

**ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT  
(ESRM)  
POLICY & PROCEDURE OF MTB-2017**



মিউচুয়াল ট্রাস্ট ব্যাংক লিমিটেড

**Mutual Trust Bank Ltd.**

*you can bank on us*

**November 2017**

## Preface

In light of the “**Guidelines on Environmental Risk Management (ERM)**” issued by Bangladesh Bank in 2011, MTB formulated its own “**Environmental Risk Management (ERM) Guidelines**” which was incorporated in Chapter-7 of the bank’s “**Credit Policy with Credit Risk Management Guidelines-2011**”. In the meantime slew of changes have been effected in the field of environmental risks and additional issues like social risks have received much traction and Bangladesh Bank went one step ahead by asking for formation of an independent unit namely Sustainable Finance in each bank/NBFI with the aim of SDG implementation target by 2030.

Under the above scenario, Bangladesh Bank issued a revised guideline titled “**Guidelines on Environmental and Social Risk Management (ESRM)**” in February 2017. This guidelines, which includes latest developments in the field with especial focus on social risks, is a minimum standard following which banks/NBFIs will have to formulate their own policy and guidelines which will be put in effect from January 2018.

In the backdrop of what has been stated above and to keep MTB updated and compliant in environmental and social risks management arena, we have formulated “**Environmental and Social Risk Management Policy and Procedure of MTB-2017**”. This document will replace Chapter-7 of our bank’s “**Credit Policy with Credit Risk Management Guidelines-2011**” dedicated to environmental risk management and it will come out as a separate policy and procedure/manual. While conducting credit analysis/appraisal, concerned officials will use this document to measure the E&S (Environmental & Social) risks of clients concerned in addition to assessment of credit risk.

Unlike the ERM guidelines issued in 2011, this document is fully revised and more comprehensive in nature which accommodates social risks management issues in addition to covering latest developments in environmental risk management. In formulating the document, we have had commendable value additions from our development partner DEG of Germany to make the policy/manual concurrent and of international standard.

Although best efforts have been made in revising and updating the policy and guidelines, it is quite likely that the document might have some shortcomings and inadequacies, which would be rectified/updated/modified in subsequent revisions. Suggestions from MTB executives and officers, which might be useful for making the guidelines more effective, are always welcome.

One of the main objectives of the document is to make the executives and officers of the Bank adequately conversant with the policies, procedures and strategies to be followed in MTB in respect of E&S risks. Therefore, all concerned executives and officers must keep themselves fully informed about the contents of the rules and procedures and apply while dealing with credit proposals.

In addition to the provisions contained in these guidelines, all concerned will be guided by the circulars issued by Corporate Head Office from time to time. Let us work together to implement the document in the times ahead.

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Senior Vice President

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EVP & Head of CRM & SFU

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### **Abbreviations:**

BDT	: Bangladeshi Taka
CAMELS	: Capital Adequacy Assets Management Capability Earnings Liquidity Sensitivity
CITES	: Convention on International Trade in Endangered Species
CRM	: Credit Risk Management
CRMC	: Credit Risk Management Committee
DEG	: Deutsche Investitions- und EntwicklungsgesellschaftmbH, German development institution based in Cologne, Germany
DoE	: Department of the Environment – a primary Bangladeshi environmental enforcement institution working under the Ministry of Environment and Forest
E&S	: Environmental and Social
EC	: Executive Committee
ECR	: Environment Conservation Rules
ESRR	: Environmental & Social Risk Rating – determination of the risk based on the checklists prepared by the Bangladesh Bank
ERM	: Environmental Risk Management
ESAP	: Environmental and Social Action Plan
ESDD	: Environmental & Social Due Diligence
ESIA	: Environmental & Social Impact Assessment – an expert study required by the Bangladeshi Environmental Conservation Rules, 1997. The study evaluates the possible positive or negative impact that a proposed project may have on the environment, together consisting of the environmental, social and economic aspects.
ESMS	: Environmental & Social Management System
ESRM	: Environment and Social Risk Management
ESRR	: Environmental and Social Risk Rating
ETP	: Effluent Treatment Plant
FI	: Financial Institution
GDP	: Gross Domestic Product
GHGs	: Greenhouse Gases
HoC	: Head of Credit
IFC	: International Finance Corporation-the commercial arm of the World Bank
ILO	: International Labor Organization
IMF	: International Monetary Fund

IP	:	Indigenous People
MTB	:	Mutual Trust Bank Limited
MD	:	Managing Director
MD & CEO	:	Managing Director & Chief Executive Officer
NGO	:	Non-Governmental Organization
ODS	:	Ozone Depleting Substances
PAH	:	Polycyclic Aromatic Hydrocarbons
PCB	:	Polychlorinated Biphenyl
PM	:	Particulate Matter
PS	:	Performance Standards – IFC’s requirements for managing the projects, and particularly sensitive social issues associated with projects
RMC	:	Risk Management Committee
RMG	:	Ready Made Garment
RO	:	Relationship Officials
RM	:	Relationship Manager
SBN	:	Sustainable Banking Network
SFU	:	Sustainable Finance Unit
SME	:	Small & Medium Enterprises
UN	:	United Nations
UNESCO	:	United Nations Educational, Scientific and Cultural Organization
VOC	:	Volatile Organic Compound

## **Part 1**

# **Environmental & Social Risk Management (ESRM) Policy**

## **1. Purpose of the Policy**

Rapid industrial growth in Bangladesh over the last two decades brought economic benefits as well as environmental and social challenges. Examples of environmental issues Bangladesh is facing include discharge of untreated highly polluted waste water; air emissions from burning low grade fuel, land contamination from untreated chemical waste or uncontrolled industrial development damaging local biodiversity in ecologically sensitive areas. Social issues relate to labor practices and working conditions of the industry sector, child labor, discrimination and harassment, minimum wage, community and resettlement issues etc.

Mutual Trust Bank Limited (MTB) recognizes that its activities impact the environment and the community in which it operates directly, through the operations of its buildings, IT systems and business travel and indirectly, through the business of its clients.

The Bank recognizes that its clients' financial and operational sustainability can be undermined by adverse impacts of their operations on the environment, their employees and surrounding communities. The failure to identify and manage E&S risks arising from its clients' operations can also represent a serious threat to MTB's reputation and its business and can lead to costly litigation, or loss of revenue.

This Policy is the foundation of MTB's Environmental and Social Management System and provides guidance to MTB's internal processes.

## **2. MTB's commitments towards sustainability**

The Bank is fully aware of its role as a provider of financial services to support growth and economic well-being of its clients. The development of this Policy is a further demonstration of the MTB's commitment towards supporting an environmental protection and social quality culture in both its own operations and in lending it provides.

The bank is strongly committed to:

- recognise sustainable development as a corporate commitment, sound business management and an integral part of its pursuit of good corporate citizenship;
- be an environmentally responsible business by minimising the environmental impact of its operations and acting promptly to reduce or respond to incidents that endanger health, safety or the environment;
- enhance its system for identifying and assessing environmental and social risks as a part of the normal process of risk assessment and management by incorporating the latest requirements of Bangladesh Bank and international best practice standards and tools to manage these issues;
- collaborate and influence the clients of the Bank to comply with the environmental, health and safety and labor issues regulations and to undertake resource efficiency activities through rigorous programs;
- ensure proper due diligence is conducted of and mitigation measures imposed on the clients whose business activities don't meet the Bank's environmental and social requirements;
- ensure that the management, employees and clients understand the policy commitments made by the Bank in this area;
- include regular trainings on environmental and social risk and the relevant issues in the Bank's training & development program.



### **3. Applicable Bank's Environmental and Social Requirements**

The Bank will adopt its own Environmental and Social Requirements to be imposed on its own operation as well as on its clients. The Requirements shall include:

- the compliance with Bangladeshi laws and regulations on environment, health and safety and labor issues;
- the environmental & social risk management requirements of Bangladesh Bank;
- the compliance with relevant international standards that include (1) the core International Labor Organisation's (ILO) conventions related to child labor and forced labor, and (2) for large, long term corporate loans and for project finance also the IFC Performance Standards;
- the compliance with the *Exclusion List (shall follow strictly)* consisting of the activities which the Bank agreed not to finance (the Bank's *Exclusion List* is in *Annex-1* to this Policy).

### **4. Duties and Responsibilities**

The MD & CEO and the Board of Directors (Board) of MTB have ultimate oversight and responsibility for Environmental & Social Risk Management integration into Credit Risk Management. E&S risk management is applied with the coordination of Sustainable Finance Unit (SFU) of the Bank, with the support of Wholesale Banking, Retail & SME Banking, and Credit Risk Management. The leader of this team is Head of Sustainable Finance Unit (Head of CRM Division).

### **5. Implementation of the Policy**

MTB will develop an Environmental and Social Risk Management Manual that details who does what, when and how as well as Tools for implementing this Policy. This Policy will be implemented under the guidance of MTB's Chief Risk Officer.

### **6. Capacity Building**

As part of the Bank's commitment to on-going assessment and management of E&S risks, MTB will provide periodic training on environmental and social risk management to management and relevant credit staff of the Bank.

### **7. Policy Revision and Updates**

This Policy will be reviewed at least once in three years by MTB Sustainable Finance Unit jointly with Credit Risk Management Division and recommended to MTB Board for endorsement and approval.

**Part 2**  
**Environmental & Social Risk Management (ESRM)**  
**Procedure (Manual)**

## 1. Overview of the Guideline/Manual/Procedure

The core objective of the ESRM Manual/Procedure is to enable the bank to integrate Environment & Social (E&S) risks and incorporate appropriate risk mitigation measures in overall credit management to be able for expanding the credit portfolio rather than avoid investing in high E&S risks. Prepared in light of the Bangladesh Bank's latest guidelines on the subject, as a minimum standard, and recommendations from several international development financial institutions, this manual introduce the following features:

- The ESRM Manual provides a robust, auto generated, quantitative risk rating system to reduce the subjectivity of a qualitative risk assessment method that was present in the ERM Guidelines previously provided by Bangladesh.
- The ESRM Manual has a bigger focus on social and climatic risks which are becoming relevant and crucial for Bangladesh.
- The generic and sector specific E&S Due Diligence (ESDD) checklists (Annex-2) in the ESRM Manual incorporate guidance notes to assist the Relationship Managers (RMs) in carrying out the due diligence process.
- The Manual, in addition to investment threshold, defines applicability based upon sector specific E&S impacts and the categories include agriculture, retail, trade, microfinance, SME and, corporate financing and project financing.
- The organizational roles and responsibility defined in the ESRM Manual are built upon the principles of integration of E&S risks into the bank's overall credit policy. It clearly delineates the responsibility of different functions of a bank in terms of E&S risk assessment and the decision-making process based upon E&S risk rating.
- The ESRM Manual/Guideline includes one Generic ESDD checklist and 10 sector specific checklists for high risk sectors. Thus it is broad in scope but at the same time the process is much more streamlined for ease of use by the bank's officials.

## 2. Typical E&S Risks for the Bank

Potential E&S risks may not seem significant or relevant at the time of approval of a financial transaction, but may become so during execution, for instance as a result of higher regulatory standards and increased levels of enforcement. In other cases, E&S risks, such as spills or explosions, may seem unlikely to occur, but when they do, the E&S impact is potentially extremely high. Please refer to E&S risks in detail ([Annex-3](#)) for explanation on some of the common E&S risks.

To reduce exposure to the E&S risk arising from the business activities of our clients, we need to ensure that our clients' financial and operational sustainability is not undermined by adverse impacts on the environment and surrounding communities. The Bank needs to have a clear understanding of potential E&S risks and implications for a client's operation prior to being linked to the client in the context of a transaction.

This requires proactive identification, assessment, and management of E&S risks before they become significant or result in an adverse outcome on the client. The best way to achieve this is to develop and implement an Environmental and Social Management System (ESMS) within the Bank, to systematically assess the E&S risks and opportunities arising from their clients' operations and manage its exposure to risk.

### 3. Risks associated with E&S Risk in Credit Management

The Bank is exposed to some level of E&S risk through its clients. If left unmanaged, these risks can lead to a decline in the Bank's reputational image, costly litigation, or loss of revenue. The type, quantity and severity of E&S issues that present a risk to the Bank for any given transaction depend on a variety of factors, including geographic context, industry sector, and the type of transaction: corporate, real estate, insurance, leasing, microfinance, project finance, retail, short-term finance, micro, small and medium enterprise and trade. Please refer to Credit Type Wise E&S Risks (Annex-4) for risks associated with different types of transactions.

**Credit risk:** The Bank is exposed to credit risk when a client is unwilling and/or unable to fulfill the contractual obligations associated with a transaction as a result of E&S issues. For example, if a client faces increased capital or operating costs of complying with E&S standards or if operating and emission/discharge permits are absent or expired resulting in regulatory fines or penalties, there is a risk that the client cannot meet its financial obligations to the Bank. Again, the Bank is exposed to credit risk stemming from a reduction in the value of collateral associated with a transaction due to E&S problems. For example, if a production site becomes contaminated, the market value of the underlying collateral will fall.

**Legal risk:** By virtue of taking possession of collateral assets, the Bank is exposed to liability risk stemming from a client's legal obligations. This includes fines, penalties, and costs for addressing third-party claims for damages due to negligence in managing E&S risks in a client's operations and clean-up of contamination. If the Bank is a principal shareholder of a client's operations, it may also be directly liable for all E&S risks associated with a client's operations.

**Operational risk:** The Bank is exposed to financial risk stemming from potential disruption of client's operations as a result of E&S problems. If not managed properly, these problems can affect a client's stability to meet its financial obligations to the Bank and/ or can drive down the value of a client's collateral in the context of a transaction. A client's failure to effectively address E&S considerations can jeopardize its business operations as well as the Bank if it supports the transaction.

**Liquidity risk:** The Bank will also face liquidity risks from E&S problems associated with collateral. For example, the Bank will have to use up internal resources to meet government clean-up requirements or to clean the site up before it can be sold if collateral is contaminated.

**Reputational risk:** The Bank is exposed to reputational risk due to potentially negative publicity associated with a client's poor E&S practices. This harms the Bank's brand value and image in the media, with the public, with the business and financial community, and even with its own staff. For example, if a client faces strong public opposition against its operations, the Bank's reputation may be tarnished through its association with this particular client.

#### **4. Applicability of the E&S Risk Management Guideline of MTB**

The loan categories for which the ESRM Guideline is applicable are agriculture, retail, trade, microfinance, SME, corporate finance and project finance. All loan proposals (New/Renewal/Rescheduling/Restructuring) for the above applicable sectors will have to be first screened against the exclusion list (Annex-1).

Agriculture: In the agriculture sector, if a loan application (New/Renewal/Rescheduling/Restructuring) involves farming/crop production activities, poultry and dairy then in addition to exclusion list, it is to be checked using the generic ESDD checklist (Annex-2), if there is any environmentally or socially adverse agricultural practices involved such as use of pesticides, agro-chemicals leading to top soil depletion, ground water contamination; use of nitrogenous fertilizers instead of organic fertilizers leading to nitrous oxide emissions etc. Agribusiness involving sorting, packaging, distribution and sales will not require completing ESDD checklist.

SME: In the small enterprise category sector, if the following activities are involved, then a loan application (New/Renewal/Rescheduling/Restructuring) worth above BDT 1.00 million (BDT 10.00 lakh) will be subject to due diligence using generic ESDD checklist, in addition to exclusion list:

- 1) Washing, dyeing and finishing units of RMG sector (water, chemical pollution)
- 2) Small steel re-rolling mills (operational health and safety, thermal, air pollution)
- 3) Brick kilns (air pollution, child labor, burning of fossil fuel)
- 4) Units for tanning, dressing and dyeing of leather and fur (water, chemical, air pollution)
- 5) Pesticides, agrochemical and nitrogen manufacturing units (land contamination, water, air pollution)
- 6) Chemicals and chemical products manufacturing units (safety, pollution)
- 7) Rubber and plastic products manufacturing units (pollution)
- 8) Batteries and accumulators manufacturing units (chemical pollution)

All loan applications (New/Renewal/Rescheduling/Restructuring) in the medium enterprise sector will have to undergo E&S due diligence as per the generic or sector specific ESDD checklist (Annex-2).

