

*Bangladesh: Financial Sector Support Project (FSSP)*

# **Environmental and Social Management Framework (ESMF)**



**Bangladesh Bank**

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## **Abbreviations and Acronyms**

BB	Bangladesh Bank
BFIU	Bangladesh Financial Intelligence Unit
CAP	Corrective Action Plan
CBSP	Central Bank Strengthening Project
CETP	Common Effluent Treatment Facility
CHSTDF	Common Hazardous Waste, Storage Treatment & Disposal Facilities
CHT	Chittagong Hill-Tract
CIB	Credit Information Bureau
CL	Component Leader
DG	Director General
DoE	Department of Environment
E&S	Environmental and Social
EA	Environmental Assessment
ECA-95	Environmental Conservation Act 1995
ECC	Environmental Clearance Certificate
ECR-97	Environmental Conservation Rules 1997
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
ERMG	Environmental Risk Management Guidelines
ESA	E&S Assessment
ESCF	E&S Consulting Firm
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
FICSD	Financial Integrity & Customer Services Department (of Bangladesh Bank)
FSSP	Financial Sector Support Project
GBCSRD	Green Banking and Corporate Social Responsibility Department (of Bangladesh Bank)
GIIP	Good International Industry Practice

GoB	Government of Bangladesh
IEE	Initial Environmental Examination
IESMA	Independent Environmental and Social Monitoring Agency
IFC PS	IFC Performance Standards
KYC	Know Your Customer
LCC	Location Clearance Certificate
M&E	Monitoring and Evaluation
MoE	Ministry of Environment
NGO	Non-governmental Organisation
NOC	No Objection Certificate
NPLs	Non-Performing Loans
OP	Operational Policy
PCU	Project Coordination Unit
PD	Project Director
PFI	Partner Financial Intermediaries
SMEs	Small and Medium Enterprises

## **1.0 Introduction**

1. The Government of Bangladesh (GoB) intends to develop financial market infrastructure, improve regulatory and supervisory capacity and scale up access to long term financing of manufacturing industries including SMEs to spur investment and growth through undertaking the Financial Sector Support Project (FSSP). The Bangladesh Bank (BB) will implement the proposed project, which will help in scaling-up access to affordable financing and enhance markets for long-term debt in order to meet the long term financing needs of manufacturing industries including SMEs. The Project through the credit line will demonstrate the potential of the market to financial institutions and enhance their capacity to serve the market. With expansion of the export sector (towards its full capacity) and reduction of losses (or opportunity cost) from underinvestment, increased export growth will expedite growth and employment while enabling the sectors to upgrade production lines and fully adhere to international standards on Environmental and Social (E&S) safeguards. Both the BB and the Partner Financial Intermediaries (PFIs) intend to ensure that the proposed transactions and project activities take into account the environmental concerns in accordance with the Environment Conservation Rules 1997 (and amendments), and the World Bank Safeguard Policies.

2. Details of the sub-projects to be financed under FSSP will be selected during project implementation phase and therefore, the exact locations, size and extent of the sub-projects are not known at the appraisal stage. Therefore a framework approach has been adopted and an Environment and Social Management Framework (ESMF) has been developed to ensure that these transactions and project activities are properly assessed for and will not create adverse E&S impacts. This ESMF will be referenced in an integral part of the Operation Manual (OM) to ensure the legitimate flow of the Long Term Credit financing under the project component. The ESMF defines and outlines policies, procedures, roles, and responsibilities for managing impacts, risks, and effects on E&S aspects of subprojects that are financed by FSSP. The ESMF includes (a) E&S screening of sub projects / transactions, including a list of transactions which will not be funded under the Project; (b) clarification on E&S assessment categorization of proposed transactions (c) E&S review and assessment process; (d) general impacts and relevant mitigation measures (e) subproject monitoring, supervision, and grievance redress mechanisms., and (f) public consultation and dissemination process. The ESMF also highlights the E&S capacity building needs that are needed for the Project to adhere to the E&S safeguards both in the country perspective as well as the World Bank requirements.

## **2.0 About FSSP**

3. FSSP is proposed with the objective of improving financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and access to long term financing for firms in Bangladesh.

4. The proposed Project is composed of four components:

- 1) Strengthening Financing Market Infrastructure
- 2) Strengthening Regulatory Capacity

3) Supporting Long Term Finance

4) Project Implementation and Monitoring

5. The project expenditures will be funded by IDA and Bangladesh Bank as per the ratio agreed in the financing agreement of the project.

### **Component 1: Strengthening Financial Market Infrastructure**

6. The proposed component will build on previous efforts, including those under the Central Bank Strengthening Project (CBSP), and improve financial market infrastructure further, specifically focusing on the following four broad areas: (a) Payment and Settlement System Development, (b) Expanding and modernizing the Credit Information Bureau (CIB), (c) Strengthening the systems of the Bangladesh Financial Intelligence Unit (BFIU) and integration with systems of other stakeholders, and (d) Strengthening the IT Governance and IT management of the Bangladesh Bank, optimizing the IT assets of the BB and enhance awareness of IT security aspects for the financial industry. The project will lead to strengthening of the financial market infrastructure to: (i) enable a large scale shift to electronic payments thereby enhancing the efficiency of the financial system; (ii) enhancing the coverage of the Credit Information Bureau (CIB) by including credit information of the microfinance sector and reliability of credit reporting system thereby leading to better credit risk management; (iii) increase the effectiveness of the BFIU thereby leading to safety and integrity of the financial systems; and finally (iv) enhance reliability and robustness of the IT systems of the BB.

### **Component 2: Strengthening Regulatory Capacity**

7. This component of the project 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 project will focus on the migration to Risk Based Supervision as well as support strengthening prudential regulations and completing preparations for BASEL III.

### **Component 3: Supporting Long Term Finance**

8. This component will support long term financing (expected average five years financing) through participating financial institutions (PFIs)<sup>1</sup> to firms, particularly exporters, in Bangladesh. Funding is expected to be focused on manufacturing sector. The funding will be accompanied by technical assistance to support capacity building of PFIs and industry associations as well as to develop long term financial markets. The long term finance line will be channelled by BB to PFIs and through demonstration effect and the above associated technical assistance will serve to build long term finance markets. In addition, through the

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<sup>1</sup> PFIs could include Islamic finance banks.

implementation arrangements the project will contribute to the improvement of health and safety standards in the industry.

9. This component will provide firms in Bangladesh 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 the Project is open to be used for setting up new manufacturing units, up-gradation (including improving health and safety compliance) and expansion. However, the sub-projects developed under the FSSP would not involve any involuntary land acquisition, involuntary resettlement or impact on indigenous people.

#### **Component 4: Project Implementation and Monitoring**

10. This component will provide support to the project implementation unit, named the FSSP cell, to build up its capacity in the areas of project implementation, monitoring and evaluation. This would include two broad activities:

- Project Management and Capacity Building
- Monitoring and Evaluation

#### **2.1 Background to the ESMF Preparation**

11. In order to prepare the ESMF a series of consultations were held with various stakeholders. The interactions were aimed at understanding the E&S capacities of the financial institutions, identification of gaps and the facilitation needs to strengthen the financial markets for providing E&S compliant services. In this regard, discussions were held with the Bangladesh Bank officials. This included officials from CBSP Cell, Green Banking and CSR Department, SME & Special Programs Department. Interactions were also carried with few of the Financial Institutions (FIs) which have adopted the Environmental Risk Management Guidelines (ERMG) of the Bangladesh Bank.

12. Discussions were also held with the Bangladesh Bank officials implementing other Projects which are being implemented through ESMFs.

13. Further to understand the perspective of the other stakeholders, the industry association representatives and the Department of Environment Officials were also consulted. These interactions were also used to under the Country E&S requirements and the stakeholder perspectives on the compliance status and associated issues.

14. It is noted that the Bangladesh Bank is familiar with the World Bank safeguard policies through implementing the Central Bank Strengthening Project (CBSP) and Investment Promotion and Financing Facility (IPFF) Project. It has established Green Banking and CSR Department (GBCSRD) 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.



15. The ERMG of Bangladesh Bank, which was issued in 2011 as mandatory requirement for all scheduled financial institutions has been adopted by various degrees by the FIs. The ERMG is presently being revised with support from IFC. In order to understand the proposed modifications in the ERMG, discussions were carried out with the IFC team coordinating the revision of the ERMG. The Environmental and Social Management System Diagnostic of two leading private Banks, carried out by IFC, reveals that the PFIs capacity on environmental management needs immediate attention and significant capacity development.

16. The GBCSRD although very lean in structure, has gained reasonable experience in promoting environmentally sustainable financing in manufacturing sectors. Banks have also enhanced their capacities and will be provided further capacity building support under the FSSP.

17. The inputs received from the above discussions have been factored in the development of this ESMF.

## **2.2 Objectives of ESMF**

18. The Environmental & Social Management Framework (ESMF) is intended to provide general policies, guidelines, and procedures to be integrated in the formulation, design, implementation, operation and monitoring of all sub-projects to be implemented under the Component 3 of the proposed FSSP. The overall objective of the ESMF is to assist the PFIs to ensure that:

- Sub-projects are formulated by the Firms with participation of stakeholders as relevant, especially those who would be directly benefited or impacted by the proposed sub-projects
- Possible environmental impacts of all sub-project activities during both construction and operational phases are identified during project formulation and design, appropriate mitigation/ enhancement measures are devised and monitoring plan prepared, as a part of the overall environmental & social management plan (ESMP).
- Social screening of the sub-projects are carried out addressing the possible risks particularly those related to the labor, working conditions and providing guidance on gender aspects.
- Sub-projects comply with the relevant policies, rules and regulations of the GoB (Refer Section 2.0) and Safeguard Policies of the WB.

## **2.3 Overall Structure of ESMF**

19. Under the FSSP, the firms are responsible for the identification of sub-projects and preparation of relevant sub-project documents. According to the ESMF, the Firms will be responsible for preparation of an adequate description of each sub-project (in accordance to the format provided in the ESMF), including sub-project layout and other relevant information. Based on this information (Annexure-8). The Firms will also be responsible for information for carrying out “environmental and social screening” (Annexure-9) of each sub-project in accordance to this ESMF. The purpose of “environmental screening” is to get a

preliminary idea about the degree and extent potential environmental impacts of a particular sub-project, which would subsequently be used to assess the need for further EA. The PFIs will review the sub-project and will be responsible for carrying out “environmental and social screening” of each sub-project in accordance to this ESMF. The screening procedure takes into consideration the national regulations, the WB Safeguards as well as the Bangladesh Bank’s Environmental Risk Management framework. The formats for carrying out the screening along with guidance are provided in the ESMF. The screening also indicates whether further assessment will be required for the sub-project.

20. The monitoring, supervision and reporting requirements are also stated in this ESMF. The mechanism to redress grievances, if any, from the stakeholders is also addressed in the document.

