

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA12680

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I. BASIC INFORMATION

1. Basic Project Data

Country:	Bangladesh	Project ID:	P150938
Project Name:	Financial Sector Support Project (P150938)		
Task Team Leader(s):	Niraj Verma		
Estimated Appraisal Date:	30-Mar-2015	Estimated Board Date:	05-Jun-2015
Managing Unit:	GFMDR	Lending Instrument:	Investment Project Financing
Sector(s):	SME Finance (50%), Banking (25%), Payments, settlements, and remittance systems (15%), General finance sector (10%)		
Theme(s):	Other Financial Sector Development (75%), Infrastructure services for private sector development (15%), International financial standards and systems (10%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			No
Financing (In USD Million)			
Total Project Cost:	350.00	Total Bank Financing:	300.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			50.00
International Development Association (IDA)			300.00
Total			350.00
Environmental Category:	F - Financial Intermediary Assessment		
Is this a Repeater project?	No		

2. Project Development Objective(s)

The project development objective is to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and access to long term financing for firms in Bangladesh.

3. Project Description

The project will have 4 major components. The project components are described below:

Component 1: Strengthening Financial Market Infrastructure (US\$50 million, of which IDA is US \$40 million).

The proposed component will build on previous efforts and improve financial market infrastructure further, specifically focusing on activities in the following four broad areas: (1) payment and settlement system development; (2) expanding and modernizing the Credit Information Bureau (CIB); (3) strengthening the systems of the Bangladesh Financial Intelligence Unit (BFIU) and integration with systems of other stakeholders; and (4) strengthening the information technology (IT) governance and IT management of the BB, optimizing the IT assets of the BB, and raising awareness of IT security aspects for the financial industry.

The project will also support the capacity building of the BB staff to effectively implement reforms in the area of financial infrastructure and oversee the financial infrastructure in Bangladesh. The areas of capacity building will among others include: IT management, IT Governance, best practices in the area of monitoring and supervising compliance to AML/CFT standards; payment and settlement systems; credit reporting systems; and, other related topics. Supporting the BB staff to acquire internationally recognized certifications in this space would also be supported and a detailed technical study on assessing automation and modernization needs of state owned banks will also be undertaken.

Component 2: Strengthening the Financial Sector Regulator (US\$5 million; of which IDA is US\$4 million)

This component aims to strengthen BB's capacity to regulate and supervise the scheduled financial institutions (banks and nonbank financial institutions), run the FIU more efficiently, and further develop and deepen the financial sector with new and innovative products. The component would support regulatory and supervisory strengthening. Recognizing that a rigid, rules-based approach to supervision can result in a reactive response to events, BB wants to migrate to a risk-based approach to regulation and supervision that makes the supervisory process more anticipatory. To pursue its mandate more effectively and efficiently, BB would like to review its current system of banking supervision, consolidate and streamline its eight supervisory departments, and migrate to a risk-based integrated supervisory system (RISS). The project will provide technical assistance to BB to develop a corrective and remedial action policy, including a prompt corrective action policy. Support will also be provided to build capacity to review and strengthen prudential regulations. In addition, support will be provided to strengthening the Financial Intelligence Unit. Further, activities will include support for human resource development which will be an integral part of the regulatory and supervisory capacity building. Banking legislation, regulation, and supervision constitute specialist areas that require specialist knowledge, skills, and experience. The project will provide technical assistance to conduct a review of the human resource policy on banking regulation and supervision to ensure that these functions are being effectively carried out in fulfillment of its mandate. This component of the project will also support BB in developing a comprehensive program that covers induction training, on-going training and development, and career path planning.

Lastly, support for enhancing development capacity will be provided. The project will provide technical support for the creation of new and innovative products. BB expressed an interest in expanding its capacity to facilitate provision of agricultural finance and in developing a national financial inclusion strategy. With regard to agriculture finance, for reasons of project design and fit

and implementation feasibility—and given that the Bank and Financial Institutions Division (BFID) expressed an interest in complementary technical assistance on agriculture insurance—it was agreed that the project would focus on a study of warehouse receipts financing. Such a study would support BB’s broader role as a catalyst for financial sector innovations. Moreover, while the availability of long-term financing from BB (through the credit line described below in component 3), will enable PFIs’ to channel these funds to especially to export-oriented companies (mainly manufacturing), technical support will be provided to address other constraints on the sustainable development of the long-term financing market. In that light, the component will also support analytical and policy research on long-term capital markets (particularly secondary bond markets) and the pensions market, both crucial to the development of the long-term financing market. In addition, in response to the current absence of long-term deposit instruments in the PFIs, sector focused technical support will be extended to develop the use of those products.