Corporate Finance: All loan applications (New/Renewal/Rescheduling/Restructuring) for corporate finance will have to undergo E&S due diligence process using the generic ESDD checklist (Annex 2) and where applicable, the sector-specific ESDD checklist (Annex-2).

Trade, Retail and Microfinance: For all trade, retail and microfinance only the exclusion list will have to be consulted. Any transaction in the Exclusion List will have to be terminated.

Project Finance: For all Project Finance transactions, apart from Exclusion List and Generic or sector specific ESDD checklist a third party Environmental and Social Impact Assessment (ESIA) will have to be conducted. ESIA will generally be arranged by the client at his/her/its own cost and submitted along with loan application. Bank will ensure that the third party will be qualified by the criteria set by Bangladesh Bank in this purpose.

## Applicability of the guideline by the transaction type in tabular form

SL. No.	Transaction Type	Exclusion List	ESDD checklist	Third party ESIA
1	Agriculture activities involving farming, crop production	√	√	
2	Other agricultural activities	√		
3	Retail, Trade, Microfinance	√		
4	Small sector falling in one of the categories listed above from 4.1) to 4.8)	√	√	
5	Small sector NOT falling in one of the categories listed above from 4.1 to 4.8)	√		
6	Medium sector	√	√	
7	Corporate Finance	√	√	
8	Project Finance	√	√	√

### 5. Applicable Standards

All national regulations pertaining to E&S governance will be applicable while carrying out E&S due diligence of a particular transaction. This means all relevant E&S permits, consents, licenses, and monitoring of E&S parameters as per the national regulations are to be considered as mandatory compliance requirements for evaluation of a loan application. An Overview of the E&S Regulatory Requirements in Bangladesh including a list of applicable national regulations and international treaties where Bangladesh is a signatory is provided as Annex-5 for reference.

If clients have management systems in place as per international frameworks such as ISO14001 for environmental management, OHSAS18001 for occupational health and safety, SA8000 for socially acceptable practices in the workplace then it will be considered as good practices.

Adherence to IFC Performance Standards (Annexure-6) will be required in case of large, long term corporate loans (3 years or more and amount BDT 800 million/ 80 crore) and for project financing (3 years or more and amount BDT 800 million/ 80 crore) as part of a good practice.

### 6. Responsibilities/Organization Structure

For an ESMS to function properly, it is essential that roles and responsibilities for carrying out the necessary procedures and making decisions are clearly defined. The following staff of MTB will be involved with implementing different aspects of the ESMS:

- a) **Relationship Managers (Officials in Branches and in Wholesale Banking Division/Retail Banking Division/SME Banking Division/Agri Credit Cell of Corporate Head Office):** RMs are responsible for identifying E&S risks in a client's operation by talking to the client/ relevant officials, site visits, collecting documents,

permits and clearances relevant for the proposed transaction. RMs are responsible for filling out the ESDD checklist in consultation with the client at approval stage, collect additional information and respond to credit queries if necessary, also follow up with client if there are any pre disbursement actions to be completed. RMs also negotiates with the client in finalizing action plans and timelines where necessary.

- b) Official in CRM Division/SME-CRM Department/Retail Finance Centre:** Official in Credit Risk Management (CRM) Division/SME-CRM Department/Retail Finance Centre in Head Office is the first point of contact for any transaction once the ESDD has been conducted by the RMs.

Officials in CRM/SME-CRM/Retail Finance Centre will be responsible for the review of the E&S Categorization, of the completed ESDD Checklist, of ESRR and of the completed Summary of E&S Due Diligence and drafted E&S Covenants or E&S Action Plan. They will be also responsible for the review of the applicability of the Performance Standards. To confirm their review they will sign-off the above mention completed Summary of E&S Due Diligence.

Based upon the Environmental & Social Risk Rating (ESRR), concerned official escalates the transaction to Head of CRM following the Escalation Matrix (in Annex 9). There must be a separate unit within Credit Risk Management (CRM) Division/ SME-CRM Department/ Retail Finance Centre at Corporate Head Office for ESRM with at least 01 (one) dedicated official.

- c) Head of CRM:** Head of CRM is responsible for ensuring that in each transaction no critical E&S issues were overlooked, there is adequate documentary evidence to support client's E&S performance and to ensure enough measures have been taken to manage identified risk.
- d) Senior Management/Board of Directors:** Senior Management of MTB will be responsible for the bank's overall commitment to E&S objectives. The Managing Director & CEO (MD & CEO) and the Board represent the Senior Management and they will establish MTB's E&S requirements and conditions for clients. In cases of unresolved E&S issues or non-compliance associated with a transaction that cannot be resolved by the Head of CRM, Senior Management determines the appropriate course of action to follow to reduce MTB's potential exposure to E&S risk, which may include taking legal action against the client. Board/EC (Executive Committee) is responsible for deciding if E&S risks in high risk projects are acceptable to the bank's overall exposure to risk before proceeding with a transaction. The Board in certain cases may decide to terminate a transaction based upon the level of risk of the project. Risk Management Committee (RMC) of Board will review, monitor and supervise the overall ESRM activities of bank.
- e) Legal Department:** MTB's E&S requirements shall be incorporated in legal agreements in a form of standard E&S clauses duly vetted by the Legal Department prior to commencing the ESMS in the bank. The Legal Department may advise if a client's non-compliance with E&S clauses constitutes a breach of contract and is considered an Event of Default under the terms of the legal agreement that requires follow up by Senior Management.

**f) Sustainable Finance Unit (SFU):** MTB SFU (This has the reference to SFD Circular No. 02/2016 issued by BB on December 01, 2016 and MTB Circular No. GHR/02/2017 dated 02/01/2017) is responsible for coordination with different departments, branches of the bank for ensuring the compliance of ESRM and proper implementation of ESMS. This unit is responsible for updating the Board/RMC through Sustainable Finance Committee on the current status of MTB's portfolio regarding ESRM, facilitating the Board/RMC's decision making process where there are unresolved E&S issues or non-compliance. The unit is also responsible for periodic reporting to Bangladesh Bank and as/when required. Head of the SFU may be called upon by the Board to opine on critical E&S issues of a particular transaction. The SFU is also responsible for tracking latest E&S issues in the media and support transaction teams in identifying and managing E&S risks in lending. The SFU is also responsible for assisting RMs in conducting ESDD for large corporate and project finance transactions.

## 7. Procedure for E&S Risk Management

**7.1 Eligibility Screening of Loan Application (Exclusion List):** At the initial stage of evaluating a potential financial transaction, Relationship Manager should screen the activities of the potential client to determine if it is an excluded activity. If the activity falls on the MTB's list of excluded activities (Annex-1), the financial transaction should not be considered.

**7.2 Categorizing Transaction:** RMs use an **E&S Risk Categorization Tool** (see in Annex-10) to determine the overall environmental and social category as per DoE categorization (considers the environmental risks) and the Overall (IFC) E&S categorization (considers both environmental and social risks) based on the nature (sector) of the client's principal business activity. The printed version of the E&S categorization list is in Annex-11.

This categorization will decide the extent of further E&S due diligence to be carried out by the Bank and also will be used for the portfolio monitoring. The categorization could be the following:

**GREEN E&S risk** activities (see examples in Annex-11) typically involve clients with minimum or no adverse E&S impact.

**ORANGE E&S risk A or B** activities (see examples in Annex-11) are those for which the environmental and social impacts can be readily predicted, prevented and/or mitigated given appropriate levels of a borrower's financial and technical/ managerial capabilities. Orange B is the orange level risk with bigger potential to cause damages to people of the environment than Orange A.

**RED E&S risk** activities (see examples in Annex-11), due to inherent characteristics, for example complex industrial process, use of scarce or hazardous resources or scale of operations have the potential to cause significant and/or long term environmental and/or social impacts or have significant environmental liabilities associated with them, the magnitude of which is difficult to determine at the loan application stage. Financing of such activities may also entail significant reputational risk for the bank. Such activities require more detailed environmental and social due diligence. ESIA



The E&S risk categorization should be conducted by respective RMs before or while making a visit to the client's premises.

**7.3 E&S Due Diligence:** RMs perform an E&S due diligence:

1. to review any potential E&S risks associated with the business activities of the potential borrower, and
2. to determine the status of the borrower's compliance with Bangladeshi regulatory and permitting requirements for environmental, labor and occupational health & safety issues and where applicable with the requirements of the buyers (e.g. Alliance and Accord for RMG) or other international standards.

The **objective** is to ensure that the transaction does not carry environmental and social risks, which could:

- affect the borrower's ability to repay its debt to the Bank or
- present a potential liability to MTB or
- present a risk to MTB's reputation for associating with an environmentally or socially controversial activity.

The outcome of the E&S due diligence is summarized in a *credit proposal* documentation and it is factored into the decision-making process for proceeding with a transaction.

The extent of the E&S due diligence will depend on the E&S Risk Category and on the type of the business activity.

<b><i>Type of business</i></b>	<b><i>Required E&amp;S due diligence actions</i></b>
<ul style="list-style-type: none"> <li>▪ <b>GREEN E&amp;S Risk Category businesses (all)</b></li> <li>▪ <b>Agriculture not involving crop production, animal farming, poultry and dairy (all)</b></li> <li>▪ <b>Retail (all)</b></li> <li>▪ <b>Trade with regular non-hazardous goods</b></li> <li>▪ <b>Microfinance (all)</b></li> <li>▪ <b>Small enterprises (all) except for those listed in Clause-4 of this Manual</b></li> </ul>	<p>No further E&amp;S appraisal is needed. RMs only make sure the borrower has all required certifications</p> <p>RMs will only record the E&amp;S Risk Category in the <i>Credit Proposal</i> file.</p>
<ul style="list-style-type: none"> <li>▪ <b>Agriculture involving crop production, animal farming, poultry and dairy of ORANGE and RED E&amp;S Risk Category</b></li> <li>▪ <b>Small enterprises listed in Clause-4 of this Manual for loan applications &gt; BDT 1 million (Tk 10.00 lac) of ORANGE and RED E&amp;S Category</b></li> <li>▪ <b>Trade with hazardous materials or substances (see Annex-18)</b></li> </ul>	<p>RMs will conduct a <b>simplified due diligence</b> of E&amp;S risks and opportunities by carrying out :</p> <ul style="list-style-type: none"> <li>• <b>documentation review</b> and <b>compliance check</b> to see if the borrower has all required clearances and licenses;</li> <li>• for reference RMs can study the respective <b>sectoral E&amp;S guideline</b> (see <b>Annex-12</b> for their index) and an <b>Overview of E&amp;S regulations in Bangladesh</b> (see in <b>Annex-5</b>)</li> <li>• <b>RMs</b> conduct <b>site visit</b> and <b>discuss</b> with the client the issues identified during the visit and specified in the <b>Generic ESDD Checklist</b> in the ESMS Risk Assessment Tool (see in <b>Annex-2</b>);</li> <li>• completing the <b>Generic ESDD Checklist</b> available at the ESMS Risk Assessment Tool</li> </ul>

	<p>(see in Annex-2);</p> <ul style="list-style-type: none"> <li>• <b>the E&amp;S Risk Rating (ESRR)</b> will be computed by the ESMS Risk Assessment Tool;</li> <li>• RMs complete the <b>Summary of E&amp;S Due Diligence section of the Credit Memo.</b></li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Medium Enterprise of ORANGE and RED E&amp;S Category</b></li> </ul>	<p>RMs will conduct a <b>due diligence</b> of E&amp;S risks and opportunities by carrying out :</p> <ul style="list-style-type: none"> <li>• <b>documentation review and compliance check</b> to see if the borrower has all required permissions and licenses;</li> <li>• for reference, RMs can study the respective <b>sectoral E&amp;S guideline</b> (see <b>Annex-12</b> for their index) and an <b>Overview of E&amp;S regulations in Bangladesh</b> (see in <b>Annex-5</b>)</li> <li>• <b>RMs conduct site visit and discusses</b> with the client the issues identified during the visit and specified in the <b>Generic ESDD Checklist</b> included in the ESMS Risk Assessment Tool (see in <b>Annex-2</b>);</li> <li>• RMs complete a <b>sector specific ESDD Checklist</b> and if not available then the <b>Generic ESDD Checklist you can find</b> in the ESMS Risk Assessment Tool (see in Annex-2);</li> <li>• <b>the E&amp;S Risk Rating (ESRR)</b> will be computed by the ESMS Risk Assessment Tool;</li> <li>• RMs complete the <b>Summary of E&amp;S Due Diligence section of the Credit Memo.</b></li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Commercial Banking, Corporate &amp; Institutional Banking of ORANGE and RED E&amp;S Category</b></li> </ul>	<p>RMs will conduct a <b>due diligence</b> of E&amp;S risks and opportunities by carrying out :</p> <ul style="list-style-type: none"> <li>• <b>documentation review and compliance check</b> to see if the borrower has all required permissions and licenses;</li> <li>• for reference, RMs can study the respective <b>sectoral E&amp;S guideline</b> (see <b>Annex-12</b> for their index) and an <b>Overview of E&amp;S regulations in Bangladesh</b> (see in <b>Annex-5</b>)</li> <li>• <b>RMs conduct site visit and discusses</b> with the client the issues identified during the visit and specified in the <b>Generic ESDD Checklist</b> or <b>sector-specific ESDD Checklist</b> included in the ESMS Risk Assessment Tool (see in <b>Annex 2</b>);</li> <li>• RMs complete a <b>sector specific ESDD Checklist</b> and if not available then the <b>Generic ESDD Checklist</b> available in the ESMS Risk Assessment Tool (see in Annex-2);</li> <li>• <b>the E&amp;S Risk Rating (ESRR)</b> will be computed by the ESMS Risk Assessment Tool when RMs complete the ESDD Checklist;</li> <li>• for large, long term corporate loans (3 years or more and amount BDT 800 million (80 crore) or more)RMs, assisted by SFU, check the</li> </ul>

	<p>applicability of the <b>IFC Performance Standards</b> by utilizing the <b>Performance Standard (PS) Screening Guide</b> (see <b>Annex 8</b>) and for those PSs that apply, they use the <b>IFC PS Compliance Checklist</b> (see <b>Annex-8</b>);</p> <ul style="list-style-type: none"> <li>• If any of the PSs are applicable, RMs will inform the client of the relevant environmental or social issues and the requirements engendered by the application of the relevant Performance Standard, and ensure that the client complies with any relevant Performance Standards. See the index of Performance Standards in Annex-6.</li> <li>• Preparation of the <b>Summary of E&amp;S Due Diligence section</b> of the Credit Memo.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Project Finance of ORANGE and RED E&amp;S Category</b></li> </ul>	<p>SFU personnel assisted by RMs <u>will</u> conduct a <b>due diligence</b> of E&amp;S risks and opportunities by carrying out :</p> <ul style="list-style-type: none"> <li>• <b>documentation review and compliance check</b> to see if the borrower has all required permissions and licenses;</li> <li>• For reference, SFU personnel and RMs will study the respective <b>sectoral E&amp;S guideline</b> (see <b>Annex-12</b> for their index) and an <b>Overview of E&amp;S regulations in Bangladesh</b> (see in <b>Annex-5</b>)</li> <li>• <b>site visit and discussions</b> with the client the issues identified during the visit and specified in the <b>Generic ESDD Checklist</b> or <b>sector-specific ESDD Checklist</b> included in the ESMS Risk Assessment Tool (see in <b>Annex-2</b>);</li> <li>• the client must support its loan application with a <b>third party Environmental &amp; Social Impact Assessment report (Third party consultant's Terms of Reference in Annex-16)</b></li> <li>• completing a <b>sector specific ESDD Checklist</b> and if not available then the <b>Generic ESDD Checklist</b> included in the ESMS Risk Assessment Tool (see in Annex-2);</li> <li>• <b>the E&amp;S Risk Rating (ESRR)</b> will be automatically computed by the ESMS Risk Assessment Tool;</li> <li>• for large, long term project financing (3 years or more and amount BDT 800 million (80 crore) or more) RMs check the applicability of the <b>IFC Performance Standards</b> by utilizing the <b>Performance Standard (PS) Screening Form</b> (see <b>Annex-7</b>) and <b>PS Compliance Checklist</b> (see <b>Annex-8</b>);</li> <li>• If any of the PSs are applicable, RMs will inform the client of the relevant environmental or social issues and the requirements engendered by the application of the relevant Performance</li> </ul>

	<p>Standard, and ensure that the client complies with any relevant Performance Standards. See the index of Performance Standards in Annex-6.</p> <ul style="list-style-type: none"> <li>• RMs and SFU personnel prepare the <b>Summary of E&amp;S Due Diligence</b> section of the Credit Memo.</li> </ul>
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#### 7.4 E&S Risk rating

Once the ESDD Checklist is completed the ESMS Risk Assessment Tool will auto generate a risk rating- High, Medium or Low.

