



# Concept Environmental and Social Review Summary

## Concept Stage

### **(ESRS Concept Stage)**

Date Prepared/Updated: 12/22/2021 | Report No: ESRSC02525



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Bangladesh	SOUTH ASIA	P174678	
Project Name	Supporting Access to Finance for MSMEs Recovery and Growth		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	2/21/2022	5/16/2022
Borrower(s)	Implementing Agency(ies)		
PEOPLE’S REPUBLIC OF BANGLADESH	Bangladesh Bank		

Proposed Development Objective

The objective of the project is to facilitate access to finance for MSMEs post-COVID-19 recovery and growth

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>300.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The project will support the authorities of Bangladesh with creation, capitalization and institutional development of a partial credit guarantee scheme (PCGS) for micro, small and medium enterprises (MSMEs). The project will contribute to the ongoing program of support provided by the Ministry of Finance (MoF) and Bangladesh Bank (BB) for MSMEs post-COVID-19 recovery, jobs retention and growth. The project will comprise three main components, namely: (i) Component 1. Creating sustainable MSME PCGS, (ii) Component 2. Strengthening MSME PCGS institutional capacity and supporting financial market infrastructure; (iii) Component 3. Project Implementation and Monitoring Support. Component 1 will support development of a portfolio based guarantee scheme for eligible participating financial institutions (PFIs) that will lend to MSMEs. As access to finance is one of the top three constraints for business growth in Bangladesh, a PCGS will provide additional risk coverage to lenders, thus reducing their potential losses in case of



an MSMEs default. This will help incentivize banks to lend to MSMEs even in the environment of higher risks and disruptions caused by the pandemic. The risk coverage will be limited to 70 percent of an individual loan (working capital and investment finance). It is expected that the MSME PCGS will operate on the basis of additionality, transparency and sustainability, and by the end of the project a viable, independent credit guarantee institution will be established, capitalized, become fully operational and well governed. The project under Component 2 will support strengthening of the MSME PCGS institutional capacity and financial sector infrastructure. The project will also support capacity building for PFIs and MSMEs to strengthen their capability for environment and social risks assessment and promote investments for climate change mitigation and adaptation.

#### **D. Environmental and Social Overview**

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The Project will contribute to address the COVID-19 pandemic induced negative impacts on the private and financial sector through offering a partial credit guarantee scheme (PCGS) to banks and Non-banking Financial institutions (NBFIs). The target beneficiary group of the project is MSMEs. It is expected that MSME PCGS covered MSME lending activities will be implemented throughout the country encompassing urban and rural areas without limits and thresholds for specific sectors. The popular MSME sectors in Bangladesh include agro production, trading, livestock, fisheries, poultry, handicrafts, leather processing, shoe manufacturing, light engineering, dying, aluminum utensils, mini-garments, hosiery, handlooms etc. The MSMEs primarily use local resources & grow in clusters. PFIs will specifically use the PCGS to mitigate risks and reduce losses which will contribute to support sustainability and jobs retention of the existing MSMEs.

The MSMEs contribute approximately 50 per cent of the country's industrial output and employ roughly 80 per cent of the industrial labor force. The worsening predicament of these enterprises due to the COVID-19 pandemic underlines the urgency to facilitate access to finance for unserved and underserved MSMEs. Although many constraints are similarly experienced by both men and women entrepreneurs, women MSMEs face greater vulnerability to these shared constraints, as well as different limitations in accessing formal financial services compared to their male counterparts due to social norms. Women's businesses disproportionately operate without trade licenses and business registration. Moreover, due to laws and social norms related to inheritance, as well as lower levels of economic participation, women generally own fewer assets to use as collateral to access formal credit. Nevertheless, while it is recognized that women entrepreneurs face specific constraints compared to men entrepreneurs, there is heterogeneity among women entrepreneurs with limitations varying based on their age, stage in their lifecycle, and socio-economic status, among other factors.