21. In order to further build capacities of the PFIs and to assist the Bangladesh Bank, E&S Consultant will be hired under the project. In addition, Bangladesh Bank will supplement its resource by hiring a staff / consultant to function as environment and social safeguards specialist. Also the project audit will include coverage of the safeguards compliance through a sample check. In addition, apart from the ongoing monitoring of the Bangladesh Bank, the World Bank will field periodic missions as part of implementation support.

## **3.0 Requirements on Environmental and Social Compliance and Safeguards**

### **3.1 Environmental Regulatory Framework in Bangladesh**

22. The Environmental and Social (E&S) Regulatory Framework is characterized by policy, legal and regulatory mechanisms promulgated in the country. Legislative references for Environmental Assessment (EA) in Bangladesh are the Environmental Policy 1992, Environmental Conservation Act 1995 (ECA-95) and the Environmental Conservation Rules 1997 (ECR-97). Department of Environment (DoE), under the Ministry of Environment (MoE), is the regulatory body responsible for enforcing the ECA-95 and ECR-97.

23. The following section presents an overview of the environmental regulatory framework in Bangladesh. A further note on this placed as **Annex 1**.

#### **3.1.1 National Environmental Policy 1992**

24. Bangladesh National Environmental Policy (GoB, 1992) was approved in May 1992, and sets out the basic framework for environmental action, together with a set of broad sectoral action guidelines. The major objectives of Environmental policy are to i) maintain ecological balance and overall development through protection and improvement of the environment; ii) protect country against natural disaster; iii) identify and regulate activities, which pollute and degrade the environment; iv) ensure environmentally sound development in all sectors; v) ensure sustainable, long term and environmentally sound base of natural

resources; and vi) actively remain associate with all international environmental initiatives to the maximum possible extent.

25. The National Environmental Policy has been further clarified in the National Environmental Management Action Plan, also referred to as NEMAP (GOB, 1995). The NEMAP is a wide-ranging and multi-faceted plan, which builds on and extends the statements set out in the National Environmental Policy.

### **3.1.2 Bangladesh Environmental Conservation Act 1995 (including Amendments)**

26. The Environmental Conservation Act, 1995 (ECA-95) (subsequently amended in 2000, 2002 and 2010) is primarily an instrument for DoE and for controlling industrial pollution. This umbrella Act includes laws for conservation of the environment, improvement of environmental standards, and control and mitigation of environmental pollution. It is currently the main legislative framework document relating to environmental protection in Bangladesh.

27. The main provisions of the Act can be summarized as:

- Declaration of ecologically critical areas, and restrictions on the operations and processes, which can be carried or cannot be initiated in the ecologically critical area;
- Regulation in respect of vehicles emitting smoke harmful for the environment.
- Environmental Clearance;
- Regulation of industries and other development activities with regards to discharge permits;
- Promulgation of standards for quality of air, water, noises and soils for different areas for different purposes;
- Promulgation of standard limits for discharging and emitting waste; and
- Formulation and declaration of environmental guidelines;

28. The ECA amendments in 2010 provided clarification of defining wetlands as well as Ecologically Critical Areas and included many important environmental concerns such as conservation of wetlands, hill cutting, ship breaking, and hazardous waste disposal. This amendment empowered the government to enforce more penalties than before. Moreover, affected persons were given provision for putting objections or taking legal actions against the polluters or any entity creating nuisance to affected person.

### **3.1.3 Environment Conservation Rules (ECR) 1997 (including amendments)**

29. The Environment Conservation Rules 1997 (ECR-97) was promulgated under ECA-95 to operationalize the enforcement of the Act. The Rules is further amended in 2002 (February and August) and 2010. The ECR-97 provides (i) the National Environmental Quality Standards for ambient air, various types of water, industrial effluent, emission, noise,

vehicular exhaust etc., (ii) requirement for and procedures to obtain Environmental Clearance, and (iii) requirements for IEE/EIA according to categories of industrial and other development interventions.

30. The environmental standards in operation in Bangladesh are promulgated under the ECR-97. The Bangladesh standards intend to impose restrictions on the volume and concentrations of wastewater/solid waste/ gaseous emission etc. discharged into the environment. In addition a number of surrogate pollution parameters like Biochemical Oxygen Demand, or Chemical Oxygen Demand; Total Suspended Solids, etc. are specified in terms of concentration and/or total allowable quality discharged in case of waste water/solid waste. Additionally specific parameters depending on the manufacturing process are specified such as phenol, cyanide, copper, zinc, chromium etc. Air emission quality standards refer mostly to concentration of mass emission of various types of particulate, sulfur dioxide, and oxides of nitrogen and in some cases volatile organic compounds and other substances.

31. As per the ECR-97, an industrial unit or project is classified as Green, Orange-A, Orange-B and Red categories. Schedule-1 of ECR-97 lists the various industries and projects falling under each category.

#### **3.1.4 Environmental Clearance Process**

32. The Environmental Clearance Certificate (ECC) is mandatory for the existing industries as per clause 7(3) of the ECA-95 and the ECR-97 and proposed projects as per Rule 7 and schedule 1 of ECR-97. All existing industrial units and projects and proposed industrial units and projects, that are considered to be low polluting are categorized under "Green" and shall be granted Environmental Clearance. For proposed industrial units and projects falling in the Orange-A, Orange-B and Red Categories, firstly a site clearance certificate and thereafter an environmental clearance certificate will be required. However, the rules provide the Director General (DG, the head of DoE) a discretionary authority to grant 'Environmental Clearance' to an applicant, exempting the requirement of site/location clearance, provided the DG considers it to be appropriate.

33. ECA-95 provides for conservation of the environment, improvement of environmental standards and control and mitigation of environmental pollution. The ECR'97 describes the procedures for obtaining Environmental Clearance Certificates (ECC) from the Department of Environment for different types of proposed units or projects. It also includes forms for obtaining clearance certificates and standards for pollution control. "EIA Guidelines for Industries" published by the DoE provides guidance on conducting Environmental Assessments. Any person or organization wishing to establish an industrial unit or project must obtain ECC from the Director General. The application for such certificate must be in the prescribed form together with the prescribed fees laid down in Schedule 13, through the deposit of a Treasury Challan in favor of the Director General. The fees for clearance certificates have been revised in 2010.

34. The DOE authority reserves the right to request additional information, supporting documents, or other additional materials for the proposed project. Under the conditions specified in the ECR-97, the DoE divisional authority must issue environmental Location Clearance Certificates (LCC) within 60 working days from the date of submitting the application, or the refusal letter with appropriate reasons for such refusal. The LCC issued

remains valid for a one-year period and is required to be renewed 30 days prior to its expiry date.

35. Rule 8 prescribes the duration of validity of environment clearance certificate (three years for green category and one year for other categories) and compulsory requirement for renewal of certificate at least 30 days before expiry of its validity.

36. Green category industries are considered relatively pollution-free and therefore ECC is issued to all existing and proposed industrial units and projects, falling in the Green Category without undergoing EIA.

37. Orange category industries fall into two categories. Category Orange-A Industries are required to submit general information, a feasibility report, a process flow diagram and schematic diagrams of waste treatment facilities along with their application for obtaining ECC. Category Orange-B industries are required to submit an Initial Environmental Examination (IEE) report, along with their application and the information and papers specified for Category Orange-A industries.

38. Apart from general requirement, for every Red category proposed industrial unit or project, the application must be accompanied with feasibility report, Initial Environmental Examination (IEE), Environmental Impact Assessment (EIA) based on approved ToR by DoE, Environmental Management Plan (EMP). As per ECR-97 all existing industries/projects in Orange B and Red category require an Environmental Management Plan (EMP) to be prepared and submitted along with necessary other papers while applying for environmental clearance.

39. The process for obtaining Environmental Clearance in Bangladesh is given in the figure below

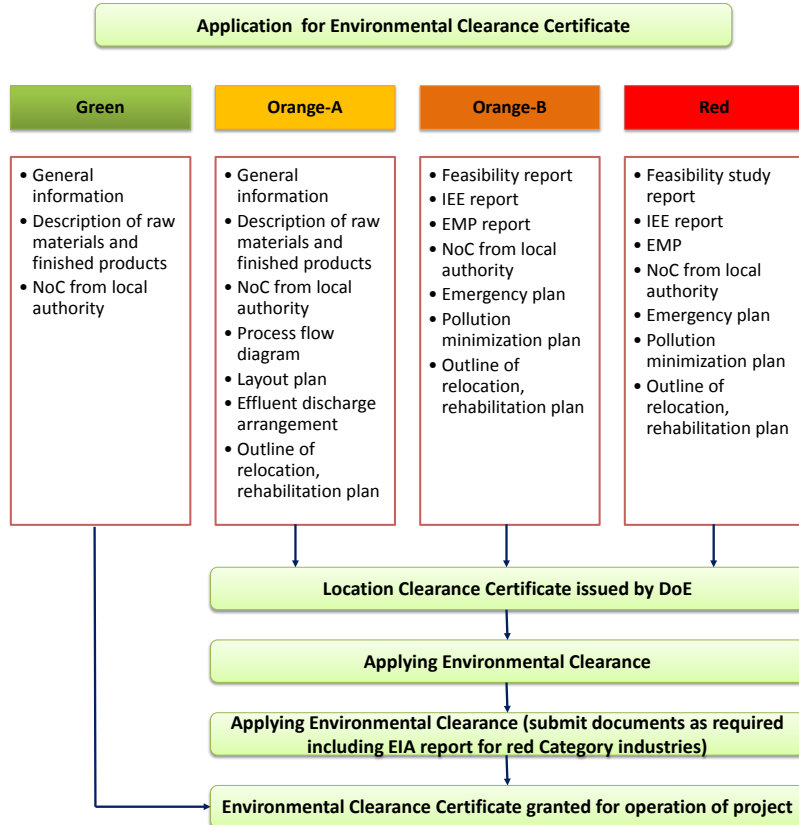


Figure 2.1 : Process for obtaining EC Certificate form DOE

### **3.2 Social Regulatory Framework in Bangladesh**

40. Social regulatory frameworks in Bangladesh related to social safeguards are lined with several legislative enactments established in last several decades and some enactments are already amended according to the national interests. The regulatory framework covers land acquisition, governed by the Acquisition and Requisition of Immovable Property Ordinance II (1982) amended as of 1994. In addition to the Ordinance, acquisition of any land or forest area, in Chittagong Hill-Tracts (CHT) districts require consent under the Chittagong Hill-Tracts (Land Acquisition) Regulation (1958), the CHT Regional Council Act 1998 and the Forest Act (1927).

41. The project will finance factories in upgrading equipment (including improving health and safety compliance) and expansion such that all such activities will be limited to the firm's own existing property, or property that is bought on a willing buyer willing seller basis. Project funds will not be used for the latter. No involuntary land acquisition displacement of people (physical or economic) will be permitted under the project. The project will operate within the industrial zones and factory environments and hence no Indigenous People/tribal, small ethnic groups will be impacted. Neither OP 4.12 nor OP 4.10 will be triggered for the project.

