

Foreign Exchange Policy Department  
Bangladesh Bank  
Head Office  
Dhaka  
www.bb.org.bd

FE Circular No. 27

Date: November 13, 2016

All Authorized Dealers of  
Foreign Exchange in Bangladesh

Dear Sirs,

**Long Term Financing Facility (LTFF) under  
the Financial Sector Support Project (FSSP)**

The Government of Bangladesh (GoB) has signed a Financing Agreement (FA) on June 30, 2015 with the International Development Association (IDA) regarding implementation of the Financial Sector Support Project (FSSP). The objective of the project is to improve financial market infrastructure of the country, regulatory and oversight capacity of Bangladesh Bank (BB) and access to long term financing mainly for manufacturing firms in Bangladesh. BB has also signed a Project Agreement (PA) with the IDA on the same date to carry out the tasks for implementation of the project.

02. "Supporting Long Term Finance" is the major component of the project. Under the arrangement, BB will provide long term financing in foreign currency mainly for small and medium scale manufacturing enterprises in the country as detailed in the attached Operations Manual (OM). The financing would be provided to the eligible banks, namely the Participating Financial Institutions (PFIs), for on lending/refinancing to the eligible firms.

03. The OM governing the operation and implementation procedures of the fund and eligibility criteria of the financial institutions is attached herewith.

04. Interested banks may apply to the Project Director (PD) of Financial Sector Support Project (FSSP) for participating in the Financing Facility.

05. This circular replaces the previously circulated FE Circular No. 18 dated October 27, 2015 with immediate effect. However, the relevant activities undertaken so far in terms of FE Circular No. 18 dated October 27, 2015 shall come under the purview of this circular.

Please bring the contents of this circular, effective immediately, to the notice of all your concerned constituents.

Yours faithfully,



Encl. As stated

(Md. Zakir Hossain Chowdhury)  
Deputy General Manager  
Phone: 9530250

# **Financial Sector Support Project**

## **Long Term Financing Facility**

### **Operations Manual**

**October 2016**



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## Abbreviations

A&BD	Accounts and Budgeting Department
BB	Bangladesh Bank
E&S	Environmental and Social
EMP	Environmental Management Plan
ESMF	Environmental and Social Management Framework
FEPD	Foreign Exchange Policy Department
FSSP	Financial Sector Support Project
FSSPD	Financial Sector Support and Strategic Planning Department
IDA	International Development Association
LTFF	Long Term Financing Facility
OM	Operations Manual
PA	Participating Agreement
PFIs	Participating Financial Institutions
PIU	Project Implementation Unit
SFD	Sustainable Finance Department
WB	World Bank

## Definitions

<b>Project</b>	Project means Financial Sector Support Project.
<b>PIU</b>	PIU is the Project Implementation Unit of Financial Sector Support Project.
<b>Sub-project</b>	Sub-project means projects financed under LTFF.

# **Long Term Financing Facility (LTFF) under the Financial Sector Support Project (FSSP)**

## **Operations Manual**

### **1. Introduction**

Bangladesh Bank (BB) intends to provide long term financing for private sector firms, mainly mid-size manufacturing firms under the Financial Sector Support Project (FSSP) financed by the International Development Association (IDA) of World Bank (WB). This financing would be offered in US Dollars (USD) and provided to the eligible banks, namely the Participating Financial Institutions (PFIs), authorized by BB to deal in foreign exchange for on lending/refinancing to the private sector firms. This Operations Manual (OM) delineates the procedures and other relevant issues for effective implementation of the financing facility. BB, with the clearance from the IDA, may amend/revise the manual from time to time.

### **2. Objectives**

The main objective of this facility is to provide long term financing in foreign currency for private sector firms with a view to contribute to increased outputs in the country. The financing will be available to exporters, small and medium scale enterprises and other private sector firms (expected to be mainly manufacturing units) in the country. This will contribute to firms' enhanced competitiveness and likelihood of grabbing emerging business opportunities. These enterprises would also contribute to job creation and economic growth. In addition, the facility and related safeguards requirements would contribute towards the improvement in compliance with health and safety standards in Bangladesh.

### **3. Roles and Responsibilities for Project Implementation**

- The Foreign Exchange Policy Department (FEPD) of BB will be responsible for formulating necessary policy circulars and reviewing the OM.
- The Financial Sector Support and Strategic Planning Department (FSSSPD) of BB will act as the Project Implementation Unit (PIU), be responsible for both overseeing and management of the IDA credit and operation of the LTFF. Responsibility of this department will be as follows:

#### **a) Project Management related responsibilities:**

- Identifying and selecting eligible PFIs following the criteria delineated in this manual, and sign separate Participating Agreement with the selected PFIs. PFIs' compliance with these eligibility criteria will be closely monitored and tracked on an on-going basis as described in section 5 of this manual.
- Process disbursement requests with IDA to make the fund available for onward disbursement to PFIs.
- Post review the loan utilization and disbursement process to ensure that the loans are provided to the target group, and proper procurement process and safeguard procedures are followed.
- Conduct regular off-site and on-site inspection at the PFIs and the ultimate borrower entities in order to ensure the effective utilization of the facility.
- Review eligibility status of the PFIs and applicable interest rate on periodic basis.

- Providing technical assistance for capacity building with respect to Environment Risk Management Framework, credit appraisal and risk management.
- Performing ongoing assessment of environmental and social safeguards compliance of the borrowers in collaboration with the Sustainable Finance Department (SFD) of BB.
- Ensure PFIs' compliance with the project's safeguards and fiduciary framework.
- Perform other tasks and functions as are necessary to achieve the objectives of the facility.
- Arrange workshop, seminars and training programs to disseminate information on different aspects of the project.
- Coordinate all support to the PFIs and the borrowers as the need arises from time to time.

**b) Responsibilities related to operation of the fund:**

FSSSPD will be entirely responsible for operation of the fund that includes:

- Receiving and processing applications for facility received from PFIs.
- Approval of facility and disbursement of funds according to the policy guidelines and this OM.
- Maintaining all disbursement records and accounts of each PFI, preserve supporting disbursement documents, and maintaining bank accounts information relating to disbursement.
- Recovery of installments (Principal and Interest) as per the amortization schedule from PFIs.
- Collecting progress reports from the PFIs and forward the consolidated reports to FSSSPD after compilation.
- Preparing and posting all transaction vouchers as per the procedures given in the OM of FSSP implementation.
- SFD will facilitate the compliance of Environmental and Social Management Framework (ESMF) by the borrowers of this facility. Responsibility of this department will be as follows:
  - Review all high risk sub-projects and provide clearance upon receipt of NOC from the WB.
  - Review two substantial risk sub-projects of each PFI and provide necessary clearance for further processing of loan application.
  - Reviewing of the relevant Environmental and Social (E&S) compliances in accordance with the ESMF.
  - Communicate with the respective PFIs for further query on this regard.
  - Recommending respective PFI to proceed with the loan processing.
  - Supervising and monitoring of the Environmental Management Plan (EMP) regularly in collaboration with PIU.
  - Capacity building of PFIs and borrowers on ESMF.

#### **4. Eligibility Criteria for Participating Financial Institutions (PFIs)**

The PFIs will be required to meet the eligibility criteria for participating in the facility and maintain the required standard level of operation for continuation of participation during the FSSP tenure. In order to become eligible to participate in the fund, the financial institutions must meet the following criteria:

1. The PFIs must hold a valid license from BB to operate as banks which are authorized by BB to deal in foreign exchange and must have a demonstrated track record of providing long term lending;
2. The PFIs must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile;
3. The PFIs must have appropriate capacity, including staffing, for carrying out appraisal (including environmental assessment) of loans to borrowers and for supervising implementation thereof;
4. The PFIs must have well defined credit/loan policies and procedures for management of financial risks (liquidity, credit, foreign exchange, interest rate and market risk including risks associated with balance sheet and income statement);
5. The PFIs must have a minimum rating of 3 (three) or better CAMELS Ratings determined by BB;
6. The PFIs must have an acceptable level of non-performing loans of no more than 8 (eight) percent;
7. The PFIs must meet the minimum level of regulatory capital adequacy requirement as instructed by BB;
8. The PFIs must have adequate and functional internal audits and controls;
9. The PFIs have to have at least three years' audited financial accounts with no significant unresolved observations;
10. No banks will become eligible with provision and capital shortfall. Banks with large financial scams or those with an observer placed by BB, will become ineligible for participation in the facility.

#### **5. Selection of PFIs**

The FSSSPD will have the responsibility for selecting the PFIs. Separate Participating Agreement (PA) will be signed between BB and the selected PFIs. The format of the participating agreement between BB and the PFI is attached in Annexure – VI. Once PA signed, the PFIs will start sending the applications to General Manager, FSSSPD for financing. Yearly review of compliance to the eligibility standards will be made for continuation of participation status.



## 6. Responsibility of PFIs:

- Will bear all risks associated with the financing.
- Must maintain due diligence in selecting borrowers.
- Proper KYC process to be followed before selecting borrowers.
- Must conduct appropriate credit appraisal process in selecting borrowers.
- Must ensure compliance with the project's Environment and Social Management Framework.
- Will monitor implementation of the Environmental and Social (E&S) measures committed by the firms and regularly report compliance to SFD.
- Proper loan agreement to be framed in order to perfect the claim against borrowers' assets and future income.
- Must ensure that commercial best practices acceptable to the World Bank and BB have been followed by the borrower in procuring the goods, services or works.
- Must obtain credit report on suppliers of goods/works/services from renowned credit agencies according to Chapter 7: Paragraph 23(b) [Read with FE Circular No 11/2013] of the Guidelines for Foreign Exchange Transactions (GFET) along with subsequent amendments issued by BB.
- Must observe instructions detailed in the GFET and subsequent amendments while effecting payment abroad.
- Must ensure the proper utilization of the fund for the intended purpose.
- Must ensure that its borrower's exposure remains within the single borrower exposure limit while disbursing fund to them from this facility.
- Will coordinate with Bangladesh Bank and World Bank in off-site and on-site quality check of such financing.
- Will submit borrower's performance report to PIU on periodic basis as directed by BB.
- Will seek necessary assistance from PIU, if required, for capacity building and proper implementation of ESMF and appraisal of sub-projects.
- Will not disburse this facility to the enterprises owned by their Board Members.
- Will also provide reports to the PIU on their sub-loan portfolio and on key financial and performance indicators, on agreed formats on a quarterly basis and in line with the results framework of the project (see section 13 of this manual). The financial performance of the PFIs will be monitored through independent auditors' reports.
- Must ensure the compliance of all regulatory and supervisory requirements of BB regarding the credit operation in Bangladesh.

## **7. Eligible Sub-projects and Borrowers**

This facility will be provided to meet the expenditures incurred for the eligible activities completed before 30, September 2020 by the eligible borrowers. However re-financing from the fund against loans disbursed before the issuance of FE Circular No. 18 dated October 27, 2015 will not be permissible.

### **a) Eligible activities for utilization of fund:**

This facility will be available for both on-lending and re-financing as well as will extend financing towards the following areas:

- Purchase of capital machineries, equipments and the expenses related to their installation services for up-gradation (including improvement in health and safety compliance), expansion or for newly set up manufacturing industries.
- Expenses related to construction, refurbishment and ancillary cost for relocation or expansion of existing factories or setting up of new manufacturing factories.
- Relocation of factories to designated industrial zones (other than EPZs/specialized zones); however financing will not be provided to any loans that result in direct economic and/or social/environmental impacts through (i) land acquisition, (ii) involuntary resettlement, (iii) impact on indigenous people, (iv) loss of income sources or means of livelihood, etc.
- Purchase of ocean-going vessels and specialized transport vehicles supporting transportation of goods manufactured in the country.

### **b) Eligible borrowers:**

The financing will be available for exporters, small and medium scale manufacturing enterprises and other private sector firms (expected to be mainly manufacturing units) in the country. Any private sector firm eligible to borrow in local currency from banking system as per foreign exchange regulations will be eligible to avail this facility.

## **8. Process for Approval of Financing Proposals/Facility Mechanism**

- a) Financing facility would be provided for the purposes mentioned in Section 7.
- b) A firm will approach any selected PFIs for financing under the facility.
- c) The PFIs will conduct due diligence on the sub-project proposed by the firm.
- d) PFIs will be responsible for reviewing individual sub-project for eligibility under the facility against eligibility criteria, including the list of ineligible activities as mentioned in Annexure - IV;
- e) For the eligible sub-projects, the PFI, in compliance with the Environmental and Social Management Framework, will do the environment and social review (also assessment, if required), assess the issues and impacts, and categorize the sub-project into Low, Moderate, Substantial and High risk project.
- f) Following the standard loan appraisal procedure, a PFI will take decision to finance a borrower to implement any eligible sub-project.

- g) After necessary approval at their end, PFIs will send the loan applications to the General Manager, FSSSPD of BB along with specified loan application summary mentioning the risk category (Annexure – II) along with disbursement and repayment schedule.
- h) For the Low and Moderate Risk sub-project, FSSSPD of BB will check the compliance with the ESMF and proceed with approval process and disbursement thereafter, otherwise return the same mentioning reason of non-compliance.
- i) For Substantial Risk sub-project, FSSSPD will forward the application of PFIs along with all relevant documents to SFD of BB for their assessment and necessary comments for first 2/3 cases of each PFI. SFD will send back their observations on the applications to FSSSPD which will be notified to PFIs accordingly. Once cleared by SFD, FSSSPD will sanction the loan. PFIs may continue funding the same category project once they gain sufficient knowledge about the social and environmental impact from such project.
- j) For the High Risk sub-project, FSSSPD will forward the application of PFIs along with all relevant documents to SFD of BB for reviewing of the relevant environmental and social (E&S) compliances in accordance with the Environment and Social Management Framework (ESMF). SFD may communicate with the respective PFI for further query on this regard. Once SFD is satisfied with the risk mitigation process, they will forward the case to FSSSPD for having clearance from the IDA. Upon receipt of the clearance from the IDA, FSSSPD will send the same to SFD. SFD may recommend FSSSPD to proceed with the application.
- k) For procurement of goods/works/services above the threshold of USD 5 million, in a single instance in favor of a single beneficiary, FSSSPD will send the loan application along with procurement documents to IDA to obtain prior approval. FSSSPD may communicate with the PFI for further clarification, if necessary. After obtaining the approval from IDA, FSSSPD may proceed with the loan application.
- l) Syndication amongst the eligible PFIs will be permitted. If participatory PFI of syndication do not have the same qualification criteria, the interest rate applicable to the lowest rated partner bank will be the effective rate on the entire loan. The Lead PFI will be the focal point for the operation of financing facility and its repayment to BB. However, all the PFIs will be responsible for credit administration and recovery from the borrower.

