for Financial Intermediary projects. IFC Exclusion List can be found at:
http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/ifc+projects+database/projects/aips+added+value/ifc_project_exclusion_list

(i) the appropriate screening is carried out to determine the application of this policy, and (ii) that **no** activities involving disputed territories (as defined in the Bank's Operational Policy 7.60) are financed under the Project.

KEY E&S ISSUES AND THEIR MANAGEMENT

A Summary of Key E&S Issues

1. Describe any E&S issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

IPFF II is a project involving Financial Intermediaries (FIs) that are expected to be the primary vehicle to channel funding for sub-projects to private sector sponsors and / or PPPs in several infrastructure sectors. Key E&S issues – including their nature and scale - will be detailed during the process of identification of E&S risks and impacts for each sub-project, including preparation of ESIAs, and may range from inadequate labor and working conditions; pollution; occupational and community health and safety; physical and/or economic displacement, including those without formal title to land; adverse impacts on livelihoods; adverse impacts on local communities, including tribal peoples and/ or small ethnic communities and/or their unique livelihood modalities, cultural and societal norms and way of life; impacts on biodiversity and ecosystem services, and cultural heritage.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
Potential indirect or long-term impacts will be determined for each sub-project on the basis of the ESIA and specific management plans that will address management of E&S risks and impacts, including certain types of indirect and/ or long-term impacts, as commensurate with the Performance Standards and associated guidance.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts:
The project's core approach to mitigation of E&S risks and impacts will be founded on the principles of gradual capacity strengthening of all key stakeholders and will consist of a combination of (i) applying relevant environmental and social standards to identifying and managing specific risks and impacts in sub-projects during construction as well as at the implementation stage and (ii) excluding specific and clearly defined high risk activities, based on the List of E&S Sensitive Activities (specified in section 4 below) from financing by specific PFIs based on their and/or private sponsors' capacity to adequately address them (until such capacity is built over a period of time, as described above). There will be dedicated TA resources to help BB, PFIs and the private sponsors to build the required capacity, complemented with assistance and advice from the WB. These exclusions will also take into consideration availability – or lack thereof – of technical expertise needed to assess and mitigate certain high-risk situations such as potential projects in critical habitats. Therefore, the project will have a choice of not financing certain sub-projects where E&S risks have been determined to be unacceptable.

4. Describe measures taken by the borrower to address E&S policy issues. Provide an assessment of borrower capacity to plan and implement the measures described:

The IPFF II approach to E&S risk management is anchored in a comprehensive Environmental and Social Management System (ESMS) that will support a process for identifying, assessing and managing environmental and social risks and impacts associated with subprojects and managing exposure to such risks and impacts by BB and PFIs in a manner that enables the subprojects to meet Applicable E&S Requirements (detailed below). For IPFF II, the core elements of ESMS consist of (i) IPFF II Environmental and Social Policy and Procedures prepared and amended by BB from time to time; (ii) a customized ESMS prepared and implemented at the PFI's level as part of the PFIs' overall institutional ESMS, as relevant and appropriate; and (iii) environmental and social assessment and management systems implemented by project sponsors in accordance with the relevant laws and regulations of the People's Republic Bangladesh and Applicable

Environmental and Social Requirements for IPFF II. Adequate implementation of the ESMS means that Bangladesh Bank, PFIs, and project sponsors develop and maintain adequate policies, procedures, organizational structure, budget, and capacity for identifying, managing, monitoring, and reporting on risks and impacts of subprojects. The key ESMS components and actions for continuous capacity improvement are descried below.

Bangladesh Bank

IPFF II is expected to be mainly implemented by BB as the original project implementing agency for the predecessor project (IPFF I). BB will have primary oversight / monitoring responsibility for E&S risk management under IPFF II. In particular, BB will (i) ensure that all activities/ sub-projects financed under IPFF II meet the applicable Government of Bangladesh and World Bank requirements; (ii) ensure that all PFIs fulfill their respective obligations with regard to E&S due diligence and monitoring for sub-projects, as described below; (iii) provide formal clearance for E&S instruments for sub-projects, such as ESIAs, ESMPs, ESAPs etc.; (iv) consolidated E&S performance reporting for all sub-projects is provided to the World Bank.