42. Thus the social framework to be focused for this project will be those related to the labor standards. It will essentially include guidance on (i) social screening of existing facility and proposed investment; (ii) assessment of proposed investment (for high risk subprojects) in terms of social risks; (iii) stakeholder analysis, consultation and communication and disclosure; (iv) labour and working conditions; (v) gender; (vi) grievance and complaint handling mechanism; (vii) preparation of social management plan (SMP) with budgeting; (viii) implementation and supervision of SMP; and (ix) reporting and quality control, etc. The screening of the existing facilities will examine the current labour and working conditions and practices of the firm. In terms of due diligence on land issues if any are relevant for the sub-project, the PFI will check, as it normally would with any investment or fund allocation that it was to consider, that land titling is clean and without conflicting claims, that transfers in case of recent purchase are properly documented and registered. As mentioned above no land acquisition or displacement will be permitted for the purposes of the project; even in case of willing/direct purchase/transaction, no project funds can be utilized. Nevertheless the above due diligence process will be carried out and documented in the SMP where applicable.

43. GoB introduced the Factories Act (1965) and associated Factories Rules (1979). Chapter IV on Safety in the Factories Act & Rules outline detailed requirements on safety for working with machinery, pressure vessels, industrial processes, etc.

44. The Labour Act released in 2006, replaced the Factories Act (1965) and associated Factories Rules (1979).

45. The Act consolidated and amended previous laws relating to employment of workers, relationship between workers and employers, determination of minimum wages, payment of wages, compensation for injuries arising out of and in the course of employment, formation of trade unions, raising and resolving industrial dispute, health, safety, welfare and environment of employment of workers and apprentice and related issues. The Act is built

more or less on the basis of the Factories Act and Rules but applies to a wider number of establishments beyond factories. The health, safety and welfare duties and obligations that were contained in the old Factories Act, 1965, have now been transposed to chapters 5 (health and hygiene), 6 (safety), 7 (special provisions with regard to health and safety, and 8 (Welfare measures).

46. In the past criminal prosecutions for offences contained in the Factories Act took place in the magistrate court. Now all prosecutions for offences must take place in the Labour Court using the Code of Criminal Procedure. There are new criminal offences relating to violations of the code that cause, death or injury (section 309) with significantly higher sentences available to the courts.

47. In the past only factory inspectors could prosecute criminal cases against industrial organizations. Now, this right has been extended to a wider category of people.

48. The Bangladesh Labour Act 2006 was amended in the wake of global attention after the collapse of the Rana Plaza and several other accidents, mostly in the RMG sector. The amendments adopted on July 15, 2013 focus on fundamental rights to freedom of association and collective bargaining and addresses steps to improve occupational safety and health. Bangladesh has ratified ILO Conventions 87 and 98 on freedom of association and collective bargaining and is obliged to abide by its provisions.

49. The Bangladesh Labour Act as amended and adopted on July 15, 2013 will be applicable to the firms/sub-projects to be financed under the project. This contains provisions to improve workplace safety, such as establishment of safety committees in factories with 50 workers or more; a greater role for the labor inspectorate to inspect safety and health conditions of workplaces and conduct on-the-spot inspections; personal safety equipment. Workplace Health Centers must be established in workplaces with over 5000 employees and safety welfare officers must be in place in workplaces with more than 500. Inspection of factories is now mandatory at the time of giving license or its renewal. No changes can take place regarding factory layout plans without permission of factory inspectors. Legal and financial grievances between labor and factory owners can be handled through arbitration, failing which they can be settled at the Labor Court. Provisions for worker related deaths, welfare funds in export oriented funds (5 percent of profits with various welfare and provident funds), support for occupational diseases, are provided in the law.

50. If there are any non-compliances captured during the screening process and reflected in the responses to the questionnaires, then as part of the corrective actions, the SMP will capture a response to address that issue in line with with the amended and improved national legislation (the above discussion is not exhaustive) and the provisions of the ESMF. Additionally, occupational health and safety and community health and safety as required in OP 4.01 will apply for the project. These are described below.

### **3.3 WB Safeguard Policies**

51. For this Project, the WB Safeguards Policies apply. Safeguard policies, incorporating environmental principles, are designed to protect the interests of the various stakeholders from adverse impacts of World Bank-assisted projects. The effectiveness and development

impact of projects and programs supported by the Bank has substantially increased as a result of attention to these policies.

52. The objective of these policies is to prevent and mitigate undue harm to people and their environment in the development process. The Safeguards are designed to protect the environment from possible adverse effects of its projects.

53. The effectiveness and development impact of projects and programs supported by the Bank has substantially increased as a result of attention to these policies. The World Bank has ten environmental, social, and legal safeguard policies.

- OP/BP 4.01 Environmental Assessment
- OP/BP 4.04 Natural Habitats
- OP/BP 4.09 Pest Management
- OP/BP 4.11 Physical Cultural Resources
- OP/BP 4.10 Indigenous Peoples
- OP/BP 4.12 Involuntary Resettlement
- OP/BP 4.36 Forests
- OP/BP 4.37 Safety of Dams
- OP/BP 7.50 Projects on International Waterways
- OP/BP 7.60 Projects in Disputed Areas

54. Operational Policies (OP) are the statement of policy objectives and operational principles including the roles and obligations of the Borrower and the Bank, whereas Bank Procedures (BP) is the mandatory procedures to be followed by the Borrower and the Bank. A complete description of the World Bank's safeguards and their triggers can be found on the Bank's official Web site ([www.worldbank.org](http://www.worldbank.org)).

55. The PFIs will comply with the World Bank Safeguard Policies during the implementation of the Project and of each subproject funded under the FSSP.

56. Beneficiary Firms under the Component 3 (Supporting long term finance) are expected to engage in diverse types of activities, some of which may have some negative environmental and/or social impacts and risks. The exact location, nature, scale and scope of E&S impacts can only be known during implementation when PFIs receive applications from eligible Firms. Given the nature of sub projects expected however, the potential negative impacts are likely to be minor, localized, and reversible and can be mitigated with simple measures and environmental and social good practices.

57. The adherence to the WB Safeguard Policies is therefore being addressed by developing this ESMF.

58. The World Bank has ten environmental, social, and legal safeguard policies. For the FSSP the World Bank OP 4.01 on Environment Assessment will apply.

59. Looking at the design of the project where no land acquisition, displacement of people or impact on indigenous people is expected, the World Bank policies OP 4.04 Natural Habitats, OP 4.10 Indigenous Peoples and OP 4.36 on Forestry shall not apply. However, a social screening of sub-project shall be carried out to examine the current labour and working conditions and practices of the firm. OP 4.12 Involuntary Resettlement is also not expected to be triggered as no land acquisition or displacement of people is permissible under the project. These will be ruled out at the initial screening stage.



### 3.3.1 OP 4.01 on Environment Assessment

60. The OP4.01 is considered to be the umbrella safeguard policy to identify, avoid, and mitigate the potential negative environmental and social impacts associated with Bank lending operations. In World Bank operations, the purpose of Environmental Assessment is to improve decision making, to ensure that project options under consideration are sound and sustainable, and that potentially affected people have been properly consulted. OP 4.01 recognizes that ensuring the Environmental soundness and sustainability of investment projects is critical to its success. The policy's objective is to ensure that Bank-financed projects are environmentally sound and sustainable, and that decision-making is improved through appropriate analysis of actions and of their likely environmental impacts.

61. This policy is triggered if a project is likely to have potential (adverse) environmental risks and impacts in its area of influence. OP 4.01 covers impacts on the natural environment (air, water and land); human health and safety; physical cultural resources; and transboundary and global environment concerns. OP 4.01 provides for early screening for potential impacts and select appropriate instruments to assess, minimize, and mitigate potentially adverse impacts of the projects.

62. **EA classification.** The World Bank classifies the proposed project into one of the four categories, depending on the type, location, sensitivity, and scale of the project and the nature and magnitude of its potential environmental impacts. These categories are defined below.

**Category A:** A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works.

**Category B:** A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas--including wetlands, forests, grasslands, and other natural habitats--are less adverse than those of Category A projects.

**Category C:** A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Category C project.

**Category FI:** A proposed project is classified as Category FI if it involves investment of Bank funds through a financial intermediary (FI), in subprojects that may result in adverse environmental impacts.

63. The overall FSSP will be a FI category project since the financing to the existing firms (mainly manufacturing industries) will be channelled through PFIs.. However, the individual subprojects will fall 'A', 'B' and 'C' depending on the scale, nature and magnitude.

### 3.3.2 World Bank Group Environmental, Health and Safety Guidelines

64. The World Bank Group Environmental, Health, and Safety Guidelines (known as the "EHS Guidelines") are technical reference documents with general and industry-specific examples of Good International Industry Practice (GIIP). These GIIP are considered to be achievable in new facilities at reasonable costs by existing technology. For existing facilities,

achieving these may involve establishment of site-specific targets with an appropriate timetable to achieve these. The environmental assessment process may recommend alternative (higher or lower) levels or measures, which, if acceptable, become project- or site-specific requirements.

65. When host country regulations differ from the levels and measures presented in the EHS Guidelines, projects are expected to achieve whichever is more stringent. If less stringent levels or measures are appropriate in view of specific project circumstances, a full and detailed justification for any proposed alternatives is needed as part of the site-specific environmental assessment. This justification should demonstrate that the choice for any alternate performance levels is protective of human health and the environment.

66. The EHS Guidelines comprises of Environmental, Health & Safety Guidelines (EHSGs) for various industrial sectors, as well as General Environmental, Health & Safety Guidelines which covers a wide range of issues and is applicable to all industrial in addition to the sector-specific guidelines. The General EHS Guidelines contain information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. They are designed to be used together with the relevant industry sector guideline(s).

1. **Environmental** (air emissions and ambient air quality, energy conservation, wastewater and ambient water quality, water conservation, hazardous materials management, waste management, noise, contaminated land.)
2. **Occupational Health and Safety** (general facility design & operation, communications & training, physical hazards, chemical hazards, biological hazards, radiological hazards, personal protective equipment, special hazard environments, monitoring, etc.)
3. **Community Health and Safety** (water quality and availability, structural safety of project infrastructure, life and fire safety, traffic safety, transport of hazardous materials, disease prevention, emergency preparedness & response, etc.)
4. **Construction and Decommissioning** (environment, occupational health & safety, community health & safety)

67. For all investments, the General Environmental, Health & Safety Guideline will be applicable. Depending on the sector, the sectoral guidelines will also apply. The full set of Industry Sector EHS Guidelines and the General EHS Guidelines can be accessed from the following web link:

<http://www.ifc.org/ehsguidelines>

68. It should be noted that these Industry Sector EHS Guidelines and the General EHS Guideline are intended to identify recognized good practice, particularly in the absence of comparable national or local legislation. Moreover, they are designed to cover a wide range of topics, especially in the case of the General EHS Guideline, some or many of which specific topics may not be relevant or applicable to the project enterprise seeking a loan. The EHS Guidelines will be used by the financial institutions as useful tools in the screening and review process to determine whether environmental and social risks associated with the project enterprise have been appropriately identified and managed.

