

INTEGRATED SAFEGUARDS DATA SHEET CONCEPT STAGE

Report No.: ISDSC1001

Date ISDS Prepared/Updated: 14-Aug-2014

Date ISDS Approved/Disclosed: 10-Dec-2014

I. BASIC INFORMATION

A. Basic Project Data

Country:	Bangladesh	Project ID:	P150938
Project Name:	Financial Sector Support Project (P150938)		
Task Team Leader:	Niraj Verma		
Estimated Appraisal Date:	19-Jan-2015	Estimated Board Date:	17-Mar-2015
Managing Unit:	GFMDR	Lending Instrument:	Investment Project Financing
Sector(s):	SME Finance (50%), Banking (35%), General finance sector (15%)		
Theme(s):	Other Financial Sector Development (75%), International financial standards and systems (25%)		
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		

B. Project Objectives

9. The Proposed Development Objective of the project is: “to improve financial market infrastructure, regulatory capacity and access to long term financing”.

C. Project Description

Component 1: Strengthening Financial Market Infrastructure

Financial market infrastructure is critical to facilitate a stable and efficient financial system and is an

essential foundation of financial markets. It typically comprises the payments and remittance systems, securities settlement system, credit bureaus, etc. Strong financial market infrastructure is associated with financial soundness, enhanced efficiency and financial intermediation and lower transaction costs (see Figure 1 from a 2009 World Bank-IFC study in annex). Several studies also point to significant savings for countries by greater usage of electronic payments. For instance, a recent study by Central Bank of Brazil projected annual savings of around 0.7% of their GDP.

The proposed component will build on previous efforts, including those under the Central Bank Strengthening Project (CBSP), and improve financial infrastructure further. It will focus on the improvement of the payment and settlement systems but also on other critical financial market infrastructure, such as that related to credit information. This would be done through information technology investments that improve digitization of internal BB systems (for example: core banking, Bangladesh Automated Clearing House and central securities depository) and better integration with external systems like the Government payment systems (including the National Board of Revenue (NBR) and the Ministry of Finance Public Financial Management System, PFMS) and effective oversight of the national payments system. It would also include the strengthening of the Credit Information Bureau (CIB) to improve data reliability and coverage; and; strengthening the systems of the Bangladesh Financial Intelligence Unit (BFIU). The proposed component would also strengthen the core underlying IT infrastructure supporting the financial market infrastructure.

Component 2: Strengthening Regulatory Capacity

A strong regulatory and supervisory capacity is essential for maintaining the stability and efficiency of the financial system. For the banking sector, the capacity of BB, must continue to be strengthened further and updated to meet the ever growing complexity and evolution of financial markets and the growing stresses in Bangladesh's financial sector (reflected in growing NPLs, capital shortage, etc). Enhanced capacity will support BB's compliance with the international standards and Basel accords for regulation. The capacity enhancement of BB will support reforms by strengthening prudential regulations and will also help BB better supervise and monitor banks, including the SOCBs, mitigating the risk of that part of the financial system posing a threat to the stability of the entire system. The proposed component will continue to also strengthen the capacity of the Bank and Financial Institutions Division (BFID) which monitors SOCBs. The project will focus on the migration to Risk Based Supervision as well as support strengthening prudential regulations and completing preparations for BASEL III.

In addition, in support of BB's developmental role, the project will also support innovative and inclusive financial market development activities, focusing on select areas where there has been little by way of financial sector development/activities. These would include: (i) initiating and facilitating reforms in and the development of warehouse (and cold storage) receipt system and financing as a demonstration pilot, and possibly, also on agriculture insurance; and (ii) the development and implementation of innovative programs for financial literacy and consumer protection.

Component 3: Supporting Long Term Finance

This component will provide Bangladesh's exporters/SMEs with access to long term finance and also provide technical assistance to banks in credit appraisal skills and to banks and industry in improving safeguards practices. Preliminary initial findings confirm the acute lack of supply of long term finance in Bangladesh's credit market. For instance, of the four surveyed lending institutions, the vast majority of export finance is short term in nature (no trade finance would be provided), and none of it is five years or longer – a factor that clearly inhibits competitiveness and investment amongst exporters. The demand side survey validates this finding as well.

By providing long term financing to exporters/SMEs via PFIs (which will be selected through an appraisal conducted by BB and based on eligibility criteria which will be developed and reflected in the Operations Manual and could include Islamic financing banks and financial institutions) and through technical assistance to PFIs and industry associations, the project will demonstrate the potential of this product and market segment to financial institutions. In addition, through the implementation arrangements promoting good practices on safeguards amongst lenders and funded firms, the project will contribute to the improvement of health and safety standards, including for women workers in the industry. Such support can leverage the momentum that is slowly but steadily gathering amongst firms – as captured in the demand side market survey – to improve safeguards performance. Also, technical assistance to develop the secondary bond market and explore the development of new instruments to facilitate long term financing, which are both critical for building a long term financing market in Bangladesh, will be included. The component will be designed in line with Bank policy OP/BP 10.0 and the accompanying Guidance Note on financial intermediary lending.