Flow chart of the loan approval process is attached in Annexure – I.

## 9. Pricing and other Financing/Refinancing Terms

The financing facility would be on-lent on market terms, without creating market distortion. The on-lending/refinance rate would cover the cost of funds, operating costs, and other risks and will be competitive with market rates. Pricing of the financing will be determined according to market principles and will vary according to risks and tenor.

a) **Maturity:** The maturity of the loans will be from 3 to 10 years.

b) **Pricing**

- **Indicative Pricing Matrix applicable to PFIs**

Interest will be charged on the outstanding balance of the loan using the six-month USD London Interbank Offered Rate (LIBOR) declared by the British Bankers' Association prevailing on the last working day of the previous quarter. The rate of interest chargeable on each withdrawal would also be equal to six-month USD LIBOR plus applicable spread. If the LIBOR is not available, Bangladesh Bank shall determine the applicable rate at its discretion.

The pricing of the loan will be variable both in terms of LIBOR and spread as per the decision of BB. An indicative pricing range of six-month USD LIBOR + 2.50% ~ 3.50% would be applicable to the PFIs until further notice according to the following matrix:

PFIs \ Tenor	Up to 5 Years	Up to 7 Years	Up to 10 Years
Banks having CAMELS Rating of 1 (One)	LIBOR + 2.50%	LIBOR + 2.75%	LIBOR + 3.00 %
Banks having CAMELS Rating of 2 (Two)	LIBOR + 2.75%	LIBOR + 3.00%	LIBOR + 3.25 %
Banks having CAMELS Rating of 3 (Three)	LIBOR + 3.00%	LIBOR + 3.25%	LIBOR + 3.50 %
In case the PFI is Islamic Shariah-based, then the Islamic Interbank Benchmark Rate (IIBR) will be used for it instead of the London Interbank Offered Rate (LIBOR).			

The rates mentioned in the above table would be reviewed every six month and adjusted with the six-month weighted average LIBOR. However, interest rates can be revised by BB depending on market conditions and proposals for revisions would be captured in this OM, with the consent of the WB.

- **Rate from PFIs to Borrowers**

The PFIs will determine their own loan interest rates to the borrowers covering their cost of borrowing and operational expenses, plus a reasonable risk-adjusted spread and profit margin (typically expected to be in the range of 1.00 ~ 3.00 percent above the cost of funds).

c) The fund disbursed to the PFIs will be treated as inter-bank borrowing.

## 10. Repayment Schedule

The loan under the fund will be given for tenure of 3 to 10 years term. The PFIs will require to submit a Promissory Note along with the application for loans/refinance. This promissory note will be considered as collateral of such loans. The repayment of the loan will start after a certain grace period and to be repaid on quarterly installments. The grace period will be determined by the PFIs based on the projected timing of the cash inflows of individual projects. However, the grace period will not be more than 2 (two) years. An amortization schedule for the loan repayment will be prepared by the PFIs, following the method given in this manual, prior to the disbursement. In case of multiple installments of disbursements, this amortization schedule will be revised at the closing of the financing to reflect the actual disbursement. A tentative amortization schedule is attached in Annexure – III.

The due installments will be recovered from the PFIs' F/C account maintained with BB as per the amortization schedule. If adequate fund is not available in the PFIs' F/C Account to recover the due installment, the equivalent BDT (at BB Selling Rate on that date) will be debited from the respective PFIs' current account maintained with BB. In case of unavailability of funds in both accounts BB will charge a penal interest on such dues at a rate 2% above the repo rate and will become payable on demand. BB will have the right to set off such overdue installment(s) from any of the PFIs' assets held with BB in its security depository. The PFIs will require submitting a debit authority or security encashment authority to BB for realizing the due installments at the time of first application.

## **11. Safeguard Arrangements**

### **A. Environmental and Social Risk Management Framework**

The financing facility would be provided with a view to facilitate the development of economies and to promote socially and environmentally sustainable development outcomes. The PFIs will be responsible to ensure their borrowers to identify and mitigate the potential environmental and social risk associated with borrowers' proposed activities.

Capacity building of PFIs and borrowers on Safeguard Management will be an on-going process under FSSP. These trainings will strive to build a strong foundation for knowledge on relevant environment and social risks. The PFIs will be sensitized to the environmental and social requirements and guidelines under this project and will be encouraged to adopt it in future business activities. Capacity building of the firms will be undertaken through training, workshops, seminars etc.

An Environmental and Social Management Framework (ESMF) has been developed which provides general policies, guidelines, and procedures for the implementation, operation and monitoring of all sub-projects to be implemented under the financing facility [Annexure – VII]. Detailed information regarding capacity building on safeguard management is given in Section 10 of the ESMF. It must be ensured that the sub-project activities are properly assessed for and will not create adverse E&S impacts. The ESMF defines and outlines policies, procedures, roles, and responsibilities for managing impacts, risks, and effects on E&S aspects of sub-projects that are financed by the project. The PFIs and the borrowers must comply with the ESMF.

The PFIs will be responsible for regular supervision and monitoring of the implementation of any social plans or mitigation measures under all sub-projects. The PFIs have to submit reports to FSSSPD of BB on the implementation of such plans on half-yearly basis. 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.

Periodical monitoring audit on compliance of ESMF by the sub-projects will be carried out by BB with the assistance of third party.

### **B. Capacity Building**

Technical assistance would be provided to the PFIs on the technical aspects of long term financing projects. In-depth training will be provided to the Credit Risk Management team of the PFIs to conduct credit appraisal. The technical assistance would also be extended to the borrowers for developing their capability in procurement issues.

### **C. Grievance Redress Mechanism**

BB has a well-known Grievance Redressal Unit in the Financial Integrity & Customer Services Department (FICSD). In addition, BB will establish a dedicated grievance redress system to address the complaints regarding any issue, concern, problem, or claim (perceived or actual) arose out of the financing facility under the FSSP. The objective of the grievance system is to reduce risk for the loans under the facility and to ensure opportunity for expressing concerns.

The complaints have to be submitted to the Project Director (PD) of FSSP. All grievances must be in writing. Verbal and telephonic complaints and letters from fictitious names and address will not be entertained. Complaints from individuals or parties who are not directly related with the financing facility will not be recognized. The project implementation unit, FSSSPD, will deal with the complaints to adequately address the issue. The designated focal person of the FSSSPD will coordinate the grievance redressing system.

The PD will consider the subject matter of the complaint and decide whether to reject it or take any corrective action. In case of rejection, the PD will communicate in writing with the concerned complainant stating reasons for the rejection of the complaint. In case of accepting the complaints, the PD will assign specific official(s) or team to resolve the issue and propose a response to the complaints. The PD will communicate the proposed response back to the complainant clarifying the corrective action (if any).

PFI will develop, and describe mechanisms through which their branch offices receive and address concerns or grievances. If local communities or directly affected stakeholders approach the PFI with reasonable and responsible claims that an activity by a firm funded by a loan from the PFI as part of FSSP has caused harm to them, their livelihoods, or their environment, PFIs will work with the Borrower to try to address the concerns in a reasonable and responsible manner. PFIs will report as soon as possible of such complaints to the PIU. In addition, PFIs shall inform the aggrieved parties that if efforts by the borrower to resolve the issue are unsatisfactory, the aggrieved parties have the right to bring their complaints to staff in the country WB office.

### **12. Procurement Arrangements**

The fund under this financing facility will be disbursed to PFIs for on-lending/refinance to exporters and enterprises, mainly mid-size manufacturing firms. The fund will then be utilized by the borrowers for procuring goods, services and works. Goods, services and works to be financed under the facility would include the following:

Goods : Machinery, plant and equipment, and plant components for the purpose of up-gradation, expansion and setting up new industries.

Ocean going vessels, specialized vehicles for transportation of goods manufactured locally.

Services : Services related to procured machinery, plant and equipment.

Works : Construction, refurbishment and ancillary cost for relocation or expansion of existing factories or setting up of new manufacturing factories.

Procurement of Goods, Services and Works financed under the facility will be carried out by the borrowers following well established commercial best practices acceptable to BB and WB. Following steps have to be followed in such procurement process:

- The borrower has to take competitive quotations from a list of potential suppliers/agents and/or contractors to ensure obtaining of competitive prices.
- The borrower has to evaluate the technical specifications of goods, works and services and the financial proposals of the quotations. The borrower will finalize the supplier based on its own prudential judgment.
- In accordance with the present commercial practice followed for import of goods, the PFI has to verify the creditworthiness of the supplier from an independent agency before opening a Letter of Credit (L/C) in case of importing machineries from overseas supplier.
- The borrower/PFI must have to comply with the procedures/salient features set out in the Import Policy Order in force and Chapter 7 of the Guidelines for Foreign Exchange Transactions and subsequent FE circulars.

However, for procurement of goods and works above the threshold of USD 5 million in a single instance in favor of a single beneficiary, PFIs will require prior approval of BB and IDA. In such cases borrower will collect competitive quotations from prospective bidders and evaluate and finalize the supplier on his prudential judgment. The borrower will then send the purchase proposal to PFI along with the rationale behind selecting the supplier for onward review of BB and IDA. PFI will then collect the credit report of the supplier as per the instruction given in the GFET and will forward the borrower's purchase proposal along with borrower's rationale and supplier's credit report to FSSSPD of BB for review and concurrence of WB. BB will then forward the same along with its comments to IDA for their concurrence.

### **13. Monitoring and Evaluation**

The FSSSPD will monitor the outcomes from the utilization of fund under the facility periodically through the quarterly reports submitted by the PFIs. In addition to the off-site supervision, the FSSSPD, jointly, if required, with other relevant departments of BB, will conduct surprise onsite inspection of the PFIs and the borrower to ensure the effective end-use of the fund. Necessary formats of reports will be given to the PFIs for sub-project report. A format of the quarterly reports to be submitted by the PFIs to BB is attached in Annexure – V.

### **14. Financial Management**

#### **a) Accounting**

The PFIs will maintain financial management systems in accordance with their own accounting practices. However, PFIs should maintain separate MIS for the use of funds under the facility and will be responsible for providing data on the loan disbursed from the FSSP fund.

The FSSSPD will maintain the accounting system of the total fund under the facility and must ensure that Accounts and Budgeting Department (A&BD) of BB is aware of all the transactions related to this fund. The FSSSPD will track the quarterly record of disbursement to the PFIs.

## **b) Disbursement**

Having approved from the PD of the FSSP, FSSSPD will disburse the approved amount of fund to the PFI. FSSSPD will credit the bank's F/C Clearing account/NOSTRO account as per the disbursement schedule mentioned in the loan application.

## **15. Project Audit**

A firm will be hired for the audit of all activities under the project. The audit firm will also include an environment and social safeguards specialist for the auditing of compliance with the environmental and social safeguards issues.

The PFIs have to preserve all procurement records and documents in accordance with the provisions of this manual. These records must be made readily available on request for audit, investigation or review by BB and WB. The borrowers have to submit the audited financial statements to the PFIs which must be preserved by the PFIs for audit conducted by the auditor hired by the project.

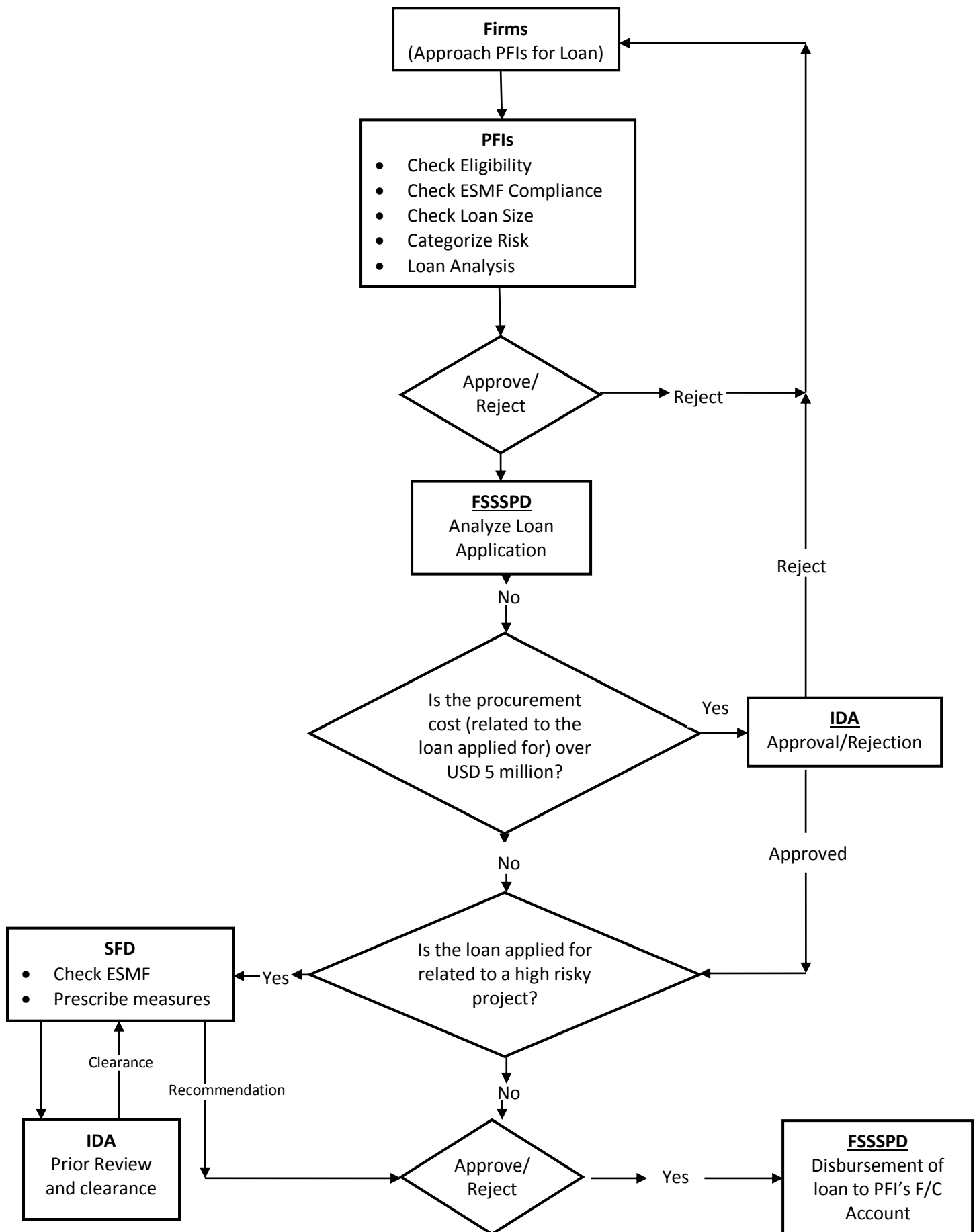
The audit team will review to ascertain that sub-project descriptions are prepared properly and sub-project E&S screening are carried out following the formats and guidelines provided in the ESMF. They will also monitor the sub-project activities to check whether they meet the Environmental and Social Management Plan (ESMP) requirements where applicable. Review of E&S implications of mitigation measures & effectiveness of the mitigation and enhancement measures of sub-project will be also audited by the firm.