Component 3: Supporting Long Term Finance (US\$292.5 million; of which IDA is US\$254 million)
This component will support long-term financing (an expected average of five years of financing) through PFIs to firms, particularly exporters, in Bangladesh. Funding will be focused on manufacturing sector firms. BB will channel the long-term finance line to PFIs and, through a demonstration effect and the associated technical assistance described below, this will serve to build markets for long-term finance. In addition, through the implementation arrangements the project will contribute to the improvement of health and safety standards in industry, thereby reducing credit risk.

The funding will indeed be accompanied by technical assistance to support capacity building of Financial Institutions (FIs) and industry associations Sector wide TA will be provided to financial sector on two areas: credit risk management and safeguards for long-term financing projects. This will help FIs to develop improved processes for risk assessment/due diligence, monitoring and management, thereby lowering their credit and environmental and social risks. Partnerships with industry associations will be forged to raise awareness of safeguards practices and to improve those practices across the private sector.

Component 4. Project Implementation and Monitoring (US\$2.5 million; of which IDA is US\$2 million)

Adequate resources will be available to ensure the quality of the project's implementation and the proper monitoring and effective assessment of its results and impacts. Funding assistance will cover the operating costs of the implementing unit for project management and for monitoring and evaluation (M&E), and capacity building will improve BB’s own ability to implement projects and contribute to the achievement of the PDO. This component will provide support to the project implementation unit, named the Financial Sector Support Project (FSSP) cell, to build up its capacity in project implementation, monitoring, and evaluation

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will be implemented by Bangladesh Bank as the FI apex channeling funds through the PFIs. The sub-project (beneficiary/firm/SMEs) locations are not defined at this stage and are expected to be all over Bangladesh. The project will support long-term financing mainly to the manufacturing sectors for purposes of capital equipment purchase, up-gradation (including improving health and safety compliance) and expansion of the existing firms. In addition, the project support includes technical assistance to support capacity building of PFIs and industry associations, strengthening financial market infrastructure and strengthening the financial sector regulator. The

project is not aimed to support large-scale infrastructure . The project investment intends to help especially the manufacturing sector typically for capital investments for machinery or improving the factory condition to meet the requirement of buyers and also national regulatory agencies. The project will also provide sector wide capacity building TA to PFIs on safeguard management.

5. Environmental and Social Safeguards Specialists

Sabah Moyeen (GSURR)

Shakil Ahmed Ferdausi (GENDR)

6. Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The project has been classified as Category 'FI' since the financing to the manufacturing sectors will be channeled through PFIs. The World Bank environmental safeguard policy OP/BP 4.01 Environmental Assessment has been triggered to ensure that the project design and implementation focus on reducing adverse impacts and enhancing positive environmental impacts.</p> <p>Since subprojects will be identified during the project implementation phase, as discussed above, a framework approach has been adopted for the project. The ESMF prepared for the project meets the requirements of Department of Environment (DoE), Bangladesh and the World Bank Environment Safeguard Policy. The relevant Environmental, Health and Safety Guidelines of the World Bank Group will also be applicable to the project.</p> <p>The ESMF also provides guidelines on subproject environment and social risk categories. These are: (i) high risk transaction; (ii) substantial risk transaction; (iii) moderate risk transaction; and (iv) low risk transaction. All high risk transaction will require prior review and clearance of the World Bank. A detailed capacity assessment will be carried out during the Mid-term review or a suitable time to assess the capacity development of PFIs and Bangladesh Bank. Depending on the capacity development, the clearance role can be delegated to Bangladesh Bank. The World Bank will prior review first three substantial risk transactions to help the template/ expectations are understood and thereafter applied.</p>
Natural Habitats OP/BP 4.04	No	<p>The subprojects are mostly expected to be limited to the existing project location within the industrial areas. Accordingly, the project will not result conversion or degradation of critical natural habitats. For this reason, the policy has not been triggered.</p>
Forests OP/BP 4.36	No	<p>The project is expected have no impacts on the health and quality of forests, no affect the rights and welfare of</p>