Besides implementing IPFF I project successfully, BB is currently implementing a few other World Bank funded projects, and is well versed in the Bank's environmental and social policies, screening procedures, preparation of safeguards documentation and disclosure process, as well as implementation of relevant mitigation measures including grievance redress, monitoring and evaluation. While BB has now developed adequate in-house capacity to handle environmental and social issues, the use of WB Performance Standards for IPFF II under OP/BP 4.03 will require strengthening of capacity building measures at the BB level, especially in relation to its oversight/ performance monitoring role (which has not been fully systematic in IPFF I), PFIs, and project sponsors. Capacity building needs and consequent capacity building plans will be identified during appraisal and incorporated in the project design, including structured approaches to technical assistance in this area.

To that extent, BB has developed an Environmental and Social Management Framework (ESMF) for IPFF I, which contains detailed E&S risk management arrangements for the predecessor project, including applicable standards (World Bank safeguards polices), organizational requirements for BB and PFIs, procedures for E&S risks and impacts assessment at the sub-project level, and technical considerations pertaining to E&S aspects of infrastructure development. In order to effectively build on the successful experience of IPFF I, the existing ESMF document was drawn upon for designing core elements of the Environmental and Social Management System (ESMS) for the IPFF II project in line with the requirements of OP/BP 4.03 for projects involving Financial Intermediaries. In particular, the Environmental and Social Policy and Procedures document for IPFF II was prepared and consulted upon. This document will form an important part of the overall project ESMS and provides details on key elements of its design (policy, procedures for assessing risks and impacts, organizational capacity). This document will also serve as the basis for the PFIs to incorporate relevant requirements and processes into their internal ESMS, in relation to their application for financing during IPFF II implementation. This approach will ensure harmonized project implementation, with adequate guidance on applicable standards, processes, and roles and responsibilities for all stakeholders.

IPFF II Environmental and Social Policy and Procedures, among other provisions, clearly articulates Applicable E&S Requirements for sub-projects. These applicable requirements will include (i) Relevant environmental and social national and local laws and regulations of the People's Republic of Bangladesh; (ii) List of Excluded Activities, based on the IFC Exclusion List, to the extent it may be applicable to infrastructure development activities; (iii) List of Environmentally and Socially Sensitive Activities, and (iii) the World Bank Performance Standards 1thriohg 8, as commensurate with the risks and impacts of activities/ sub-projects financed by PFIs through IPFF II.

Specifically, PFIs will not be permitted to finance sub-projects associated with activities on the List of E&S

Sensitive Activities presented in (a)-(d) below where they, following a systematic PFI capacity assessment process and assigning the resulting E&S performance rating[16] conducted by BB (as detailed in IPFF II Policy and Procedures), have been found to lack adequate capacity to assess, manage, and monitor associated E&S risks within the scope of their responsibilities under the IPFF II project. Decisions to exclude such sub-projects from financing by a PFI will be made based on sub-projects' initial screening and feasibility assessment, where a full or partial ESIA is not yet available. However, at a later stage BB may determine that a PFI has developed requisite capacity, in which case the PFI may be allowed to engage in financing of such sub-projects.

a. Activities involving large-scale physical and/ or economic displacement[17] resulting from land-related transactions defined in WB Performance Standard 5 (paragraph 5).
b. Activities in or near critical habitats[18] and /or legally protected areas.
c. Activities involving adverse impacts on tribal peoples and/ or small ethnic communities.[19]
d. Activities involving significant adverse impacts on critical cultural heritage[20] areas.