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## Loan Approval Process



**Note:**

- Rejection of application at any approval stage will be redirected to PFIs through proper channel.
- Please refer to Section 8 of this manual for detailed process.

## Loan Application for Long Term Financing Facility under the Financial Sector Support Project

### Summary Sheet

**Amount of the proposed loan (in USD):**

**Maximum Procurement Size in Single Instance (in USD):**

Under USD 5.00 million       Over USD 5.00 million

**Environmental risk category of the proposed sub-project:**

High     Substantial       Moderate     Low

1. Is there any regulatory restriction on the PFI to extend credit operation?  
 Yes       No
2. Is the borrower's current exposure within single borrower exposure limit?  
 Yes       No
3. Will the borrower remain within the single borrower exposure limit after disbursing the proposed loan?  
 Yes       No
4. Loan proposal approved by:  
 Board     Credit Committee     Managing Director     Other  
  
If other, please specify:
5. Is the CIB verification done:  
 Yes       No
6. Is the borrower defaulter?  
 Yes       No
7. Are disbursement schedule and amortization schedule attached?  
 Yes       No

Applying Bank(s) (list all in case of syndication)	:	
Contact Person Name	:	
E-mail	:	
Telephone No.	:	
Type of sub-project	:	<input type="checkbox"/> Expansion <input type="checkbox"/> New Unit
Name of Industry	:	
Name of Firm	:	
Address of the firm	:	
Firm Representative	:	
Representative's contact number	:	
Brief description of sub-project	:	
Schedule of implementation	:	(a) Sub-project duration (months):
	:	(b) Tentative start date:

Attachment Detail:

1. ....
2. ....
3. ....
4. ....
5. ....
6. ....
7. ....

**Tentative Amortization Schedule**

Principal	5000
Grace Period	1 Year
Repayment Period	5 Years (including Grace Period)
Repayment	Quarterly
Interest Rate at the time of first disbursement	4.00%

<b>Interest Rate Revision</b>	
After 8th quarter	4.50%
After 12th quarter	3.80%
After 16th quarter	4.00%

**Repayment Method**

1. Repayment will be made in near equal sized installments throughout the repayment tenure (in 16 quarterly payment)
2. Interest accrued during the Grace Period would be repaid in EMI without compounding
3. Interest accrued after the grace period would be repaid in that particular quarter

Quarter	Outstanding at beginning	Applicable Interest Rate	Interest	Repayment				Outstanding at the end	
				Principal	Interest accrued in this quarter	Interest accrued during the grace period	Total	Principal Amount	Interest Amount
1	5000.00	4.00%	50.00				0.00	5000.00	50.00
2	5000.00	4.00%	50.00				0.00	5000.00	100.00
3	5000.00	4.00%	50.00				0.00	5000.00	150.00
4	5000.00	4.00%	50.00				0.00	5000.00	200.00
5	5000.00	4.00%	50.00	289.50	50.00	12.50	352.00	4710.50	187.50
6	4710.50	4.00%	47.11	292.40	47.11	12.50	352.00	4418.11	175.00
7	4418.11	4.00%	44.18	295.32	44.18	12.50	352.00	4122.79	162.50
8	4122.79	4.00%	41.23	298.27	41.23	12.50	352.00	3824.51	150.00
9	3824.51	4.50%	43.03	299.47	43.03	12.50	355.00	3525.04	137.50

Quarter	Outstanding at beginning	Applicable Interest Rate	Interest	Repayment				Outstanding at the end	
				Principal	Interest accrued in this quarter	Interest accrued during the grace period	Total	Principal Amount	Interest Amount
10	3525.04	4.50%	39.66	302.84	39.66	12.50	355.00	3222.20	125.00
11	3222.20	4.50%	36.25	306.25	36.25	12.50	355.00	2915.95	112.50
12	2915.95	4.50%	32.80	309.70	32.80	12.50	355.00	2606.25	100.00
13	2606.25	3.80%	24.76	315.14	24.76	12.50	352.40	2291.11	87.50
14	2291.11	3.80%	21.77	318.13	21.77	12.50	352.40	1972.98	75.00
15	1972.98	3.80%	18.74	321.16	18.74	12.50	352.40	1651.82	62.50
16	1651.82	3.80%	15.69	324.21	15.69	12.50	352.40	1327.61	50.00
17	1327.61	4.00%	13.28	326.92	13.28	12.50	352.70	1000.69	37.50
18	1000.69	4.00%	10.01	330.19	10.01	12.50	352.70	670.49	25.00
19	670.49	4.00%	6.70	333.50	6.70	12.50	352.70	337.00	12.50
20	337.00	4.00%	3.37	337.00	3.37	12.50	352.87	0.00	0.00

### **List of Ineligible Activities**

- Production of or trade in any product or activity deemed illegal under the country's laws and regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES.
- Production of or trade in weapons and ammunitions.
- Production or trade in alcoholic beverages.
- Production or trade in tobacco.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is trivial and/or adequately shielded.
- Production or trade in un-bonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
- Firms that discharge untreated polluted water into international waterways.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

**Quarterly Report on Loans Disbursed under LTF**  
**as on .....**

#	Name of the Borrower	Type of Business	Sanction Date	Sanctioned Amount	Disbursed Amount as of .....	Outstanding Amount as of .....	Overdue Installment Amount	Recovery during the Quarter	Cumulative Recovery as of .....	Classification Status



**PARTICIPATING AGREEMENT**

**Between**

**BANGLADESH BANK, AS THE IMPLEMENTING AGENCY OF  
THE  
Long Term Financing Facility under  
FINANCIAL SECTOR SUPPORT PROJECT  
(hereafter also referred to ‘FSSP’)**

**and**

***[Name of the PFI]*  
(‘Participating Financial Institution [PFI]’)**

**As participant in the**

**Long Term Financing Facility under  
Financial Sector Support Project (FSSP)**

## **Participating AGREEMENT**

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## PARTICIPATING AGREEMENT

### PARTIES

This Participating Agreement (hereafter also referred to 'Participating Agreement' or 'Agreement') is signed on the ----- day of -----.

between

**Bangladesh Bank**, as the Implementing agency of the Long Term Financing Facility under FINANCIAL SECTOR SUPPORT PROJECT

And

[*Name of the PFI*], a public company limited by shares, and carrying on its business as Banking Company organized under the laws of the People's Republic of Bangladesh (Reg No.-----) having its registered office at -----, ('Participating Financial Institution' hereafter also referred to 'PFI') as participant in the Long Term Financing Facility under Financial Sector Support Project (hereafter also referred to 'FSSP') jointly co-sponsored by the International Development Association (hereafter also referred to 'IDA') and the Bangladesh Bank (hereafter referred to BB).

### PREAMBLE

I. WHEREAS, in the interest of overall economic development and to enhance access to Long Term Financing in foreign currency mainly for manufacturing private firms in Bangladesh. BB intends to create Long Term Financing Facility window;

II. WHEREAS, the Government of Bangladesh has entered into a Financing Agreement, on June 30, 2015 (hereafter also referred to 'Financing Agreement') with IDA to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and enhance access to long term financing in foreign currency mainly for private manufacturing firms in Bangladesh (the Project or FSSP);

III. WHEREAS, the BB has entered into a Project Agreement with IDA and a Subsidiary Loan Agreement (hereafter also referred to 'SLA'), between BB and Government of Bangladesh to implement the above-mentioned Project;

IV. WHEREAS, the Project, funded by both IDA and Bangladesh Bank, will establish the FSSP to extend support in developing the capability of banks and eligible financial institutions related to long term financing in Bangladesh;

V. WHEREAS BB intends to engage participating financing institutions who will borrow the money in foreign currency and on lend/refinance the same to the designated eligible borrower as defined in the Operations Manual of Long Term Financing Facility under FSSP.

VI. WHEREAS the PFI agrees and intends to comply with the terms and conditions of this agreement.

## ARTICLE I

### DEFINITIONS

#### SECTION 1.1 Definitions and Related Terms

Unless the context otherwise requires, the terms defined in this Section 1.1 will, for all purposes of this Agreement and of any agreement supplemental thereto, have the meanings herein specified, as follows:

‘Anti-Corruption Guidelines’ means the guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants adopted by World Bank on 15 October, 2006 and revised in January 2011.

‘Bangladesh Bank’ means the bank established by the Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972) for the purpose of carrying out the business of central banking, as represented by its Governor. Bangladesh Bank shall act as the implementing agency of the project.

‘Scheduled Bank’ means a bank as used in Article 37 of Bangladesh Bank Order, 1972 (P.O No. 127 of 1972).

‘Participating Financial Institutions’ (hereafter also referred to ‘PFI’) means any bank or non-bank finance company, or any other financial institution duly registered according to the applicable laws and regulations of the Recipient, which is authorized by BB to deal in foreign exchange under FER Act, 1947 and has met the criteria set forth in the Operations Manual, has entered into a Participation Agreement with the Project Implementing Entity and to which the Project Implementing Entity proposes to make or has made, out of the proceeds of the Financing, a loan for purposes of on-lending a Sub-loan; and “PFIs” means, collectively, all such PFIs.

‘IDA Procurement Guidelines’ means the rules and procurement guidelines as defined in the Guidelines: Procurement Under IBRD Loans and IDA Credits, (revised, May 2004 ) published, and amended from time to time, by The IDA.

‘Governor’ means the Governor of Bangladesh Bank.

‘Financial Sector Support Project (FSSP)’ means the project under which main objective is to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and access to long term financing mainly for private manufacturing firms implemented by Bangladesh Bank and any reference to ‘FSSSPD’ will mean Financial Sector Support and Strategic Planning Department or any other Department of Bangladesh bank implementing the project.

‘Project Director’ means the Project Director of FSSP appointed by Bangladesh Bank.

‘Operations Manual’ (hereafter also referred to ‘OM’) means the set of policy and operational guidelines that govern the FSSP Long Term Financing Facility, initially adopted by the Bangladesh Bank on 19, October 2015 and to be amended from time to time with the written consent of IDA as per requirement of the FSSP for the purpose of its smooth running and attaining the objectives thereof.

‘Environmental and Social Management Framework’ (hereafter also referred to ‘ESMF’) means the set of policy and guidelines that will ensure that the project activities are properly assessed for and will not create adverse Environmental & Social impacts, initially adopted by the Bangladesh Bank on 24, February 2015 and to be amended from time to time with the written consent of IDA as per requirement of the FSSP for the purpose of its smooth running and attaining the objectives thereof.

‘Financing’ means the long-term funding that will be provided under the Long Term Financing facility of Financial Sector Support Project.

‘Facility Loan’ means fund disbursed or to be disbursed to the PFIs against specific Private Manufacturing Firms out of FSSP Project.

‘Long Term Financing’ or LTF means funds disbursed or to be disbursed by a PFI to a Manufacturing Enterprise for the development of a Sub-Project utilizing the resources of a Facility Loan.

‘Firm’ means a private enterprise or an enterprise in which private shareholders have majority ownership, and to which a PFI proposes to make or has made a Long Term Financing.

‘Sub-loan’ means the loan or a Sharia compliant financing made or proposed to be made by a PFI to an Eligible Sub-borrower under a Sub-loan Agreement to finance out of the proceeds of the Financing part of the cost of goods, works and/or services under a Subproject which has been selected and approved in accordance with the provisions Operations Manual; and ‘Sub-loans’ means, collectively, all such Sub-loans.

‘Sub-Project’ means a specific Project mainly in the manufacturing sector to be carried out by a Private Firm utilizing the proceeds of LTF.

‘Commitment Letter’ means the formal letter issued by the Financial Sector Support and Strategic Planning Department (FSSSPD) of Bangladesh Bank (indicating the terms and conditions of an amount of the commitment to be funded through FSSP Long Term Financing facility.)

‘Taka’ (hereafter also referred to ‘TK’) means the currency of the People’s Republic of Bangladesh.

‘Dollar’ (hereafter also referred to ‘USD’) means the currency of The United States of America’

## **SECTION 1.2 Operational Directives of the FSSP**

Throughout this Participating Agreement, references are made to the OM, which guide the policies and operations of the LTF of FSSP. Bangladesh Bank will modify the OM from time to time after obtaining written consent from IDA. The PFI agrees that the OM will take precedent over this Agreement wherever and whenever indicated throughout this Agreement.