### **3.4 World Bank Policy on Access to Information**

69. In addition to the safeguard policies, the Access to Information Policy also relates to safeguards. To promote transparency and facilitate accountability, Bank Access to Information Policy supports decision making by the Borrower and Bank by allowing the public access to information on environmental and social aspects of projects in an accessible place and understandable form and language to key stakeholders. The World Bank Information Disclosure Policy (OP 17.50) further defines the Bank's requirements for giving the public access to project information and documentation, indicating a presumption in favour of disclosure unless confidentiality can be specifically justified.

70. In view of these requirements, the draft ESMF document with Bangla version shall be disclosed both in the Bangladesh Bank website ([www.bangladesh-bank.org](http://www.bangladesh-bank.org)) and the Bank's Infoshop for public comments. Hard copies of the document shall also be made available in Bangladesh Bank and potential PFIs. Further the disclosure notification shall be published in one Bangla and one English daily newspaper on March 10, 2015. A workshop on draft final ESMF shall also be planned prior to finalization and release of the ESMF.

### **3.5 WB guidance on Stakeholder Analysis**

71. Stakeholder analysis is the identification of a sub-project's key stakeholders, an assessment of their interests in the sub-project and the ways in which these interests may affect a sub-project.

72. Stakeholders are people or organizations who either (a) stand to be affected by the project or (b) could 'make or break' the project's success. They may be winners or losers, included or excluded from decision-making, users of results, participants in the process.

73. A note on Stakeholder Analysis is given in **Annex 2**.

### **3.6 Bangladesh Bank's Environmental Risk Management Guidelines**

74. Bangladesh Bank (BB) has prepared Environmental Risk Management Guidelines (ERMG) for banks and financial institutions in January 2011. BB recognizes that environmental risk affects credit risk to a great extent; and hence has developed a risk based approach to account for environmental risk when assessing financing opportunities. All Banks and FIs should make an "in principle" commitment to ERMG in general and to the following in specific:

- (a) Integration of ERMG in their credit policies and procedures.
- (b) Building awareness and providing Constant training and capacity building of their staff relevant to ERMG.
- (c) Adoption of a value adding approach to ERMG with their potential borrower and aim to facilitate the borrower in addressing environmental issues that could lead to risks.

75. BB recommends that all Banks and FIs should pass a Resolution of the Board or appropriate top and senior management committee on the adoption of these Guidelines and acceptance of the above principles. On an annual basis, all Banks/FIs should undertake a top management review to determine whether ERMG is being effectively practiced in its operations.

76. The guideline was made mandatory by Bangladesh Bank in June 2011.

77. The Guideline provides a process for FIs by which environmental risks are assessed, categorized and flagged and includes 10 sector-specific checklists to complement the general due-diligence guidance. The procedures to be followed by FIs as per BB's ERMG are as follows:

- (a) Relationship banking / marketing: Identifying and planning for Environmental risks
- (b) Credit risk management: Integrating Environmental risks
- (c) Credit processing and approval process: Incorporating Environmental risk covenants
- (d) Credit Administration: Verifying Environmental risk considerations
- (e) Credit Monitoring: Carrying out Environmental risk monitoring
- (f) Database on Non-Performing Loans (NPLs) due to Environmental risks
- (g) Reporting system

78. The ERMG is being reviewed currently and social risk factors are also being incorporated into them. The new ERMG is expected to address the environmental impact mitigation measures in details. The guidelines will also integrate the credit risk with Environment and Social risk in overall decision making process. In addition, it will spell out the organizational requirements to effectively follow the guidelines.

79. BB is scheduled to issue the new Guidelines by June 2015. Post the guidelines are issued, this ESMF will be reviewed to establish coherence to the Guidance and if required updated suitably. In that case, the World Bank clearance will be required on the revised ESMF.

#### **4.0 Potential Environment and Social Impacts of the Project**

80. The FSSP shall be primarily focused on Bangladesh's manufacturing sectors for import of new equipment as well as expansion and up-gradation of existing factories. The sub-projects do not involve large-scale infrastructure development. The sub-projects would involve no involuntary land acquisition. Thus, the sub-projects to be carried out do not appear to pose risk of significant adverse environmental and social impacts.

81. The project will achieve many socio-economic benefits and it is designed to maximize these benefits.

82. It is expected that the sub-projects will enhance capacity of factories and promote job opportunities. This will aid in poverty alleviation through enhancing finance for the firms. Besides the increased and improved production capacities expected to be achieved through the cleaner production technologies, the improved resource efficiencies and the consequent reduction of environmental impacts are the expected co-benefits to be delivered by the FSSP.

83. The social impacts of the projects are not expected to be significant as discussed in the previous sections. However, issues related to labour, working conditions and any issues related to gender aspects should be looked into. The project capacity building activities aim to improving labor conditions and standards by improving working environment, better equipment and promoting health and safety.

84. GENDER, INCLUSION, HEALTH and SAFETY:

**Background/context:** Despite some progress in Bangladesh's overall ranking within the Human Development Index (HDI), the status of women still remains low (0.49 GDI and 0.21 gender empowerment measurement - GEM) (UNFPA<sup>2</sup>). Because of different initiatives taken by the Government of Bangladesh, the female literacy rate has improved. The World Bank data<sup>3</sup> from 2008 shows among the female population who are in 15-24 years age group, the literacy rate is 75.5%, however only 46.50% female from the same age group are employed<sup>4</sup>. There are many socio-economic factors that constrain women's participation in the labour force including social norms, conservatism, marriage and defined roles/responsibilities within the household and bearing and raising children. One general constraint in the labour market is information asymmetry between demand and supply and aligning training and education to market needs; women in particular are more vulnerable to this asymmetric or lack of correct information. The labour force in the RMG sector constitutes 85% women and is testament to the pull factor associated with network building and information dissemination. However, even in this sector constraints such as lack of career mobility, promotion of women to managerial positions, equal pay, sexual harassment, mental pressure, poor living conditions can be noted. These are magnified in sectors where women traditionally are not employed or where they are not a significant part of the labour force. A large portion of earnings is spent on housing and living expenses and remittances back to families. There is also lack of diversification in terms of sectors and industries where women are employed. Other than physical constraints major problem contributing to low women's employment is the lack of necessary information on available employment opportunities and required capacities and competence for emerging job market. The present conventional education curricula do not prepare the young women to acquire the competencies and skills to match their desired jobs. Consequently, many young women, especially from the poor strata of the society drop out of education and are forced to getting married at an early age. In 2012, female dropout rate was 24.2% at primary level<sup>5</sup>. Half of the female students who enroll at secondary education after completing primary level also drop out eventually. According to Bangladesh Education Statistics 2011 by Bangladesh Bureau of Educational Information and

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<sup>2</sup><http://unfpabgd.org/index.php?option=page&id=49&Itemid=4>

<sup>3</sup>[http://www.econstats.com/wdi/wdiv\\_811.htm](http://www.econstats.com/wdi/wdiv_811.htm)

<sup>4</sup>[http://www.econstats.com/wdi/wdiv\\_972.htm](http://www.econstats.com/wdi/wdiv_972.htm)

<sup>5</sup> Bangladesh Primary Education Annual Sector Performance Report - 2013

Statistics (Banbeis), the dropout rate at secondary level is 56.43 percent among girls. Being married at an early age<sup>6</sup> with no economic empowerment results in dowry, domestic violence, health complications due to early childbirth etc.

Information asymmetry and lack of relevant training and education with appropriate linkages to demand and employment also affect people from remote and lagging areas, in addition to socio economic factors such as poverty, reluctance to leave traditional cultural settings and the high costs of migrating to urban/industrialized areas where employment can be found (high rents for very poor living conditions in slums or slum like areas, high food costs, constrained access to clean water and utilities). People of disabilities also have faced discrimination as far as inclusion in the formal labour force is concerned; although recent studies by GIZ show that not only can people with disabilities be incorporated in the labour force (where feasible) but that it reduces costs to the employer through reducing labour turnover.

Where there are gaps as identified as part of the screening process, the project will assess, as relevant through the SMPs aspects that could include gender and related aspects as discussed above. For instance, the SMP could address inclusion aspects and show if there is a scope for training and inclusion of vulnerable people and people with disabilities.

85. The exact impacts of the sub-projects could not be identified at this stage of the project because the sub-projects are not yet identified. However, a preliminary assessment shows that important Industrial sectors in Bangladesh are textiles, leather (tanneries), food, sugar, beverages, tobacco, chemicals, petroleum, fertilizer; iron, plastics, paper, jute, cement factories, pharmaceutical, insecticide, paint, battery manufacturing, etc. They all are to some extent polluting the environment of Bangladesh through their manufacturing process. The water pollution and soil pollution are often caused directly due to inefficiency in disposal of waste. Emission of polluted gas and smoke at low height from manufacturing plants causing air pollution Long term exposure to polluted air and water causes chronic health problems, making the issue of industrial pollution into a severe one.

86. The typical key impacts associated with these facilities include:

- Improper handling of chemicals and hazardous substances
- Disposal of wastewater with excessive pollution load
- Air emissions resulting from fuel combustion
- Consumption of resources and causing pressure on infrastructure
- Poor working condition and improper health and safety condition

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<sup>6</sup> According to “Child Marriage in Bangladesh National Survey (2013)” 64 percent of women aged 20-24 were married before the age of 18. The rate of child marriage among all women aged 20-24 years was 54% in urban areas, compared to 71% in rural areas.

