

# INTEGRATED SAFEGUARDS DATA SHEET

## CONCEPT STAGE

**Report No.:** ISDSC14143

**Date ISDS Prepared/Updated:** 11-Oct-2015

**Date ISDS Approved/Disclosed:** 08-Feb-2016

### I. BASIC INFORMATION

#### A. Basic Project Data

Country:	Bangladesh	Project ID:	P155363
Project Name:	Modernization of State-Owned Financial Institutions Project (P155363)		
Task Team Leader(s):	Marius Vismantas,Shah Nur Quayyum		
Estimated Appraisal Date:	29-Feb-2016	Estimated Board Date:	01-Jun-2016
Managing Unit:	GFM06	Lending Instrument:	Investment Project Financing
Sector(s):	Banking (100%)		
Theme(s):	State-owned enterprise restructuring and privatization (50%), Corporate governance (30%), Other Financial Sector Development (20%)		
Financing (In USD Million)			
Total Project Cost:	200.00	Total Bank Financing:	150.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			50.00
International Development Association (IDA)			150.00
Total			200.00
Environmental Category:	C - Not Required		
Is this a Repeater project?	No		

#### B. Project Objectives

12. The proposed project development objective is to contribute to the modernization, transparency and efficiency of state-owned banks

#### C. Project Description

1. The proposed project will include the following three broad components: (i) support to modernize and improve the performance of state-owned commercial and development banks; (ii)

support to the banks, MOF, and BB in enhancing ownership oversight and corporate governance framework, and (iii) Support for Project Coordination, implementation and monitoring.

Component 1 - Support to Modernize State-Owned Commercial and Development Banks (tentative amount US\$107-118 million)

2. Project activities will focus on the following: (a) review and redesign of internal tools, processes, reporting lines and overall structure for risk management, credit process (including internal rating systems and internal scoring systems as necessary), internal controls; (b) automation – introduction of automated tools and systems for risk management; loan origination, monitoring and collection; internal audit, compliance and internal controls; and (c) capacity building - staff training (e.g. training of trainers) on the new tools and practices, as well as core competencies (e.g. credit underwriting).

3. Support under the project is planned for a total of up to eight state-owned banks. However, the final decision of the number of institutions and extent of support will hinge on further project preparation work including assessment of the banks' viability and detailing an IT strategy for each institution and a detailed systems implementation plan with costing of software, hardware, resources and training. Considerable synergies are expected given the common nature of the business and background of the institutions, which can enable aggregation of benefits and create efficiencies in implementation. The viability assessments and IT strategy preparation (see para 26) are ongoing and would be completed before appraisal. The banks would, at the minimum, have to meet BB's prudential criteria or a similar set of indicators in order to be eligible for the support under the project. The proposed amount is indicative of 5-6 banks receiving allocations for IT investments in the range of \$18-23 million each, on average.

Component 2 - Support for institutional development of banks, MOF, and BB in enhancing ownership oversight and corporate governance framework (tentative amount US\$30-40 million)

4. Under this component, the project will provide advisory support to the banks participating in the project, the MOF as the agency exercising ownership rights of the banks, and BB as the regulator and supervisor of the commercial banks on improving the framework within which the ownership rights are exercised and banks are governed. Enhancement to laws on negligence and fraud/insider abuse and improvement in audit standards are two critical areas for improvement. The project will also support developing bank directors' continuous education and training program which all bank directors would be required to attend regularly and confirm this in their annual statement to the bank. This component would provide advisory assistance for developing a Bank Director's Manual, detailing laws, standards, and guidelines applicable to directors in the corporate governance area.

5. An important feature which could be funded under the component is an international advisory panel which would (i) consist of a few/several experienced senior international public officials and bankers with expertise relevant to Bangladesh's case, (ii) stay in place throughout the life of the project, with at least one visit per year to Bangladesh, and (iii) serve as a sounding board and impartial professional advisor to the BFID, BB, SOB directors, and management on a wide range of SOB issues, including corporate governance, social mandates, IT infrastructure/core banking systems, risk management, public reporting, personnel management and others.

6. The relatively large allocation to Component 2 is deliberate and proposed with a view that the component could be designed using results-based financing mechanism in the form of disbursement-

linked indicators (DLIs). Such approach would establish interim and ultimate targets for improving SOB governance and the overall ownership function of the government, and provide strong disbursement incentives for the authorities to achieve tangible and measureable results against the targets. While Component 1 would lead to stronger operational and decision-making framework in the banks, Component 2 for institutional development would lead to stronger boards, more management accountability, and streamlining of mandates of the state-owned banks.

Component 3 - Support for Project Coordination, Implementation and Monitoring (tentative amount US\$2-3 million)

7. This component will provide support for the monitoring and coordination of Project activities undertaken by various beneficiary institutions. It will also help develop a strong monitoring and evaluation system to be used by the Project Implementation Unit (PIU) and other stakeholders to assess implementation progress.

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

The project will be located at the public banks' headquarters in Dhaka and in their branches across the country

**E. Borrowers Institutional Capacity for Safeguard Policies**

**F. Environmental and Social Safeguards Specialists on the Team**

Sabah Moyeen (GSU06)

**II. SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/ BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	

Projects in Disputed Areas OP/ BP 7.60	No	
---	----	--

### III. SAFEGUARD PREPARATION PLAN

- A. Tentative target date for preparing the PAD Stage ISDS:** 10-Jan-2016
- B. Time frame for launching and completing the safeguard-related studies that may be needed.**  
**The specific studies and their timing<sup>1</sup> should be specified in the PAD-stage ISDS:**  
 Not Applicable

### IV. APPROVALS

Task Team Leader(s):	Name: Marius Vismantas,Shah Nur Quayyum	
<b><i>Approved By:</i></b>		
Safeguards Advisor:	Name: Maged Mahmoud Hamed (SA)	Date: 06-Feb-2016
Practice Manager/ Manager:	Name: Niraj Verma (PMGR)	Date: 08-Feb-2016

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