## **SECTION 1.3 Articles, Sections, Number, Etc.**

Unless otherwise specified, references to Articles, Sections and other of this subdivisions of this Agreement are to the designated Articles, Sections, and other subdivisions of this Agreement as amended. The words replace - ‘hereof,’ ‘herein,’ ‘hereunder,’ ‘hereafter’ and words of similar import refer to this Agreement as a whole. The headings or title of the several articles and sections, and the table of contents appended to copies hereof, will be solely for convenience of reference and will not affect the meaning, construction or effect of the provisions hereof. The singular form of any word used herein, including the terms defined in Section 1.1 of this Agreement, will include the plural, and vice versa.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

#### SECTION 2.1 Representations and Warranties of the Financial Institution

The PFI makes the following representations as the basis for its participation in the Project:

(a) The PFI is a registered company under the Companies Act of 1913/1994 and licensed to operate as Bank in Bangladesh under the Bank Companies Act 1991 having authorized dealership licenses under FER Act, 1947. Pursuant to the Companies Act of 1913/1994 and by its Articles of Association, the PFI has the power to enter into transactions contemplated by this Agreement and to carry out its obligations hereunder. By proper action, the PFI has been duly authorized to execute, deliver and duly perform the duties and fulfill the obligations of this Agreement.

(b) The PFI has a plan of action agreed with FSSP and in accordance with appropriate technical, economical, financial, managerial, environmental and social standards and practices, including in conformity with: (a) the investment and lending policies and procedure referred to in the Operations Manual; (b) the ESMF and any required ESM plan and the Environmental, Health and Safety Guidelines; and (c) the Anti-Corruption Guidelines;

(c) The PFI is in full compliance with the eligibility criteria for participation in the Project, as set forth in Article III.

(d) The PFI has not experienced any materially adverse financial or business development, not already disclosed to the FSSP, which may affect its eligibility as a participant in the Project.

(e) The PFI is not in default under any of provisions of the laws of the People's Republic of Bangladesh, which defaults, would affect its existence or its powers referred to in Section 2.1(a).

(f) The PFI is not in default under any provisions of any of its funding agreement with other financial institutions.

(g) The PFI has found and determined, and hereby finds and determines that all requirements of the Project with respect to financing sub-project and the execution of this Agreement has been complied with and that financing the sub-project by drawing on the FSSP, LTF funds and entering into this Agreement will be in furtherance of the purpose of the Project.

## **ARTICLE III**

### **LONG TERM FINANCING FACILITY**

#### **SECTION 3.1 Long Term Financing Facility**

(a) The Long Term Financing Facility is designed to provide long term finance mainly for manufacturing firms in the country in foreign currency through PFIs according to the guidelines stipulated in the OM.

(b) Pursuant to the terms and conditions in the OM, the PFIs will provide best efforts to select and implement the specific sub-project.

(c) All Sub-projects to be funded through the FSSP must meet the eligibility criteria pursuant to the OM and ESMF Guidelines.

(d) The requisition for funds by the PFI and the disbursement of funds by the FSSSPD will be in accordance with the OM.

#### **SECTION 3.2 Pricing**

Upon disbursement of funds to the PFI under the Long Term Financing Facility under FSSP, an interest charge will be levied on the PFI. The interest rate on the FSSP, LTF facility will be determined on the basis of PFI's CAMELS rating in accordance with the pricing matrix of the OM.

#### **SECTION 3.3 Credit Repayment: Principal Amortization**

Principal and interest payments in foreign currency along with the principal amortization schedule, on the Long Term Financing Facility will be determined by the Bangladesh Bank following the procedure mentioned in the OM of LTFF of FSSP.



## **ARTICLE IV**

### **ELIGIBILITY CRITERIA FOR CONTINUED PARTICIPATION BY FINANCIAL INSTITUTION**

#### **SECTION 4.1 Eligibility Criteria for PFIs**

The PFI will be required to meet the eligibility criteria for participating in the facility and maintain the required standard level of operation for continuation of participation during the FSSP tenure. In order to become eligible to participate in the fund, the financial institutions must meet and maintain the following criteria:

- (a) The PFIs must hold a valid license from Bangladesh Bank to operate as banks which are authorized by BB to deal in foreign exchange and must have a demonstrated track record of providing long term lending;
- (b) The PFIs must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile;
- (c) The PFIs must have appropriate capacity, including staffing, for carrying out appraisal (including environmental assessment) of loans to borrowers and for supervising implementation thereof;
- (d) The PFIs must have well defined credit/loan policies and procedures for management of financial risks (liquidity, credit, foreign exchange, interest rate and market risk including risks associated with balance sheet and income statement);
- (e) The PFIs must have adequate and functional internal audits and controls;
- (f) The PFI will be required to meet the eligibility criteria described in OM for continued participation in the Facility, as modified from time to time.
- (g) The PFI may not be associated with corrupt and unethical business activities or practices inconsistent with the sub-project pursuant to the IDA Procurement Guidelines.

#### **SECTION 4.2 Compliance and Continuing Eligibility**

- (a) After being contracted as PFI, to participate in the Facility, the PFI must continue to satisfy the eligibility criteria referred to above in Sec 4.1 of this Agreement.
- (b) If the PFI is not in compliance with any of the eligibility criteria, the FSSP will promptly notify to the PFI that identifies the specific eligibility criteria with which the PFI is not in compliance and seek appropriate response from the PFI to remedy the non-compliance within an agreed upon time period.
- (c) If the PFI fails to maintain its eligibility status under the Facility, the FSSP, will have the right to suspend all Long Term Financing disbursements under the Facility in respect of the PFI from the date of such failure.
- (d) The FSSP may re-establish the eligibility status of the PFI upon demonstrated compliance by the PFI that the specific eligibility deviations have been removed, mitigated or no longer exists.

### **SECTION 4.3 Eligibility Criteria for Sub-Project**

#### **a) Eligible activities:**

This facility will be provided to meet the expenditures incurred for the eligible activities completed before 30 September 2020 by the eligible borrowers. However re-financing from the fund against loans disbursed before the issuance of FE Circular No. 18 dated October 27, 2015 will not be permissible.

This facility will be available for both on-lending and re-financing as well as will extend financing towards the following areas:

- Expenses related to construction, refurbishment and ancillary cost for relocation or expansion of existing factories or setting up of new manufacturing factories.
- Purchase of capital machineries, plant and equipment and the expenses related to their installation services for up-gradation (including improvement in health and safety compliance), expansion or for newly set up manufacturing industries.
- Relocation of factories to designated industrial zones (other than EPZs/specialized zones); however financing will not be provided to any loans that result in direct economic and/or social impacts through (i) land acquisition, (ii) involuntary resettlement, (iii) impact on indigenous people, (iv) loss of income sources or means of livelihood, etc.
- Purchase of ocean-going vessels and specialized transport vehicles supporting transportation of goods manufactured in the country.

#### **b) Eligible borrowers:**

The financing will be available mainly for manufacturing small and medium scale enterprises and other private sector firms in the country. Any firm eligible to borrow in local currency from banking system as per foreign exchange regulations will be eligible to avail this facility, subject to the following conditions:

(a) The firm has demonstrated compliance with the Environmental and Social Management Framework (ESMF) for FSSP.

(b) The Firm has demonstrated compliance with the eligibility criteria pursuant to the OM & ESMF.

(c) The Firm has demonstrated compliance with the IDA Procurement Guidelines.

## **ARTICLE V**

### **COVENANTS OF THE PARTICIPATING FINANCIAL INSTITUTION**

#### **SECTION 5.1 Regular Re-payments and Unconditional Obligation**

The PFI will make regular re-payment of amounts due on any outstanding facility. The obligation of the PFI to make payments required hereof and to perform and observe the other agreements on its part contained herein will be absolute and unconditional, irrespective of any defense or any rights to set-off, recoupment or counterclaim it might otherwise have against the FSSP, and during the term of this Agreement, the PFI will pay absolutely the gross payments to be made on account of the facility as and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off.

The PFI hereby agrees and authorize Bangladesh Bank that the due installments will be recovered from the PFIs' F/C account maintained with Bangladesh Bank as per the amortization schedule. If adequate fund is not available in the PFIs' F/C Account to recover the due installment, the equivalent BDT (at BB Selling Rate on that date) will be debited from the respective PFIs' current account maintained with BB. In case of unavailability of funds in both accounts, BB will charge a penal interest on such dues at a rate 2% above the repo rate and will become payable on demand. BB will also have the right to set off such overdue installment from any of the PFIs' assets held in BB in its security depository or in others. The PFIs will require submitting a debit authority or security encashment authority to BB for realizing the due installments at the time of first application.

#### **SECTION 5.2 Records, Financial Statements and Budgets**

(a) The PFI will: (i) verify and document the status of the Sub-project supported under the FSSP by on-site inspection at least half yearly; (ii) prepare Sub-project progress reports covering operations under the credit to be submitted to the FSSSPD within 30 days of each quarter and (iv) undertake quarterly, half yearly and annual assessments of the demand for funds from the FSSP.

(b) In addition, the PFI will, within 120 days (or such other period as determined by FSSP) after the close of each fiscal year, submits its annual audited financial statements to the FSSSPD. The FSSP and/or the representatives will be permitted at all reasonable times during the term of this Agreement to examine the books and records of the PFI with respect to the Sub-project.

#### **SECTION 5.3 Documents and Supporting Schedules**

(a) The PFI will be required to maintain complete documentation and supporting schedules for each sub-project accepted for financing under the Project. The FSSSPD/SFD or any other relevant Department/Cell may periodically request from the PFI, and the PFI will promptly provide, material documents, schedules and other information on a specific Firm or Sub-Project, as required by Bangladesh Bank.

(b) The PFI will maintain credit files for each Firm and Sub-Project in accordance with the OM and Banking best practice.

#### **SECTION 5.4 Right of Access to the Sub-project**

The PFI agrees that during the term of this Agreement the FSSP and /or other authorise representatives from FSSP will have the right at all reasonable times during normal business hours to enter upon the site of the Sub-project to examine and inspect the Sub-project; provided, however, that this right is subject to the laws and the regulations of the People's Republic of Bangladesh.

## ARTICLE VI

### GENERAL AND SPECIAL CONDITIONS

#### SECTION 6.1 General Conditions for PFIs

Bangladesh Bank shall have the right to

- (a) suspend or terminate the right of the PFI to use the proceeds of the Financing made available to it to make Sub-loans or declare it due and payable upon the PFI's failure to perform any of its obligations under the Participation Agreement; and
- (b) require the PFI:
  - (i) to maintain qualified management staff in adequate numbers as required for the purposes of the Project;
  - (ii) to provide, promptly as needed, the funds, facilities, services and other resources required for such purposes;
  - (iii) to make one or more Sub-loans to one or more Eligible Sub-borrower under Sub-loan Agreements on the terms and conditions that might include conditions set forth in Section 7.3 to this Agreement;
  - (iv) to exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Government, BB and the IDA, comply with its obligations under its respective Participation Agreement, and achieve the purposes of the Project;
  - (v) to not assign, amend, abrogate or waive any of its agreements providing for a Sub-loan, or any provision thereof, without the prior consent of the BB and the IDA ; and
  - (vi) to supervise, monitor and report on the activities to be carried out under a Sub-project by each Eligible Sub-borrower in accordance with the provisions of the Operations Manual and the EMSF.
  - (vii) to exchange views with and furnish all such information to the Government, BB and the IDA, as may be reasonably requested by BB, with regard to the progress of the activities under the Project, the performance of its obligations under its respective Participation Agreement, and other matters relating to the purposes of the Project;
  - (viii) to prepare and submit to the BB: (A) reports on Sub-loan disbursements in line with the requirements of the interim unaudited financial report format included in the Operations Manual as and when reimbursement claims are made; and (B) annual financial performance reports until the Participation Agreement has ended; and
  - (ix) promptly to inform the BB of any condition which interferes or threatens to interfere with the progress of its activities under its respective Participation Agreement.
  - (x) to obtain rights to examine and inspect the Sub-project; by its officials and or other authorized representatives at all reasonable times during normal business hours to enter upon the site of the Sub-project provided, however, that this right is subject to the laws and the regulations of the People's Republic of Bangladesh.

## **SECTION 6.2 Special Terms and Conditions**

The PFI shall ensure that their Financing Agreement with the sub-borrower (sub-project) given them adequate rights to protect its interest and those of the Government, BB and IDA, including the right to:

- (a) suspend or terminate the right of the Sub-borrower to use the proceeds of the Sub-loans or declare it due and payable upon the Sub-borrower's failure to perform any of its obligations under the Sub-loan Agreement; and
- (b) require the Eligible Sub-borrower to:
  - (i) carry out the Sub-project financed out of the proceeds of a Sub-loan with due diligence and efficiency and in accordance with sound technical, economical, financial, managerial, environmental and social standards and practices, including those set forth in the OM, the EMSF Guidelines and any EMS Plan, the Environmental, Health and Safety Guidelines and the Anti-Corruption Guidelines;
  - (ii) (a) maintain policies and procedures to enable it to monitor and evaluate the progress of the Sub-loan in accordance with indicators acceptable to BB; and (b) prepare financial statements in accordance with consistently applied accounting standards in accordance with the Operations Manual;
- (c) require that:
  - (i) (a) the goods, works and services to be financed out of the proceeds of the Sub-loan shall be procured in accordance with the provisions of OM and (b) such goods, works and services shall be exclusively used in the carrying out of the activities financed out of the proceeds of the relevant Sub-Loan;
  - (ii) to inspect, by itself or jointly with representatives of the IDA, if the IDA shall so request, such goods and the sites, works, plants and construction included in the activities to be financed out of the proceeds of a Sub-loan, the operation thereof, and any relevant records and documents; and
  - (iii) Obtain all such information as the IDA or the Government, BB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Eligible Sub-borrower and to the benefits to be derived from the activities financed out of the proceeds of a Sub-loan.

## **ARTICLE VII**

### **DEFAULT EVENTS AND REMEDIES**

#### **SECTION 7.1 Events of Default**

Any one of the following, which occurs and continues, will constitute an Event of Default:

(a) Failure by the PFI to pay any amounts required to be paid hereof which failure causes an Event of Default to the agreements relating to the received Facility Loan;

(b) Failure of the PFI to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Agreement, other than making the payments referred to in (a) above, which continues for a period of 30 days after written notice, which notice will specify such failure and request that it be remedied, given to the PFI by the FSSSPD, unless the FSSSPD, will agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the FSSSPD will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected;

(c) The filing of bankruptcy by the PFI; and

(d) Non-compliance with applicable laws and regulations governing the operation of the PFI.