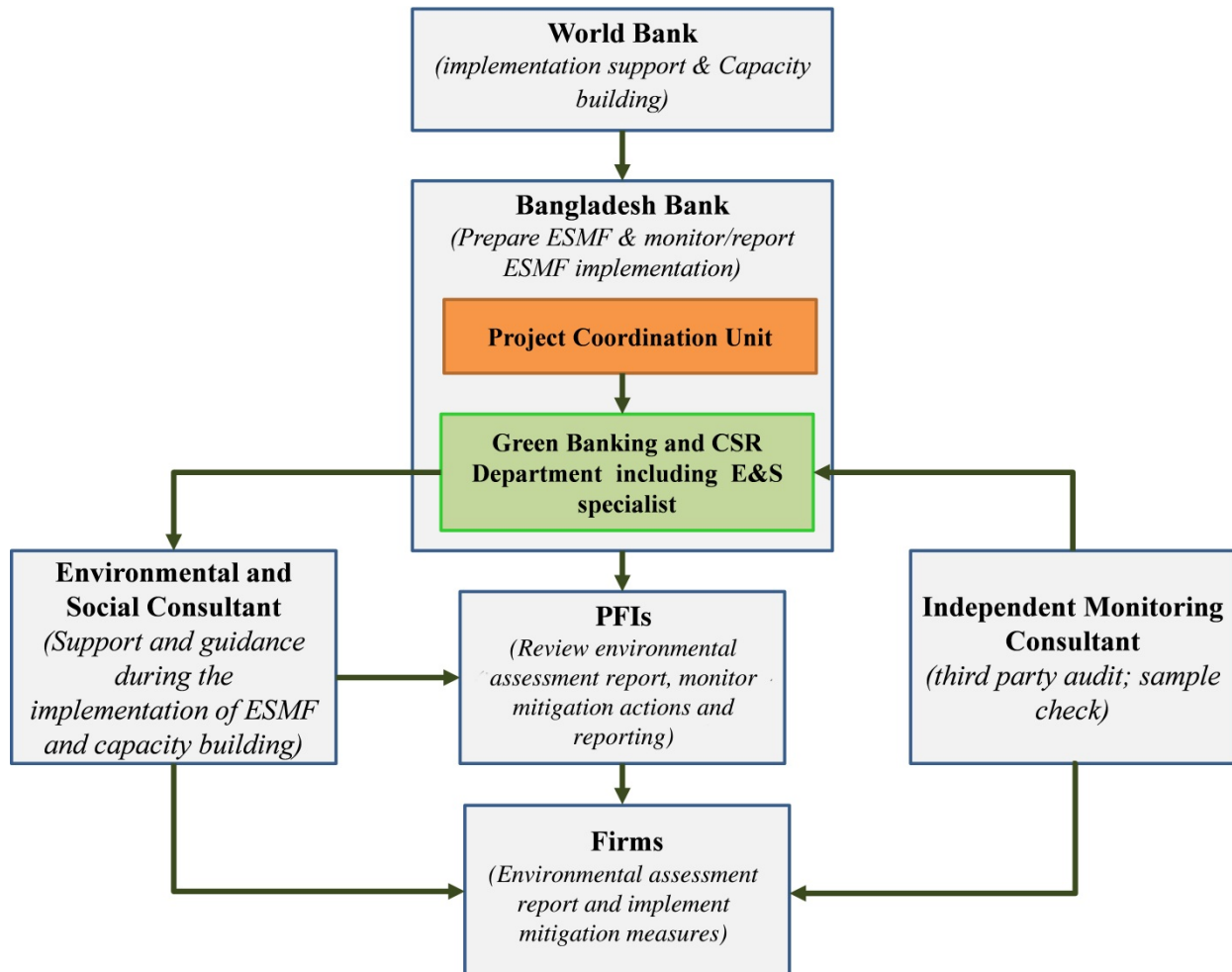
87. Some typical key mitigation measures associated with the enterprises include
- Establishment of Effluent Treatment Plant (ETP) for treating the waste water.
  - Improving the working conditions and providing personal protection equipment to workers including gloves, masks, shoes, etc.
  - Using of chemicals for processing within acceptable limits according to the regulation provided by the DoE.
  - Managing the operating hours so that noise pollution does not affect habitant of the surrounding area.
  - Proper disposal of solid wastes containing harmful chemicals should be ensured, no wastes should be burnt in open place under any circumstances.
  - Introduction of effective cleaner production and pollution abatement processing.
  - Use of renewable energy, adopt energy saving packages,
  - Ensuring adequate stack height
  - Establishment of Air Treatment Protector (ATP)

88. In addition, typical environmental aspects and their impacts related to the textile industry are presented as an illustration in **Annex 3**.

89. Since no involuntary land acquisition or displacement of people (physical or economic) will be permitted under the project; hence OP 4.12 Involuntary Resettlement will not be triggered. Since the project will operate within the industrial zones and factory environments no Indigenous People will be impacted. OP 4.10 Indigenous Peoples will also therefore not be triggered. The Social aspects therefore expected to be impacted will be related to be labor standards and gender issues.

## 5.0 ESMF Implementation Arrangements

90. The Proposed implementation arrangement is presented in Figure 4.1.



Comment: Firms will only provide data/information and implement mitigation measures. Reports not required.

**Figure 4.1: Proposed Implementation Arrangement**

### 5.1 Implementation Arrangements at Bangladesh Bank

91. The implementation of the Project would be entrusted to an Executive Director of BB or equivalent, who will be seconded to act as the Project Director (PD). This PD will lead the Project Coordination Unit (PCU) located at Bangladesh Bank. The current CBSP Cell, which was the PCU for Central Bank Strengthening Project (CBSP), an IDA-funded project closed in 2012, will be the PCU for the project and may be renamed as FSSP Cell.

92. For the Component 3 (Supporting Long Term Finance), a Deputy Governor will act as the Component Leader (CL). The CL will be responsible for the implementation of the specific component of the project. He will be assisted by a Component Coordinator from the Project Coordination Unit who will coordinate closely with the concerned departments of BB for smooth implementation of the project.



93. The Green Banking and CSR Department (GBCSRD) of the BB will be the focal unit for E&S management work of FSSP and will work in coordination with the PCU. A qualified Environmental and Social Specialist will be hired at GBCSRD for overall environmental coordination and monitoring of the FSSP activities. The Environmental and Social (E&S) Specialist will be the focal point for environmental and social management of the project. The specialist tasked to make sure the proper implementation of the Environmental and Social Management Framework (ESMF). Towards this the key roles will be coordination, E&S planning and reporting, ensuring quality deliverables from the hired E&S consulting firm and also third party audit firm on E&S auditing. The detailed TOR is shown in Annexure-11

94. The BB will hire an **E&S Consulting firm (ESCF)** to assist GBCSRD and the PFIs in the ESMF work. This firm **must be** on board with the inception of the project.

95. Some of the relevant tasks of the ESCF include:

- Provide formal training to concerned staff at BB and PFIs to ensure that there is full awareness about E&S issues and the implementation of the ESMF;
- Provide guidance and support to collect sufficient data at the investigation stage to determine the E&S impacts, if any, including whether stand-alone Environmental Assessments (EA) and E&S Management Plans (ESMP) are needed based on the outline provided in the ESMF;
- Review E&S implications of sub-project activities as per the ESMF and help developing mitigation measures.
- Preparing, designing and conducting workshops/seminars (at least two in each year) for project staff and other stakeholders to enhance the participation, commitment and perception of the various aspect of the project.

96. An illustrative TOR for engaging an ESCF is presented in **Annex 4**.

97. A third party audit will form part of the project audit process to assess compliance with safeguards. The third party auditor shall also be responsible for carrying out the monitoring of the firms in order to assess their overall E&S performance and compliance to this ESMF. The third party audit shall be carried out for a representative sample of firms. The number of such third party audit shall be carried out in consultation with BB.

98. Some of the relevant tasks related to E&S elements for the third party auditor include:

- Review to ascertain that sub-project descriptions are prepared properly and sub-project E&S screening are carried out following the formats and guidelines provided in the ESMF.
- The sub-project activities meet the ESMP requirements where applicable.
- Review E&S implications of sub-project post the implementation of mitigation measures and effectiveness of the mitigation and enhancement measures.

99. The firm engaged for carrying out the third party audit shall have an E&S expert as part of the team. The minimum qualification and experience of the E&S expert is given in **Annex 5**.

100. The E&S Specialist at BB will prepare regular monitoring report (quarterly) of the ESMF implementation.

## **5.2 Implementation Arrangements at PFIs**

101. Participating Financing Intermediaries (PFIs) will administer/on lend the line of credit to the firms to finance their eligible transactions. As such, PFIs will be responsible for review individual transaction for eligibility under the project against eligibility criteria, including the list of ineligible activities; review of environment and social screening (also assessment, if required), issues and impacts, categories, policies triggered and the transaction-specific instruments and measures that need to be put in place by the firms to manage these impacts. PFIs will also monitor implementation of the measures committed by the firms and regularly report compliance to GBCSRD. Each participating PFIs in FSSP will have qualified environmental staff and/or consultant to perform its responsibility and ensure due diligence. Banks have already been instructed to adopting green banking policy in three phases (Ref: GBCSRD Circular letter no. 5, dated September 11, 2013). The timeline for third and last phase is June 30, 2015.

102. Specifically, the PFIs will:

- Comply with the List of Ineligible Activities under the Project (Section 5.3).
- Take measures as deemed necessary including site visits if necessary to validate that the loan applicant has appropriately identified in its loan application (Section 6.1) the E&S risks and measures needed to manage them in project implementation.
- Timely monitor compliance of the firm in line with this ESMF and the related action plans developed (e.g. ESMP) as required by ESMF.
- Develop, and maintain, grievance redress mechanisms as provided in this ESMF to ensure that those with grievances to the transactions supported under the project have avenues for redress.
- Submit to the GBCSRD quarterly reports on the implementation of the ESMF.
- Within five business days of becoming aware, notify the GBCSRD of any significant social, labour, health and safety, security or environmental incident, accident, issue, or circumstance with respect to any financing activities covered by the FSSP.
- Ensure that the proposed activity covered by the loan complies with all national environmental legislation and regulations. If an applicant states that the necessary permits or licenses have not yet been issued, PFIs will advise the applicant to obtain the licenses and permits before loans can be approved and ensure the necessary clearance before effectiveness of loan. During supervision, GBCSRD (through ESCF) will ensure that all the transactions for firms comply with government regulations.

103. As required by the ERMG, the PFIs are expected to be handling the Green Banking requirements as part of their credit risk management. The same organizational structure will be used to implement the ESMF under the FSSP. The PFIs may however involve regular qualified staff/consultant on E&S management for participating in FSSP.

104. Firms will be responsible for ensuring that their transactions meet the eligibility criteria, manage environment and social impacts through the preparation and implementation of measures, including consultations and disclosures of specific safeguard instruments (e.g., ESMP as relevant) and the implementation of ESMP.

### **5.3 Reporting to WB**

105. On behalf of BB, the PIU will report to the World Bank in consultation with GBCSRD the project progress report on a routine basis, but not less than once every quarter. The reporting shall present the status of ESMF compliance associated with the disbursements under this Project. The capacity building measures being undertaken under this project will also be reported.

106. The following are the minimum reporting requirements.

- The number of PFIs involved under this Project
- Summary of the loan applications received and their processing status with respect to E&S assessments.
- PFI-wise details of loan applications received and their processing status with respect to E&S assessments. All rejections done based on E&S issues should be specifically mentioned.
- Monitoring status including the summary of outcomes
- Summary of capacity building activities
- Plan of activities for the subsequent quarter
- Any other suggestions, findings, etc. not covered in the above

### **5.4 Review and Clearance**

107. In addition to the DoE's standard clearance procedure, the project will follow the following internal review and clearance procedure. PFIs are primarily responsible for review of all environmental screening and to confirm by site visit whether the screening has properly reflected the situation. They will endorse the environmental screening and category of project, which determines next level of assessment (if required). PFIs also reviewed the environmental assessment report (if required) and confirms that it meet all the requirement of

ESMF. GBCSRD of Bangladesh Bank will post review on sample basis the ‘low’ risk and ‘moderate’<sup>7</sup> risks subprojects environmental documents. However, in the initial year they will conduct prior review of all ‘substantial’ risk subprojects and thereafter on a sample basis depending on the experience of the first year for such cases. BB will review the ‘high risk’ subprojects and the ToR for EIA of these types of subprojects needs to be cleared earlier.