Small enterprises generally employ 25 – 50 persons as labor, while medium enterprises employ from 50 -150. In many cases such enterprises include family members. Proper licensing, compliance with labor standards, payment of basic wages, potential use of child or forced labor and worker occupational health and safety etc. may be issues that will need special attention through adherence to ESS2 of the ESF and regular monitoring through the BB ESMS, that should also be adopted by PFIs.

In the MSMEs, attention to environmental sustainability is limited due to a mix of capacity, market accessibility, knowledge, and financial barriers. There is little evidence to show MSMEs are growing in a sustainable way. Broadly, there are three issues: (1) Small industries in Bangladesh are responsible for a substantial share of air and water pollution (due to their large numbers, even though individual contributions are small), notably in urban areas and clusters, and generally use environmentally inefficient technologies. (2) Some microenterprises are already producing environmentally sustainable goods (e.g., using natural fertilizer, making shoe soles from leather dust, etc.), but face



obstacles to growth for being disconnected from high value markets, lacking knowledge to adopt cleaner production and methodologies, and lacking access to quality financing. (3) Unsafe practices and products (e.g., contaminated food) affecting workers, consumers and community.

The 1997 Bangladesh Environmental Conservation Rules require microenterprises to obtain an environmental clearance certificate, but this is rarely followed. Forcing microenterprises to comply with environmental standards through enforcement of taxation is challenging given their numbers, informal nature, environmental agency's low capacity & the high cost of compliance for both regulators & polluters.

#### D. 2. Borrower's Institutional Capacity

Bangladesh Bank (BB) will be responsible for the overall implementation of the project. An investment policy/credit guarantee committee will approve related investment policy and MSME PCGS coverage decisions. Once an independent CGI is established, to minimize disruptions and ensure business continuity the core PIU team responsible for PCGS management will relocate to the CGI. BB has been implementing WB financed Investment Promotion and Financing Facility (IPFF) and Financial Sector Support Project (FSSP) (OP4.01) and IPFF-II (OP4.03) FI projects, since 2006. Through these projects, BB has acquired considerable institutional capacity to manage the E&S dimensions of FI projects. However, BB has limited exposure to the WB's Environmental and Social Framework (ESF) both from a substantive & procedural perspective.

BB has issued the 'Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions' in 2017. The ESRM established the Environmental and Social Management System (ESMS) for BB to harmonize the E&S requirements with that of WB/IFC and the Equator principle. The ESRM was developed to cover the clients who are covered under banking sectors and detailed the procedures of E&S management. The WB team will evaluate BB's ESMS. The gaps between the BB's ESMS and WB's ESSs requirement will be identified. The ESMS existing at BB has so far been applied to big corporates and factories in the organized industrial sector adhering to international standards as they were mainly export oriented. The clients for this project will be much smaller, with less knowledge of sustainable standards and with less resources to fulfil E&S obligations as per the ESF. Additional support will have to be built into the existing ESMS to address these gaps. PFI's will have to play an enhanced role in helping the MSMEs meet the requirements. BB's updated ESMS will thus consist of E&S policy, procedure to assess and manage E&S risks and impacts identified by the E&S screening, organizational capacity and competence reflected in HR policy, monitoring and reporting and stakeholder engagement policy. Additionally, a third-party monitoring body will be hired by BB for ensuring E&S due diligence at the ground level. The requirements will be provided in the ESCP.

BB will have a legal agreement with the selected PFIs. BB's modified ESMS thus will be legally binding for PFIs to adopt & follow. All national regulations concerning the E&S governance will be applicable while carrying out E&S due diligence of a particular transaction. BB will ensure that the updated ESMS are clearly communicated to all relevant PFIs and the PFIs have the necessary knowledge and capabilities for managing E&S risks in accordance with the ESMS. Many of the PFIs have already adopted some systems in line with the ESRM of BB through their Board resolution. Working over the years, many of the PFIs have developed reasonable capacity related to ESMS to oversee E&S Management of MSMEs. BB has a monitoring mechanism to evaluate the E&S outcomes of projects under implementation. In view of the existing capacity for E&S management within BB, the PFIs should be able to organize a management structure to manage the moderate or low E&S risks of MSMEs.