#### **SECTION 7.2 Remedies on Default**

Upon the occurrence and continuation of an Event of Default, the FSSSPD will proceed to protect and enforce the rights of the BB/IDA, in the manner it deems most expedient to the interest of the FSSP, Bangladesh Bank and IDA.

#### **SECTION 7.3 Remedies Not Exclusive**

No remedies herein conferred upon or reserved to the FSSP is intended to be exclusive of any other available remedy or remedies.

#### **SECTION 7.4 Expenses on Default**

In the event the PFI should default under this Agreement and the Bangladesh Bank, should employ legal counsel or incur other expenses for the collection of the payment due under this Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the PFI, the PFI agrees to pay the Bangladesh Bank the reasonable fees of such legal counsel and such other expenses so incurred by Bangladesh Bank.

#### **SECTION 7.5 Notices of Default**

The FSSSPD will issue to the PFI the Notice of Default by registered mail or in person duly acknowledged by the PFI.

**ARTICLE VIII**

**INDEMNIFICATION**

**SECTION 8.1 Non-liabilities of Long Term Financing under Financial Sector Support Project**

Bangladesh Bank will not be obligated to pay any liabilities of the PFIs regarding the Long term financing facility under FSSP.

**SECTION 8.2 Indemnifications**

The PFI releases Bangladesh Bank and covenants and agrees that Bangladesh Bank will not be liable for and holds harmless Bangladesh Bank, and Bangladesh Bank employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with the Sub-project financed under FSSP Long Term Financing facility.

**ARTICLE IX**

**REPRESENTATIVES OF THE BANGLADESH BANK AND PARTICIPATING FINANCIAL INSTITUTION; ADDRESSES**

**SECTION 9.1 Representative of the Bangladesh Bank; Addresses**

Authorized Representative: \_\_\_\_\_  
Executive Director & Project Director of FSSP  
Bangladesh Bank

Address: Bangladesh Bank, Head Office  
Motijheel, Dhaka-1000

Telephone :.....  
Facsimile :.....

**SECTION 9.2 Representative of the Financial Institution; Addresses**

Authorized Representative: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email: \_\_\_\_\_

## **ARTICLE X**

### **MISCELLANEOUS**

#### **SECTION 10.1 Notices**

All notices, certificates or other communications will be deemed sufficiently given on the next day following the day on which the same have been either sent by facsimile or mailed by registered mail, courier, postage prepaid, addressed to the Bangladesh Bank or the PFI, as the case may be, as follows:

To FSSP:

Project Director,  
Financial Sector Support Project  
Bangladesh Bank (Main Building 3rd floor),  
Head Office, Dhaka 1000

To Financial Institution:

[Name and address of the PFI]

#### **SECTION 10.2 Severability of Invalid Provision**

If any provision of this Agreement will be held or deemed to be, or will in fact be, illegal, inoperative or unenforceable, the same will not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

#### **SECTION 10.3 Execution of Counterparts**

This Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

#### **SECTION 10.4 Amendments, Changes and Modifications**

Except as otherwise provided in this Agreement, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the parties to this Agreement.

#### **SECTION 10.5 Governing Law**

This Agreement will be governed exclusively by and construed in accordance with the applicable laws of the People's Republic of Bangladesh.

#### **SECTION 10.6 Terms of the Agreement**

This Agreement will be in full force and effect from the date hereof and will continue in effect as long as any Long Term Financing Facility given to the PFI under the Financial Sector Support Project is outstanding.



**SECTION 10.7 Binding Effect**

This Agreement will inure to the benefit of and will be binding upon the FSSP, the PFI and their respective successors and assigns, however, to the limitations contained in Article IV.

IN WITNESS WHEREOF, the [*Name of the PFI*] has caused this Agreement to be executed in its name and its corporate seal to be hereunto affixed and attested by its duly authorized officers, and the Bangladesh Bank as the Administrator of the Fund, has caused this Agreement to be executed, all as of the date first above written.

**[Name of the PFI]**

[PFI SEAL]

[Signature]

[Name of the authorized PFI representative]

[SEAL]

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**BANGLADESH BANK**

[Signature]

[BB SEAL]

[Name of the Project Director]  
Executive Director and Project Director of FSSP

[SEAL]

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WITNESS:

1. [Signature]

[Name and designation of witness from BB]

[SEAL]

2. [Signature]

[Name and designation of witness from PFI]

[SEAL]

Transaction No: \_\_\_\_\_

**SCHEDULE 1  
PROMISSORY NOTE**

**Principal Amount:**

1. Interest Rate:

**Date of Note:**

**PROMISE TO PAY.** \_\_\_\_\_ ('PFI') promises to pay to \_\_\_\_\_ (BANGLADESH BANK), or order, in lawful money of the People's Republic of Bangladesh, the principal amount of \_\_\_\_\_ US Dollar (US Dollar \_\_\_\_\_), together with interest on the unpaid principal balance/outstanding amount from \_\_\_\_\_, until paid in full.

**PAYMENT.** [PFI] will pay this loan in \_\_\_ payments of US Dollar \_\_\_\_\_ each payment. PFI's first payment is due on \_\_\_\_\_, and all subsequent payments are due on the same day of each \_\_\_\_\_ after that. PFI's final payment will be due on \_\_\_\_\_, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Interest on this Note is computed on a 365/365 simple/compound interest basis; that is, by applying the ratio of the annual interest rate over the number of days in a year (366 during leap years), multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. PFI will pay FSSSPD/BANGLADESH BANK at FSSSPD/BANGLADESH BANK's address shown above or at such other place as FSSSPD/BANGLADESH BANK may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

**INTEREST RATE.** The interest rate on this Note is

\_\_\_\_\_  
\_\_\_\_\_.

**PRIOR TO SIGNING THIS NOTE, PFI READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. PFI AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.**

**Name of the Sub-project:**

<b>Name of PFI</b>	
<b>Signature</b>	
<b>Authorized Signatory(ies)</b>	
<b>Title(s)</b>	
<b>Witness(es)</b>	
<b>Date Signed</b>	

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

### **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 Participating Financial Institutions (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.

#### **1.1 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 Financial Sector Support & Strategic Planning Department (FSSSPD), 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 implementation arrangements the project will contribute to the improvement of health and safety standards in the industry.

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

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 unit's 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 Financial Sector Support & Strategic Planning Department (FSSSPD), 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

#### **1.2 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 which was later extinguished to be reformed as the Sustainable Finance Department (SFD) on July 23, 2015 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 SFD 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.

### 1.3 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.

### 1.4 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 the format given in Annexure – VII(F). The Firms will also be responsible for information for carrying out “environmental and social screening” Annexure – VII(G) 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.

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

### **2.1 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 **Annexure – VII(A)**.

#### **2.1.1 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.

### **2.1.2 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.

### **2.1.3 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, sulphur 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.

#### **2.1.4 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.

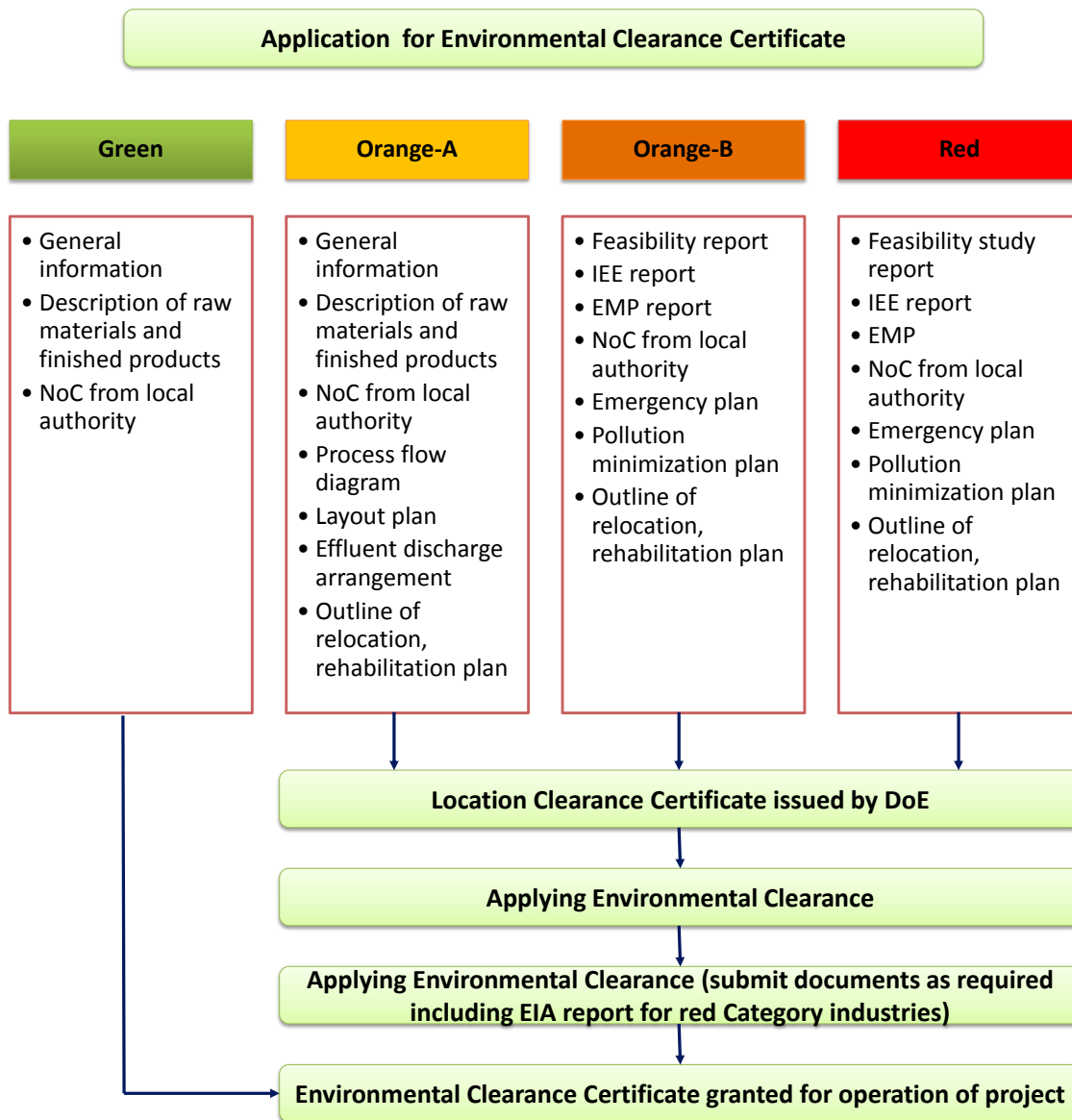
35. Rule 8 prescribes the duration of validity of environment clearance certificate (three years for green category and one year for other categories) and compulsory requirement for renewal of certificate at least 30 days before expiry of its validity.

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 Figure 2.1.



**Figure 2.1 : Process for obtaining EC Certificate form DOE**

## 2.2 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 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.

### **2.3 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.

### **2.3.1 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 trans-boundary 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 projectsince 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.

### 2.3.2 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.

#### **2.4 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.



## 2.5 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 **Annexure – VII(B)**.

## 2.6 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. 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.

### 3.0 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

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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)

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 enrol at secondary education after completing primary level also drop out eventually. According to Bangladesh Education Statistics 2011 by Bangladesh Bureau of Educational Information and 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.

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<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

<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.

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 waste water 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

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 Annexure – VII(C).

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.

## 4.0 ESMF Implementation Arrangements

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

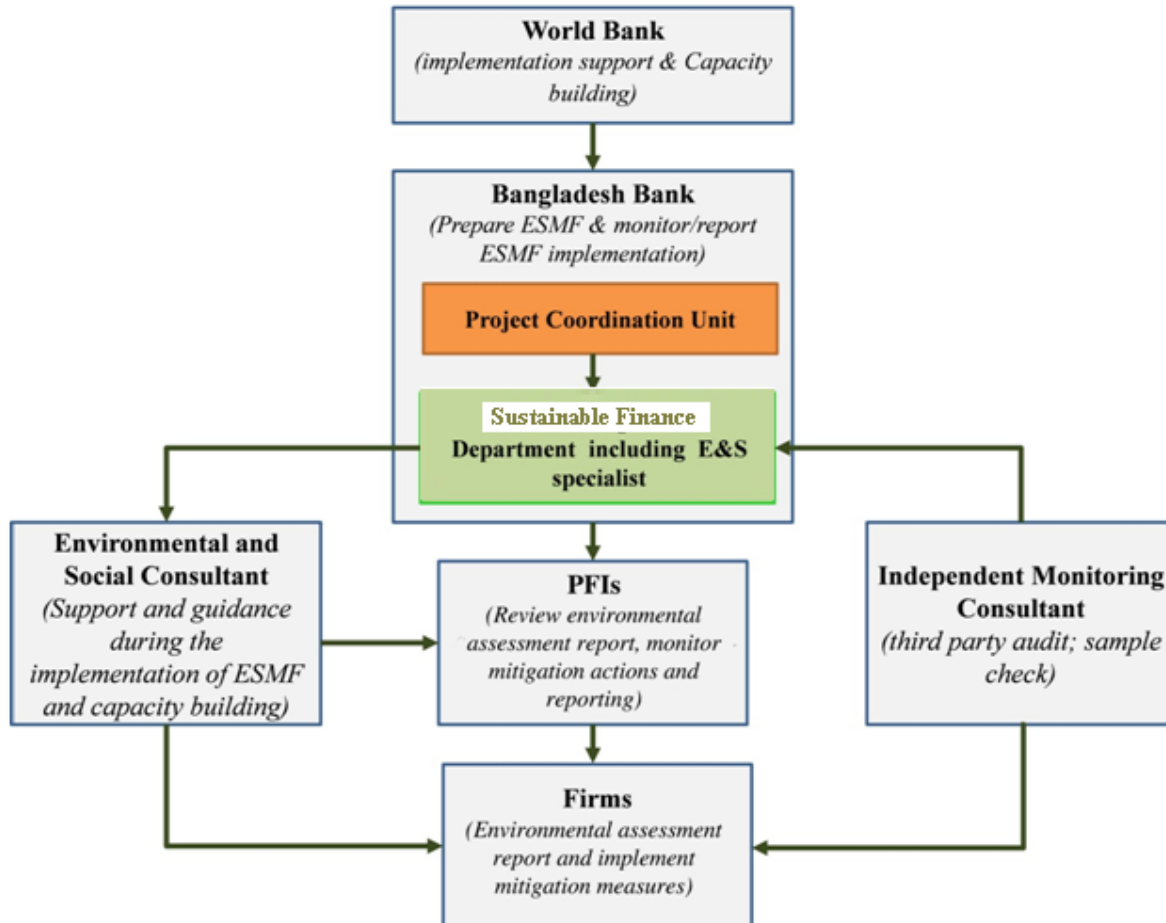


Figure 4.1: Proposed Implementation Arrangement

### 4.1 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). PD will lead the Project Implementation Unit (PIU) located at Bangladesh Bank. Financial Sector Support & Strategic Planning Department (FSSSPD) would act as PIU.