108. The World Bank will only prior review and clear ‘high risk’ subprojects and also review the ToR before initiating the study. However, depending on the capacity development of Bangladesh Bank and PFIs, the clearance responsibility can be delegated to Bangladesh 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. Also on Substantial cases, the World Bank will prior review first three cases that come so that the template/expectations on ESIA are understood and thereafter applied. ‘Moderate’ and ‘low’ risk subprojects environmental documents will not require the World Bank prior approval. However, the World Bank can randomly visit any subproject as part of its implementation support mission.

109. The Chapter 6 provides details of review by PFIs and Bangladesh bank in Chapter-6.

## **6.0 E&S Screening and Categorization**

110. The E&S assessment of the sub-projects to be implemented under FSSP needs to be carried out following the provisions of the applicable E&S Regulatory Framework in Bangladesh and the relevant World Bank Safeguard Policies (refer section 2). The environmental assessment requirements under these provisions vary depending on the category of the sub-projects. The following sections provide guidelines on the screening approach and the categorizations of sub-projects.

### **6.1 Objectives of E&S Screening**

111. The E&S Screening approach will assist PFIs in achieving the following objectives:

- Screen each sub-project for eligibility
- Assess the sub-project being funded by FSSP, for their E&S impacts, early in the project lifecycle or PFI’s entry in to the project whichever is applicable
- Determine applicable E&S obligations put forth by various stakeholders (WB, BB, etc.)
- Assign environment category of the transaction based on risks and potential impacts

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<sup>7</sup> Risk based categorization has been explained in Chapter-5.

- Ensure E&S legal compliance of the sub-projects through specific instrument/plan for each transaction, if needed, to address environment and social impacts
- Influence and mandate (as relevant) Firms to ensure legal compliance and manage E&S risks

112. The PFI will categorize the E&S risk of each proposed transaction (i.e., the activity which is the subject of the loan application) in accordance with the ESMF. The categorization will be done giving due considerations to the sub-project eligibility and the associated E&S risks perceived. These are discussed in the following sections.

## **6.2 Sub-project Eligibility Screening**

113. Some transactions shall not be eligible under the FSSP for financing. These exclusions are discussed in the following sections.

### **6.2.1 Prohibited Investment Activities List**

114. When a sub-project comes to the PFI for financing, the PFI will at first determine if the existing enterprise is involved with production or manufacture of certain prohibited products as presented in the Prohibited Investment Activities List (see **Annex 6**).

115. All FI's must also apply the following exclusions, in addition to aforementioned List:

- Production or activities involving harmful or exploitative forms of forced labor<sup>8</sup> / harmful child labor<sup>9</sup>.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

### **6.2.2 Transactions not eligible for financing under the Project**

116. Irrespective of the E&S impact of sub-projects some transactions are not allowed under the Project for financing. Primarily for a sub-project to be eligible to be financed under

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<sup>8</sup> Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>9</sup> Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

the FSSP, it will have to be located within the industrial zones or in factory environment<sup>10</sup> outside designated industrial zones. Factories which do not fulfil these requirements shall be considered ineligible to be financed under the FSSP.

117. The finances to be provided under FSSP should not be used for activities that would lead to the following:

- Involuntary land acquisition (includes both outright purchases of property and acquisition of access rights, such as easements or rights of way)
- Displacement of people, either physical (relocation or loss shelter) or economic (loss of assets or access to assets that leads to loss of income sources or other means of livelihood).

### **6.3 Screening and Categorization of E&S risk**

118. Screening is the first step in the environmental assessment process, which will assign the transaction in question to one of the four categories (**High, Substantial, Moderate or Low**). This categorization will decide the nature of further E&S assessment and mitigation requirements. This will also identify transactions to be excluded at an early stage to avoid or reduce significant adverse impacts and save costly and time-consuming procedures and analysis. The significance of impacts may be described in different ways. The simplest approach is the presence or absence of impacts and where required, qualification of degree of impact as minimal, moderate, significant, or highly significant. In assessing degree of impact or risk, it is appropriate to take into consideration type, location, sensitivity and scale of the project. Accordingly the nature and magnitude of the potential environmental and social risks and impacts should be assessed.

119. While categorizing risk, a key factor to consider is whether the impact is reversible, and if so, the rate of recovery. The capacity and commitment of the Firm to manage such risks and impacts in a manner consistent with the national legal requirements and the WB safeguards too should be taken into account.

120. The PFI will categorize the E&S risk <sup>11</sup>of each proposed sub-project (i.e., the activity which is the subject of the loan application) in accordance with the ESMF. The choice of categorization will have the following implications (more details in section 5.6):

121. **'High' risk transaction:** These are transactions that are likely to have highly significant adverse E&S impacts that are sensitive, diverse or unprecedented<sup>12</sup>, or

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<sup>10</sup> Factory environment will be considered as those factories which are outside the industrial zones but have the required land use clearances (for industrial use of the premises / building) to construct factory as well as has building permissions from the local authorities.

<sup>11</sup> Rule 7 of ECR has classified the projects into four categories based on their site conditions and the impacts on the environment; (a) Green, (b) Orange A, (c) Orange B and (d) Red. The concerned industrial unit or project should obtain the environmental clearances by following EA process as required by each respective category.

transactions whose impacts affect an area broader than the sites or facilities subject to physical works.

122. **‘Substantial’ risk transaction:** These are transactions that are likely to have considerable adverse E&S impacts but are less sensitive and more limited than those under category High. Their impacts are site-specific and largely reversible, which could be readily identified and reliably mitigated through recognized good practices.

123. **‘Moderate’ risk transaction:** These are transactions that are likely to have moderate adverse E&S impacts, which if mitigated with timely interventions and continuously monitored and reviewed can be controlled with minimal impacts.

124. **‘Low’ risk transactions:** Sub-projects that do not have the characteristics of Category High, Substantial and Moderate transactions are classified as Category Low. No further E&S assessment work is required after screening, but there is need to verify compliance with national regulations and relevant permit requirements and also routinely monitor compliance.

125. It is highly unlikely that Category High risk transactions will be proposed under this project. Also, the cost and time associated with assessing such impacts and developing mitigation measures will likely exceed the benefits of the small size of loans that will be made available under the Project. For the high risk project, the ToR needs to be cleared from DoE and the World Bank. In the unlikely case that the results of project screening or assessment determine that a transaction to be supported under the project is a Category High, the PFI will contact the GBCSRD at Bangladesh Bank to determine whether such a transaction is eligible based upon significance of potential impacts, risks and the capacity of the counterpart.

#### **6.4 Criteria for Sub-Project categorization**

126. All eligible projects shall be screened and categorised based on the potential E&S risks associated with them. While determining the E&S risks, the E&S regulatory framework of Bangladesh, the ERMG guidelines for banks and financial institutions (January 2011) and the World Bank’s Safeguards have been considered.

127. The Firm, while applying to a PFI for loan under the Project will provide information as per the E&S Section of the Loan Application Format (**Annex 8**). This information will be used by the PFIs to understand the E&S aspects of the sub-project and also will form the basis for sub-project categorization.

128. The characteristics to be assessed to determine the Sub-Project Category under this Project are given below. **Annex 9** illustrates the assessment process for sub-project categorization.

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<sup>12</sup> see explanations for sensitive, diverse or unprecedented in section 5.4

<ul style="list-style-type: none"> <li>• Sub-project’s construction and/or operation leads to environmental impacts that are diverse, irreversible and / or unprecedented (see explanations below) in nature</li> </ul>	High-risk transactions (Category “HIGH” or “H”)
<ul style="list-style-type: none"> <li>• Sub-project has issues (non-compliance / penalties/ etc.) related to the national legal compliance (permits, licenses, approvals)</li> </ul>	Substantial-risk transactions (Category “SUBSTANTIAL” or “S”)
<ul style="list-style-type: none"> <li>• Sub-project violates the existing permits, licenses, approvals</li> </ul>	
<ul style="list-style-type: none"> <li>• Sub-project increases the environmental load that would require additional environmental control measures</li> </ul>	
<ul style="list-style-type: none"> <li>• Sub-project has gaps in the existing facility compared to the stipulated conditions of the permits, licenses, approvals etc.</li> </ul>	Moderate-risk transactions (Category “MODERATE” or “M”)
<ul style="list-style-type: none"> <li>• Sub-project brings in elements of increased health &amp; safety risk than that is existing</li> </ul>	
<ul style="list-style-type: none"> <li>• Sub-project generates waste that needs special management provisions</li> </ul>	
<ul style="list-style-type: none"> <li>• Sub-project has grievance related to E&amp;S performance</li> </ul>	
<ul style="list-style-type: none"> <li>• All other sub-projects (these sub-projects do not pose significant E&amp;S risk as they do not contaminate the environment or have relatively low levels of discharges or do not increase health &amp; safety risks)</li> </ul>	Low-risk transactions (Category “LOW” or “L”)

129. Explanation for the terms *Diverse, Irreversible and Unprecedented* Environmental Impacts

- **Diverse Impacts** – impacts resulting on multiple E&S components or receptors over a varying time and spatial scale (e.g. activities that can cause large scale adverse impacts on local air quality, noise levels, generation of hazardous wastes as well as nuisance to community)
- **Irreversible Impacts** – impacts on E&S components that, in all practical terms are permanent in nature and cannot be reversed in spite of the removal of the causal stress factor (e.g. *construction or change in landuse that permanently alters the natural drainage or destroys habitats used by migratory birds*)
- **Unprecedented Impacts** – are impacts that are first of its kind in terms of available knowledge of their potential to cause harm to the E&S components and their effective mitigation (e.g. *impact of noise pollution on an endangered faunal species in a*



*geographical region where no prior studies are available on impact tolerance and response of the species)*

## 7.0 E&S Review Process

130. The purpose of this Section is to present the process to be adopted for E&S assessment of Sub-Projects on the basis of the screening and categorization of E&S risk described in Section 5.5 during the FSSP implementation.

131. Specific E&S review process will be carried out for all transactions proposed for funding under the project through the following main steps:

- Screening: If the proposed activity is likely to cause environmental or social impacts, what are the likely consequences of these impacts?
- Scoping: What are the main issues for assessment? What is the project's geographic area of influence? At what stage of activity are the impacts likely to occur? Are there directly affected people or local communities that may be impacted by the project and whose views and concerns therefore should be considered in project design and implementation?
- Assessment and development of mitigation measures: Analyse the scope and nature of the impacts, the need for permits, public perceptions of the impacts, and develop measures to avoid or mitigate those impacts as well as mechanisms to monitor how well the risks are being managed.
- Consultation and disclosure: Share information on the project and its expected impacts with as relevant directly affected people, local communities, or other stakeholders; and seek their views and concerns about project design and implementation.

132. Considering that the sub-projects are brown field projects that will primarily involve expansion and up-gradation of factories through acquisition of new equipment, the Screening and Scoping has been proposed through a Questionnaire approach.

133. The various mitigation measures that needs to be developed to alleviate the risks have also been identified. These are discussed in the following sections.

### 7.1 Loan application

134. The firm applying for loan will make an application for the consideration of the PFI in the prescribed formats. The E&S section of the application format is presented in **Annex 8**. This information will be used by PFIs to understand the project in the initial screening and categorization process.