BB will need to increase its E&S staffing capacity to ensure efficiency and effectiveness in E&S risk management in line with WB ESSs. According to the WB's initial assessment of the ESMS of BB, BB will need to hire adequate personnel to assist in the development of a long-term E&S capacity building program for the PFIs of the project as well as to ensure the overall E&S risk management at the implementation stage. The PFIs will be required to have E&S Specialist for the initial screening of sub-projects to screen out substantial or high-risk sub-projects. Once the CGI is established, it will



ensure required E&S staffing. The CGI will also adopt the updated ESMS to ensure E&S management in CGI implemented activities.

**II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS**

**A. Environmental and Social Risk Classification (ESRC)**

Moderate

**Environmental Risk Rating**

Moderate

The project is expected to bring positive environmental impact by adopting a comprehensive ESMS by BB and PFIs and applying the environmental sustainability due diligence to the MSMEs/related MSME activities. The due diligence criteria will evaluate existing conditions of the MSMEs regarding their environmental and social compliance with regards to national systems and BB/PFIs ESMS and also will promote green, resilient and inclusive development (resource efficient technology, enhanced waste management capacity, establishing strong environmental monitoring system, etc.). The MSME activities with substantial and high environmental or social impacts will not be supported by the project. these include substantial and high risk activities generating hazardous wastes and high carbon emissions, land acquisition and displacement, and biodiversity and natural habitat loss etc. The sub-projects considered for support will have E&S risk that are low or moderate in nature, and this will be further ensured by screening out any substantial to high risk sub-projects by following a negative list which will be adopted by the project (through BB ESMS). From the nature of proposed MSMEs and likely activities, it is expected that there will be localized minor impacts causing noise, dust, both solid, liquid and electronic waste s and involve risks regarding workplace and community health and safety and labor and workplace related risks. COVID -19 related OHS measures and waste management issues will also need to be addressed at enterprise level. The overall environmental management and occupational health and safety are not monitored regularly at MSMEs in Bangladesh. Although the environmental footprint is minor for a single micro and single enterprise, the collective pollution of a large cluster can contribute to larger environment pollution. However, the project will not support any substantial and high-risk sub-project causing irreversible environmental risks. The expected impacts and risks from low to moderate risk sub-projects can be mitigated through implementation of appropriate code of practice and management plan. BB has acquired considerable expertise and institutional capacity to manage FI projects and developed reasonable capacity to oversee environmental and social management in MSMEs. Working over the years, many of the Banks and PFIs have also developed reasonable ESMS capacity to oversee ESM in MSMEs. The World Bank has provided significant number of trainings to BBs and PFIs in the last ten years. The environmental risk of the project is rated “Moderate” considering the E&S risks associated with onward financing by BB and PFI to MSMEs and challenges in (i) screening out the activities which could cause significant negative impacts on environment; (ii) addressing the existing labor and OHS related challenges in MSMEs and informal firms (iii) opportunities of capacity enhancement of the implementing agencies including PFIs and MSMEs to manage E&S risks; and (v) providing support related to ongoing COVID-19 situation. However, this risk classification will be reviewed on a regular basis and be changed (if necessary). Any change to the classification will be disclosed on the Bank’s website.