		people and their level of dependence upon or interaction with forests and bring no changes in the management, protection, or utilization of natural forests or plantations. As such, the policy has not been triggered.
Pest Management OP 4.09	No	The project is not expected to finance any synthetic chemical pesticides activities and the policy has not been triggered.
Physical Cultural Resources OP/BP 4.11	No	Since the subprojects are expected to be limited to the industrial areas, there will be no impact on landscape with archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural significance.
Indigenous Peoples OP/BP 4.10	No	<p>The project will be supporting service and manufacturing enterprises that typically would operate from designated industrial estates/zones across the country or be located in areas where commercial enterprises operate from. The project will not be working with individual(s) or communities but formal sector firms which are the primary beneficiary and stakeholder of this project. The nature, size and specific locations of individual sub-projects exclude the possibility of locating them randomly or in areas with IPs. Hence, the project is not anticipated to have impacts on indigenous people, their lands, culture, livelihood or way of life.</p> <p>The ESMF provides guidelines on assessing labor standards, gender and inclusion issues pertaining to the labor force at the relevant firms in a representative manner.</p>
Involuntary Resettlement OP/BP 4.12	No	<p>The project will finance capacity building of factories by upgrading equipment and health and safety standards, as well as expansion of existing factories. However, all expansion activities will be limited to the owner's own existing property and the project will not finance any land purchase, even that made on a willing buyer willing seller basis. No land acquisition or displacement of people (physical or economic) will be permitted under the project. OP 4.12 Involuntary Resettlement is not triggered for the project.</p> <p>While majority of the firms supported under the project are expected to be located in designated industrial zones or areas where commercial enterprises operate from, some project proposals in the manufacturing and service sector could also involve private land purchase in industrial/commercial areas. The cost of any such land purchase and related costs will be borne by the firm itself and not by the</p>

		<p>project.</p> <p>The ESMF prepared for the project will focus on guidelines for firms to apply a checklist to ensure that no acquisition or displacement takes place due to any project activities and provide an outline on required documentation, brief assessment and consultations where required, when land is purchased by private firms on a direct purchase/willing buyer-willing seller basis.</p> <p>The clearance process for social management plans (comprising the assessments, documentation and consultation mentioned above, and prepared in accordance with the ESMF) will be the same as mentioned above in the environmental safeguards section.</p>
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

<p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p> <p>The subprojects under the project will be identified during project implementation phase. Environmental and social issues of Firms (sub-borrowers) and their sub-projects will be addressed through the sub-loan environmental eligibility assessments and social safeguards checklists and assessments as required and incorporated in the ESMF. Environmental assessments will be carried out in accordance with both Government of Bangladesh Environment Conservation Act/ Environment Conservation Rules and also the World Bank EA (OP 4.01) requirements. The subprojects may generate minimal to significant negative social and environmental impacts associated with loans to SMEs/firms. The type and extent of impacts will vary depending on the type of activities/sectors to be financed and on the amount of loans to be provided. There may be specific environmental, social, health and safety (ESHS) and labor impacts and risks related to SME/firm investment in certain sectors. Textile is one of the possible sectors for investment and wastewater is one of the key concerns. The wastewater is generated due by the wet operations, which are conducted during different parts of the textile manufacturing process and contain substantial pollution load in terms of organic matter, suspended matter, mineral oils, non-biodegradable or low biodegradable surfactants and at times heavy metals. Odor and color are two other characteristics of the wastewater generated. The impacts of the wastewater, when discharged untreated, can be significant. Some chemicals discharged can have toxic effects on the receiving environment. Discharge of such effluents into aquatic bodies can cause lowering of dissolved oxygen and threats to aquatic life and downstream water users, due to toxicity and deterioration in the aesthetic value of the water quality.</p>

Since the project will not permit land acquisition or displacement of people for the sake of project activities, no significantly negative or irreversible social impact is expected. The project will not fund land purchase of a direct/willing buyer-willing seller nature either; this will be done at the firm's own cost where it is required. However, even in such cases, the prospective beneficiary firms will have to provide the required documentation and conduct, where necessary, brief assessments and consultations as per the provisions of the ESMF. The focus of the ESMF on issues of labor standards, gender and inclusion issues is expected to improve labor standards and working conditions in beneficiary factories. Guidelines for conducting these, including consultations involved, are described in the ESMF. A system for documenting, addressing and resolving grievances is also described in the ESMF through an established GRM at Bangladesh Bank which will be linked to those operated by the PFIs.