135. A Know-Your-Client (KYC) meeting should also be conducted between the Firm and the PFI. The PFI at this time should disclose to the Firm:

- a. FSSP's business process with ESMF integration
- b. List of Ineligible Activities under the Project
- c. E&S Risk rating

## **7.2 Screening and Categorization**

136. Screening is the first step in the safeguards assessment process, which will assign the transaction in question to one of the four categories (High, Substantial, Moderate or Low). Prior to this the eligibility of the sub-project will have to be assessed against the exclusion list followed by the project exclusion check.

137. The categorization will decide the nature of further E&S assessment and identify the mitigation measures without which the transactions have to be excluded. The categorization at an early stage avoids or reduces significant adverse impacts and save costly and time-consuming procedures and analysis.

138. The screening and categorisation approach is presented in Figure 6.1.

139. The Firm will provide the concerned PFI with filled in E&S Section of the loan application format and the Environmental & Social Screening Form (**Annex 8** and **9**). The ESCF will provide assistance to the PFI in this review, if requested. The review shall be carried out in line with the Section 5.

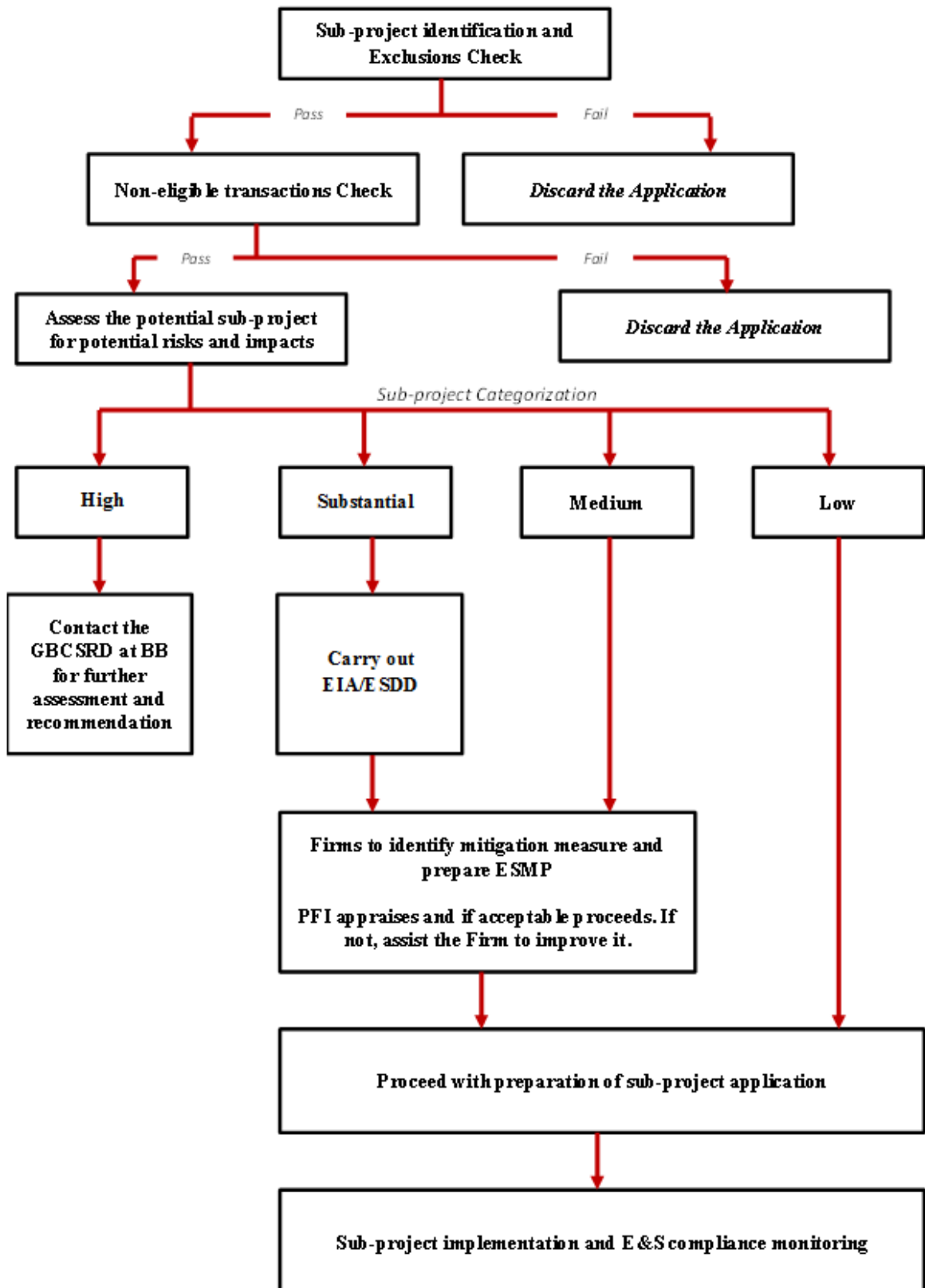
140. Based on the information provided by the Firm, the sub-project type will be compared with the Prohibited Investment Activities List (Section 5.2.1). If the sub-project activity matches with any of the activities listed, the sub-project shall be summarily discarded without any further assessment.

141. Further the sub-projects shall be checked for non-eligible transactions under the Project (Section 5.4). If the Project activity matches any of the activities listed under this list, the sub-project shall be summarily discarded.

142. Once the sub-project qualifies through the exclusion checks, the project is screened and categorised. Further guidance on the E&S Screening for review and assessment is provided in **Annex 7**.

143. It is recommended that while carrying out the assessment, the PFI should verify the submissions made by the Firm by physical checks through site visits, review of past records and interview of workers, as relevant.

144. All submissions made as part of the filled in “E&S Section of the Loan Application Format” should be reviewed while making the assessment.



### **7.3 E&S Review and Assessment for “Low” Risk Transactions**

145. If the likely E&S risks and impacts are determined through the screening process to be very low or negligible, the transaction is of “Low” risk and no further environmental review and assessment is required. However results of the safeguard screening should be attached to the transaction documents. Also, PFIs should ensure that the transaction meets the national requirements including permitting and monitor implementation of such transactions to address any environmental and/ or social impacts that may result.

### **7.4 E&S Review and Assessment for “Moderate” Risk Transactions**

146. For “Moderate” risk transactions, the E&S risks and impacts are perceived to be manageable, site specific, reversible and with established remedial and good practice measures. The risks shall be addressed through the preparation and implementation of an E&S Management Plan (ESMP).

147. An ESMP should include:

- Application of best available / possible E&S practices to the sub-project
- Compliance to E&S regulations
- The process to mitigate E&S risk associated with the sub-project
- A monitoring plan with timelines

148. **Annex 10** provides sample for ESMP form with guidance. In simpler projects with few or one item presenting a modest impact, an abbreviated ESMP would suffice. In the minimal case, the ESMP would only consist of a Mitigation Plan.

149. The ESMP shall be considered as an element for completeness of the application being made by the proposed Firm and will be considered for E&S review.

### **7.5 E&S Review and Assessment for “Substantial” Risk Transactions**

150. For “Substantial” risk transactions, the E&S risks and impacts are perceived to be considerable but site specific and with established remedial and good practice measures.

151. If the sub-project is one that is subject to seeking revised Environmental Clearances (EC) from the DoE and/or requires preparation of an EIA report under the ECA, the PFI may proceed to process the loan application, but will not disburse the loan until the EC is obtained or the EIA is reviewed and approved by BB (as agreed with the Firm) and the Firm provides proof of issuance EC or letter of approval from the DoE regarding the EIA.

152. For sub-projects in this category that do not require revised EC or do not have to carry out EIA, an E&S Due Diligence (ESDD) Audit may be carried out on the proposed transactions as well as on existing facilities which focuses on two elements:

- a. compliance of existing facilities and operations with relevant environmental, occupational health and safety practices, assessment of labour and working conditions including gender issues, if applicable and social laws, regulations, and applicable World Bank Safeguard requirements (refer Section 2); and
- b. the nature and extent of environmental and/or social impacts, as a result of past/on-going activities and proposed transactions. The scope and depth of the audit or review should be commensurate to potential impacts and type of transactions.

153. Upon completion of the due diligence, the findings, conclusions, and recommendations shall be presented in the ESDD report. The recommendations should include the necessary actions which must be implemented for the proposed investment to proceed to financial closure.

154. A **Corrective Action Plan (CAP)** will be developed if the ESDD finds that negative but manageable impacts may occur as a result of continuing implementation of on-going activities and new implementation under the proposed sub-project. The Action Plan may call for preparation and implementation of an ESMP to address the impacts that are identified based on the audit. The CAP, if required, should also include measures to inform potentially affected people of the nature of transactions, potential impacts, mitigations measures and grievance mechanisms. The CAP should be attached to the loan proposal

## **7.6 E&S Review and Assessment for “High” Risk Transactions**

155. For “High” risk transactions, the E&S risks and impacts are perceived to have highly significant adverse environmental and / or social impacts that are sensitive, diverse or unprecedented, or transactions whose impacts affect an area broader than the sites or facilities subject to physical works.

156. Such sub-projects may require E&S Assessment (ESA). The extent and type of ESA requirement shall be determined by the GBCSRD giving due consideration to the national regulatory requirements and the World Bank requirements. The GBCSRD, based on the applicable ESA / safeguard instrument, will prepare process, timeframe and responsibilities for securing the requisite clearances and permissions and communicated to the Firm for execution.

157. If the Firm refuses to comply with the ESA requirements, the subproject would be ineligible for financing from the Project.

## **8.0 Monitoring, Supervision and Reporting**

158. The monitoring, supervision and reporting procedures applies to the Firms, PFIs and the BB.

### **8.1 Monitoring and Supervision of the Portfolio by the PFIs**

159. As part of normal supervision activities the PFIs will perform desk and field-based supervision functions to assure compliance by all the sub projects with E&S obligations specified in the loan agreement (ESMP, CAP, Covenants, etc.). The E&S progress reporting done by the Firms shall form part of this review. The PFIs will interact with relevant E&S compliance and enforcement authorities as needed in this regard.

160. PFIs will verify whether or not environmental requirements as detailed in the subproject loan agreement have been met. If requirements have not been met, the PFI will provide recommendations for further action to ensure compliance. Depending on the severity of a compliance failure, the PFI would make a special effort to assist the Firms to take corrective action.

161. For all transactions other than Category “Low” in the portfolio, PFIs will monitor the management of E&S impacts in a manner consistent with this ESMF, including the development and implementation of CAPs and ESMPs.

162. The early transactions under the Category “High” and “Substantial” will be prior reviewed by the GBCSRD as agreed or until such time that capacity is built within the PFIs. For Category “Moderate” transactions, PFIs will carry out random check to verify absence of impacts and compliance with national legislation including existing permits, licenses and approvals.

163. In addition, PFIs will screen for any negative media/ NGO coverage/ reports on E&S aspects of its portfolio clients on a monthly basis, and retain records of all findings.