- **“High” ESRR** indicates **serious non-compliance** or irresponsible behaviour of the client. Therefore for the transaction of ESRR “High”, CRM should always **draft an E&S Action Plan** (ESAP) (see Annex-14 for guidance) and **additional covenants/conditions** (Annex-13) to be used to mitigate the identified problems.
- **“Medium” ESRR** indicates less serious non-compliance or unresolved non-material issues. CRM should propose **additional covenants/conditions** (Annex-13) to mitigate the identified problem(s).
- **“Low” ESRR** means that there were no non-compliance issues identified and **no further actions are required**.

#### 7.5 Corrective Action Plan and Covenants:

For Medium and High Risk projects there will be identified risks which will have to be mitigated. A Corrective Action Plan has to be taken to identifying the risk, mitigation measures, timeline for implementation and who should be responsible for implementation (see Annex-14 for guidance). Transaction specific corrective action plan and covenants can be part of the legal loan documents.

#### 7.6 Credit Proposal review and managing E&S risks:

Prior to the disbursement where ESRR “High”, Officials have to verify that the conditions / covenants (e.g. obtaining environmental clearance certificate) are met prior to disbursement. Documented evidence of adhering to the conditions / covenants should be provided.

#### 7.7 Credit Proposal approval:

Depending upon the risk rating (ESRR), the transaction will have to be escalated to the relevant authority. Please refer to the **escalation matrix** (Annex-9) for the process to be followed.

All the **low risk** transactions can be approved by the Credit Officer. All the **medium risk** transactions will be escalated to the Credit Evaluation Committee (CEC) for its recommendation and to be approved as per credit delegation. All the **high risk** transactions will be escalated to the Board, after review by the MD& CEO, for approval. In absence of the Board, the high risk transactions can be approved by the Executive Committee [Annex-9 more details].

#### 7.8 Post-disbursement monitoring:

The purpose of monitoring a client's E&S performance is to assess existing and emerging E&S risks associated with a client's operations during the transaction. Once a transaction has been approved, bank officer particularly RM needs to monitor the client's ongoing compliance with the E&S clauses stipulated in the legal agreement. E&S risks or compliance status may change from the time of transaction approval. From the time of transaction approval, E&S regulations may become more stringent, the client may modify its operations

or production processes in a way that exacerbates previously identified risk or present new E&S risks. Managing emerging E&S risks at the transaction level ensures effective E&S risk management at the portfolio level. The frequency and extent of monitoring will depend on the complexity of E&S issues associated with a client's operations. **The monitoring process generally involves a review of the E&S issues related compliance documents and reports submitted by the client and regular site visits of the client's operations and completing the E&S Monitoring Checklist (Annex-15).**

**Special attention should be paid to:**

- Assessing implementation of any mitigation measures specified in the corrective action plan
- Monitoring for valid E&S permits or licenses
- Any fines and penalties for non-compliance with E&S regulations
- Recent reports from the relevant regulator or inspection authority confirming compliance with specified laws, including any emissions measurements proving that emissions are below the permitted limits
- E&S occurrences including major accidents or incidents associated with a client's operations such as worker injuries and spills
- Media attention to E&S issues related to the client
- Any complaints submitted by stakeholders about a client.

If MTB staff identifies E&S issues, such as a client's non-compliance with the E&S clauses stipulated in the legal agreement, they should follow up with the client to resolve these in a reasonable timeframe. Depending upon the complexity of the E&S issues associated with a client's operations, MTB staff should maintain a new corrective action plan and/or periodic reports on E&S performance throughout the duration of the transaction. The reporting frequency should be tailored to each individual transaction and should be based on self-monitoring by the client. Officers need to refer to the monitoring checklist for documenting their findings during the monitoring process. The relevant Environmental Due Diligence Checklist and Environmental Risk Rating will be reviewed and either confirmed or updated. Clients that are out of compliance may be given the opportunity to cure any matters of non-compliance or in some cases, clients unable or unwilling to address matters of non-compliance may be exited. In the case of a "High" Environmental Risk Rating, periodic inspections of the client, using the previously completed Environmental Due Diligence Checklist, are required.

## **8. Managing Eventualities in Investment Projects**

Non-routine events do occur in conjunction with business development, with consideration of new clients and investments, during appraisal, and in the post-commitment supervision cycle. Some common eventualities may include:

- Direct complaints made to the bank for investing in environmentally or socially harmful projects.
- Negative media report/ Non-Governmental Organization (NGO) campaign about a particular transaction which the Bank/FI has financed
- Serious accidents, incidents including fatalities
- Worker unrest, riots, demonstration on the roads

As soon as the RM knows about any such occurrence, he/she will immediately inform Head of WBD/SME/Retail, Head of CRM/SME-CRM/Retail Finance Centre and also Head of SFU, collect factual information about the event, conduct a site visit and develop an action plan to

mitigate the occurrence of such event in the future and communicate to the client what implication there might be due to the event. There might also be requirement of re-visiting the risk rating in light of the recent event.

## 9. Internal/External Communication

The Bank's ESMS includes periodic reporting on the E&S performance of transactions and measures taken to reduce its overall exposure to E&S risk. Bank staff should compile all E&S findings from monitoring clients and aggregate findings at the portfolio level. MTB SFU staff will collect the findings from Branches/RMs for preparing aggregate findings for the entire Bank. By analyzing this information, the Bank can have a better understanding of its overall exposure to E&S risk through its portfolio.

E&S performance reports typically include information on:

- Portfolio breakdown by business line, industry sector and E&S risk category
- Overall exposure to E&S risk and performance
- High-risk transactions and E&S due diligence process prior to transaction approval
- Major E&S risks of individual transactions, including cases of non-compliance
- Significant E&S accidents or incidents related to a transaction
- Implementation and changes in the Bank's ESMS

The Bank will have internal and external reporting requirements regarding the E&S risks and impacts associated with its portfolio.

## 10. Provision of Incentives and Disincentives

On the basis of the performance of the borrower(s) and banks dealing with transactions with high ESRR, incentives and disincentives need to be considered for the following:

### 10.1 High ESRR at transaction/application/proposal level:

The board of the bank is authorized to consider the provision of incentives and disincentives for projects that have high pre-disbursal ESRR. During post-disbursal monitoring of the performance of the project, if change in ESRR is observed, the following options may be considered, provided any change to the interest rate and repayment term has to be incorporated as part of the loan agreement linked with changes in ESRR.

**Table 2: Options for incentives and disincentives:**

SL No.	Particulars	Probable option(s)
1	Incentive(s) if change in ESRR is positive	<ul style="list-style-type: none"> <li>• Issuance of appreciation letter and upload the name of projection bank's website</li> <li>• Reduction in interest rate</li> <li>• Higher debt-equity ratio for borrowers</li> <li>• Flexibility in loan conditions</li> <li>• Favorable loan to value ratio for borrowers</li> </ul>
2	Disincentive(s) if change in ESRR is negative	<ul style="list-style-type: none"> <li>• Increase in interest rate</li> <li>• Lower debt-equity ratio for borrowers</li> <li>• Tougher loan covenants/conditions</li> <li>• Tougher loan to value ratio for borrowers</li> </ul>

## **10.2. High ESRR at portfolio level:**

The purpose of this Manual/Guideline is to encourage the bank's officials to better understand E&S risks and incorporate appropriate risk mitigation measures to be able to expand the lending portfolio rather than avoid investing in high E&S risks.

Bangladesh Bank will monitor the share of high ESRR transactions of our Bank in total loan profile and actions taken by the MTB Board for high ESRR transactions. Bangladesh Bank will consider the following options with respect to the performance of The Bank towards meeting the sanction target for high ESRR projects:

- Impact in CAMELS rating;
- Impact on liquidity and capital requirements;
- Impact on credit growth;
- Impact on profit distribution.

**List of activities excluded from financing by MTB**

(in line with the exclusion Lists of IFC, EDFI – DEG/FMO, ADB and Bangladesh Bank):

The bank will not finance:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- Production or activities involving harmful or exploitative forms of forced labor<sup>1)</sup> or child labor<sup>2)3)</sup>
- Activities or materials deemed illegal under Bangladeshi laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
  - ozone depleting substances<sup>4)</sup>,
  - PCB's (Polychlorinated Biphenyls)<sup>5)</sup>, and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals<sup>6)</sup>.
  - wildlife or wildlife products regulated under the Convention on International trade in Endangered Species of Wild Fauna and Flora (CITES)<sup>7)</sup>
  - unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length, deep sea bottom trawling, or fishing with the use of explosives or cyanide)
- Any activity, production, use, distribution, business or trade involving:
  - radioactive materials<sup>8)</sup>, including nuclear reactors and components thereof
  - unbonded asbestos fibers<sup>9)</sup>.
  - cross-border trade in waste and waste products, unless compliant to the Basel Convention and the underlying regulations.<sup>10)</sup>
  - destruction<sup>11)</sup> of High Conservation value areas<sup>12)</sup> including impacting UNESCO World Heritage Site and/or Ramsar site
  - Racist and/or anti-democratic media
  - Pornography (goods, stores, web-based) and/or prostitution.
  - weapons and munitions, including paramilitary materials
  - tobacco and tobacco products
  - gambling, casinos and equivalent enterprises and goods for these activities
  - alcoholic beverages excluding beer and wine
- Ship breaking/ trading activities which include:
  1. Ships with prevalent asbestos use (for e.g. passenger cruise);
  2. Ships listed on the Greenpeace blacklist<sup>13)</sup>;
  3. Ships not certified “gas free” for hot work
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples
- The following exclusions should also apply to the bank’s financing (except for micro-financing):
  - Illegal logging, commercial logging operations or conversion of land for plantation use in primary tropical moist forest.
  - Production or trade in wood or other forestry products other than from sustainably managed forests
- When investing in **microfinance activities**, the bank applies the following items **in addition to the excluded items listed above**:
  - Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.*[IFC]*



- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- For **Trade finance projects**, given the nature of the transactions, the bank applies the following items in addition **to the excluded items listed above**:
  - Production or activities involving harmful or exploitative forms of forced labor<sup>1)</sup> or child labor<sup>2) 3)</sup>

**Foot Notes:**

- 1) Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO Conventions.
- 2) Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.
- 3) 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.[IFC]
- 4) Ozone-depleting substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in "holes in the ozone layer". The Montreal Protocol lists ODs and their target reduction and phase-out dates. [DEG] A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available at [http://ozone.unep.org/new\\_site/en/montreal\\_protocol.php](http://ozone.unep.org/new_site/en/montreal_protocol.php)
- 5) PCBs: Polychlorinated biphenyls, a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.
- 6) Reference documents are UN Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; WHO Classification of Pesticides by Hazard; EU Regulation (EEC) No 2455/92 Concerning the Export and Import of Certain Dangerous Chemicals, as amended. United Nations (UN) list of banned chemicals and products: <http://www.un.org/esa/coordination/Consolidated.list-13FinalFinal.pdf>
- 7) CITES: Convention on International Trade in Endangered Species or Wild Fauna and Flora. A list of CITES listed species is available from [www.cites.org](http://www.cites.org). CITES list of endangered species: <http://www.cites.org/eng/app/E-Apr27.pdf>.
- 8) This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any other equipment where the radioactive source is considered to be trivial and/or adequately shielded.

- 9) This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%. [IFC]
- 10) Reference documents are: Basel Convention of 22 March 1989 on the control of trans boundary movements of hazardous wastes and their disposal (details at <http://www.basel.int/>) ; Regulation (EC) No 1013/2006 of 14 June 2006 on shipments of waste; Decision C(2001)107/Final of the OECD Council concerning the revision of Decision C(92)39/Final on the control of trans-boundary movements of wastes destined for recovery operations.
- 11) Destruction means the (1) elimination or severe diminution of the integrity of a habitat caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the habitat's ability to maintain its role is lost.
- 12) High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see [www.hcvnetwork.org](http://www.hcvnetwork.org) )
- 13) <http://www.greenpeace.org/international/en/campaigns/oceans/pirate-fishing/Blacklist1/>

**ESDD Checklist-Generic/E&S Risk Assessment Tool-Generic**

*(An excel sheet is enclosed separately. Concerned Officials will use the excel sheet to auto-generate ESRR)*

**E&S Risks in Details**

**Air emissions and Air Quality**

Emissions of air pollutants can occur from a wide variety of activities during construction, operation and decommissioning of a client's operations.

**Air emissions** are typically associated with processes such as combustion, storage of materials or other industry-sector specific processes and can be:

□ **Point sources:** These are discrete, stationary, identifiable sources of emissions (such as a specific stack, vent or other discrete point of emission) that release pollutants to the atmosphere. They are typically located in manufacturing or production plants. Point sources are characterized by the release of air pollutants typically associated with the combustion of fossil fuels, such as nitrogen oxides (NO<sub>x</sub>), sulfur dioxide (SO<sub>2</sub>), carbon monoxide (CO), and particulate matter (PM), as well as other air pollutants including certain volatile organic compounds (VOCs) and metals that may also be associated with a wide range of industrial activities.

□ **Fugitive sources:** These are emissions that are distributed spatially over a wide area and originate in operations where exhausts are not captured and released through a stack. Fugitive emissions have the potential for much greater ground-level impacts than stationary source emissions, since they are discharged and dispersed close to the ground. The two main types of fugitive emissions are Volatile Organic Compounds (VOCs) and Particulate Matter (PM). Other contaminants (NO<sub>x</sub>, SO<sub>2</sub> and CO) are mainly associated with combustion processes designed to deliver electrical or mechanical power, steam and heat.

□ **Mobile sources:** These are emissions associated with vehicle use and include CO, NO<sub>x</sub>, SO<sub>2</sub>, PM and VOCs. Emissions can be reduced by implementing a regular vehicle maintenance and repair program, instructing drivers on better driving practices that reduce both the risk of accidents and fuel consumption, replacing older vehicles with newer, more fuel efficient alternatives, converting to cleaner fuels and installing emissions control devices such as catalytic converters. A client should estimate and monitor air emissions associated with operations through qualitative or quantitative assessments and atmospheric dispersion models to assess potential ground level concentrations and environmental impacts. At a facility level, air emissions should not result in pollutant concentrations that exceed the ambient air quality standards set by national authorities, which would result in fines and/or penalties if concentrations are in violation of national legislation. Pollutant concentrations can also be compared to international best practice and standards to identify any deviations, which would indicate poor performance of an operation. Air emissions of concern typically include:

□ **VOCs:** Emissions of VOCs are associated with industrial activities that produce, store and use VOC-containing liquids or gases in particular where the material is under pressure. Typical sources include equipment leaks (from valves, fittings and elbows), open vats and mixing tanks, storage tanks, unit operations in wastewater treatment systems and accidental releases. Emissions can be reduced by modifying equipment, regularly monitoring equipment to detect and repair leaks, using less volatile substances such as aqueous solvents and collecting vapors through air extractors.

□ **PM:** Dust or PM is released during certain operations such as the combustion of fossil fuels, open storage of solid materials, and from exposed soil surfaces, including unpaved roads. Emissions can be reduced through dust control methods such as covers, water suppression, or increased moisture content for open materials storage piles, or controls (such as a bag house or cyclone).