**Social Risk Rating**

Moderate

Social Risk Rating Moderate BB’s existing ESMS has procedures and mechanism in place to address risks and impacts associated with land acquisition, resettlement, support to women and vulnerable MSMEs, community health and safety, E&S screening procedures etc. The ESMS also has a grievance mechanism, which needs to be enhanced to align with the WB ESS10. BB also needs to integrate Labor Management procedures and OHS into the ESMS in line

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with WB ESS2. Stakeholder engagement is part of the BB-ESMS but needs to be updated to cover SME's owned/run by vulnerable groups and other relevant stakeholders, to ensure that the project is following an inclusive targeting mechanism when selecting MSMEs to provide financial support to. The potential social risks, such as labor or safety practices for sub-projects with elevated risk will be managed through existing ESMS (which will be updated to fit the specificities of this intervention), including with development of management plans and monitoring systems. The roles and responsibilities of PFIs will be included in the BB ESMS. PFIs will screen all the sub-projects according to BB ESMS. The BB with the support of PFIs will conduct a stakeholder mapping and analysis exercise to ensure that all vulnerable groups, including differently able and LGBT+ individuals are well consulted and well informed about the project benefits. The PFIs will also take required measures to ensure that the IPs/tribal/ethnic minority group share well aware of the project and can benefit from it. BB will update the SEP section of the ESMS before the appraisal stage of the project. The SEP section will detailed the grievance receipt and address procedures at local and project level, and ensure its accessibility to all stakeholders including vulnerable MSMEs and IPs. PFIs will record all grievances and submit to BB with the quarterly monitoring reports. The GRM in the BB-ESMS will also adopt guidelines/procedures to manage SEA/SH related grievances. The social risk of the project is rated "Moderate" considering the impacts associated with onward financing by BB and PFI to MSMEs, that will include (i) minor constructions/upgradation, and community health and safety associated with the construction/upgradation activities, (ii) labor and OHS related challenges in MSMEs and informal firms, (iii) possibilities of exclusion of vulnerable and marginalized groups/women owned MSMEs, (iv) community health and safety risks, (v) capacity of the implementing agencies including PFIs to manage E&S risks; and (vi) risks related to ongoing COVID-19 situation. Gender: Women entrepreneurs face a number of challenges in Bangladesh, including, but not limited to the following: (i) limited access to finance, due to lack of collateral and application process; (ii) limited capacity and exposure to business development, including business startup, employee management, and keeping up with the market needs; (iii) lack of access to vital information (e.g., finance, registration and legal requirements, business development, and market trends) and technology; (iv) Informal (cultural) and formal (legal) discrimination, e.g., harassment by officials in processing paper work, requiring husband's permission to borrow money (even where not legally required), and legal discrimination in inheritance and ownership of properties etc. BB will adopt GAP in the ESMS. This will include (1) procedures to earmark or set a target for women's MSMEs a proportion of credit lines (ii) Setting up advisory desks for women at FI and PFI level (iii) encourage formal registration of enterprises, raise FI/PFI staff gender awareness), offer savings, and other financial services tailored to women's needs, business development and training services etc.

## **B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered**

### **B.1. General Assessment**

#### **ESS1 Assessment and Management of Environmental and Social Risks and Impacts**

##### ***Overview of the relevance of the Standard for the Project:***

ESS1 is considered relevant due to the potential environmental and social risks associated with supporting MSME activities. The potential E&S risks and impacts of the MSME activities supported will be assessed by the BB's updated ESMS and WB's ESF, which has already been adopted by many commercial banks and non-banking financial institutions. The BB's updated ESMS will serve as the master framework for assessing and managing the E&S risks in their guarantee/credit/investment proposals/accounts supported activities.