As the project is expected to operate in designated industrial zones or areas where industrial and commercial enterprises are operated from, there will be no impact on tribal areas or the lifestyles, culture and norms of indigenous people. OP 4.10 is not triggered for the project.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

This will be screened and evaluated in individual subprojects ESIA's.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

This will be evaluated in individual sub-loans ESIA's as needed.

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

Although PFIs have not yet been identified, the prospective PFIs will be required to use the procedures outlined in the ESMF in reviewing and appraising sub-borrowers/sub-projects, and to inform SMEs/Firms of the environmental and social safeguards requirements for subprojects appraisal, so that sub-projects can be implemented in an environmentally sound and socially sustainable manner. The SMEs/Firms will be responsible for carrying out any environmental analysis and for confirming that the proposed sub-projects comply with national environmental legislation and for obtaining the necessary environmental clearance from the Department of Environment (DoE). They will likewise be responsible for carrying out the social assessments and consultations as necessitated by the ESMF. The environmental and social safeguards documents will also confirm with the World Bank safeguards policy requirements.

The Bangladesh Bank is familiar with the World Bank safeguard policies through implementing the Investment Promotion and Financing Facility (IPFF) Project. It has established Green Banking and CSR Department on April 04, 2013 with a view to develop sustainable banking (i.e. green banking, CSR and financial inclusion) framework and to integrate it into core business operation of banks and FIs through efficient and effective implementation of green banking, CSR and financial inclusion. Green Banking and CSR Department will be the focal unit for environmental management work of FSSP. The project will provide opportunity to build its own institutional capacity on environmental and social management.

To build capacity of PFIs further, it has been agreed that the PFIs selected for the project will have a dedicated desk and regular qualified staff/consultant on environmental and social management before participating in FSSP. In addition, the project has TA provision to PFIs to build their

capacity on safeguards management. The TA consultant for environmental and social management will be on board from the inception of the project.
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
The primary project beneficiaries include (a) private firms in Bangladesh, mainly manufacturing exporters and including some small and medium enterprises/firms in sectors that are crucial for growth; (b) financial sector stakeholders including its consumers/clients, regulators, participating financial institutions (PFIs); and (c) Bangladesh Bank. The ESMF was prepared in consultation with the key stakeholders including the Bangladesh Bank, PFIs, IFC, industry sectors and communities. A consultation workshop on draft final ESMF was undertaken by Bangladesh Bank on March 23, 2015 to share the draft ESMF with all the stakeholders and take their opinion in finalizing the ESMF. Consultation with labor and nearby communities has been made mandatory for environmental screening/assessment of each subproject as relevant. The draft ESMF document has been disclosed both in the Bangladesh Bank website (www.bangladesh-bank.org) on March 18, 2015 and the Bank's Infoshop on March 23, 2015 for public comments. Hard copies of the document with Bangla version have also been made available in Bangladesh Bank and potential PFIs. The English and Bangla version of the final ESMF will be disclosed in-country and in Infoshop on April 1, 2015.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	23-Feb-2015
Date of submission to InfoShop	23-Mar-2015
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	00000000
"In country" Disclosure	
Bangladesh	18-Mar-2015
<i>Comments:</i> The draft ESMF document has been disclosed both in the Bangladesh Bank website (www.bangladesh-bank.org) on March 18, 2015 and the Bank's Infoshop on March 23, 2015 for public comments. Hard copies of the document with Bangla version have also been made available in Bangladesh Bank and potential PFIs. The English and Bangla version of the final ESMF will be disclosed in-country and in Infoshop on April 1, 2015.	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	
N/A	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
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 [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

III. APPROVALS

Task Team Leader(s):	Name: Niraj Verma	
Approved By		
Safeguards Advisor:	Name: Zia Al Jalaly (SA)	Date: 01-Apr-2015
Practice Manager/ Manager:	Name: Thyra A. Riley (PMGR)	Date: 01-Apr-2015