BB has also been a member of the Sustainable Banking Network (SBN) since 2012[21]. SBN is a community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. SBN is facilitated by IFC with support from several donors. As part of this effort, Environmental Risk Management Guidelines were introduced in January 2011 by BB, in collaboration with local banks and other stakeholders. Some FIs in Bangladesh have already developed their ESMS approaches in line with these national requirements. The IPFF II project will aim to leverage these Guidelines with regard to its requirements for the PFIs, as described below.

Participating Financial Institutions

PFIs' key responsibilities for E&S risk management of Bank-supported sub-projects financed through IPFF II will include: (i) ensuring that ESIAs and all other associated E&S instruments have been prepared in line with the

16 PFI E&S performance rating done by BB will use 4-point scale: PR-1 (low); PR-2 (moderate), PR-3 (substantial), PR-4 (high).

17 In the context of this project, activities involving large-scale physical and/or economic displacement are those that are expected to affect 200 people or more.

18 Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for required for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.

19 The term "tribal peoples and/ or small ethnic communities" is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

- Self-identification as members of a distinct cultural group and recognition of this identity by others;
- Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories;
- Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture; or
- A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.

20 Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation.

21 http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Partnerships/Sustainable+Banking+Network/

requirements of the Government of Bangladesh and World Bank Performance Standards and all clearances are obtained in a timely manner; (ii) ensuring that adequate E&S covenants are incorporated in the loan agreements with project sponsors / implementing entities and other relevant sub-project documentation; (iii) monitoring E&S performance of sub-projects and engaging consultants and third parties in this process, as appropriate; (iv) providing periodic reporting to BB, including prompt reporting of any E&S-related incidents associated with sub-projects.

In an effort to harmonize national regulatory requirements of the BB Environmental Risk Management Guidelines described above with the World Bank requirements under OP/BP 4.03 for each PFI to develop and maintain an ESMS to manage risks and impacts of sub-projects, specific requirements for the PFIs' ESMS under IPFF II will be as follows:

- A policy statement endorsed by senior management clearly articulating adoption of the BB Environmental Risk Management Guidelines, as well as applicable standards for E&S risk management for various lending activities the PFI may decide to cover by its ESMS in line with the Guidelines. In relation to activities/ sub-projects financed through IPFF II, these standards must include (i) relevant environmental and social national and local laws and regulations; (ii) IFC Exclusion List, and (iii) the World Bank Performance Standards.
- Procedures for screening, assessing, managing, and monitoring E&S risks and impacts of sub-projects financed through IPFF II integrated within the overall credit risk management of the PFIs, including clearly assigned roles and responsibilities and budget. Such procedures must include sub-project E&S categorization that, among other aspects, should inform the sub-project's overall credit risk rating. More specifically, PFIs will incorporate in their E&S procedures and rely on guidance provided in the IPFF II Environmental and Social Policy and Procedures in conducting their E&S due diligence for Bank-supported sub-projects.
- Provisions for monitoring E&S performance of the PFI's portfolio of Bank-supported sub-projects and periodic performance reports to the PFI's senior management and BB, as appropriate.

E&S training and capacity building has been provided to a substantial number of financial institutions under IPFF I. Continued capacity building is incorporated under IPFF II to ensure adequate knowledge of WB Performance Standards for successful implementation. Capacity building plan, including a dedicated budget, has been prepared and incorporated into the project design. The plan will cover capacity strengthening for BB, PFIs, consultants and agencies engaged in preparing ESIAs and other sub-project instruments, and private sector entities which will implement Bank-supported sub-projects.

Additionally, BB as the core implementing agency, will aim to continuously identify and take advantage of opportunities for introducing E&S requirements for IPFF II early in the cycle of sub-project design. These may include collaboration with a number of other government agencies, including Bangladesh PPP Authority.