The project team will review the existing Environmental and Social Management System (ESMS) in the form of Environmental and Social Risk Management (ESRM) guideline of the Bangladesh Bank (BB). The gaps between the BB ESMS and WB ESSs will be identified and a set of recommendations will be provided. BB will update the ESMS to meet the requirements of WB ESF. Required criteria to be included in the ESMS have been illustrated in ESS9 below. The evaluation mechanism established for selection of eligible MSMEs through environmental and social screening criteria will be provided in the updated ESMS document. The ESMS will incorporate guidance for efficient use of resources, management of various types of wastes, control of GHG emissions, pollution prevention management practices and prevention of natural habitat and biodiversity. The appropriate monitoring mechanism shall also be devised in the ESMS to make sure that MSMEs comply with the requirements of ESMS throughout sub-project implementation. The ESMS includes environmental and social screening criteria, which will also be part of the diagnostic for the MSME activities to be carried out by PFIs. BB will align the risk categorization and screening system of ESMS for both environmental and social risks with ESF risk classifications. All FI subprojects will be screened against the exclusion/negative list agreed as part of the ESCP. The FI sub-projects will be either low or moderate risk in nature and this will be further ensured by screening out any substantial to high risk sub-projects. The activities with high or substantial environmental or social impacts will not be supported by the PFIs. These include activities generating hazardous waste and high carbon emissions, land acquisition and displacement, and biodiversity and habitat loss etc as outlined in the exclusion/negative list. The sub-projects will be prepared and implemented in accordance with ESMS. Although the project will not provide direct funding to MSMEs (e.g. via credit line) and the final decision on the use of funds stays with PFIs, the project will encourage lenders to commit increasing lending to climate related programs as well as women entrepreneurs.

PFIs will ensure that the relevant MSMEs will prepare, adopt, and implement required Environmental and Social Management Plans (ESMP), if needed or other instruments for the respective subproject according to the ESMS and the WB's ESF. The ESMP format (ES impact assessment and framework, various plans for community safety, land acquisition, OHS measures) should be developed in accordance with the E&S management criteria outlined in the ESMS, the EHSGs, and other relevant Good International Industry Practice (GIIP). The project will fund FI on defined sub-projects, the requirements of the ESS will apply to each bank financing and guarantee sub-project, not the entire PFI portfolio. All the sub-projects will be screened as per updated ESMS to achieve objectives materially consistent with the ESSs.

BB will update the ESMS. SEP section of the BB-ESMS will be updated to align with the requirements of ESS 10. BB with the support of the World Bank will prepare an Environment and Social Commitment Plan (ESCP).. The draft ESCP, and the WB's assessment of the BB ESMS will be disclosed before project Appraisal.

The BB ESMS (which includes SEP and GRM) and ESCP will be reviewed and updated as and when required in consultation with the World Bank and disclosed in country and in the Bank system. ESCP will entail time bound commitments concerning the preparation of E&S instruments and adequate organizational structure and capacity building measures for the smooth and safe implementation of the Project.

**Areas where “Use of Borrower Framework” is being considered:**

NA

Implementing Agency's ESMS will be evaluated in line with ESF to identify the gaps. The ESMS will be updated as per WB's recommendation.

**ESS10 Stakeholder Engagement and Information Disclosure**





In consultation with the WB, the BB will update the SEP section of the ESMS proportional to the nature and scale of the project and associated risk and impacts, adhering to the COVID-19 protocols in place in Bangladesh. Specifically, the World Bank’s SEP requirements call for the following (i) identification and mapping of expected types of key stakeholders; (ii) requirements for the PFI to engage with the stakeholders, especially with potentially affected vulnerable groups, female entrepreneurs and LGBTI; (iii) the requirement for the PFI to develop simplified SEP (if require) scaled to the project risks and impacts of the project, and tailored to the characteristics and interests of the Affected Communities; (iv) requirements for frequency of engagement throughout the project cycle; (v) procedures for feedback solicitation, recording and monitoring; (vi) the need to define the responsible party for stakeholder engagement; (vii) timeline for the engagement; (viii) budget and human resources needed to implement the SEP by the PFI.