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 Sustainable Finance Department (SFD) 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 by FSSSPD and will work with SFD 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.

94. The BB will hire an **E&S Consulting firm (ESCF)** to assist SFD 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. 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.

97. 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.

98. The firm engaged for carrying out the third party audit shall have an E&S expert as part of the team.

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

## 4.2 Implementation Arrangements at PFIs

100. Participating Financing Institutions (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 SFD. 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 was June 30, 2015.

101. Specifically, the PFIs will:

- Comply with the List of Ineligible Activities under the Project (Section 5.2.1).
- 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 SFD quarterly reports on the implementation of the ESMF.
- Within five business days of becoming aware, notify the SFD 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, SFD (through ESCF) will ensure that all the transactions for firms comply with government regulations.

102. 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.

103. 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.

### 4.3 Reporting to WB

104. On behalf of BB, the PIU will report to the World Bank in consultation with SFD 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.

105. 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

### 4.4 Review and Clearance

106. 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. SFD 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.

107. 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

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



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.

108. The Chapter 6 provides details of review by PFIs and Bangladesh bank.

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

109. 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 2.0). 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.

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

110. 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.
- 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.

111. 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.

### **5.2 Sub-project Eligibility Screening**

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

#### **5.2.1 Prohibited Investment Activities List**

113. 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 as mentioned in **Annexure – VII(D)**.

114. 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.

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

115. 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 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.

116. 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).

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

117. 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

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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.

<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.

magnitude of the potential environmental and social risks and impacts should be assessed. Assessment Process for Sub-Project Screening & Categorization is presented in **Annexure VII(E)**.

118. 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.

119. 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 5.4):

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

121. **‘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.

122. **‘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.

123. **‘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.

124. 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 SFD at Bangladesh Bank to determine whether such a transaction is eligible based upon significance of potential impacts, risks and the capacity of the counterpart.

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<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.

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

#### 5.4 Criteria for Sub-Project categorization

125. 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.

126. 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 **Annexure – VII(F)**. 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.

127. The characteristics to be assessed to determine the Sub-Project Category under this Project are given below. **Annexure – VII(E)** illustrates the assessment process for sub-project categorization.

<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> <li>Sub-project violates the existing permits, licenses, approvals</li> <li>Sub-project increases the environmental load that would require additional environmental control measures</li> </ul>	Substantial-risk transactions (Category “SUBSTANTIAL” or “S”)
<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> <li>Sub-project brings in elements of increased health &amp; safety risk than that is existing</li> <li>Sub-project generates waste that needs special management provisions</li> <li>Sub-project has grievance related to E&amp;S performance</li> </ul>	Moderate-risk transactions (Category “MODERATE” or “M”)
<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”)

128. 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 land use 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*)

## 6.0 E&S Review Process

129. 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 5.3 during the FSSP implementation.

130. 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.

131. 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.

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

### 6.1 Loan application

133. 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 **Annexure – VII(F)**. This information will be used by PFIs to understand the project in the initial screening and categorization process.

134. 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

### 6.2 Screening and Categorization

135. 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.

136. 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.

137. The screening and categorisation approach is presented in the process flow chart as shown in next page.

138. The Firm will provide the concerned PFI with filled in E&S Section of the loan application format and the Environmental & Social Screening Form [**Annexure – VII(F) and VII(G)**]. The ESCF will provide assistance to the PFI in this review, if requested. The review shall be carried out in line with the Section 5.0.

139. 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.

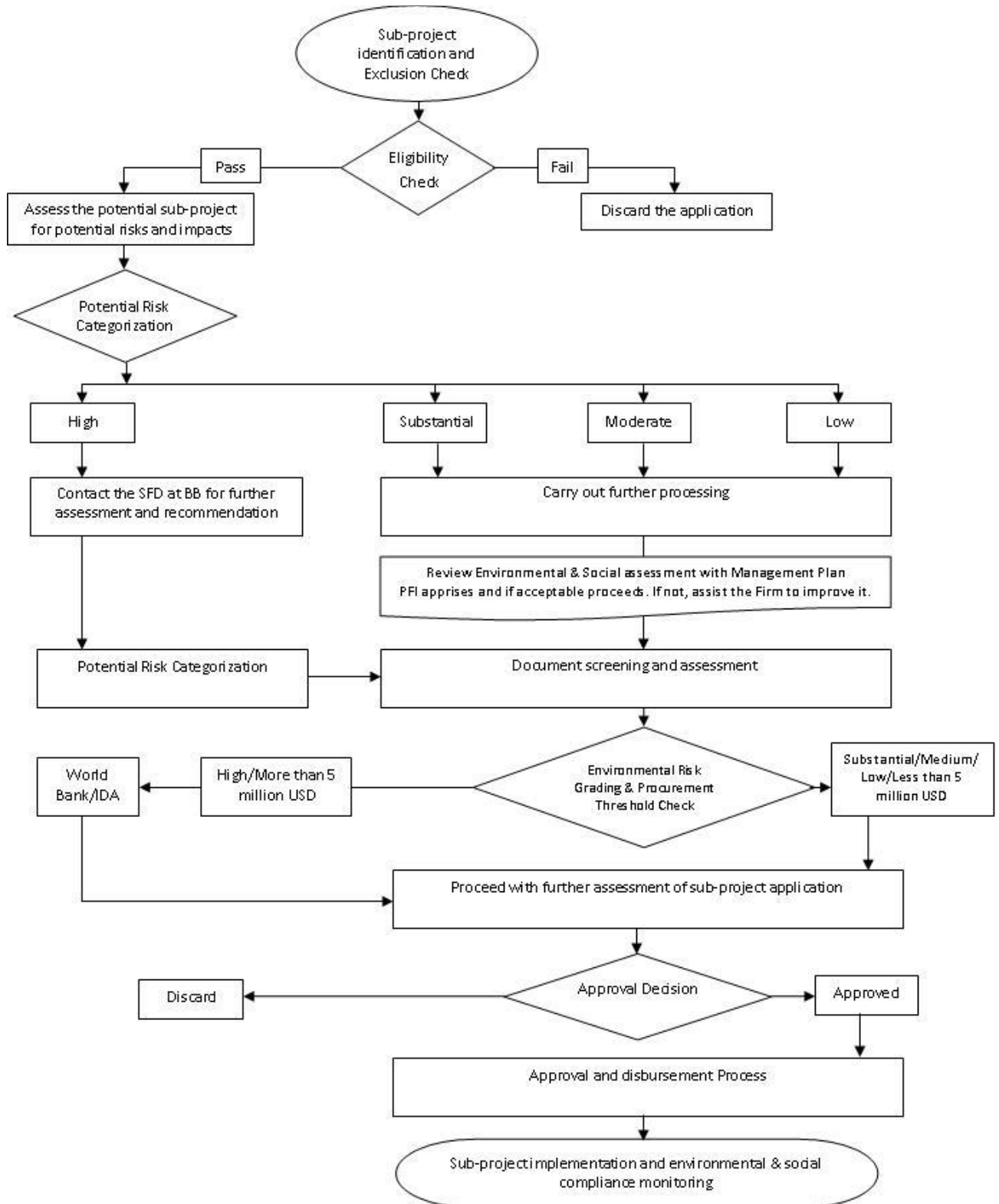
140. Further the sub-projects shall be checked for non-eligible transactions under the Project (Section 5.2.2). If the Project activity matches any of the activities listed under this list, the sub-project shall be summarily discarded.

141. 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 **Annexure – VII(E)**.

142. 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.

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

Sub-project assessment and decision making process:



**Note:** SFD will review two substantial risk sub-projects of each PFI and provide necessary clearance for further processing of loan application [Section 3(B) of Operation Manual]. After that FSSSPD will continue to assess the substantial risky sub-projects.



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

144. 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.

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

145. 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).

146. 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

147. Annexure – VII(H) 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.

148. 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.

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

149. 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.

150. 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.

151. 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 2.0); 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.

152. 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.

153. 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

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

154. 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.

155. Such sub-projects may require E&S Assessment (ESA). The extent and type of ESA requirement shall be determined by the SFD giving due consideration to the national regulatory requirements and the World Bank requirements. The SFD, 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.

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

## **7.0 Monitoring, Supervision and Reporting**

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

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

158. 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.

159. 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.

160. 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.

161. The early transactions under the Category “High” and “Substantial” will be prior reviewed by the SFD 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.

162. 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.

163. 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.

164. 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.

165. 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.

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

166. 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.

167. 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.

168. The report will be reviewed by the SFD 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.

169. 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.

### **7.3 Grievance Redress Mechanisms**

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

171. 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.

## **8.0 Public Consultation**

172. 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.

173. 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.

174. 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.

175. A guideline on conducting limited consultation is provided as **Annexure – VII(I)**.

176. 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.

177. **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.

## 9.0 Dissemination Process for ESMF

178. 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.

179. 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.

180. 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.

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

## 10.0 Technical Assistance and Safeguard Capacity Building

182. <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.

183. 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.

184. 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.

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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)

185. 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.

186. 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.

187. 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).

188. 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. An Environment Specialist will also be hired to work with BB. 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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189. 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.

## 11.0 Annexure – VII(A): Overview of Environmental Policy and Legislation in Bangladesh

*Note: This summary is provided for information purposes only, and is not necessarily an exhaustive nor a World Bank Group approved list of all relevant environmental legislation and institution framework.*

### **National Environmental Policy 1992**

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. Key elements of the policy are:

- Maintenance of the ecological balance and overall progress and development of the country through protection and improvement of the environment.
- Protection of the country against natural disasters
- Identification and regulation of all types of activities which pollute and degrade the environment
- Ensuring sustainable utilization of all natural resources
- Active association with all environmentally-related international initiatives

Environmental policy contains the following specific objectives with respect to the industrial sector:

- To adopt corrective measures in phases in industries that causes pollution.
- To conduct Environmental Impact Assessments (EIAs) for all new public and private industries.
- To ban the establishment of any industry that produces goods that cause environmental pollution, closure of such existing industries in phases and discouragement of the use of such goods through the development and/or introduction of environmentally sound substitutes.
- To ensure sustainable use of raw materials in industries and to prevent their wastage.

### **National Environmental Management Action Plan (NEMAP)**

National Environmental Management Action Plan, also referred to as NEMAP (GOB, 1995) is a wide-ranging and multi-faceted plan, which builds on and extends the statements set out in the National Environmental Policy. NEMAP was developed to address issues and management requirements during the period 1995 to 2005, and sets out the framework within which the recommendations of the National Conservation Strategy are to be implemented.

NEMAP has the broad objectives of:

- Identification of key environmental issues affecting Bangladesh;
- Identification of actions necessary to halt or reduce the rate of environmental degradation;
- Improvement of the natural and built environment;
- Conservation of habitats and biodiversity;
- Promotion of sustainable development;
- Improvement in the quality of life of the people.

One of the key elements of NEMAP is that sectoral environmental concerns are identified. In outline, the environmental issues of the industrial sector include the following:



- Pollution arising from various industrial processes and plants throughout the country causing varying degrees of degradation of the receiving environment (Air, Water, and Land).
- There is a general absence of pollution abatement in terms of waste minimization and treatment.
- Low level of environmental awareness amongst industrialists and entrepreneurs.
- Lack of technology, appropriate to efficient use of resources and waste minimization leading to unnecessary pollution loading in the environment.
- Economic constraints on pollution abatement and waste minimization such as the cost of new technology, the competitiveness of labour, and intensive production methods as compared to more modern methods.
- Concentration of industry and hence pollution in specific areas which exacerbate localized environmental degradation and exceed the carrying capacity of the receiving bodies.
- Unplanned industrial development has resulted in several industries located within or close to residential areas, which adversely affects human health and quality of human environment.
- Establishment of industries at the cost of good agricultural lands and in the residential areas.
- Lack of incentives to industrialists to incorporate emission/discharge treatment plant in their industries.

### **Environment Conservation Act 1995**

An Act to provide for conservation of the environment, improvement of environmental standards and control and mitigation of environmental pollution.

The national environmental legislation known as Environmental Conservation Act, 1995 (ECA-95) is currently the main legislative document relating to environmental protection in Bangladesh, which repealed the earlier environment pollution control ordinance of 1997 and has been promulgated in 1995.

The main objectives of ECA-95 are:

- Conservation and improvement of environment, and
- Control and mitigation of pollution of environment.

The main strategies of the act can be summarized as:

- Declaration of ecologically critical areas, and restriction on the operation and process, which can be carried, out or cannot be initiated in the ecologically critical areas.
- Regulation in respect of vehicles emitting smoke harmful for the environment.
- Environmental clearance
- Regulation of the industries and other development activities - discharge permit.
- Promulgation of standards for quality of air, water, noise and soil for different areas for different purposes.
- Promulgation of standard limit for discharging and emitting waste.
- Formulation and declaration of environmental guidelines.

Department of Environment (DOE) is implementing the Act. DOE is under the ministry of Environment and Forest and is headed by a Director General (DG). The DG has complete control over the DOE. The power of DG, as given in the Act, may be outlined as follows:

- The DG has the power to close down the activities considered harmful to human life or the environment. The operator does have the right to appeal and procedures are in place for this. However, if the incident is considered an emergency, there is no opportunity for appeal.
- The DG has the power to declare an area affected by pollution as an ecologically critical area. DOE governs the type of work or process, which can take place in such an area.