Role of the World Bank

The Bank will assist BB in fulfilling its oversight/ monitoring role, and in particular: (i) review of the IPFF II Environmental and Social Policy and Procedures and, on a sample basis, ESMSs prepared by the PFIs for consistency with IPFF II requirements; (ii) review annual consolidated E&S Performance Reports submitted by BB on the E&S performance of both PFIs and sub-projects; (iii) provide no objection to BB's clearance of the ESIA, ESMP, ESAP, and any other relevant E&S plans for selected high risk sub-projects; (iv) in line with para. 24 (c) of BP4.03, review the summary of the environmental [and social] assessment that is required for any subproject considered high risk in accordance with the ESMS, before such summary may be disclosed through the PFI's website, if a website exists[22]; and (v) conduct supervision activities at all levels of IPFF II at the World Bank's discretion, as commensurate with ongoing needs of the project.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure, with an emphasis on potentially affected people:

Disclosure for the project is done in accordance with the World Bank Policy on Access to Information. BB has publicly disclosed IPFF II Environmental and Social Policy and Procedures in both English and Bangla. Consultations were conducted by BB on the IPFF II E&S Policies and Procedures document on October 27, 2016, with Financial Institutions / banks and on November 30, 2016, with multiple stakeholder groups such as Ministry of Industry, Ministry of Environment, other relevant Government departments, prospective project sponsors, Non-Government Organizations, worker's representatives, civil society organizations (e.g. academia, research centers, media, etc.). The outcomes of the consultations have been incorporated in the E&S risk management design for IPFF II.

BB shall cause PFIs to publicly disclose elements of their ESMS as they are prepared during project implementation. In addition, each PFI will, after Bank review, disclose a summary of the ESIA and relevant E&S instruments for all IPFF II supported sub-projects.

Stakeholder engagement process (including disclosure and consultations) at the sub-project level will be undertaken by the entity / private sponsor which will prepare and implement the sub-project. This process will be done in accordance with the national and local laws and regulations, detailed guidance provided in the IPFF II Environmental and Social Policy and Procedures document, and specific relevant provisions contained in the World Bank Performance Standards. To that extent, sub-project requirements will include Stakeholder Engagement Plans and project-level grievance mechanisms for affected communities, in line with relevant requirements of the WB Performance Standards.

As part of the sub-project stakeholder engagement process, timely disclosure of full ESIAs, ESMPs, and any other associated management plans and documents will be the responsibility of project sponsors. In particular, timing of such disclosure for IPFF II sub-projects will be 120 days prior to approval of financing by BB in the case of sub-projects categorized as High risk, and 60 days in the case of sub-projects categorized as Medium risk in accordance with the PFIs' ESMS and guidance on categorization provided in the IPFF II E&S Policies and Procedures document.

[22] The PFI will also permit, in writing, the Bank to disclose such summary by the Bank and local PIC.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding policy is triggered)

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission to InfoShop	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
07-Oct-2016	07-Oct-2016	

"In country" Disclosure
Bangladesh
09-Oct-2016

Comments

Sunday, October 9 is a working day in Bangladesh.

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

OP/BP 4.03 - WB Performance Standards for Private Sector Activities

Does the project require a stand-alone EA (including EMP) report?
No

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
N/A

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
N/A

The World Bank Policy on Disclosure of Information

Have relevant E&S policies documents been sent to the World Bank's Infoshop?
Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All E&S Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to E&S policies?
Yes

Have costs related to E&S policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of E&S impacts and measures related to E&S policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

CONTACT POINT

World Bank

A.K.M. Abdullah
Senior Financial Sector Specialist

Marius Vismantas
Lead Financial Sector Specialist

Borrower/Client/Recipient

Ministry of Finance
Mr. Jalal Ahmed, Additional Secretary
Email:jalal61@yahoo.com

Implementing Agencies

BANGLADESH BANK
Husneara Shikha
Deputy general Manager
husneara.shikha@bb.org.bd

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	A.K.M. Abdullah Marius Vismantas

Approved By

Safeguards Advisor:	Maged Mahmoud Hamed	27-Jan-2017
Practice Manager/Manager:	Niraj Verma	28-Jan-2017
Country Director:	Qimiao Fan	31-Jan-2017