□ **Ozone Depleting Substances (ODS):** Ozone depleting substances (ODSs) include chemicals, which have been scheduled for phase-out under the Montreal Protocol on Substances that Deplete the Ozone Layer. Systems or processes using chlorofluorocarbons (CFCs), halons, 1,1,1-trichloroethane (methyl chloroform), carbon tetrachloride, hydrochlorofluorocarbons (HCFCs), hydrobromofluorocarbons (HBFCs), and methyl bromide should be gradually phased out or not used at all as determined by national regulations. These chemicals are typically used in a variety of applications including refrigeration, air conditioning, manufacturing foam products, solvent cleaning, aerosol propellants, fire protection systems and as crop fumigants.

□ **Greenhouse Gases (GHGs):** GHGs, as defined under the Kyoto Protocol to the United Nations Framework Convention on Climate Change, include carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>). GHGs can be generated by a facility's production processes as well as from the production of power (on-site or off-site) for use by the facility. Emissions can be reduced through mechanisms such as carbon financing, energy efficiency, sustainable forms of agriculture and forestry, use of renewable forms of energy, carbon capture and storage technologies, recovery and use of methane in waste management and energy distribution.

□ **Sulfur dioxide (SO<sub>2</sub>):** Sulfur dioxide (SO<sub>2</sub>) is mainly produced by the combustion of fuels such as oil and coal and as a by-product from some chemical production or wastewater treatment processes. Emissions can be reduced through the use of alternate fuels such as low sulfur coal, light diesel or natural gas, emissions control technologies.

□ **Toxics (mercury):** Mercury exists as elemental mercury, inorganic mercury compounds (primarily mercuric chloride), and organic mercury compounds (primarily methyl mercury). All forms of mercury are toxic and each form exhibits different health effects. A major source of exposure to elemental mercury is through inhalation in the work place. Sources of inorganic mercury compounds are generally low as their use has mostly been banned but limited exposure can occur through the use of old cans of latex paint. Sources of methyl mercury include fungicide-treated grains and meat from animals fed with treated grain. Where possible, a client's operations should avoid, minimize and control adverse impacts to human health, safety and the environment from emissions to air. The generation and release of air emissions can be managed through a combination of energy use efficiency, process modification, selection of fuels or other materials and application of

emissions control techniques. A Bank/FI can help a client to identify areas for reductions in air emissions and to identify environmental business opportunities.

Requirements for the Air emission level monitoring are usually specified in the Environmental Management Plan approved by Department of Environment (Schedule of Environment Conservation Rules (ECR) 1997).

#### Standards for Ambient Air

SL No.	Area Class	Particulate Matter (SPM)	SO <sub>2</sub>	CO	NO <sub>x</sub>
a	Industrial & mix area	500	120	5000	100
b	Commercial & mix area	400	100	5000	100
c	Residential & rural area	200	80	2000	80
d	Sensitive area	100	30	1000	30

#### Note:

- 1). Sensitive area: National Monument, Health complex, Hospital, School, Govt. defined area if exists.
- 2). Particulate matter means diameter of air particles of size 10 micron or less.
- 3). Industry situated near residential rural and sensitive area should emit which exceed the limit of item

**Source:** Bangladesh Gazette (August 28, 1997), Ministry of Forest & Environment

#### Standards for Industrial GASEOUS EMISSIONS

Source	Parameter	Not to exceed, mg/Nm <sup>3</sup>
Coal	Coal ash & Particles	500 mg/Nm <sup>3</sup>
	Nitrogenous Oxide	600 mg/Nm <sup>3</sup>
Gas	Coal ash & Particles	100 mg/Nm <sup>3</sup>
	Nitrogenous Oxide	150 mg/Nm <sup>3</sup>
Oil	Coal ash & Particles	300 mg/Nm <sup>3</sup>
	Nitrogenous Oxide	300 mg/Nm <sup>3</sup>

#### PARTICULATE MATTER

Steam Generation Capacity (ton/h)	Not to exceed, mg/Nm <sup>3</sup>
Less than 2 t/h	1200 mg/Nm <sup>3</sup>
2 t/h to less than 10 t/h	800 mg/Nm <sup>3</sup>
10 t/h to less than 15 t/h	600 mg/Nm <sup>3</sup>
15 t /h and above	150 mg/Nm <sup>3</sup>

**Source:** Bangladesh Gazette (August 28, 1997), Ministry of Forest & Environment

#### Water use and conservation

A client's operations use water in various production processes, which vary by industry sector. Typically, water use at the facility level is associated with processes such as described here.

- **Process water:** Processes that typically use large quantities of water include washing machines, rinsing, water jets or sprays to keep conveyors clean or to cool product, and the use of tanks, which are refilled to control losses. Opportunities for reducing water use exist through water reuse, improved equipment maintenance and better process design.

□ **Building facility operations:** Consumption of building and sanitary water is typically less than that of industrial processes. Areas for reducing water use include repairing leakages and installing water-saving devices.

□ **Cooling systems:** Once-through cooling systems with cooling towers use large quantities of water and can be replaced by closed circuit cooling systems. Fresh water use can also be reduced by replacing it with treated water.

□ **Heating systems:** Closed heating systems based on the circulation of low or medium pressure hot water may consume large quantities of water if they leak and are poorly maintained. In some cases, large quantities of water may be used by steam systems but water use can be reduced through steam recovery systems and improved systems operations. Where possible, a client's operations should reduce overall water use at the facility level by managing the water consumption associated with specific production processes to avoid excess costs. A Bank/FI can help a client to identify areas for reductions in water use and new environmental business opportunities.

### **Wastewater and water quality**

A client's operations generate wastewater, which is treated on site and/or discharged either to the municipal sewage system for treatment or directly to the environment (surface water) without prior treatment. Wastewater includes process wastewater, wastewater from utility operations, storm water and sanitary wastewater. Wastewater will vary in quality and quantity by industry sector and typically includes:

□ **Process wastewater:** Pollutants may include acids, bases, and many others. These include soluble organic chemicals, suspended solids, nutrients (phosphorus and nitrogen), heavy metals (such as cadmium, chromium, copper, lead, mercury, nickel and zinc), cyanide, toxic organic chemicals, oily materials and volatile materials. The costs of treating process wastewater can be significant.

□ **Waste water from utilities operations:** Utility operations such as cooling towers and demineralization systems may result in high rates of water consumption, as well as the potential release of high temperature water containing high dissolved solids, residues of biocides and residues of other cooling system anti-fouling agents.

□ **Storm water:** Storm water includes any surface runoff and flows from process and materials staging areas resulting from precipitation or drainage. Typically storm water runoff contains suspended sediments, metals, petroleum hydrocarbons, Polycyclic Aromatic Hydrocarbons (PAHs) and coliform. Rapid runoff, even of uncontaminated storm water, also degrades the quality of the receiving water by eroding stream beds and riverbanks.

□ **Sanitary wastewater:** This may include effluents from domestic sewage, food service and laundry facilities serving site employees and can also include other sources such as from laboratories, medical infirmaries, equipment maintenance shops and water softening. A client should monitor the quality, quantity, sources and discharge points of liquid effluents by type (process, utilities operations, storm water and sanitary). At a facility level, discharges of wastewater should not result in contaminant concentrations in excess of the effluent discharge quality standards of national regulations to avoid liability for fines and/or penalties. Discharge quality can also be compared to international best practice and

standards to identify any deviations, which would indicate poor performance of an operation. The generation and discharge of wastewater should be managed to reduce the volume of water requiring specialized treatment by improving water use efficiency, modifying production processes (including the use of hazardous materials that contaminate water), and treating wastewater on-site prior to discharge in order to reduce the load of contaminants.

Where possible, a client's operations should avoid, minimize and control adverse impacts to human health, safety and the environment from wastewater generation through wastewater management, water conservation and reuse. A Bank/FI can help a client to identify opportunities for preventing or reducing wastewater generation through water conservation and recycling/reusing within operations and to identify environmental business opportunities.

Requirements for the water discharge level monitoring are usually specified in the Environmental Management Plan approved by Department of Environment (Schedule of Environment Conservation Rules (ECR) 1997).

### Standards for Discharge of Effluent from industrial Processing

SL No.	Parameters	Unit	Value
a	pH	mg/l	6.5-9
b	BOD <sub>5</sub>	mg/l	150
c	Oil & Grease	mg/l	10
d	Total Suspended Solids (TSS)	mg/l	100
e	Total Solids (TS)	mg/l	2100
f	Total Chromium	mg/l	2
g	Sulphide as `S`	mg/l	2

**Source:** Bangladesh Gazette (August 28, 1997), Ministry of Forest & Environment

### Wastes

A client's operations may generate, store, or handle any quantity of hazardous or nonhazardous waste across a range of industry sectors. Waste can be solid, liquid, or contain gaseous material that is discarded by disposal, recycling, burning or incineration. It can be a by-product of a manufacturing process or an obsolete commercial product that can no longer be used for its intended purpose and requires disposal.

Inappropriate waste disposal practices can lead to contamination of ground water or potential fines and/or penalties as stipulated in national regulations.

**Solid (non-hazardous) waste** generally includes domestic trash, inert construction/demolition materials, metal scrap and empty containers (except those previously used to contain hazardous materials, which should be managed as a hazardous waste), and residual waste from industrial operations.

**Hazardous waste** shares the properties of a hazardous material (such as ignitability, corrosiveness, reactivity, or toxicity), or other physical, chemical, or biological characteristics that may pose a potential risk to human health or the environment if improperly managed. When a hazardous material is no longer usable for its original purpose and is intended for disposal, but still has hazardous properties, it is considered a hazardous waste. Typically, hazardous wastes include solvents, fuels,

and asbestos in building materials, PCB oils in electrical equipment, most pesticides, and ozone depleting substances in refrigeration systems. Wastes may also be defined as “hazardous” by local regulations or international conventions, based on the origin of the waste and its inclusion on hazardous waste lists or based on its characteristics. Hazardous wastes should always be segregated from non-hazardous wastes.

Facilities that generate and store wastes need to consider issues linked to waste minimization, generation, transport, and disposal. Typically, approaches to waste management include:

□ **Waste management planning.** Facilities that generate waste should characterize their waste according to composition, source, types of wastes produced, generation rates, or according to local regulatory requirements. This information can be used to identify opportunities for pollution prevention, such as source reduction, reuse, and recycling.

□ **Waste prevention.** Processes can be designed and operated to prevent, or minimize, the quantities of wastes generated and hazards associated with the wastes generated. This can be accomplished by substituting raw materials or inputs with less hazardous or toxic materials, or with those where processing generates lower waste volumes, and improving manufacturing processes to convert materials more efficiently.

□ **Recycling and reuse.** The total amount of waste can be significantly reduced through the implementation of recycling and reuse plans. This entails identifying and recycling products that can be reintroduced into the manufacturing process or industry activity at a site or in industrial processing operations located at other facilities. It also includes identifying materials that can be reused, saving both costs and disposal needs.

□ **Treatment and disposal.** If waste materials are still generated after the implementation of feasible waste prevention, reduction, reuse, recovery and recycling measures, waste materials should be treated and disposed of while considering all measures to avoid potential impacts to human health and the environment. Typical treatment and disposal methods include on-site or off-site biological, chemical, or physical treatment of the waste material to render it nonhazardous prior to final disposal; and treatment or disposal at permitted facilities specially designed to receive the waste.

□ **Hazardous waste storage.** Hazardous waste should be stored so as to prevent or control accidental releases to air, soil, and water resources. This requires the need for storage in closed containers away from direct sunlight, wind and rain; secondary containments; and the provision of adequate ventilation where volatile wastes are stored.

□ **Hazardous waste transportation.** On-site and off-site transportation of waste should be conducted using appropriate protocols to prevent or minimize spills, releases, and exposures to employees and the public. All waste containers designated for off-site shipment should be secured and labelled with the contents and associated hazards, and be properly loaded on the transport vehicles before leaving the site.

□ **Hazardous waste treatment and disposal.** In the absence of qualified commercial or government owned waste vendors, facilities generating waste should have the technical capability to manage the hazardous waste or install on-site waste treatment or recycling processes in a manner that reduces immediate and future impacts to the environment. This may also require the need for applicable permits, certifications, and approvals.



□ **Small quantities of hazardous waste.** Hazardous waste materials are frequently generated in small quantities by many projects through a variety of activities such as equipment and building maintenance activities. Waste storage collection and storage areas should be visually inspected on a regular basis for evidence of accidental releases and to verify that wastes are properly labelled and stored. These types of wastes include spent solvents and oily rags, empty paint cans, chemical containers; used lubricating oil; used batteries (such as nickel-cadmium or lead acid); and lighting equipment, such as lamps or lamp ballasts. Where possible, a client's operations should implement sound waste management practices at the facility. A Bank/FI can help a client to identify environmental business opportunities.

### **Land contamination**

Land can become contaminated due to releases of hazardous materials, wastes, or oil, including naturally occurring substances.

Releases of these materials may be the result of historic or current site activities, including accidents during their handling and storage, or due to poor management or disposal. Land is considered contaminated when it contains hazardous materials concentrations, including oil, above baseline and/or naturally occurring levels.

Contaminated lands may involve topsoil or subsurface soil that, through leaching and transport, may affect groundwater, surface water, and adjacent sites. Where subsurface contaminant sources include volatile substances, soil vapour may also create potential for contamination through infiltration of indoor air spaces of buildings. Land contamination is a concern when hazardous materials, waste, or oil are present in any environment at potentially hazardous concentrations and the potential for contact with humans, wildlife, plants, and other living organisms exists. This may occur when a contaminant migrates from its point of release (e.g., leaching into potable groundwater) and humans or other living organisms are exposed to it (e.g., through ingestion or skin absorption). This has potential risks to human health (e.g., risk of cancer) and ecology and represents a liability to the polluter/business owners (e.g., cost of remediation, damage of business reputation and/or business-community relations) or affected parties (e.g., workers at the site and nearby property owners).

Land contamination should be avoided by preventing or controlling the release of hazardous materials, hazardous wastes, or oil to the environment. When contamination of land is suspected or confirmed during any project phase, the cause of the uncontrolled release should be identified and corrected to avoid further releases and associated adverse impacts. Contaminated lands should be managed to avoid the risk to human health and ecological receptors. This requires clean up reducing the level of contamination at the site while preventing human exposure.

In cases of land contamination representing an immediate risk to human health and the environment, appropriate risk reduction should be implemented as soon as practicable to remove the imminent hazard. Risk mitigation strategies should be developed based on site-specific conditions and target contaminant source reduction, taking into consideration technical and financial feasibility. To protect human health, access to a contaminated site should be limited or prevented, for example through signage, fencing, or site security. This may also require capping contaminated soil with clean soil

to prevent human contact, introducing certain plants into contaminated soils or paving them over as an temporary measure to prevent direct contact.

A client's operations should implement the necessary measures to prevent releases of hazardous materials, waste, or oil to the ground. A Bank/FI can help a client to identify environmental business opportunities.

### **Labor and Working Conditions**

The pursuit of economic growth through employment creation and income generation should be balanced with protection for basic rights of workers. For any business, the workforce is a valuable asset, and a sound worker-management relationship is a key ingredient to the long-term sustainability of the enterprise. Failure to establish and foster a sound worker-management relationship can undermine worker commitment and retention, result in labor strikes, and can jeopardize a client's operations. Conversely, through a constructive worker management relationship, and by treating the workers fairly and providing them with safe and healthy working conditions, clients may create tangible benefits, such as enhancement of the efficiency and productivity of their operations.

A client's commitment to establishing a sound worker-management relationship encompasses the following aspects:

- Human resources policy.** A client should adopt a policy appropriate to its size and workforce, which sets out its approach to managing employees. The policy provides information regarding their rights under national labor and employment law, including their rights related to wages and benefits.
- Working conditions and terms of employment.** A client should document and communicate to all employees and workers (including contract workers) their working conditions and terms of employment. These include their entitlement to wages and benefits, hours of work, overtime arrangements and overtime compensation, and leave for illness, maternity, vacation or holiday, that at a minimum comply with national law. This includes respecting a collective bargaining agreement with a workers' organization if there is such an agreement.
- Workers' organizations.** Where permitted by law, employees should be granted the right to associate freely and to bargain collectively, by forming and joining workers' organizations or through alternative means. A client should not discourage workers from forming or joining workers' organizations and should not discriminate or retaliate against workers who participate in such organizations and bargain collectively.
- Non-discrimination and equal opportunity.** A client should not make employment decisions on the basis of personal characteristics unrelated to inherent job requirements but rather on the principle of equal opportunity and fair treatment.
- Retrenchment.** If a client anticipates the elimination of a significant number of jobs or a layoff of a significant number of employees, it should develop a plan for managing the adverse impacts on employees.
- Grievance mechanism.** A client should provide all employees with a mechanism to raise reasonable workplace concerns, confidentially or anonymously if needed, so that concerns can be addressed promptly at the management-level without any retribution.