- Before going for any new development project, the project proponent must have to take Environmental Clearance from DOE. The procedures to take such clearance are in place.
- Failure to comply with any part of ECA-95 may result in punishment by a maximum of 05 years imprisonment or a maximum fine of Tk. 100,000 or both.

The ECA-95 also provides for restricting manufacture, sale etc. of articles injurious to environment.

The provision of granting Environmental Clearance Certificate to industrial units or project by the Director General has been provided under the Act. The Act also provides for the formulation and publication of environmental guidelines relating to the control and mitigation of environmental pollution, conservation and improvement of the environment.

### **Environment Conservation Rules 1997**

A set of the relevant rules titled Environment Conservation Rules 1997 (ECR-97) to implement the ECA-95 has been promulgated (August 1997). The ECR is further amended in 2002 and 2003. The rules mainly consist of:

- Categorized list (green, orange and red) of the projects;
- Application format to take environmental clearance;
- Ambient standards in relation to water pollution, air pollution and noise, as well as permitted discharge/emission levels of water and air pollutants and noise by industries.

The Rules incorporate "inclusion lists" of projects requiring varying degrees of environmental investigation.

Green List Industries are considered relatively pollution-free and therefore do not require an environmental clearance certificate from the DOE and no environmental study.

Orange List 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 DOE environmental clearance. 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.

Red List Industries are those which may cause 'significant adverse' environmental impacts and are therefore required to submit an EIA report. It should be noted that they may obtain an initial site clearance on the basis of an IEE report, and subsequently submit an EIA report for obtaining environmental clearance along with other necessary papers, like the feasibility study report, no objection from local authority.

As per ECR '97 all existing industries/projects in Orange B and Red category require an Environmental Management Plan (EMP) (not IEE or EIA) to be prepared and submitted along with necessary other papers while applying for environmental clearance.

The procedure for issuing Environmental Clearance Certificate and the steps to be followed for the various industrial categories has been provided in the Rules. The Rules provides for issuance of Location Clearance Certificate for industrial units and projects falling in the Orange – A, Orange – B and Red categories, prior to the issuance of Environmental Clearance Certificate. However if the the Director General considers it appropriate, can issue Environmental Clearance Certificate directly without issuing a Location Clearance Certificate.

Environmental standards in operation in Bangladesh also Promulgated under the ECR-97. There are standards prescribed for varying water sources, ambient air, noise, odour, industrial effluent and emission discharges, vehicular emission etc.

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, sulphur dioxide, and oxides of nitrogen and in some cases volatile organic compounds and other substances.

Application format for environmental clearance is in place can be collected from divisional offices of DOE.

## 12.0 Annexure – VII(B): Guidance Note on Stakeholder Analysis

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.

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

The reason for doing a stakeholder analysis is to identify:

- which individuals or organizations to include in coalition (although its composition may evolve during project design and implementation)
- what roles they should play and at which stage
- who to build and nurture relationships with
- who to inform and consult about the project

It helps in justifying these decisions.

There are many ways of preparing this analysis. Both the coalition and other (external) stakeholders should be considered. The table at the end of this section is provided for guidance based on those stakeholders that are adjudged to be high priority.

Specificity in naming stakeholders and considering those which can be realistically consulted in critical.

For practical reasons, prioritising the most relevant stakeholder is critical to this exercise.

### **Matrix for prioritising key stakeholders:**

The following matrix may be considered for prioritising key stakeholders:

	High influence ←	→ Low influence
High importance	<p><b>Box A</b> Stakeholders who stand to lose or gain significantly from the project AND whose actions can affect the sub-project's ability to meet its objectives</p> <p>The project needs to ensure that their interests are fully represented in the coalition. Overall impact of the sub-project will require good relationships to be developed with these stakeholders.</p>	<p><b>Box B</b> Stakeholders who stand to lose or gain significantly from the project BUT whose actions cannot affect the project's ability to meet its objectives</p> <p>The project needs to ensure that their interests are fully represented in the coalition.</p>
Low importance	<p><b>Box C</b> Stakeholders whose actions can affect the project's ability to meet its objectives BUT who do not stand to lose or gain much from the project</p> <p>They may be a source of risk; and you will need to explore means of monitoring and managing that risk.</p>	<p><b>Box D</b> Stakeholders who do not stand to lose or gain much from the project AND whose actions cannot affect the project's ability to meet its objectives</p> <p>They may require limited monitoring or informing of progress but are of low priority. They are unlikely to be the subject of project activities or involved in project management.</p>

- Those in Box D are not key stakeholders and can be effectively ignored in project design and implementation.
- Those in Box A are the most important stakeholders and their interests should be represented. It should be ensured that the interests of the strongest stakeholders in Box B are represented on the coalition.
- It is useful to build and nurture relationships with the most influential stakeholders in Box C, to 'keep them on board'.

### 13.0 Annexure – VII(C): Key Environmental Impacts of Industries in Textile Sector

Textile industries are characterised not only by the vast quantity of water required, but also by variety of chemicals used. Generally there is a long sequence of wet processing stages, and therefore many requirements for resource inputs and several sources of waste generation. Another notable feature of this industry includes variations in production and profiles and hence fluctuations in waste flow rates and its concentrations.

Amongst the waste generated, the wastewater dominates over air emissions and solid waste generated in terms of severity of environmental impacts. The wastewater is generated due by the wet operations, which are conducted during different parts of the textile manufacturing process and contain substantial pollution load in terms of organic matter, suspended matter, mineral oils, non-biodegradable or low biodegradable surfactants and at times heavy metals. Odour and colour are two other characteristics of the wastewater generated.

The impacts of the wastewater, when discharged untreated, can be significant. Some chemicals discharged can have toxic effects on the receiving environment. Discharge of such effluents into aquatic bodies can cause lowering of dissolved oxygen and threats to aquatic life and downstream water users, due to toxicity and deterioration in the aesthetic value of the water quality. The following table provides a typical overview of wastewater generated.

<b>Unit process</b>	<b>Possible pollutant in the wastewater</b>	<b>Nature of the wastewater</b>
Desizing	Starch, glucose, carboxyl methyl cellulose, poly vinyl alcohol, resins, fats and waxes	Significant concentrations of organic matters and solids. BOD <sub>5</sub> and COD loads from desizing may be significant (35 to 50 percent of the total load), and COD concentrations up to 20,000 mg/L may be generated.
Scouring	Caustic soda, waxes and greases, soda ash, sodium silicate, detergents, etc.	Strongly alkaline, and a significant portion of BOD <sub>5</sub> and COD loads, dark colour
Bleaching	Hydrogen peroxide, sodium hypochlorite, chlorine compounds, caustic soda, absorbable organic halogens (AOX), acids, etc.	Strongly alkaline
Mercerizing	Caustic soda	Strongly alkaline
Dyeing	colour pigments, halogens (especially in vat, disperse, and reactive dyes), metals (e.g. copper, chromium, zinc, cobalt, and nickel), amines and other chemicals used as auxiliaries in dye formulation	Strongly coloured, fairly high BOD <sub>5</sub> and COD
Printing	Colours, starch, gums, oil, china clay, mordants, acids and metallic salt	an oily appearance and significant volatile organic compound (VOC) levels, highly coloured, fairly high BOD <sub>5</sub> and COD
Finishing operations	Traces of starch, tallow; salt, etc.	Slightly alkaline, low BOD <sub>5</sub> and COD

While the impact of air emissions from textile manufacturing may not be significant the use of auxiliary processes like power generation and steam generation through boilers contribute to air pollution. The type of fuel being used and the efficiency of the systems are critical factors to look into in these cases.

In order to reduce the environmental impacts from textile industries, various pollution prevention / cleaner production techniques may be used to eliminate waste streams or to reduce waste strength and volume. Pollution prevention / cleaner production techniques not only reduces the environmental impacts but most of the times improves process efficiencies, thus contributing to cost reduction in the production processes.

Some of the recommended pollution prevention techniques for each of the unit processes used in textile industries are tabulated below.

<b>Unit process</b>	<b>Illustration of possible pollution prevention techniques</b>
Desizing	<ul style="list-style-type: none"> <li>• Selection of more bio eliminable sizing agents</li> <li>• Application of enzymatic or oxidative desizing with starch and modified starch sizing agents, followed by washing systems</li> <li>• Integration of desizing / scouring and bleaching in a single step to reduce effluent generation</li> <li>• Recovery and reuse of specific water-soluble synthetic sizing agents</li> </ul>
Scouring	<ul style="list-style-type: none"> <li>• Use of readily biodegradable detergents / surfactants that do not give rise to toxic metabolites</li> <li>• Adoption of low volatile organic compound (VOC) emitting solvent wash for removal of water insoluble oil</li> </ul>
Bleaching	<ul style="list-style-type: none"> <li>• Use of hydrogen peroxide bleaching agent, instead of sulphur- and chlorine-based bleaches</li> <li>• Reduce the use of sodium hypochlorite</li> </ul>
Mercerizing	<ul style="list-style-type: none"> <li>• Recovery and reuse of alkali from mercerizing effluent</li> </ul>
Dyeing	<ul style="list-style-type: none"> <li>• Use of automatic systems for dosing and dispensing dyes</li> <li>• When applicable, use of continuous and semi-continuous dyeing processes</li> <li>• Use of machinery with automatic controllers of temperature and dyeing cycle parameters</li> <li>• Substitution of chrome dyes with reactive dyes</li> <li>• Adoption of low-salt dyeing techniques</li> </ul>
Printing	<ul style="list-style-type: none"> <li>• Selection of water soluble and biodegradable lubricants for knitted fabrics instead of mineral oil</li> <li>• Use of organic solvent washing for non-water soluble lubricants</li> </ul>
Finishing operations	<ul style="list-style-type: none"> <li>• Selection of water soluble and biodegradable lubricants for knitted fabrics instead of mineral oil and wash them with water</li> <li>• using mechanical dewatering equipment to reduce water content of the incoming fabric</li> </ul>

For the remaining wastewater generated after the pollution prevention techniques have been applied a combination of treatment techniques are available. The treatment system put in place should be designed to meet the discharge standards prescribed under the ECR-97.

## 14.0 Annexure – VII(D): Prohibited Investment Activities List

FSSP's finance will not be invested in the following:

- Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES.
- Production of or trade in weapons and ammunitions.<sup>1</sup>
- Production or trade in alcoholic beverages (excluding beer and wine).<sup>1</sup>
- Production or trade in tobacco.<sup>1</sup>
- Gambling, casinos and equivalent enterprises.<sup>1</sup>
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the radioactive source is trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
- Firms that discharge untreated polluted water into international waterways.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

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<sup>1</sup>This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.



## 15.0 Annexure – VII(E): Assessment Process for Sub-Project Screening & Categorization

(This Guidance should be read along with section 6 of the ESMF, Annex VII(F) - E&S Section of the Loan Application Format and Annex VII(G) - Environmental and Social Screening Form)

This Screening approach will be used for the following purposes:

- Assigning of the environmental category for the project
- Finalizing Terms of Reference for Environmental & Social Due Diligence (ESDD), Initial Environmental Examination (IEE), Environmental Impact Assessment (EIA), Corrective Action Plan (CAP) or Environmental & Social Management Plan (ESMP)

<b>Guidance to the E&amp;S Screening</b>	<b>Reference</b>
Based on the sub-project description made available by the potential Firm, the PFI will ascertain the category of the industry as per the ECR-97. Also project eligibility will be ascertained by ensuring that the activities of the industry do not violate the Prohibited Investment Activities List.	refer Section 5.2.1 and Annex VII(D)
The PFI then ascertains that the FSSP specific exclusions (refer section 5.2.2) is not violated by the potential Firm. This includes establishing that the factory / enterprise located inside an industrial zone or in factory environments <sup>14</sup> and no land acquisition and displacement of people. Any proposed sub-project that does not comply with the above shall be rejected without any further analysis. If the information is unknown, additional information is required before proposal can be considered.	refer Section 5.2.2 and Q 1 to 4 of the Environmental and Social Screening Form [Annex VII(G)]
<p>Once the eligibility of the sub-project is ascertained, the PFI shall establish if the sub-project activities are entirely different from the existing operations of the industry. In case they are different the PFI shall assess to understand if the proposed activities of the sub-project:</p> <ul style="list-style-type: none"> <li>• may cause large scale adverse impacts on local air quality, noise levels, generation of hazardous wastes as well as nuisance to community</li> <li>• may permanently alter landuse, natural drainage or destroys habitat</li> <li>• may create impacts that is hitherto unknown</li> </ul> <p>If any of the above situations is found to be a possibility for the sub-project, the sub-project shall be considered as High-risk transaction. Such sub-projects may require E&amp;S Assessment (ESA).</p> <p>The approach for dealing with High-risk transactions is given under section 6.6.</p>	refer Q 5 to 7 of the Environmental and Social Screening Form [Annex VII(G)]
<p>The PFI then shall check the applicable operating permits, licenses, approvals etc. in doing this the PFI will ensure that these are available and valid for the existing operations of the industry.</p> <p>The PFI then shall check if the introduction / operation of the sub-project will have an increase in the production capacity such that this infringes any of the permits, licenses, and approvals. If so the requirement to revise the permits,</p>	refer Q 8 to 13 of the Environmental and Social Screening Form [Annex VII(G)]

<sup>14</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.