Consultations will be carried out through virtual formats given social distancing requirements. The SEP will include relevant measures for communications with the MSMEs and relevant stakeholders paying attention to the identification of vulnerable and disadvantage groups including women owned micro enterprises, minority owned businesses, microenterprises in remote areas, MSMEs owned by differently abled people, LGBTQ+ owned MSMEs etc. With the outbreak and spread of COVID-19, countries have taken various restrictive measures, some imposing strict restrictions on public gatherings, meetings and people’s movement, and others advising against public group events. At the same time, the public has become increasingly aware and concerned about the risks of transmission, particularly through social interactions at large gatherings. The stakeholder engagement for the sub-projects will thus be designed accordingly, to use more on-line channels and all medium of communication depending on the situation on the ground.

The existing SEP section of the BB-ESMS needs to detail the grievance management procedures including grievance receipt, response, record etc. Responsibility of the grievance committee at FI and PFI levels will be detailed as well. The responsible PFIs will have in place, as part of the ESMS, procedures for external communications on environmental and social matters proportionate to the risks and impacts of project activities consistent with the requirements of ESS9. The SEP section will be updated as necessary during implementation.

A two tier GRM will be set up before implementation to address complaints in a timely manner and following due process. The local level GRM will be set up by the PFI and the project level GRM will be set-up by the BB. The GRM will be accessible to all stakeholders, especially MSMEs of vulnerable and disadvantage groups. Meaningful consultations tailored to tribal/ethnic Peoples (if identified) will be conducted by PFIs.

As stakeholder engagement is critical to the Project's success, BB with the support of PFIs will undertake a strong communication and mobilization strategy which will facilitate the access of vulnerable MSMEs to Project benefits. A Consultation and Communication Specialist will be engaged by the BB-PIU to support and train PFIs.

## **B.2. Specific Risks and Impacts**

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

### **ESS2 Labor and Working Conditions**





ESS2 applies to the internal labor management. BB and the responsible PFIs will have in place and maintain appropriate internal labor management procedures consistent with ESS2, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms and occupational health and safety. BB and PFIs will ensure that beneficiary MSMEs do not employ child/forced/trafficked labor, have in place Codes of Conduct to prevent SEA/SH at the workplace. The OSH systems in place will be evaluated during ESMS assessment and relevant measures to comply fully with ESS2 and international good practices will be added.

The BB will integrate Labor Management Procedures (LMP) to the existing ESMS before the project appraisal. The ESS2 requirements to ensure no child or forced labor and no serious safety concerns for workers in the primary supply chain will be also be integrated into the LMP section of the ESMS. This integrated LMP will also include the assessment and required mitigation measures to ensure health and safety of the workers that may be exposed to health risks. The MSMEs with guidance of PFIs will adopt LMP as a part of their ESMSs . Labor-specific Grievance Redress Mechanisms (GRM) will also be developed by PFIs for the MSMEs to report any issues relating workplace safety and other concerns. Adequate OHS protections including COVID-19 infections will be also be included.

### **ESS3 Resource Efficiency and Pollution Prevention and Management**

ESS3 is relevant to project because MSMEs production processes may generate different kind of wastes, including liquid and solid wastes, plastic and e-waste, and there may be noise and air emissions (e.g. potential dust). The environmental screening criteria for the firms eligible for funding will include necessary mitigation measures to deal with resource efficiency, pollution management, GHG emission limitations and management of wastes for different kind of possible interventions. PFIs will report BB on the number of climate resilient and energy efficient projects to be funded under the project in order to monitor trend, identify MSMEs in need of technical support. Activities generating hazardous wastes and high carbon emissions will not be supported by the Project. The ESMS evaluation will look into the state of BBs to evaluate the carbon emissions. The enhanced ESMS will provide adequate guidance for the mitigation measures to treat various types of wastes, produced in any production/process including plastic and e-wastes. PIU and beneficiaries will ensure best practices for safely managing Covid 19 related waste, including assigning responsibility and sufficient human and material resources for the management and disposal of waste safely and efficiently.