□ **Child labor and forced labor.** A client cannot employ children in a manner that is economically exploitative, or is likely to be harmful to the child or to interfere with the child's education. A client cannot employ forced labor, which consists of any work or service not voluntarily performed by an individual but executed under threat of force or penalty.

□ **Supply chain.** A client should pay attention to unfair labor practices of its suppliers, especially in instances where low labor cost is a factor in the competitiveness of supplies, and ensure that this is not due to harmful labor practices. Respecting international standards with regard to labor and working conditions benefits a client's operations by encouraging positive worker-management relationships that lead to more productive and stable operations, including a reduced likelihood of strikes, and provides a reputational advantage that comes from enhanced public recognition that good international standards are being followed.

### **Community Health, Safety and Security**

A client's operations can increase the potential for community exposure to risks and impacts arising from accidents, structural failures, and releases of hazardous materials. A client's operations often bring benefits to communities including employment, services, and opportunities for economic development. However, these operations can also increase the potential for community exposure to risks and impacts arising from accidents, structural failures, and releases of hazardous materials. Communities may also be affected by impacts on their natural resources, exposure to diseases, and the use of security personnel. While acknowledging the public authorities' role in promoting the health, safety and security of the public, it is also the client's responsibility to avoid or minimize these risks and impacts that may arise from operations. This includes implementing the following actions:

□ **Consultation and grievance channels.** Where appropriate, the client should conduct consultations and establish a line of communication with the impacted community in order to understand and monitor potential impacts. An appropriate consultation and grievance mechanism can help manage and minimize potential risks, avoid reputational issues and reduce the risk of conflicts with the community.

□ **Infrastructure and equipment safety.** The client needs to ensure that operations are conducted to prevent potential injury to the surrounding community, especially if aspects of the operations are accessible to the community. If the client's operations involve operation of moving equipment on public roads, the client needs to ensure that the necessary safety measures are in place to prevent the occurrence of any incidents and accidents.

□ **Hazardous materials safety.** The client needs to prevent or minimize the potential for community exposure to hazardous materials that may be released during operations. If there is a potential for life-threatening hazards, the client needs to modify operations or substitute or eliminate substances causing the hazard. The client also needs to control the safety of deliveries of raw materials and of transportation and disposal of wastes.

□ **Environmental and natural resource issues.** The client needs to avoid or minimize the exacerbation of impacts caused by natural hazards, such as landslides or floods that could arise from land use changes due to operations. This also includes avoiding or minimizing adverse impacts due to operations on soil, water, and other natural resources used by the affected communities.

**Community exposure to disease.** The client needs to prevent or minimize the potential for community exposure to water-borne or vector-borne disease, and other communicable diseases that could result from operations. This also includes preventing or minimizing the transmission of communicable diseases that may be associated with the influx of temporary or permanent labor associated with the client's operations.

**Increase in traffic.** Traffic, especially movement of heavy vehicles increases especially during construction phase. This can lead to possible accidents/incidents which need to be minimized. There is a need for traffic management plan and training of staff to manage and minimize accidents/incidents.

**Emergency preparedness and response.** The client needs to inform surrounding communities of potential hazards associated with operations and collaborate with the community and local government agencies in preparing to respond effectively to emergency situations.

**Use of security personnel.** A client may retain security personnel to safeguard its operations, which may pose risks to the surrounding community if not managed properly. This includes ensuring that security personnel have not been implicated in past abuses, have been adequately trained in the use of force (including firearms, if necessary) as well as in the conduct toward workers and the local community. The client will also provide a mechanism to allow the surrounding community to express concerns about security personnel and will investigate any allegations of unlawful or abusive acts of security personnel to take the necessary action to prevent recurrence.

If the impacts of a client's operations on the surrounding community are not appropriately managed, this can create conflict and objections to the client's presence in the community. This represents a reputational risk to the client at the local level, and if not addressed, may escalate to reputational risk at the regional and even international level.

### **Land Acquisition and Resettlement**

Involuntary resettlement refers both to physical displacement and to economic displacement due to land acquisition associated with a client's operations. Involuntary resettlement refers both to physical displacement (relocation or loss of shelter) and to economic displacement (access to resources for income generation or means of livelihood) due to land acquisition (including rights-of-way) associated with a client's operations. Resettlement is considered involuntary when affected individuals or communities do not have the right to refuse displacement. This occurs in cases of:

- i) lawful expropriation or restrictions on land use based on eminent domain; and
- ii) negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions on land use if negotiations with the seller fail.

**Displaced persons** may be classified as persons who:

- have formal legal rights to the land they occupy;

□ do not have formal legal rights to land, but have a claim to land that is recognized or recognizable under the national laws; or

□ have no recognizable legal right or claim to the land they occupy. Unless properly managed, involuntary resettlement may result in long-term hardship and impoverishment for affected persons and communities, as well as environmental damage and social stress in areas to which they have been displaced. For these reasons, involuntary resettlement should be avoided or at least minimized. However, where it is unavoidable, appropriate measures to mitigate adverse impacts on displaced persons and host communities should be carefully planned and implemented with appropriate disclosure of information, consultation, and the informed participation of affected persons. This includes implementing the following actions:

□ **Compensation and benefits** for displaced persons. When displacement cannot be avoided, the client will offer displaced persons and communities' compensation for loss of assets at full replacement cost and other assistance to help them improve or at least restore their standards of living or livelihoods.

□ **Grievance mechanism.** The client needs to ensure that a grievance mechanism is in place to receive and address specific concerns about compensation and relocation that are raised by displaced persons or members of host communities.

□ **Social impact assessment,** resettlement planning and implementation. Where involuntary resettlement is unavoidable, the client will conduct a census to identify the persons who will be displaced by the project, understand the likely impacts on the affected persons and community, develop entitlement framework and determine who will be eligible for compensation.

□ **Physical displacement.** If people living on the site of a client's operations must move to another location, the client will: i) offer displaced persons choices among feasible resettlement options, including adequate replacement housing or cash compensation; and ii) provide relocation assistance suited to the needs of each group of displaced persons, with particular attention paid to the needs of the poor and the vulnerable. New resettlement sites built for displaced persons will offer improved living conditions.

□ **Economic displacement.** If land acquisition for the client's operations causes loss of income or livelihood, the client will promptly compensate these persons, for example by compensating affected business owners for the cost of re-establishing commercial activities elsewhere, for lost net income during the period of transition, and for the costs of the transfer and reinstallation of their business operations.

□ **Government-managed resettlement.** Where land acquisition and resettlement are the responsibility of the government, the client needs to collaborate with the responsible government agency to the extent permitted by the agency to achieve outcomes that are consistent with best international practice.

If a client's operations involve an acquisition and resettlement, this should be carefully managed to prevent the likelihood of hardship and impoverishment for affected persons and communities. Given that a displaced community will not be entirely satisfied with its new situation unless there is noticeable improvement in standards of living or livelihoods, this will remain a reputational risk for the client.

## Indigenous Peoples

Indigenous Peoples (IPs) are recognized as social groups with identities that are distinct from dominant groups in national societies and are often among vulnerable segments of the population. Indigenous Peoples may be referred to in different countries by such terms as “Indigenous ethnic minorities”, “aboriginals”, “hill tribes”, “minority nationalities”, “scheduled tribes”, “first nations”, or “tribal groups”. IPs typically self-identify as members of a distinct indigenous cultural group and are recognized as such by others; have a collective attachment to geographically distinct habitats or ancestral territories, making use of natural resources in these habitats and territories; have customary cultural, economic, social, or political institutions that are separate from those of the dominant society or culture; and communicate in an indigenous language, often different from the official language of the country or region. Indigenous Peoples are often closely tied to their traditional or customary lands and the natural resources on these lands. While these lands may not be under their legal ownership as defined under national law, the use of these lands by communities of IPs for their livelihoods or for cultural purposes is often recognized under customary law. However, the economic, social and legal status of Indigenous Peoples often limits their capacity to defend their interests and rights to lands and natural and cultural resources. Indigenous Peoples are particularly vulnerable if their lands and resources are transformed, encroached upon by outsiders, or significantly degraded. Their languages, cultures, religions, spiritual beliefs, and institutions may also be under threat. These characteristics expose Indigenous Peoples to different types of risks and severity of impacts, including loss of identity, culture, and natural resource-based livelihoods, as well as exposure to impoverishment and disease.

A client should ensure that during the course of operations, the identity, culture and natural resource-based livelihoods of Indigenous Peoples are respected and exposure to impoverishment and disease is prevented. This includes implementing the following actions:

- Avoid or minimize adverse impacts. When a client cannot completely avoid impacts on Indigenous Peoples, the client needs to mitigate or compensate for these impacts in a culturally appropriate manner and with the informed participation of affected Indigenous Peoples.
- Consultation. The client needs to establish an ongoing relationship with the affected communities of Indigenous Peoples, which should be culturally appropriate. If there are adverse impacts, the consultation process needs to ensure the free, prior, and informed consultation of the Indigenous Peoples and facilitate their informed participation with respect to proposed mitigation measures and sharing development benefits.
- Sharing development benefits. The client needs to identify opportunities for development benefits for affected Indigenous Peoples. This should aim at improving their standard of living and livelihoods in a culturally appropriate manner, including the long-term sustainability of the natural resource on which they depend.
- Impacts on traditional or customary lands. If a client’s operations are located within traditional or customary lands or involve the commercial use of natural resources located on these lands, this will generate adverse impacts on the livelihoods or cultural identity of the community of Indigenous Peoples. The client needs to inform

affected communities of their rights under national laws, including the recognition of customary rights; make efforts to avoid or at least minimize the size of the impacted land; and offer land-based compensation as well as culturally appropriate development opportunities to affected communities.

Relocation of Indigenous Peoples. The client should avoid the relocation of Indigenous Peoples from their traditional lands. If relocation is unavoidable, the client needs to enter into a good faith negotiation with the affected communities and ensure that any relocation complies with best international standards.

If a client's operations are initiated and conducted without the involvement of Indigenous Peoples, this can lead to misunderstanding and conflict. Given worldwide concern for the well-being of Indigenous Peoples, there are significant reputational risks for a client if Indigenous Peoples issues are not managed appropriately.

### **Cultural Heritage**

Cultural heritage encompasses properties and sites of archaeological, historical, cultural, artistic and religious significance as well as unique environmental features and cultural knowledge, and practices of communities protected for future generations. Cultural heritage encompasses properties and sites of archaeological, historical, cultural, artistic and religious significance as well as unique environmental features and cultural knowledge, innovations and practices of communities embodying traditional lifestyles, which are protected for current and future generations. Consistent with the requirements of the Convention Concerning the Protection of the World Cultural and Natural Heritage, a client is required to avoid significant damage to cultural heritage due to their business activities. Impacts on cultural heritage typical involve the following:

Chance finds. During the construction of a client's facility(s), there may be physical impacts on previously unknown or undocumented resources that were fully or partially buried prior to the start of construction.

Community input. Where a project may affect cultural heritage, the client will consult with affected communities who use, or have used, the cultural heritage for longstanding cultural purposes to identify cultural heritage of importance. A client should incorporate the views of the affected communities on cultural heritage into the decision-making process.

Removal of cultural heritage. Most cultural heritage is best protected by preserving it in its place, since removal is likely to result in irreparable damage or destruction of the cultural heritage. Cultural heritage should only be removed if the client can demonstrate that the overall benefits of operations at a particular site outweigh the anticipated loss of cultural heritage.

Legally protected cultural heritage areas. When a client's proposed operations are located within a legally protected area or a legally defined buffer zone, the client is required to take additional measures to promote and enhance the conservation of the area.

Use of cultural heritage. If a client makes commercial use of a community's cultural heritage, such as embodiment of traditional lifestyles, the client is required to enter into a good faith negotiation with the affected local communities and to provide fair and equitable sharing of benefits from the commercialization of their cultural heritage.

If a client's operations are initiated and conducted without consideration for cultural heritage, there are significant legal and reputational risks. A systematic approach concerned for cultural heritage issues throughout a client's operations, including additional investments in the enhancement of cultural heritage, can bring significant reputational advantage to a client at both the local and international level.



**Credit Type Wise E&S Risks**

**Risk in Trade-** The E&S risks of trade finance are associated with the production of those goods being traded and vary by industry sector and location. Companies selling to foreign markets are required to comply with local and international social and environmental regulations and in many cases also face public scrutiny. Importing and exporting companies are therefore exposed to some level of reputational risk. Given the short-term nature of trade finance, a Bank/FI will have limited leverage to manage E&S risks once it has approved a transaction. However, a Bank/FI can have simple transaction screening procedures to avoid supporting the trade of products and substances that are subject to bans and international phase-outs.

**Risk in SME-** Investments in small and medium enterprises focus on a particular set of clients, usually defined by annual sales but also by loan amount. Small and medium enterprises have specific funding needs in terms of their business growth. The monetary cut-off for classifying a company as a small and medium enterprise generally varies greatly by country, by market, and by Bank/FI. Although less complex than for large corporate and project investments, the E&S issues associated with small and medium enterprises can be quite significant and are primarily related to worker health and safety and pollution. These E&S issues may not be closely monitored and the risks will vary depending on company size and its capacity to manage E&S risks, as well as by industry sector, and location. Bank/FIs that lend or invest in small and medium enterprises generally try to develop long-term relationships, which may further expose lenders/investors to E&S issues associated with the enterprise, posing financial and liability risks. Due to the visibility of small and medium enterprises in a community, reputational risk is also a factor.

**Risk in Retail -** E&S issues associated with retail transactions that target individuals are generally non-existent, although there may be concerns associated with mortgage finance and potentially certain investment options that may involve controversial or high-risk projects/companies. There is usually no credit, liability or reputational risks due to E&S issues for Bank/FIs involved in retail banking. However, in some cases, there may be concerns with corporate accounts that are linked to companies or individuals whose activities are viewed as harmful, such as arms manufacturing, money laundering, and terrorism, which may represent a legal and reputational risk to the Bank/FI.

**Risk in Microfinance-** These transactions are typically of smaller amounts and shorter tenure than corporate loans and target small business owners or commercial clients whose operations are generally small. The E&S risks associated with microfinance are typically low partly due to the small size of the operation and the industry sector. However, in some cases clients may be involved with handling dangerous substances such as pesticides that can pose health or environmental risks, but frequently they lack the necessary E&S management capacity to do so safely. Although at the individual transaction level the E&S risks associated with microfinance are low, given the smaller size and shorter tenure of transactions, there are credit or liability risks for the microfinance institution in cases where E&S issues, such as an accident, affect a micro-entrepreneur's ability to repay a loan. Microfinance institutions often consider the E&S impacts associated with their transactions in the context of the developmental role they play in their communities

and are therefore concerned with reputational risks. In addition, many see the promotion of good E&S practices as part of their role in the community.

**Risk in Corporate Finance-** Loans (debt) can be used by the commercial operation to finance a specific aspect of the operation, such as the purchase of equipment, or for renovation/expansion of the operation. Equity investments in a commercial operation provide operating capital for an operation in exchange for shares (equity) in the company/project. The E&S risks associated with a corporate transaction will vary greatly and can be significant as a function of the operation's industry sector, size, location, and company commitment and capacity to managing E&S risks. E&S risks will be more significant for medium and high-risk industry sectors and large-scale operations such as mining, oil and gas, and heavy manufacturing, which may result in loss of life, health impacts, and water contamination, among others, if not managed properly. For low-risk industry sectors such as retail operations and other services, the E&S risks will usually be low and mainly related to labor standards and life and fire safety, which can readily be addressed. Regardless of the industry sector, there may also be E&S risks, especially related to labor and working conditions, in the supply chain of raw materials and goods. E&S issues may threaten the financial and operational viability of a commercial operation. For a commercial operation, the source of repayment of a loan or payment of dividends on an investment is from the operation itself, backed by its entire balance sheet, rather than a specific asset. A corporate transaction exposes a Bank/FI to the entire commercial operation of the client's company, which presents a liability, reputational, and credit risk. When a loan is backed by a specific asset as collateral, the liability risk for the Bank/FI may be increased if there are associated E&S issues.