Guidance to the E&S Screening	Reference
<p>licenses, and approvals shall be checked.</p> <p>The PFI then shall check if the sub-project will contribute to the generation of water effluents and air emissions which will require additional environmental control measures in order to ensure compliance with the DoE standards.</p> <p>Also the environmental and social liabilities (e.g. pending legal proceedings involving environmental issues worker / community issues, etc.) that are pending against the industry should be assessed.</p> <p>If there are any gaps in the existing facility compared to the stipulated conditions of the permits, licenses, approvals etc., the approach for bridging the gap shall be looked into.</p> <p>If any of the above situations is found to be a possibility for the sub-project, the sub-project shall be considered as substantial-risk transaction. Such sub-projects may require an E&amp;S Due Diligence (ESDD) Audit.</p> <p>The approach for dealing with Substantial-risk transactions is given under section 6.5.</p>	
<p>The PFI subsequently checks for the following due to the sub-project:</p> <ul style="list-style-type: none"> <li>• handling of hazardous/ dangerous chemicals in its operations</li> <li>• adverse health and safety impacts are created</li> <li>• disturbances to the adjoining neighbourhood during construction or operation of the sub-project</li> <li>• impact any physical cultural resources</li> <li>• generate waste that needs special management provisions</li> <li>• generation of polychlorinated biphenyls (PCBs) or mercury-containing devices</li> <li>• removal of building materials containing asbestos</li> <li>• lead to adverse impact on the livelihood of the workforce</li> </ul> <p>Also if any complaints have been raised by local affected people or groups regarding conditions at the facility should also be ascertained.</p> <p>If any of the above situations is found to be a possibility for the sub-project, the sub-project shall be considered as Medium-risk transaction. Environmental &amp; Social Management Plan (ESMP) will be prepared for such sub-projects to address the discrepancies. If required, E&amp;S covenants should also be included.</p> <p>The approach for dealing with Medium-risk transactions is given under section 6.4.</p>	<p>refer Q 14to 27of the Environmental and Social Screening Form [Annex VII(G)]</p>
<p>Sub-projects for which none of the above conditions apply will be considered as Low risk transaction.</p> <p>The approach for dealing with Low-risk transactions is given under section 6.3.</p>	

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

## 16.0 Annexure – VII(F): E&S Section of the Loan Application Format

*(To be filled by the project proponent. Attach additional sheets, if needed)*

Name of Industry	:	
Address	:	
Contact Person	:	
E-mail	:	
Telephone No.	:	
Type of sub-project	:	<input type="checkbox"/> Expansion <input type="checkbox"/> New Unit
Product	:	Existing products :
	:	Proposed products :
Brief description of sub-project	:	
Location of sub-project <sup>a</sup>	:	
Layout of the sub-project <sup>b</sup>	:	
Ownership of sub-project land	:	
Brief description of sub-project site <sup>c</sup>	:	
Key activities of sub-project	:	

<sup>a</sup> attach location map

<sup>b</sup> attach layout drawing. Where applicable indicate clearly the existing setup and proposed expansion

<sup>c</sup> indicate the information on present landuse, and Important Environmental Features<sup>15</sup> (IEFs) adjacent the site

<sup>15</sup>Human settlements, educational institutions, health care, pond, canal, river, utility infrastructure , park, green area etc.

Identify the key stakeholders to the sub-project along with their interests in the sub-project and the ways in which these interests may affect the sub-project :	
Key emissions expected from the sub-project	Air :
	Water :
	Solid waste :
Expected employment generation from the sub-project <sup>d</sup>	Male :
	Female :
Schedule of implementation :	(a) Sub-project duration (months): :
	(b) Tentative start date :
Potential benefits from sub-project :	
Any adverse impacts on livelihoods <sup>e</sup> :	

Please confirm the following are attached with this format:

#	Attachment	Yes / No / NA
1	Location map of the sub-project	
2	Layout drawing. Where applicable, indicating clearly the existing setup and proposed expansion.	
3	Gantt chart for schedule of implementation	
4	Location Clearance Certificate (If ECC is not granted)	
5	Environmental clearance certificate (ECC)	
6	For existing factories, recent emission monitoring reports*	

*\*Note: Emission monitoring reports for wastewater discharge, air emission from the key stacks should be submitted. These reports should be from either DoE or other reputed institution. The reports should not be older than 3 months.*

<sup>d.</sup> provide a range

<sup>e.</sup> for example, rendering labour redundant due to use of new technologies / equipment

## 17.0 Annexure – VII(G): Environmental & Social Screening Form

	Subproject ID:				
	Subproject Name:				
	Subproject Location:				
	Factory / enterprise classification by DoE:	Green	Orange-A	Orange-B	Red

#	Assessment query	Y E S	N O	N / A	Guidance
1	Does the production or activities of the factory / enterprise figure in the prohibited activities list?				<i>Refer the Project Exclusion List</i>
2	Is the factory / enterprise located outside an industrial zone or in factory environments <sup>16</sup> ?				
3	Will there be land acquisition financed by the proposed sub project?				
4	Will there be displacement of people (physical or economic) for undertaking the proposed sub-project?				
5	Are any of the activities of the Sub-project entirely different from the existing operations and may cause large scale adverse impacts on local air quality, noise levels, generation of hazardous wastes as well as nuisance to community				
6	Are any of the activities of the Sub-project entirely different from the existing operations and may permanently alter landuse, natural drainage or destroys habitat				
7	Are any of the activities of the Sub-project entirely different from the existing operations and may create impacts that is hitherto unknown				
8	Are any operating permits, licenses, approvals etc. invalid or missing for the factory / enterprise?				
	Permits to screen for include:				

<sup>16</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.

#	Assessment query	Y E S	N O	N / A	Guidance
	Site / Location Clearance				
	Environmental Clearance				
	Factories Inspectorate's operating licenses & permits				
	Landuse Clearance				
	Building permission				
	Any other				
9 A	In case of sub-project that involves setting up of new manufacturing unit, is there a requirement of Environmental Impact Assessment (EIA) to be carried out?				<i>Does the new manufacturing unit required by law to carry out EIA?</i>
	If YES, has the required applications been made and the TOR for the same made to the DOE and TOR obtained?				<i>If Yes, submit the TOR approved by DOE</i>
9 B	In case of sub-projects that require the expansion of existing facilities, will there be increase in production capacity due to the sub-project that violates the above mentioned permits, licenses, approvals etc.?				<i>Does the existing enterprise required by law to seek revised Clearances?</i>
	If YES, has application to be made for revision of Environmental Clearance that will require Environmental Impact Assessment (EIA) to be carried out?				<i>If Yes, submit the TOR approved by DOE</i>
1 0 A	Will the sub-project generate water effluents that would require additional environmental control measures in order to ensure compliance with the DoE standards?				
1 0 B	Will the sub-project discharge untreated polluted water into international waterways				If yes, not eligible under FSSP
1 1	Will the sub-project generate emissions of pollutants into the air that would require additional environmental control measures in order to ensure compliance with the DoE standards?				
1 2	Are there any significant outstanding environmental fees, fines or penalties or any other environmental and social liabilities (e.g. pending legal proceedings involving environmental issues, worker / community issues, etc.)				
1	In case of sub-projects that require the expansion of existing facilities, are there any gaps in the				<i>If the finance requested is proposed to be used</i>

#	Assessment query	Y E S	N O	N / A	Guidance
3	existing facility compared to the stipulated conditions of the permits, licenses, approvals etc.?				<i>to remedy these conditions, provide details as Annexure.</i>
1 4	Will the sub-project involve handling of hazardous/ dangerous chemicals in its operations?				
1 5	Will the sub-project create adverse health and safety impacts for the employees that may pose significant risk?				<i>e.g.</i>
1 6	Will the sub-project cause any fire hazards?				<i>e.g. New fuel storage to be constructed. If Yes, Provide details of emergency management system details as Annexure.</i>
1 7	Will the construction work or functioning of the sub-project disturb other academic/hospital/residential activities in the neighbourhood?				
1 8	Will the construction work of the sub-project impact any physical cultural resources?				<i>Physical cultural resources assets could be structures related to archaeology, architecture, sculptures of national or religious interest</i>
1 9	Will the subproject generate waste that needs special management provisions or require handling through licensed agencies?				<i>e.g. in case of procurement of new equipment that replaces existing equipment, how will the old equipment be managed?</i>
2 0	Will equipment containing polychlorinated biphenyls (PCBs) be removed / disposed?				<i>e.g. transformers, capacitors, hydraulic and heat transfer systems, etc.)</i>
2 1	Will building materials containing asbestos be removed / disposed?				
2 2	Will mercury-containing devices be removed / disposed?				<i>e.g. switches, gauges, thermostats)</i>

#	Assessment query	Y E S	N O	N / A	Guidance
2 3	Will the sub-project lead to adverse impact on the livelihood of the workforce?				<i>e.g. rendering labour redundant</i>
2 4	Have there been any complaints raised by local affected people or groups regarding conditions at the facility?				
2 5	Are 100 percent of the workers provided with written and duly signed Employment Contracts				
2 6	Is “No Child Labour” policy followed at the factory?				
2 7	Does the company pay wages (excluding overtime) which is equal or above the minimum wages admissible as per government norms?				

**a) Screening Decision**

(General Note: Please review the environmental screening and summarize the environmental impacts. Suggest the next step including the Environmental Management Plan).



## 18.0 Annexure – VII(H): Generic Format for E&S Management Plan

The E&S Management Plan (ESMP) outlines the specific programs proposed by the project sponsor that will avoid, mitigate or compensate for anticipated environmental effects of the proposed project. The ESMP is designed to provide a description of the various measures proposed by the Sponsor to avoid significant effects to the environment and provide the framework for monitoring and managing the effectiveness of the various mitigation and compensation measures.

Following is a generic format for preparing ESMP.

Introduction:	<i>Brief but concise information on objective of the EMP and its connection with the ESMF</i>
Sub-project description	<i>Provide brief description of the sub project.</i>
Issue Addressed:	<i>Provide brief description of the identified risk based on the safeguard screening following the criteria in the ESMF, identify potential impacts (positive and negative)</i>
Mitigation measure proposed:	<i>Provide brief description of the proposed mitigation measure and how it is expected to alleviate the risk</i>

### Activity Plan of ESMP

Sl. No.	Activity*	Performance Indicator	Target (w-m-y)	Additional Resources Required <sup>#</sup>

\*Actions to be carried out as part of the mitigation measure

<sup>#</sup>Additional resources could be in terms of monetary requirements or physical or manpower requirements

Implementation Arrangements	<i>Explain the responsibilities assigned, implementation schedule, cost estimate, and how the EMP will be integrated into the subproject</i>
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### Monitoring Plan

Activity	What parameter is to be monitored?	Where is the parameter to be monitored?	How is the parameter to be monitored?	When is the parameter to be monitored?	Responsibility

Consultation and information disclosure	<ul style="list-style-type: none"> <li><i>If relevant, provide summary on consultation activities and stakeholders on the EMP at subproject level and concerns raised and responses.</i></li> <li><i>Locations and dates of EMP to be disclosed should be provided.</i></li> </ul>
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## 19.0 Annexure – VII(I): Guidance on Public Consultation for Sub-Projects under FSSP

The process of consultations (design and implementation) is the Firm's responsibility. This has to be carried out in consultation with the PFI.

Depending on the scope and context of the sub-project, consultations should take place as part of an integrated Environment and Social Assessment.

The issues to be addressed include:

- What are the issues on which there needs to be consultation?
- Who should be consulted on these issues?
- What form should the consultations take?
- What is the appropriate timing / schedule for conducting consultations?
- How will the consultations be documented, and their results incorporated in the E&S assessment?

The scope of the consultations is based on the scope of the sub-project and the potential impacts, risks and opportunities associated with it. The stakeholders should be presented with the sub-project design, expected achievements, the possible adverse impacts and the associated mitigation measures should be communicated to the stakeholders.

### Identification of stakeholders

The stakeholders can be analysed based on stakeholder analysis [refer [Annex VII\(B\)](#)]. In the Project context the workers and the neighbourhood community are two of the key stakeholders besides the government. If the sub-project implementation has the possibility of workers losing employment, these workers should be separately identified as stakeholders. People whose businesses are temporarily affected during construction activities should be identified.

It is important to consult beneficiaries of a sub-project in order to enable them to give comments and suggestions on project design. Key interest groups (e.g., trade unions, academics, professional organizations) who are known to have views on issues being addressed by the project should also be identified.

Participation of the concerned PFI should also be ensured.

### Conduct of the consultation

There are several ways to conduct consultations, which include: (a) public hearings or meetings; (b) focus group discussions with particular types of stakeholders; (c) household surveys with structured questionnaires, and (d) electronic consultations. However considering the Project context and looking at the possible sub-project sizes, focus group discussions and/or household surveys should suffice. However, it may be noted that the Firm is free to use any of the abovementioned (or another) method till such time the fairness and effectiveness of consultation is ensured.

The form of consultation is left to the choice of the Firm, till such time all key stakeholders are meaningfully consulted.

The key stakeholders should be encouraged to share their views and suggestion. Towards this it is important to ensure that the key stakeholders have been adequately informed well in time with specific details on the consultation.

Focus groups are extremely useful to obtain the views of different categories of stakeholders: When there are various categories of stakeholders differentiated by the type of impact, the characteristics of the group, or their location – for example, people losing employment, temporarily or partially affected people, people affected indirectly, women, – it is important to have focus groups for these categories. For example, if a sub-project affects a large neighbourhood due to noise pollution or increased traffic, consultations with one or two persons cannot be deemed to adequately cover the issues and concerns of all affected neighbourhood; focus groups or public meetings need to be held so that all affected people at least have an opportunity to participate and express their views. Focus groups are also very useful when some of the stakeholders, especially the more vulnerable, are not likely to be able to express their views openly and freely in large public meetings.

### **Consultation location**

Consultations should be held as close to the location of sub-project as possible. If the key stakeholders need to travel to the consultation venue transport needs to be provided to and from the location, with clear advance information about how to take advantage of the transport facilities offered. It is important that the location needs to be perceived as safe by participants. The venue should be adequate in terms of size, facilities, acoustics and lighting.

### **Documentation and dissemination**

A good record of all consultations should be maintained in a language that is understood by the key stakeholders. The record of consultations should describe: (a) key issues discussed; (b) any agreements reached; (c) the form and manner in which the comments and suggestions received during consultations have been taken into account; (d) points on which there is disagreement either between different stakeholders or between stakeholders and the Firm; and (e) the reasons why some of the comments made by the stakeholders cannot be accommodated.

The concerned PFI should attend consultations as an observer, but make it clear at the outset that the primary decision-making related to the various design aspects of the project remains with the Firm.

### **Consultations in projects where the PFI gets involved at a late stage:**

There may be projects where the PFI's involvement starts after project preparation is well underway. In such cases, the PFI should assess the quality and comprehensiveness of the stakeholder analysis and consultations that have taken place prior to PFI involvement, and determine the need for, and the scope and form of additional consultations to be carried out.