### **ESS4 Community Health and Safety**

MSME activities may expose communities to health and safety risks especially those communities that are immediately close to the subprojects. The process of installation of new equipment and enhancing production capacity may lead to an increase and influx of temporary and permanent workers. Increased workers may affect the local community and increase the risk of GBV/SEA/SH. The E&S focal from BB together with PFIs will carry out training to prevent SEA/SH incident in MSMEs/MSME activities. Additionally, MSME production processes may generate different kinds of wastes, including liquid and solid waste that maybe harmful to community health and there may be noise and air emissions as well which can impact health of surrounding communities, especially vulnerable groups. The ESMS should include provisions for the MSMEs to safeguard the community health and safety aspects. The



updated ESMS will include provisions to consider ESS4 requirement in the screening of all participating PFI sub-loans to exclude activities that could involve significant risk associated with community health and safety.

The project is providing support during an ongoing COVID-19 pandemic, where the MSMEs and surrounding communities are already facing health and safety risks associated with COVID-19. The ESMS will include SOPs in line with WHO standards, national circulars and follow evolving international best practice in relation to protection from COVID-19.

#### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

This EES5 will not apply in this project. There will be no land acquisition or involuntary resettlement under the project, nor will it lead to restrictions on land use or impacts on livelihoods from such restrictions/acquisition. All the new interventions linked to the enhancement of productive capabilities and respective refurbishments will take place within the existing footprint of MSME facilities.

#### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

This ESS6 is not relevant to the project. Project activities will not have any direct impacts on biodiversity, habitats and harvesting/production of natural resources. MSME's subprojects that may cause potential loss of biodiversity or natural habitat will not be eligible for funding and will be in the negative list of the ESCP.

#### **ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

ESS7 will apply to the project; The Project will be implemented nationwide and some of the MSME are likely to be owned by tribal/ethnic minorities or they may be Project beneficiaries. Some of the MSMEs may be located in areas with IPs/tribal/ethnic minorities. The BB/PFI ESMSs will provide assessment methodology and recommend mitigation measures, which may include preparation of a Tribal Peoples Plan (TPP) and/or relevant SOPs. Communication and disclosure of documents will be done in a form and manner that is culturally appropriate. All the activities financed by the PFIs will respect the human rights, dignity, aspirations, identity, culture, and livelihoods of the IPs/tribal/ethnic minorities.

If MSMEs belonging to IPs/tribal/ethnic are identified, they will be consulted, so that they can benefit from the project. However, having to obtain FPIC will make the sub-project high risk. Therefore, any situation that may require obtaining FPIC will not be considered for financing and will be included as part of the exclusion criteria.

#### **ESS8 Cultural Heritage**

ESS8 is relevant in this project. The physical location of MSMEs may be near cultural heritage sites and may have impacts on such sites, mitigation measures will be applied according to the ESMS of PFIs.



### ESS9 Financial Intermediaries

ESS9 FI is Relevant. Under this project, Bangladesh Bank (acting as a Financial Intermediary) will be responsible for providing capital to selected Participating Financial Institutions (PFIs) and Non-banking Financial Institutions (NBFI). The project will fund specific guarantee/ credit line (clearly defined subprojects) for Bangladesh Bank (BB) and not for a general purpose, therefore ESF applies to WB financed Project specific interventions only, not to all BB and PFI's portfolio.

