

**INTEGRATED SAFEGUARDS DATA SHEET  
APPRAISAL STAGE**

**Report No.: ISDSA16947**

**Date ISDS Prepared/Updated:** 01-Jun-2016

**Date ISDS Approved/Disclosed:** 03-Jun-2016

**I. BASIC INFORMATION**

**1. Basic Project Data**

<b>Country:</b>	Bangladesh	<b>Project ID:</b>	P155363
<b>Project Name:</b>	Modernization of State-Owned Financial Institutions Project (P155363)		
<b>Task Team Leader(s):</b>	Marius Vismantas, Shah Nur Quayyum		
<b>Estimated Appraisal Date:</b>	19-Apr-2016	<b>Estimated Board Date:</b>	24-Jun-2016
<b>Managing Unit:</b>	GFM06	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	Banking (100%)		
<b>Theme(s):</b>	State-owned enterprise restructuring and privatization (50%), Corporate governance (30%), Other Financial Sector Development (20%)		
<b>Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?</b>			No
<b>Financing (In USD Million)</b>			
Total Project Cost:	200.00	Total Bank Financing:	150.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
BORROWER/RECIPIENT			50.00
International Development Association (IDA)			150.00
Total			200.00
<b>Environmental Category:</b>	C - Not Required		
<b>Is this a Repeater project?</b>	No		

**2. Project Development Objective(s)**

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

**3. Project Description**

The project intends to provide funding for long-term investments by state-owned banks towards their

modernization through improved governance, better IT systems, business process re-engineering (BPR) and better decision making and operational processes. Advisory assistance to the banks and the MOF as the representative of the owner ? on the decision making and operational processes, improved governance, change management - would complement the investments in physical IT infrastructure.

The project will follow a sequenced approach. First, SOBs will undergo business process reengineering (BPR) whereby consultancy services will be provided to them to review and improve internal processes, work flows, and business planning. Concurrently with the BPR, the consultants will assess recapitalization plans for those SOBs which require additional capital and will recommend options to BFID. This phase is expected to be done during the first 12 months of the project. IT investments will follow starting in the second year of the project once the important (feed-in) IT diagnostic exercise which is implemented under a parallel FSSP project during CY2016 will result in bank-specific strategies, implementation plans, and procurement packages ready for bidding. The investments will continue throughout years 2-5 of the project. The SOB governance improvement activities ? assessments and implementation of recommended reforms - will start at the outset of the project and continue throughout its duration, in parallel with the BPR and IT modernization activities.

#### Project Components

The proposed project will therefore include the following four components: (i) supporting SOB business process reengineering; (ii) supporting IT modernization of state-owned commercial and development banks; (iii) supporting institutional development of banks and MOF in enhancing ownership oversight and corporate governance framework; and (iv) supporting project coordination, implementation and monitoring.

#### Component 1 ? Supporting SOB business process reengineering (US\$15 million)

This Component will provide consultancy support to the SOBs for a comprehensive Business Process Reengineering (BPR) ? from internal control and accounting to credit appraisal system, risk management and transaction processing ? that will be a pre-requisite for an automated modern banking environment. BPR will strengthen and modernize the banks? internal processes, workflows, and business planning.

BPR will precede development and implementation of new IT solutions in SOBs. The new IT solutions would then be adapted to the updated processes and workflows. BPR is a fundamental rethink and redesign of existing business practices with a purpose of achieving significant improvements in critical measures of corporate performance such as cost, quality, service and speed. For those SOBs which require additional capitalization by the Government, the BPR exercise will add an additional module which would make assessments of the banks? recapitalization requirements and provide options on capital allocations.

#### Component 2 ? Supporting IT modernization of SOBs (US\$125 million)

Component 2 will support purchase and implementation of the modernized IT architecture with relevant software and hardware solutions in the SOBs, supplemented by advisory assistance, with a particular focus on cyber security. The requirements for the new IT architecture will be determined through the IT diagnostic exercise (under the FSSP project). The Component will also support SOBs

in improving their basic IT infrastructure in parallel with the implementation of key systems (such as CBS, ERP, and AML). This may include establishing sound technical infrastructure (e.g., power, electrical, server cooling, and internet) to support centralized processing, branch connectivity, an enterprise wide email system to support communication across the organization, PC/hardware penetration etc. Although all banks have embarked on a centralized CBS implementation, there is a lack of basic technical infrastructure to sustainably support this initiative and provide uninterrupted business process. Furthermore, exposure to basic automation like email, enterprise-wide intranet etc. will help prepare the current workforce for automated business processes down the road. IT training programs to retool existing workforce and prepare them for a fully automated business environment will be developed and implemented under the Component.

Component 3 - Supporting institutional development of banks and MOF in enhancing ownership oversight and corporate governance framework (US\$7 million)

Under this component, the project will provide advisory support to all the banks participating in the project and the MOF as the agency exercising ownership rights of the banks on improving the framework within which the ownership rights are exercised and banks are governed. The adoption of international good practices in the corporate governance of SOBs will increase accountability and transparency, leading to improved performance and the achievement of various social goals and mandates and complement the activities under Components 1 and 2. The project will involve various consultancy and training activities and will address/strengthen the five key pillars of good corporate governance for state-owned financial institutions:

- ? The policy and legal framework for SOB governance;
- ? Ownership capacity of the Banking and Financial Institutions Department of the Ministry of Finance;
- ? Capacity of the SOB Boards to oversee the banks;
- ? Transparency of the banks including the role of board audit committees and the quality of external audits; and
- ? Internal control, internal audit, and compliance functions, including establishment or strengthening as the case may be of the AML/CTF functions and procedures.

Component 4 - Supporting project coordination, implementation and monitoring (US\$3 million)

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.

#### **4. 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

#### **5. Environmental and Social Safeguards Specialists**

Sabah Moyeen (GSU06)

6. Safeguard Policies	Triggered?	Explanation (Optional)
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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	

## II. Key Safeguard Policy Issues and Their Management

### A. Summary of Key Safeguard Issues

<p><b>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</b></p> <p>No safeguard issues and impacts are expected under the project.</p>
<p><b>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</b></p> <p>No long term or indirect impacts are expected under the project.</p>
<p><b>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</b></p> <p>No alternatives have been considered due to an absence of potential adverse impacts.</p>
<p><b>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</b></p> <p>No measures are required.</p>
<p><b>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</b></p> <p>Key stakeholders are the Government of Bangladesh and state owned banks. Second tier stakeholders are customers of state owned banks , other banks, and Bangladesh Bank (central bank). No people are expected to be negatively affected by the project from the perspective of safeguards policies.</p>

### B. Disclosure Requirements

**If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.**

**If in-country disclosure of any of the above documents is not expected, please explain why:**

N/A

### ***C. Compliance Monitoring Indicators at the Corporate Level***

<b>The World Bank Policy on Disclosure of Information</b>		
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ] NA [ <input checked="" type="checkbox"/> ]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ] NA [ <input checked="" type="checkbox"/> ]
<b>All Safeguard Policies</b>		
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ] NA [ <input checked="" type="checkbox"/> ]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ] NA [ <input checked="" type="checkbox"/> ]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ] NA [ <input checked="" type="checkbox"/> ]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]

### **III. APPROVALS**

Task Team Leader(s):	Name: Marius Vismantas, Shah Nur Quayyum	
<b><i>Approved By</i></b>		
Practice Manager/ Manager:	Name: Niraj Verma (PMGR)	Date: 03-Jun-2016