**Risk in Project Finance -** The financing is usually secured by the project assets such that the Bank/FI providing the funds will assume control of the project if the sponsor has difficulties complying with the terms of the transaction. Project finance is generally used for large, complex and sizable operations, such as roads, oil and gas explorations, dams, and power plants. Due to their complexity, size, and location, these projects often have challenging E&S issues, which may include involuntary resettlement, loss of biodiversity, impacts on indigenous and/or local communities, and worker safety, pollution, contamination, and others. Because these projects generally face high scrutiny from regulators, civil society, and financiers, the project's sponsoring companies allocate more resources to managing E&S risks. If not managed properly, the E&S risks can result in disrupting or halting project operations and lead to legal complications and reputational impacts that threaten the overall success of the project.

Because anticipated project cash flows typically generate the necessary resources to repay the loan, any disruption to the project itself, regardless of the financial standing of the sponsoring companies involved, poses a direct financial risk to the Bank/FI.

## ENVIRONMENTAL AND SOCIAL REGULATORY REQUIREMENTS IN BANGLADESH

When evaluating the client's compliance with the Bangladeshi environmental & social regulations the focus is should be on checking the possession of required certificates and licenses and on meeting the requirements for pollution abatement and monitoring, reducing the health & safety risk to workers and impact to community.

### List of key E&S licenses and certificates

Type of license/clearance	Aspect	License/Clearance	Legal Basis	Responsible Authority/entity
Statutory requirement	Environmental	Location Clearance	Environmental Conservation Rules 1997	Department of Environment
		Environmental Clearance		
		Boiler License (as applicable)	Boiler Act 1923	Office of Inspector of Boilers
		Fire Service and Civil Defence Clearance	Civil Defence Act 1952 and Fire Service Act 2003	Fire Service and Civil Defence Department
		Acid License (as applicable)	Acid Control Rule 2004	Deputy Commissioner's Office
		License for Factories and Establishment	Factories Act 1965	Department of Inspection for Factories and Establishment
		License of Laboratory and production and products (as applicable)	Bangladesh standard and Testing Institution Ordinance 1985	Bangladesh Standard and Testing Institute
		Explosive Clearance	Explosive Act 1884	Explosive Department
	Social and health & safety	Clearance about labour	Bangladesh Labour Law 2006 and amendment 2013	Department of Labour
		Land related issue (as applicable)	Acquisition and Requisition of Immovable property Ordinance 1982	Deputy Commissioner's Office

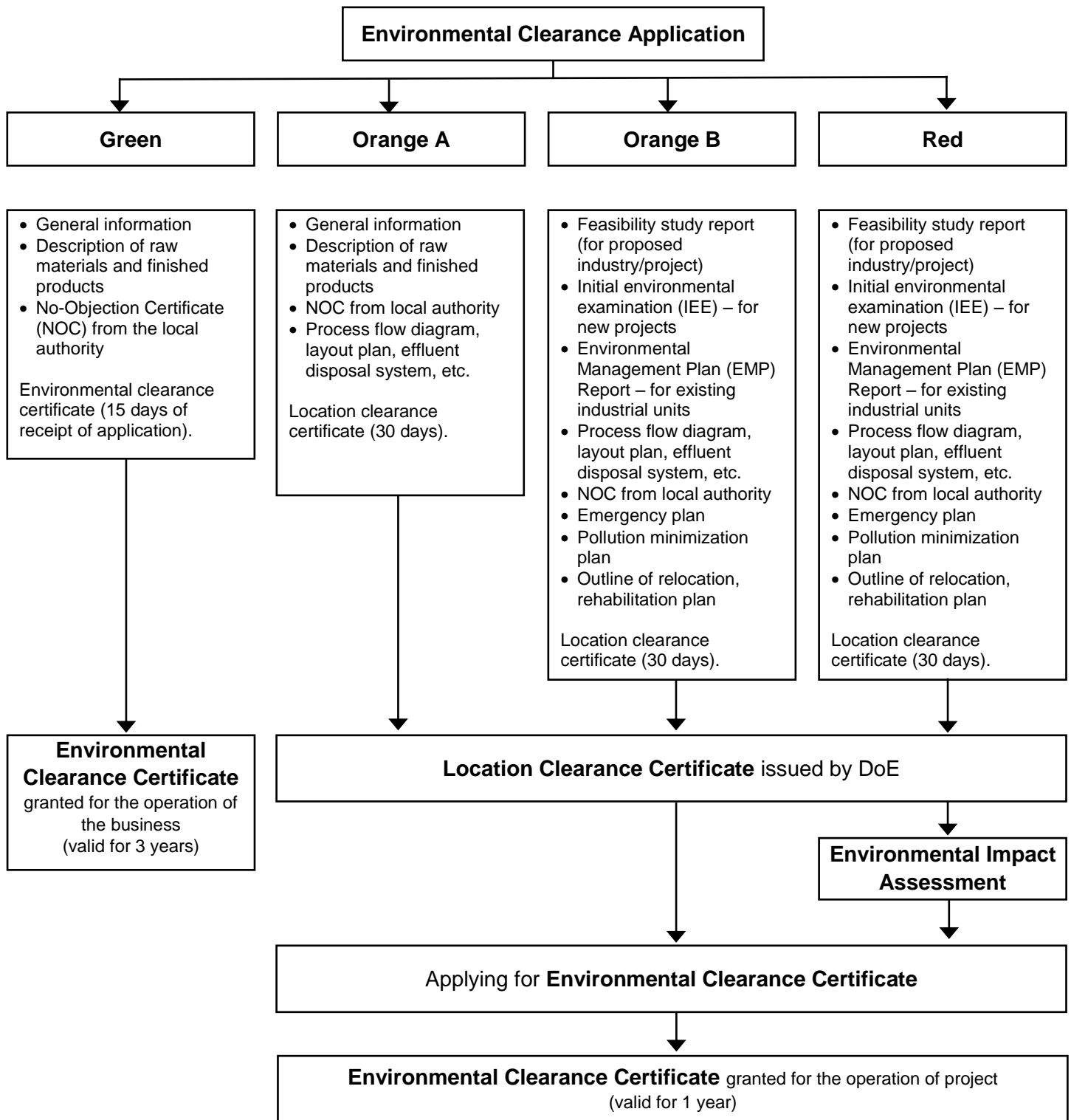
## **1. Environment**

Government of Bangladesh enacted the Environment Conservation Act (ECA) in 1995. The act defines a variety of enforcement objectives governing industry and other projects in the country. Specifically, the Act has established the Department of the Environment (DoE) headed by a Director General (DG). The DG is responsible for environmental conservation activities in the country.

To make ECA 1995 operational and in exercise of the power conferred under it, the Environment Conservation Rules (ECR), 1997 were issued by the government of Bangladesh. Together, ECA 1995 and ECR 1997 provide the framework of environmental regulations relevant to industries. Here are some of the requirements of ECR:

### **Project Approval – Location Clearance and Environmental Clearance**

Environmental categorisation (Green, Orange A, Orange B or Red) specified in Schedule 1 of ECR 1997 determines the extent of documents and environmental assessment the industrial units and projects must prepare and submit to the Department of Environment when applying for the **Environmental Clearance Certificate**.



Green category

Businesses only need to submit General description of their operation and No Objection Certificate (NOC) from the local authority to obtain the Environmental Clearance.

### Orange A and B and Red

For investment projects of Orange A and B and Red category the **Location Clearance Certificate (LCC)** is required as a preliminary approval that the Project is in compliance with the prevailing land use and cultural pattern of the project area. When applying for LCC the **Initial Environmental Examination Report (IEE)** must be prepared and presented to DoE by the investor.

The **IEE** is a report evaluating the environmental regulatory compliance and environmental impacts of the proposed business or project. IEE is prepared by the project sponsor (if he has staff with competent skill) or by engaged environmental expert. IEE is required to obtain LCC or ECC. IEE includes **Environmental Management Plan (EMP)** which specifies the environmental improvement measures to be implemented by the company to reach its full compliance.

For investment projects of **Red** category, an **Environmental Impact Assessment Report (EIA)** is required when submitting an application for the permission to commence construction works. The EIA approval also allows for land development and L/C opening. EIA is a study prepared by a certified expert evaluating and summarizing all potential environmental impacts of the project. It includes an EMP that contains a list of environmental measures the investor must make during the construction and implementation of the proposed investment project.

After completion of the construction works and the operation test run an **Environmental Management Plan Implementation Report** must be prepared by the project sponsor or a hired expert in order to obtain the **Environmental Clearance Certificate (ECC)** from Department of Environment. ECC is an operational permit valid for one to three years (one year in case of most manufacturing) and allows the commercial operation of the plant.

### **Waste Water Management**

ECR 1997 requires for industrial unit which generate effluents to meet the pollution standards specified in Schedule 10 and 12 of ECR. In most cases industrial units must install an **effluent treatment plant (ETP)** to be able to meet the acceptable limits for major chemical pollutants (**effluent discharge standards**). For most common water **polluting industries** (i.e. fertilizer plants, composite textile plants and large processing units, pulp and paper industry, cement plants, boilers of industrial units, nitric acid plants, distilleries, sugar industry, tannery industry, food processing, fish canning, dairy, starch and jute industries, crude oil refineries) ECR specifies the sector specific effluence discharge standards.

The specific requirements for monitoring and reporting on the quality of effluents are usually specified among the conditions in the **Environmental Clearance Certificate**.

### **Chemicals Management**

In case explosive or hazardous materials purchase and use, the Acid Control Rule, Fire Service Act 2003 and Explosive Act 1884 are to be adopted. For safe use and handling these sensitive chemicals/components, the respective businessman has to follow the Material Safety Data Sheet (MSDS) as has been provided by the respective manufacturers. And it is also the responsibility of Department of Inspection for Factories and Establishment to monitor the compliance of MSDS.

**Noise:**

**Noise limits** differ based on the type of location (**5 types of locations** - Silent, Residential, Mixed, Commercial and Industrial zone). Mixed Zone area as is mainly residential area, and also simultaneously used for commercial and industrial purposes. The areas up to a radius of 100 meters around hospitals or educational institutions or special institutions/ establishments have been identified as Silent Zones, where use of horns of vehicles or other audio signals, and loudspeakers are prohibited.

The noise limits prevent industrial activities to be carried out in residential areas or near sensitive locations such as hospitals or schools. Requirements for the noise level monitoring are usually specified in the Environmental Management Plan approved by Department of Environment (Schedule 4 of Environment Conservation Rules (ECR) 1997).

For each type of location there are two types of noise limit -day and night limits. The noise limits for night are stricter to prevent disturbing noise at night hours:

Zone	Noise limit in dBA	
	Day time (6 am to 9 pm)	Night time (9 pm to 6 am)
Silent	45	35
Residential	50	40
Mixed	60	50
Commercial	70	60
Industrial	75	70

For Red category project where increased noise level is an issue, usually 24 hours hourly monitoring is required. The monitoring frequency and approach are mentioned in the Environmental Management Plan (EMP) approved by the Department of Environment (DOE) during issuing the EIA<sup>1</sup> approval.

**2. Occupational health and safety**

The Bangladesh Labor Act, 2006, amended in 2013, is the main legal framework available to deal with the issues of workers pertaining to health, hygiene, safety, fire-fighting, welfare, working hours, leave and holidays with wages, child labor, etc. Under this Act, the Chief Inspector of Factory is authorized to ensure minimum standards, infrastructure, facility, hygienic environment for occupational health and safety of the workers within the industrial premises as per provisions made in Factory Rules, 1979.

Prior permission from the Chief Inspector is required before starting any construction or extension of any factory. Every license shall remain in force up to 31 December of the year in which the license is granted. The Chief Inspector, on receipt of an application in Form No. 1, may approve or reject the renewal of this license. The license or a copy of it shall be displayed at a conspicuous place of the factory.

The Bangladesh Labor Law, 2006, amended in 2013, provides further legal support to the workers with respect to recruitment, relationships between employers and employees, fixing minimum wage rate, payment of wages, child labor, compensation of accident, formation of trade unions, industrial disputes and solution, health, security, welfare and constitution of job and environment and probationary period and concerned issues. The responsible authority for implementation of the Labor Law is the Director of Labor or the officer authorized on his behalf.

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<sup>1</sup> EMP is a part/chapter of EIA Report.

Building Construction Rules, 1996, stipulate requirements such as the spacing between two buildings, distance from main road from a construction site from the main road, requirements of car parking and open spaces based on the area of construction, laying down of electric cables, digging ponds, height of a building, underground constructions, sun-shade, ventilation, elevators, etc. All these are specified for residential, commercial and industrial areas.

### **3. Labor issues**

The Labor Act released in 2006 outlines detailed requirements on safety for working with machinery, pressure vessels, industrial processes, etc. The Labor 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 from 2013 focus on fundamental rights to freedom of association and collective bargaining and addresses steps to improve occupational safety and health.

This Act 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.

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.

### **4. Social, culture and heritage**

The **Land Acquisition Act**, 1894, and The Acquisition and Requisition of Immovable Property Ordinance, 1982, and subsequent amendments in 1994, 1995 and 2004 provide the legal **framework for acquisition of land and compensation** to be paid for industrial and commercial activities. Deputy Commissioner of the area has been empowered to acquire the land and to decide on the payment of adequate compensation as per the procedure defined.

Ancient monuments declared to be protected under the **Ancient Monuments Preservation Act**, 1904 (VII of 1904), shall be deemed to be protected antiquities for the purposes of this Act.

### **5. Ecology**

Forest Act, 1927, is an act to consolidate the **law relating to forest**, the transit of forest produce and the duty livable on timber and other forest produce. Under Bangladesh **Wild Life (Preservation) Order**, 1973, certain national parks, wildlife sanctuaries, etc. are declared as protected areas and are also declared reserved forest under the **Forest Act**, 1927. No industrial and commercial activity is allowed within the declared protected areas.

Protected areas include wildlife sanctuaries, national parks and game reserves. Wildlife sanctuary means an area that is closed to hunting, shooting or trapping of wild animals and declared by the government as undisturbed breeding ground primarily for the protection of wildlife inclusive of all natural resources such as vegetation soil and water.



The primary responsibility for ensuring the compliance of Forest Act, 1927 and Bangladesh Wild Life (Preservation) Order, 1973 lies with the **Forest Department**, which has an independent Wildlife Management and Nature Conservation Circle.

In pursuance of Section 5 of the Bangladesh Environment Conservation Act, 1995, the government has declared certain wetlands of the country as ecologically critical areas for the protection of natural environment and sustainable environmental management, for example, St. Martin’s Island, Hakaluki Haor, Tanguar Haor, Marjat Baor and Gulshan-Baridhara Lake. All activities that may deteriorate the environment further are prohibited in these areas.