BB has in place an "Environmental and Social Management System (ESMS)" system for Banks and financial institutions to identify, assess, manage, and monitor the environmental and social risks and impacts of their financing initiatives which is being used by BB in various projects. The World Bank team will carry out an assessment of BB's ESMS, will identify the gaps and will recommend measures to be included in the ESRM. The review will look into the following major criteria status (i) ES policy statement to assess and manage ES risks and impacts endorsed by the senior management; (ii) capacity of the Environmental and Social Unit by recruiting additional Environmental and Social specialists; (iii) guidance for efficient use of resources, management of various types of wastes, control of GHG emissions and pollution prevention management practices (iv) yearly training plan for staffs on ES issues and develop a complete training manual/ curriculum including audio visual presentations; (v) alignment of the risk categorization and description system of existing ESMS for both environmental and social risks with ESF risk classification; (vi) detail description of reporting requirement, channel and frequency of reporting and person responsible; (vii) stakeholders engagement and GRM (viii) conduct CE/SE, and beneficiary screening mechanism and format including women, people with disability and the vulnerable ; (viii) OHS measure as per Good International Industry Practices; (ix) guidance for legal agreement structure between BB and its PFIs, legally binding PFIs to adopt the BB ESMS. BB's updated ESMS will thus consist of ES Policy, procedure to assess and manage ES risks and impacts, organizational capacity and adequacy of HR policy to meet national, international and ILO labor practices, monitoring and reporting ,and stakeholder engagement policy.

PFIs with adequate systems and capacity for environmental and social risk management in accordance with Bangladesh regulations, BB ESMS and World Bank ESF will only be eligible to be considered for participation in the Project. BB will be responsible for oversight of PFIs and ensure that they identify, assess, manage, and monitor any ES risks emanating from their activities. BB will have a legal agreement with the selected PFIs so that BB's updated ESMS is legally binding upon them to adopt and follow. BB also will ensure that each PFI has staff dedicated to oversee its ES activities, monitor and report on the same. All FI subprojects will be screened against the exclusion/negative list. The FI Subprojects are either low or moderate risk in nature and this will be further ensured by screening out any substantial to high risks sub-projects. The sub-projects will be prepared and implemented in accordance with relevant E&S national and local laws and regulations.

Requisite training will be provided by BB to orient the PFIs towards the assessment, management and oversight of ES risks and impacts. Given the risk category of the interventions, all subprojects must be prepared and implemented in accordance with national and local law. BB will put in place procedures for external communications on environmental and social matters proportionate to the risks and impacts of the subprojects, and the risk profile of the Project portfolio.



**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways** No

**OP 7.60 Projects in Disputed Areas** No

**III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE**

**A. Is a common approach being considered?** No

**Financing Partners**

NA

**B. Proposed Measures, Actions and Timing (Borrower’s commitments)**

**Actions to be completed prior to Bank Board Approval:**

- i. WB assessment of the BB ESMS
- ii. Preparation of the Environmental and Social Commitment Plan (ESCP) with measures for addressing the environmental and social gaps identified in the BB ESMS assessment.
- iii. World Bank's recommendations along with Bangladesh Bank’s adopted due diligence to reflect the recommendations – Bangladesh Bank

**Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):**

Incorporate the WB identified gaps and update the following section of the ESMS

- 1. SEP section of the ESMS
- 2. OHS and Labor Management chapter of the ESMS
- 3. Institutional arrangement chapter of the ESMS
- 4. Include GAP and SEA/SH Management plan in the ESMS
- 5. Update the Labor and OHS management section of the ESMS
- 6. Recruit the E&S consultant at BB-PIU

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS** 02-Feb-2022

**IV. CONTACT POINTS**

**World Bank**

Contact: Anzhela Prygozhyna Title: Senior Financial Sector Specialist

Public Disclosure



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**Borrower/Client/Recipient**

Borrower: PEOPLE’S REPUBLIC OF BANGLADESH

**Implementing Agency(ies)**

Implementing Agency: Bangladesh Bank

**V. FOR MORE INFORMATION CONTACT**

The World Bank  
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Web: <http://www.worldbank.org/projects>

**VI. APPROVAL**

Task Team Leader(s):	Anzhela Prygozhyna, A.K.M. Abdullah
Practice Manager (ENR/Social)	Josefo Tuyor Recommended on 20-Dec-2021 at 09:14:47 GMT-05:00
Safeguards Advisor ESSA	Pablo Cardinale (SAESSA) Cleared on 22-Dec-2021 at 11:03:53 GMT-05:00