Component 4: Project implementation and monitoring

This component will support BB's capacity in project implementation and in developing a strong monitoring and evaluation mechanism.

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

The proposed Project will support Bangladesh's exporters/SMEs with access to long term finance and also provide technical assistance to partner financial institutions (PFIs) on this area. Imports of new equipment (capital machinery) are expected to be the primary use of funding, but funds could also be used for up-gradation and/or relocation (relocation, where supported, would be in designated industrial zones, and the project would not involve any land acquisition, involuntary resettlement or impact indigenous people) of factories in order to reduce health and safety risks and environmental damages. Any qualified Bangladesh's exporters/SMEs from any part of the Bangladesh can receive the long-term financing. The exact SME locations will not be known at appraisal stage. An Environmental and Social Management Framework (ESMF) will be prepared by the Bangladesh Bank for the project, which will lay out the requirements and procedure for the environmental and social impact assessment at sub-project level. The SIA will focus on labor standards and possible ways of enhancing/improving those.

E. Borrowers Institutional Capacity for Safeguard Policies

The Bangladesh Bank (BB) will implement the project. The BB has experience in implementing IDA funded projects and familiar with the World Bank Safeguard Policies. BB has recently completed the Central Bank Strengthening Project (CBSP) and presently implementing the Investment Promotion Financing Facility (IPFF) project. In addition, International Finance Corporation (IFC) has been working with the Bangladesh Bank to develop their capacity on environmental and social risk assessment and green banking. The BB will hire qualified staff/consultant to oversee the project environmental and social issues and institutionalize the environment and social safeguards management. The proposed project will support in strengthening the BB's environmental and social safeguards management capacity, including possibly by housing a team in one of the existing departments or creating a new cell, if needed. Technical assistance on safeguards management to industry stakeholders and PFIs will also be considered under the Project.

F. Environmental and Social Safeguards Specialists on the Team

Shakil Ahmed Ferdausi (GENDR)

Sabah Moyeen (GSURR)

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II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	As mentioned earlier, the proposed Project will support Bangladesh's exporters/SMEs with access to long term finance. However, the key sectors for long-term financing are not yet identified but an indicative list will be available during project preparation. In view of project nature, the overall project is classified as a Category 'FI' and the safeguard policy OP/BP 4.01 has been triggered to ensure that the sub project design and implementation will be focused on reducing adverse impacts and enhancing positive impacts. The environmental and social management framework (ESMF) will define the procedure for environmental and social screening/assessment for each subproject.
Natural Habitats OP/BP 4.04	No	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.
Forests OP/BP 4.36	No	The project is expected have no impacts on the health and quality of forests, no affect the rights and welfare of 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	The project will not have any impacts on indigenous people, their lands, culture, livelihood or way of life in any way.
Involuntary Resettlement OP/ BP 4.12	No	The project will not finance any civil works or activities that are expected to trigger either OP 4.12 Involuntary Resettlement or OP 4.10 Indigenous People. No land acquisition, displacement of people

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		or communities from private or public lands or any negative impacts on livelihoods will be permissible under the project. The ESMF will include a social management framework which will provide guidelines for carrying out a social screening to ensure the above impacts are not triggered. Additionally it will contain guidelines for carrying a brief social assessment for sub-projects commensurate with the nature and scope of Bank funded activities. The Assessment will focus on labor standards compliance regarding national regulations and vis-à-vis IFC performance standards. The SMF will provide guidelines for stakeholder identification, consultation and communication strategy, inclusion and gender mainstreaming, etc. It will also contain institutional arrangements and roles and responsibilities of people who will implement the SMF, guidelines for a grievance redress mechanism, disclosure policies of the World Bank, and budget for the implementation of the SMF.
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	

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 15-Nov-2014

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing¹ should be specified in the PAD-stage ISDS:

Environment and Social Management Framework (ESMF)- preparation starts in mid August, 2014 and expected to end by September/October, 2014.

IV. APPROVALS

Task Team Leader:	Name: Niraj Verma	
<i>Approved By:</i>		
Regional Safeguards Coordinator:	Name: Francis V. Fraganò (RSA)	Date: 14-Aug-2014
Practice Manager/Manager:	Name: Thyra A. Riley (PMGR)	Date: 10-Dec-2014

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.