### List of Relevant National Regulations and International Treaties

Key E&S Areas	Relevant local regulation	Relevant international treaties and conventions for which Bangladesh is a signatory
Assessment and management of E&S risks and impacts	<ul style="list-style-type: none"> <li>• National Environmental Policy, 1992</li> <li>• Environment Pollution Control Ordinance, 1977</li> <li>• Environmental Quality Standards for Bangladesh, 1991</li> <li>• National Environment Management Action Plan (NEMAP), 1995</li> <li>• Environment Conservation Act, 1995 and amended in 2002</li> <li>• Environment Conservation Rules, 1997 and amended in 2003</li> <li>• EIA Guidelines For Industry, 1997</li> </ul>	
Management of labor related issues such as recruitment, wages, occupational health and safety and others	<ul style="list-style-type: none"> <li>• Labor Policy 2012</li> <li>• Bangladesh Labor Act, 2006</li> <li>• Labor Welfare Foundation law 2006</li> <li>• Bangladesh Labor (Amended) Law, 2013</li> <li>• Labor Relations under Labor Laws, 1996</li> <li>• National Child Labor Elimination Policy, 2010</li> <li>• Bangladesh Factory Act, 1965</li> <li>• Bangladesh Factory Rules, 1979</li> <li>• OSH Policy, 2011</li> <li>• The Employees State Insurance Act, 1948</li> <li>• The Employer’s Liability Act, 1938</li> <li>• Maternity Benefit Act, 1950</li> </ul>	<ul style="list-style-type: none"> <li>• Occupational Hazards Due to Air Pollution, Noise and Vibration (Geneva), 1977</li> <li>• Prevention and Control of Occupational Hazards (Geneva), 1974</li> <li>• Occupational Safety and Health in Working Environment (Geneva), 1981</li> <li>• Occupational Health Services (Geneva), 1985</li> </ul>

Key E&S Areas	Relevant local regulation	Relevant international treaties and conventions for which Bangladesh is a signatory
	<ul style="list-style-type: none"> <li>• Workmen's Compensation Act, 1923</li> <li>• The Employment of Children Act, 1938</li> <li>• Bangladesh Industrial Act 1974</li> </ul>	
Resource efficiency and pollution prevention	<ul style="list-style-type: none"> <li>• The Environment Pollution Control Ordinance, 1977</li> <li>• National 3-R Strategy, 2010 (3R: Reduce, Reuse and Recycle)</li> <li>• Ship-Breaking and Hazardous Waste Management Rules, 2010</li> <li>• Biomedical Waste Management Rules, 2008</li> <li>• Draft National Solid Waste Management Rules, 2010</li> <li>• Draft National River Conservation Act, 2011</li> </ul>	<ul style="list-style-type: none"> <li>• International Convention on Climate Change (Kyoto Protocol), 1997</li> <li>• UN Framework Convention on Climate Change (New York), 1992</li> <li>• International Convention on Civil Liability for Oil Pollution Damage (Brussels), 1969</li> <li>• Convention on Oil Pollution (London), 1990</li> <li>• UN Convention on the Law of the Sea (Montague Bay), 1982</li> </ul>
Community health, safety and security	<ul style="list-style-type: none"> <li>• Disaster Management Act, 2012</li> <li>• Public Health Emergency Provisions Ordinance, 1994</li> <li>• Biomedical Waste Management Rules, 2008</li> <li>• Climate Change Act, 2010</li> <li>• Draft National Solid Waste Management Rules, 2010</li> <li>• National Plan for Disaster Management 2010-2015</li> <li>• Sound Pollution Law, 2006</li> <li>• Ship Breaking and Hazardous Waste Management Rules, 2010</li> <li>• Water Supply and Sewerage Authority Ordinance, 1963</li> <li>• Noise Control Rules</li> <li>• National Health Policy, 2011</li> </ul>	<ul style="list-style-type: none"> <li>• International Convention on Climate Change (Kyoto Protocol), 1997</li> <li>• UN Framework Convention on Climate Change (New York), 1992</li> <li>• International Convention on Civil Liability for Oil Pollution Damage (Brussels), 1969</li> <li>• Civil Liability on Transport of Dangerous Goods (Geneva), 1989</li> </ul>
Land acquisition and Involuntary resettlement	<ul style="list-style-type: none"> <li>• National Land Use Policy</li> <li>• The Land Acquisition Act, 1894</li> <li>• The Acquisition and Requisition of Immovable Property Ordinance, 1982</li> </ul>	
Biodiversity conservation and sustainable management of living natural	<ul style="list-style-type: none"> <li>• National Biodiversity Strategy and Action plan (2004)</li> <li>• Bangladesh Wildlife Conservation and Security Act, 2012</li> </ul>	<ul style="list-style-type: none"> <li>• Protocol on Biological Safety (Cartagena Protocol), 2000</li> <li>• UN Framework Convention on Climate Change (New</li> </ul>

<b>Key E&amp;S Areas</b>	<b>Relevant local regulation</b>	<b>Relevant international treaties and conventions for which Bangladesh is a signatory</b>
resources	<ul style="list-style-type: none"> <li>• Bangladesh Wild Life (Preservation) Act, 1974</li> <li>• Bio Safety Rules, 2012</li> <li>• Forest (Amendment) Act, 2012</li> <li>• Forest Policy, 1994</li> <li>• Social Forestry Rules, 2004</li> <li>• National Forest Policy and Forest Sector Review (1994,2005)</li> <li>• Draft Tree Conservation Act, 2012</li> <li>• The Private Forests Ordinance Act, 1959</li> <li>• Forest Transit Rule, 2011</li> <li>• Climate Change Act, 2010</li> <li>• Deer Rearing Policy, 2009</li> <li>• The Protection and Conservation of Fish Act 1950</li> <li>• Draft Wetland Policy, 1998</li> <li>• The Protection and Conservation of Fish Rules (1985)</li> <li>• The Protection and Conservation of Fish Act, 1950</li> <li>• National Conservation Strategy, 1992</li> <li>• Private Fisheries Protection Act 1889</li> <li>• Marine Fisheries ordinance 1983</li> <li>• Revised National Conservation Act, 2010</li> </ul>	<p>York), 1992</p> <ul style="list-style-type: none"> <li>• International Plant Protection Convention (Rome), 1951</li> <li>• International Convention on Climate Change (Kyoto Protocol), 1997</li> <li>• Convention Relative to the Preservation of Fauna and Flora in Their Natural State (London), 1933</li> <li>• International Convention for the Protection of Birds (Paris), 1950</li> <li>• Convention on Wetlands of International Importance Especially as Waterfowl Habitat (Ramsar), 1971</li> <li>• Convention on The Conservation of Migratory Species of Wild Animals (Bonn), 1979</li> <li>• Convention on Biological Diversity (Rio de Janeiro), 1992</li> <li>• Convention on International Trade in Endangered Species of Wild Fauna and Flora</li> <li>• UN Convention on The Law of The Sea (Montague Bay), 1982</li> </ul>
Indigenous peoples	<ul style="list-style-type: none"> <li>• Social Forestry Rules, 2004</li> <li>• The Acquisition and Requisition of Immovable Property Ordinance 1982</li> <li>• The Land Acquisition Act, 1894</li> </ul>	
Cultural heritage	<ul style="list-style-type: none"> <li>• The Antiquities Act, 1968</li> </ul>	<ul style="list-style-type: none"> <li>• World Cultural and Natural Heritage (Paris), 1972</li> </ul>

**IFC Performance Standards (PS)  
(Performance Standards Index)**

IFC's Performance Standards offer a framework for understanding and managing environmental and social risks for high profile, complex, potentially high impact project. The bank is required to verify as part of its environmental and social due diligence process that the commercial client using transactions for project finance and long term corporate finance (i.e. with the term over 1 year) complies with the IFC Performance Standards.

**Note:** *Project finance* is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant. The borrower is usually an SPE (Special Purpose Entity) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project's cash flow and on the collateral value of the project's assets.

The IFC Performance Standards help the bank and its clients manage and improve their environmental and social performance through an outcomes-based approach and also provide a solid base from which clients may increase the sustainability of their business operations. The desired outcomes are described in the objectives of each Performance Standard, followed by specific requirements to help clients achieve these outcomes through means that are appropriate to the nature and scale of the project and commensurate with the level of environmental and social risks (likelihood of harm) and impacts.

The IFC Performance Standards encompass eight topics:

- **PS 1 – Environmental and Social Assessment and Management System:** Commercial clients/investees are required to manage the environmental and social performance of their business activity, which should also involve communication between the client/investee, its workers and the local communities directly affected by the business activity. This requires the development of a good management system, appropriate to the size and nature of the business activity, to promote sound and sustainable environmental and social performance as well as lead to improved financial outcomes.
- **PS 2 – Labor and Working Conditions:** For any business, its workforce is a valuable asset and a sound worker-management relationship is a key component of the overall success of the enterprise. By protecting the basic rights of workers, treating workers fairly and providing them with safe and healthy working conditions, commercial clients/investees can enhance the efficiency and productivity of their operations and strengthen worker commitment and retention.
- **PS 3 – Pollution Prevention and Abatement:** Increased industrial activity and urbanization often generate increased levels of pollution to air, water and land that may threaten people and the environment at the local, regional and global level. Commercial clients/investees are required to integrate pollution prevention and control technologies and practices (as technically and financially feasible as well as cost-effective) into their business activities.
- **PS 4 – Community Health, Safety and Security:** Business activities can increase the potential for community exposure to risks and impacts arising from equipment accidents, structural failures and releases of hazardous materials as well as impacts on a community's natural resources, exposure to diseases and the use of security personnel. Commercial clients/investees are responsible for avoiding or minimizing the

risks and impacts to community health, safety and security that may arise from their business activities.

- **PS 5 – Land Acquisition and Involuntary Resettlement:** Land acquisition due to the business activities of a commercial client/investees may result in the physical displacement (relocation or loss of shelter) and economic displacement (loss of access to resources necessary for income generation or as means of livelihood) of individuals or communities. Involuntary resettlement occurs when affected individuals or communities do not have the right to refuse land acquisition and are displaced, which may result to long-term hardship and impoverishment as well as environmental damage and social stress. Commercial clients/investees are required to avoid physical or economic displacement or minimize impacts on displaced individuals or communities through appropriate measures such as fair compensation and improving livelihoods and living conditions.
- **PS 6 – Biodiversity Conservation and Sustainable Natural Resource Management:** Protecting and conserving biodiversity (including genetic, species and ecosystem diversity) and its ability to change and evolve, is fundamental to sustainable development. Commercial clients/investees are required to avoid or mitigate threats to biodiversity arising from their business activities and to promote the use of renewable natural resources in their operations.
- **PS 7 – Indigenous Peoples:** Indigenous Peoples are recognized as social groups with identities that are distinct from other groups in national societies and are often among the marginalized and vulnerable. Their economic, social and legal status may limit their capacity to defend their interests and rights to lands and natural and cultural resources. Commercial clients/investees are required to ensure that their business activities respect the identity, culture and natural resource-based livelihoods of Indigenous Peoples and reduce exposure to impoverishment and disease.
- **PS 8 – Cultural Heritage:** Cultural heritage encompasses properties and sites of archaeological, historical, cultural, artistic and religious significance as well as unique environmental features and cultural knowledge, innovations and practices of communities embodying traditional lifestyles, which are protected for current and future generations. Commercial clients/investees are required to avoid significant damage to cultural heritage due to their business activities.

**IFC Performance Standard's Screening Form - Identifying Performance Standards  
Applicable to a Transaction**

For details on performance standards check the IFC web page on Performance Standards [www.ifc.org/performancestandards](http://www.ifc.org/performancestandards)

This checklist identifies the Performance Standards applicable to the transaction. "Applicable to the transaction" means that the requirements of the PS need to be assessed for the transaction during project appraisal.

***PS 1: Social and Environmental Management Systems.***

Does the company have a formal, documented Social and Environmental Management System (SEMS), with a designated person or staff, budget, and management program to implement it, and has the company conducted a formal audit or assessment of social and environmental impacts?

Yes

No

If the answer is "No", and if the company has more than 10 employees, a company SEMS should be prepared appropriate to the scale and impacts.

***PS 2: Labor and Human Resources.***

Does the company have a documented human resources policy--with documented terms and conditions of employment, protection against discrimination, and recognition of employee organizations--which has been communicated to employees?

Yes

No

If the answer is "No", and if the company has more than 10 employees, a company SEMS should be prepared appropriate to the scale and impacts.

***PS 3: Pollution Prevention and Resource Efficiency. Has the company assessed its environmental impacts and its contribution to greenhouse gasses that lead to climate change?***

Does the company produce solid or hazardous waste, air emissions, or liquid waste, or burn fuel, or use pesticides?

Yes

No

If the answer is "Yes", this issue should be assessed during appraisal.

***PS 4: Community Health, Safety, and Security. Is the company managing the potential health, safety, and security risks that its operations may pose to neighboring communities?***

Are there communities located in the vicinity of the project?

Yes

No

If the answer is "Yes", this issue should be assessed during appraisal.

***PS 5: Land Acquisition and Involuntary Resettlement. Is the company responsibly managing the involuntary resettlement of people from land it owns or uses?***

Does the company plan to buy, rent, or lease land it doesn't already own?

Yes

No

If the answer is "Yes", this issue should be assessed during appraisal.

***PS 6: Biodiversity Conservation. Is the company managing the impacts of its operations on biodiversity?***

Are there any areas of biodiversity of natural habitat within the region of influence of the company? For these purposes, consider region-of influence to be a 25-50 mile radius

Yes

No

If the answer is "Yes", this issue should be assessed during appraisal.

***PS 7: Traditional Peoples: Is the company responsibly managing the potential impacts of its operations on traditional peoples?***

Are there traditional peoples located in the vicinity of the company's operations?

Yes

No

If the answer is "Yes", this issue should be assessed during appraisal.

***PS 8: Cultural Heritage. Is the company managing the potential impacts of its operations on archaeological, religious, historical, and other cultural heritage sites?***

Are there archaeological, religious, historical, and other cultural heritage sites in the vicinity of the company's operations?

Yes

No

If the answer is "Yes", this issue should be assessed during appraisal.

## IFC Performance Compliance Checklist

Client's name:
<b>Sector Specific E&amp;S Issues:</b>
The main risks associated with this sector are:

Assessment of Applicable Requirements					
Applicable Requirements		Yes	No	N/A	ADDITIONAL INFORMATION (Please Provide additional information to support all responses)
<b>Exclusion List:</b>					
<b>National Laws:</b> Does the activity comply with National Regulatory requirements?					
Performance Standards:					
<b>Performance Standard1:</b> Assessment and Management of Environmental and Social Risks and Impacts	a. Does the company have an <b>E&amp;S Policy/ Management System</b> ?				
	b. Please describe the <b>system/procedure</b> in place to identify, assess and manage the potential risks and impacts related to the company's business activities/projects.				
	c. Has the company designated and <b>E&amp;S Officer</b> to manage E&S issues? Please provide the name of the designated employee.				
	d. Please describe the procedures in place to <b>engage with local communities</b> and address community grievances where applicable. (e.g. <b>grievance mechanism, stakeholder engagement plan</b> ).				
	e. Does the company have an <b>emergency response plan</b> ?				



<b>Performance Standard 2:</b> Review of Labor and Working Conditions	a. How many <b>employees</b> does the company have?				
	b. Does the company have a <b>Human Resource (HR) Policy</b> that is consistent with the requirements of the national labor laws? Please highlight the major policies covered.				
	<i>i. Does the company have policies and procedures for a nagging and monitoring the performance of <b>third party employee contractors</b> in terms of labor and working conditions?</i> <i>ii. Has the company established a <b>grievance mechanism</b> for workers and third party contract workers?</i>				
	<b>c. Does the company provide its workers with a safe and healthy work environment?</b> i. <i>Where applicable does the company provide workers with and mandating that workers use <b>personal protective equipment (PPE)</b>?</i> ii. <i>Does the company have <b>occupational health and safety procedures</b>?</i> iii. <i>Does the company track and report on rates of injury, occupational diseases, lost days, and number of work-related fatalities? <b>Please provide recent data.</b></i> iv. <i>Does the company have</i>				
	d. Please confirm that the company is not involved in <b>harmful child laborer forced labor</b> (including <b>supply chain for agro-commodity clients</b> )				
<b>Performance Standard3:</b> Resource Efficiency and Pollution Prevention	a. Does the company implement measures for improving <b>efficiency in its consumption of energy, water, raw materials and other resources and inputs?</b>				
	b. Does the company generate <b>any air, liquid or solid waste emissions</b> during construction and/or operational phases? If yes, <b>please provide details.</b>				

	c. Please describe the procedures in place <b>form on storing air and water emissions</b> . Please provide a copy of any <b>effluent discharge permit</b> issued by the local authorities.				
	d. Does the company have procedures to guide the <b>storage, handling, and disposal of solid wastes</b> (including hazardous waste) emanating from its business? If yes, provide brief details.				
	e. Are the <b>diesel storage tanks</b> fitted with <b>secondary containment bunds</b> ?				
	f. Is there a <b>response procedure in place</b> to manage <b>spills</b> or <b>accidental discharges</b> ?				
<b>Performance Standard 4:</b> Community Health, Safety and Security	a. Are there <b>local communities</b> in close proximity to the company's facilities? Does the company have procedures to address <b>community health, safety and security</b> issues in the context of its operations?				
	b. Does the company have safety procedures in place to deal with <b>hazardous material release, transport and disposal</b> in order to avoid or to minimize exposure of local communities to those materials?				
	c. Does the company engage <b>armed security personnel</b> to provide security services at their facilities? If so, do the contract provisions include guidelines on how security personnel shall interact with communities in close proximity to the facility?				
	d. Is there a <b>traffic management plan</b> for managing additional traffic associated with the company's activities?				