164. PFIs will also make its monitoring and supervision reports available on a business confidential basis to Bangladesh Bank and World Bank and their counterparts upon request.

165. PFIs will prepare an annual report for the Bangladesh Bank as agreed on E&S performance of the portfolio as follows:

- Listing of all transactions approved during the reporting period, classified by E&S category and the name and location of Firms receiving the loan.
- For Category “High” sub projects approved during the reporting period, a copy of the summary report including E&S assessment process findings or memorandum;
- A brief listing of anticipated Category “High” sub-projects that are being processed
- A brief summary regarding how this Framework has been implemented in transactions covered by the PFI, including any material changes (e.g., to staffing, procedure); and

- Details of any negative media/NGO coverage and reports on portfolio clients regarding E&S aspects that have come to the attention of the PFI and are deemed to produce reputational or credit risk to the PFIs, including the World Bank Group participation.

166. PFIs shall establish and maintain a database of non-performing loans due to E&S reasons, either in partial or full. If the Firm has indicated E&S factors as one of the reasons for delays in making repayments, then this should be noted in the database.

## **8.2 E&S Auditing and Reporting by Bangladesh Bank**

167. Third party audit will be commissioned by the BB for auditing and reporting of the Project. One of the components under this audit will be to review the E&S safeguards of the Project. For this the third party auditor will review the monitoring and supervision reports of the Firms prepared by the PFIs.

168. Annually the third party auditor will conduct an E&S compliance and performance monitoring audit on behalf of BB. The audit team will be given a list of all sub-projects, and team will select randomly the sub-projects to be audited, which should include all sectors, different stages of subproject cycle including design, under implementation, and completed stages. The monitoring audit will include both a desk audit/review and a field audit. Consequently, an audit report will be prepared which will also include recommendations and corrective actions needed for such projects in which E&S gaps are observed.

169. The report will be reviewed by the GBCSRD and then presented to the World Bank. The audit report will be also be used to identify remedies, follow up and learning lessons towards current and future interventions.

170. An evaluation of selected sub-projects which are completed and closed will also be carried out by the third party auditing firm. These audits will be carried out to understand the final outcome of implementation of the project and E&S safeguards. The lessons from this evaluation must be shared with the PFIs and used for improving the safeguards practice of FSSP.

## **8.3 Grievance Redress Mechanisms**

171. The use of the BB's existing grievance redress mechanism is encouraged by the Project. The approach for this explained below.

172. The BB has a well-established procedure for complaint handling and resolving. However, process for GRM of the project may be as follows: 1) complaints will be received by the PFIs and handled through their GRM and new arbitration process as provided for under the 2013 amendments to the Labour Act 2006 ; 2) all documentation regarding the complaint will be maintained by the PFI and will be monitored by BB on a sample basis to ensure the complaint was satisfactorily and justly resolved; 3) if there is no resolution through the PFI, then the complaint will be elevated to the Financial Integrity & Customer Services Department (FICSD) of BB and will be handled through the existing GRM; all documentation will be maintained; 4) if still no resolution can be

reached then the complainant may choose to go to the Labour courts.,. The PFIs will be responsible to bear the GRM expenses at their end from their administrative expenses.

## **9.0 Public Consultation**

173. The design of the FSSP is such that no land acquisition or displacement of people (physical or economic) will be permitted under the project. Also since the project will operate within the industrial zones and factory environments no Indigenous People will be impacted. The subprojects proposed in the FSSP are not expected to have significant E&S negative impacts. The requirement for Public Consultation is therefore highly unlikely from the sub-project development perspective.

174. However, for sub-projects which are classified under the Risk Category “High” and “Substantial”, limited public consultation is recommended, as required and based on the expected impact of the subproject.. The process of consultations (design and implementation) is the Firm’s responsibility. Stakeholder could include local community and employees of all levels. This has to be carried out in consultation with the PFI. The scope and design of consultations proposed by the Firm should be reviewed by the PFI to ensure its adequacy.

175. Where necessary, the firm shall consult, the relevant stakeholders about the project's E&S aspects and take their views into account. A stakeholder analysis will be carried out which will demonstrate who the relevant stakeholders are pertaining to the purpose of the project activities and what the power dynamics within are. Stakeholders could include employees at all levels, lower and mid-level management as well as higher level managers/owners to inform them of project activities, ascertain through consultation and feedback what impacts these may have on the above mentioned groups and dynamics between them; and how these may be improved. The consultation will help to assess labor conditions and gender issues (wage rates, behavioral issues, career mobility, sexual harassment and other pressures etc.) and seek to improve conditions through project interventions where and as much as feasible. For meaningful consultations, the Firm shall provide relevant material in a timely manner prior to consultation and in a form and language that are understandable and accessible to the groups being consulted. The outcome of such consultations will be factored in the sub project development. It is noted that consultation and communication is an iterative process which will be used at all stages of the project to ensure that stakeholder feedback is incorporated in project design and implementation as far as feasible. Details on stakeholder consultation and methodology are provided in Annex 2 and 11.

176. A guideline on conducting limited consultation is provided as **Annex 11**.

177. For the FSSP, a public consultation is proposed prior to the launch of the Project. For this consultation the various stakeholders relevant to the Project shall be identified and invited. Some of the identified stakeholder groups include:

- Ministry of Industry
- Ministry of Environment
- Department of Environment



- Other Government departments
- Financial Institutions / Banks
- Non-Government Organizations
- Worker's representatives, etc.

**178. Summary of consultation on ESMF:** For the purpose of preparing this ESMF, several steps were taken to consult with stakeholder. The draft of the ESMF was disclosed to the public prominently on the main page of BB's well visited website with a provision for providing feedback. BB also shared the ESMF with its offices around the country to elicit any feedback through its branch/regional network. A few potential firms were also visited to determine the smooth and firm credit disbursement mechanism under the project and feedback was elicited. Feedback was also received via the Bangladesh Bank website. In addition, various stakeholder groups were contacted via email, letters and in person. On March 23, 2015, a very well attended consultation workshop was organized at BB where 35 commercial banks were invited. Bangladesh Bank team made a detailed presentation with a view to disseminate information regarding draft ESMF. The participatory meeting witnessed active participation and enabled participants to obtain a good understanding of the ESMF. Participants of the meeting raised several issues which were properly explained to them. For instance, the stakeholders were concerned about the capacity building resources and while recognizing the importance of the ESMF and the focus on safeguards, requested that capacity building support should be provided. BB clarified and confirmed that this was being provided and participants were assured that proper capacity building mechanism is in place under the project. It was also mentioned that a Social and Environmental Guideline is already circulated by Bangladesh Bank and the new guideline was very much streamlined with the existing one. So, many of the terms are already complied by the PFIs. Effective suggestions were incorporated in this guideline to meet the stakeholders expectation from the project.

## **10.0 Dissemination Process for ESMF**

179. In order to disseminate the ESMF, the BB shall organise public consultation on the ESMF. Various stakeholders such as the government representatives, PFIs, project proponents, representatives of various industry associations, relevant NGOs, etc. shall be invited to the consultation.

180. The ESMF will be translated into Bangla language and both Bangla and English versions of the ESMF will be made available in BB website ([www.bangladesh-bank.org](http://www.bangladesh-bank.org)) and also made available for public access at WB Office in Dhaka and the Bank's Infoshop.

181. Hard copies of the document will also be made available in Bangladesh Bank and potential PFIs. The disclosure notification will be published in one Bangla and one English daily newspaper.

182. The ESMF shall also be made available on request from BB.

## **11.0 Technical Assistance and Safeguard Capacity Building**

183. <sup>13</sup>The FSSP is expected to finance large number of sub-projects. These sub-projects will be implemented through multiple PFIs. Therefore the capacity of the PFIs to implement ESPF will be a critical element in the success of FSSP. Thus, to ensure adequate capacity, it is vital that that FSSP allocates sufficient resources to training and capacity building.

184. BB has demonstrated its commitment towards enforcing environmental safeguards in banking operations in Bangladesh by issuing circular on 'Policy Guidelines for Green Banking' in 2011. As per BB guidelines, banks are required to formulate and adopt a broad environmental or Green Banking policy and strategy (approved by their Board of Directors or other high powered committee) and show general commitment on environment through in-house performance. Banks are directed to approve a fund in their annual budget allocation and establish a separate Green Banking Unit or Cell. The responsibility of this cell is to design, evaluate and administer green banking related issues of the bank. A senior executive should be assigned with the responsibility of heading the unit.

185. As a follow up of the circular, the Environmental Risk Management Guidelines (ERMG) that were implemented across the financial industry in three stages starting in 2011, with a targeted completion date of 31st December 2013. The broad objective of Green Banking is to use resources with responsibility and giving priority to the environment and society. Green finance, part of Green Banking, contributes to the transition of the economy to resource efficient and low carbon industries.

186. The roll out of ERMG envisaged that the capacities of the internal teams of the Banks/FIs will be built with support from BB and other external experts and trainers.

187. The FSSP should focus on capacity building across the stakeholders leading to better appreciation of E&S issues by the PFIs as well as to ensure consistency in E&S evaluation. The capacity building of the BB is also important covering appreciation of the risks related to E&S issues, their mitigation and monitoring.

188. Capacity building of the Firms will be undertaken through training workshops and will help in achieving the desired goals of E&S in financing as the actual implementation of the E&S mitigation measures are done by them. The independent E&S consultants are expected to be involved in guiding and building capacity particularly for carrying out ESDD and assisting the Firms in carrying out EIA (for category H transactions), preparing CAP or ESMPs (Category S or M transactions).

189. Giving due consideration to the various gaps (discussed above), a series of training and capacity building activities are proposed under the FSSP. A Consulting firm for the Environmental and Social Risk Management Capacity Building will be hired under the project for 90 staff months from project inception with an anticipated cost of USD400,000. An Environment Specialist will be hired to work with BB for 36 staff months with an anticipated cost of USD 150,000. TORs of the firm and the specialist are shown in the

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<sup>13</sup> Based on interactions with BB officials, selected Banks and review of the IFC commissioned study report on ESRM Baseline Survey for the Bangladesh Financial Sector (April, 2013)

annexure. The matrix of the proposed activities along with the target groups and frequency of the events is presented below.

#	Capacity Building Activity	Target Groups				Frequency of events
		BB	PFI	PP	Con	
1	Orientation Programme on the ESMF	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Twice a year
2	Management of E&S issues in investments	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			Once a year
3	Environmental and Social Management Plan preparation and execution		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Once a year
4	Project Monitoring & Reporting		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		Twice a year
5	Project Management & Supervision	<input checked="" type="checkbox"/>				Once a year
6	Understanding technological solutions for environmental risk mitigation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			Once a year

BB – Bangladesh Bank	PFI – Participating Financial Institutions	PP – Project Proponent	Con – Independent E&S Consultants
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190. If the any undertaking, under the project finance creates public disturbance/nuisance during the development/operation of specific task by the firm beyond its own designated premises, the PFI will ensure that the firms convey the message well in time through visible signboard, local media, newspapers or any other media easily accessible by the general public regarding the specific activity and its apparent impacts during the operation.