<b>Performance Standard 5:</b> Land Acquisition and Involuntary Resettlement	a. Is there any <b>land acquisition</b> planned/ happened or /in the proposed investment?				
	b. Has there been any <b>physical and/or economic displacement</b> as a result of land acquisition for this project?				
	c. Has the <b>company disclosed all relevant information, consulted with affected persons and communities</b> and facilitated their informed participation in the decision making process relating to resettlement?				
	d. Did the company consider <b>alternative designs to avoid or minimize economic and physical displacement</b> ?				
<b>Performance Standard 6:</b> Biodiversity Conservation and Sustainable Natural Resource Management	a. Does the company's activities <b>impact on biodiversity</b> ? Has the company minimized impacts and implemented <b>Mitigation measures</b> ?				
	b. Does the business operate in a <b>legally protected area</b> ? If yes, confirm that the company has there qui site approvals to operate in such area.				
	c. Has the company identified any alien species which may be intentionally or unintentionally introduced through its activities?				
<b>Performance Standard 7:</b> Indigenous Peoples	a. Is it likely that <b>Indigenous Peoples</b> will be adversely impacted as a result of the company's operations?				
<b>Performance Standard 8:</b> Cultural Heritage	a. Is the project located in an area where <b>cultural heritage objects, sites and structures</b> (e.g. arte facts, archeological sites, graves, and sacred forests) can be found?				

**Client Environmental and Social Action Plan (Annexure attached to the offer letter)**

ACTION REQUIRED	STATUS (AS PROVIDED BY THE CUSTOMER)	RESPONSIBILITY	TIMELINE
<b>PS1: Social and Environmental Assessment and Management System</b>			
<b>PS 2: Review of Labor and Working Conditions</b>			
<b>PS3: Resource Efficiency and Pollution Prevention</b>			
<b>PS4: Community Health, Safety and Security</b>			
<b>PS 5: Land Acquisition and Involuntary Resettlement</b>			
<b>PS6: Biodiversity Conservation and Sustainable Natural Resource Management</b>			
<b>PS 7: Indigenous Peoples</b>			
<b>PS 8: Cultural Heritage</b>			

**ESRM Sign offs:**

## A. Escalation Matrix for Corporate and Project Finance lending

Risk rating	Proposing Stage	Approval Stage	Disbursement Stage
Low	<ul style="list-style-type: none"> <li>• ESDD Checklist is to be completed by RM, approved by CRM and processed as per normal credit process for both existing and new clients</li> <li>• If all (d )-Not Applicable are checked, state reasons why</li> </ul>		
Medium	<p>RM &amp; Unit Head to sign off jointly for new or existing clients with proposals to:</p> <ul style="list-style-type: none"> <li>• PROCEED with ESDD submission (despite (b) being checked) but proper justification is to be provided</li> </ul>	<p>Escalation Process if CRM feels the transaction needs to be escalated:</p> <ol style="list-style-type: none"> <li>1. CRM will be the first point of review</li> <li>2. If identified risk(s) is unresolved, proceed for review by Sustainable Department and approval by Head of Credit</li> <li>3. Credit approval can only be granted subsequent to resolution via above steps</li> <li>4. Time-bound action plan to mitigate risks may form part of approval conditions</li> </ol>	<p>If there are any conditions to be fulfilled as part of approval, Credit Risk Committee (CRC) will check for the same before disbursing</p>
High	<p>RM &amp; Unit Head to sign off jointly for new or existing clients with proposals to:</p> <ul style="list-style-type: none"> <li>• REJECT (with reasons documented for record); or</li> <li>• PROCEED with ESDD submission (despite (c) being checked) but proper justification is to be provided</li> </ul>	<p>Escalation Process:</p> <ol style="list-style-type: none"> <li>1. CRM will be the first point of review</li> <li>2. If identified risk(s) is unresolved, proceed for review by Head of Credit and Head of Sustainable Department</li> <li>3. All high risk projects are to be escalated to Board/ EC with a recommendation from Head of Credit.</li> <li>4. Credit approval can only be granted subsequent to resolution via above steps</li> <li>5. Time-bound action plan to mitigate risks may form part of approval conditions</li> </ol>	<p>If there are any conditions to be fulfilled as part of approval, CRC will check for the same before disbursing</p>

## B. Escalation Matrix for SME lending

Risk rating	Proposing Stage	Approval Stage	Disbursement Stage
Low	<ul style="list-style-type: none"> <li>• ESDD Checklist is to be completed by Area Credit Manager (ACM), approved by Manager Credit (MC) or Senior Manager Credit (SMC) and processed as per normal credit process for both existing and new clients</li> <li>• If all (d )-Not Applicable are checked, state reasons why</li> </ul>		
Medium	<p>LO&amp;ACM to sign off jointly for new or existing clients with proposals to:</p> <ul style="list-style-type: none"> <li>• PROCEED with ESDD submission (despite (b) being checked) but proper justification is to be provided</li> </ul>	<p>Escalation Process if ACM feels the transaction needs to be escalated:</p> <ol style="list-style-type: none"> <li>1. ACM will be the first point of review</li> <li>2. If identified risk(s) is unresolved, proceed for review by Sustainable Department and approval by MC or SMC</li> <li>3. Credit approval can only be granted subsequent to resolution via above steps</li> <li>4. Time-bound action plan to mitigate risks may form part of approval conditions</li> </ol>	<p>If there are any conditions to be fulfilled as part of approval, MC or SMC will check for the same before disbursing</p>
High	<p>LO&amp;ACM to sign off jointly for new or existing clients with proposals to:</p> <ul style="list-style-type: none"> <li>• REJECT (with reasons documented for record); or</li> <li>• PROCEED with ESDD submission (despite (c) being checked) but proper justification is to be provided</li> </ul>	<p>Escalation Process:</p> <ol style="list-style-type: none"> <li>1. ACM will be the first point of review</li> <li>2. If identified risk(s) is unresolved, proceed for review by MC and SMC</li> <li>3. All high risk projects are to be escalated to Board/ EC with a recommendation from Head of Credit.</li> <li>4. Credit approval can only be granted subsequent to resolution via above steps</li> <li>5. Time-bound action plan to mitigate risks may form part of approval conditions</li> </ol>	<p>If there are any conditions to be fulfilled as part of approval, MC or SMC will check for the same before disbursing</p>

**E&S Categorization Tool**  
**(An excel sheet is enclosed separately)**

**E&S Categorization List (full version)**

<b>Business activity</b>	<b>OVER ALL Categorization</b>	<b>DoE Categorization</b>
901001 - Agricultural Farms (Nursery, Horticulture, Apiculture etc.)	Orange A	Not available
901002 - Fishing Farms (Hatchery, Shrimp Culture etc.)	Orange A	Not available
901003 - Dairy Farms	Orange B (for >10 pcs in urban and >25 in rural), otherwise Orange A	Orange B (for >10 pcs in urban and >25 in rural), otherwise Orange A
901004 - Poultry Farms	Orange B (for >250 pcs in urban and >1000 in rural), otherwise Orange A	Orange B (for >250 pcs in urban and >1000 in rural), otherwise Orange A
902110 - Jute Mills	Orange B	Orange B
902110 - Jute products Manufacturing Industries - rope, thread, twain, canvass, bag, etc.)	Orange A	Green - Rope and mats (made of cotton, jute and artificial fibers)
902110 - Jute products Manufacturing Industries - Carpets	RED	RED - carpets
902111 - Textile Printing & Dyeing Industries	RED	RED - fabric dyeing and chemical processing
902112 - Spinning Mills	Orange B	Orange B
902113 - Weaving Mills	Orange A	Orange A
902119 - Leather Products (bag, shoe, etc.) Manufacturing Industries	Orange A	Green - Production of artificial leather goods. Orange A - Production of shoes and leather goods (capital up to 5 hundred thousand Taka). Orange B - Production of shoes and leather goods (genuine and artificial leather), above 5(five) hundred thousand Taka capital.
902120 - Textile Mills	Orange B	Orange B - power loom
902125 - Readymade Garments Industries	Orange B	Orange B - Garments and sweater production
902126 - Hosiery Factories	Orange B	Orange B - Garments and sweater production
902145 - Leather Processing and Tanning (raw hide)	RED	RED - Tannery

902155 - Garments Accessories manufacturing industries (Zipper, Button etc.)	Orange B	Orange B - metal utensils, parts etc., galvanizing
902116 - Cosmetics & Toiletries Industries	Orange B	Orange B - Perfumes, cosmetics
902117 - Rubber And Plastic Industries	Orange A	Orange A - Plastic & rubber goods (excluding PVC). Orange B - plastic products RED - Artificial rubber, PVC items
902127 - Pharmaceutical Industries	RED	RED - Raw materials of medicines and basic drugs, Lifesaving drugs.
902130 - Chemical and Chemical Products Industries	RED	RED - all chemical and petroleum product processing industries
902136 - Soaps & Detergents Factories	Orange B - soap RED - detergents	Orange B - soap RED - detergents
902141 - Fertilizer Company	RED	RED - production of urea-based and other fertilizers
902156 - Polymer and polythene industries	RED	RED - Production of plastic raw materials (PVC, PP/Iron, Polyesterin etc.)
902131 - Cement Factories	RED	RED
902132 - Ceramic Industries	Orange B	Orange B - tiles, utensils made of clay and china clay/sanitary wares (ceramics)
902133 - Bricks Manufacturers and Sand elevators	Orange B	Orange B - bricks
902134 - Glass and Glassware Products Factories	Orange B	Orange B - glass factory
902137 - Steel Engineering & Metallic Products Industries (Including Rerolling Mills)	RED	RED - Production of iron and steel, Non-iron basic metals Orange B - casting, re-rolling
902121 - Paper and Paper Products Manufacturing Industries	RED - pulp & paper production Orange B - paper products	RED - paper & pulp production, board mills Orange A - Cartoon/box manufacturing/printing packaging and paper products.
902122 - Furniture, Fixture, Particle Boards and Other Wood product manufacturers	Orange B	Orange A - Furniture of wood/iron, aluminum, etc.,(capital < 500.000 Taka). Orange B - Furniture of wood/iron, aluminum, etc.,(capital > 500.000 Taka).



902146 - Packaging Industries including paper boards	Orange A	Orange A - Cartoon/box manufacturing/printing packaging and paper products.
902210 - Cottage Industries	depending on sector and scale	Not available
902215 - Saw Mills	Orange A	Orange A - Saw mill/wood sawing
902220 - Handloom Factories	Orange A	Orange A - Waving and handloom
902230 - Handicrafts Factories	Orange A	Green - bamboo and cane goods Orange A - Production of gold ornaments, production of utensils and souvenirs of brass and bronze, wood crafting
902138 - Assembling Industry	Orange B - Assembling of motor vehicles, assembling batteries, Orange A - others	Green - assembling of various products Orange B - Assembling of motor vehicles, assembling batteries
902147 - Manufacturing of Electrical equipment & spares (cables, bulbs, switches etc.)	RED - refrigerators, air-conditioners, coolers Orange - electrical equipment	RED - Refrigerator/air-conditioner/air-cooler manufacturing Orange B - Electric cables Orange A - Industrial machinery and equipment
902148 - Manufacturing of Transport Equipment	Orange B	Orange B - Assembling of motor vehicles
902149 - Manufacturing of agro-equipment	Orange A	Orange A - Agricultural machinery and equipment
902150 - Electronic Goods Manufacturing/Assembling Industries (TV, Computer etc.)	Orange A	Green - Assembling and manufacturing of TV, Radio, telephones etc.,
902152 - Ship Building Industries	RED	RED - ship manufacturing
902153 - Ship Breaking Industries	RED	Orange B - ship-breaking
902154 - Battery Manufacturing Industries	RED	RED - battery manufacturing
902142 - Sugar Mills	RED	RED - production of sugar
902143 - Beverage and Soft Drinks manufacturing Companies	Orange B - processing and bottling of drinking water and carbonated drinks	Orange B - processing and bottling of drinking water and carbonated drinks
902144 - Distilleries, Mineral & Drinking Water purifying industries	RED - Distillery Orange B - water purification plant	RED - Distillery Orange B - water purification plant
902115 - Tobacco Processing Industries	RED	RED - Tobacco (processing/cigarette/Biri-making).
902151 - Ice Factory	Orange B - ice-cream	Orange B - ice-cream
902231 - EPZ Industries (Type A)	depending on sector and scale	depending on sector and scale
902232 - EPZ Industries (Type B)	depending on sector and scale	depending on sector and scale

902233 - EPZ Industries (Type C)	depending on sector and scale	depending on sector and scale
902240 - Other Industries not above mentioned	depending on sector and scale	depending on sector and scale
902310 - Production, supply and distribution of power in the private sector	power plant - RED larger scale solar installations - Orange A small scale solar installations - Green B	RED - power plant
902311 - LP Gas Companies	RED	RED - Industrial gas
902312 - Oxygen Gas Companies	RED	RED - Industrial gas
902313 - Other Gas Companies	RED	RED - Industrial gas
902319 - Others Electricity/Power Generating Companies	power plant - RED larger scale solar installations - Orange A small scale solar installations - Green	RED - power plant
902401 - Road Transport Companies (including Rent -a - car)	Orange A	Not available
902402 - Water Transport	passenger water transport - Orange B inland freight water transport - Orange B sea and coastal freight water transport - RED	Not available
902403 - Air Transport	Orange B	Not available
902408 - Warehouse	Green - general warehousing Orange B - cold storage RED - storage of chemicals in bulk	General warehousing - DoE category not available Cold storage - Orange B
902440 - Courier Services & Express Mail Services	Green	Not available
902453 - Cold-Storages	Orange B	Orange B
902459 - Private Inland Container Depot and Container Freight Station	Green	Not available
902460 - Tank Terminal	RED	Not available
902471 - Shipping Agency	Green	Not available
902472 - Freight Forwarders	Green	Not available
902404 - Construction Companies	ORANGE A - smaller scale buildings and local roads Orange B - roads (feeder road, local road) and bridges (length <100 m), hotels and commercial or apartment buildings RED - roads (regional, national), bridges (length >100 m), industrial estates, water, power and gas distribution lines	Orange B - roads (feeder road, local road) and bridges (length <100 m), hotels and commercial or apartment buildings RED - roads (regional, national), bridges (length >100 m), industrial estates, water, power and gas distribution lines

902407 - Housing Companies or Societies/Land Developers	Orange A	Not available
902409 - Buying House	Green	Not available
902406 - Telecommunication (Mobile/cellular operators and private land phone) Grameen Phone, Banglalink etc.)	Orange A	Not available
902430 - IT-based activities (system analysis, design, developing system solutions, Grameen Solution, information service, call center service, offshore development center, business process outsourcing , Cyber Cafes, Internet Service etc.)	Green	Not available
902479 - Satellite Cable Operator	Green	Not available
902480 - Satellite Channel Distributor/Cinema Distributors	Green	Not available
902450 - Restaurants /Fast Food	Orange A	Orange A - Restaurant
902452 - Travel Agencies/ Overseas Employment/ Aviation Service/ Immigration consultants/ Ticket sales agent	Green	Not available
902457 - Tourism Industry (List available at page no-115)	Orange B - large scale hotel developments Green - other tourism industry	Not available
902468 - Residential Hotels (Including 3star & Above)	Orange A	Not available
902469 - Caterers /Decorators/Sound & Lighting rental business	Green	Not available
902464 - Modernized Cleaning Service for High-rise Apartments, Commercial Building	Green	Not available
902467 - Outsourcing and Security Service (Private Security forces/manpower supply)	Green	Not available
902473 - Indenting firms	Green	Not available
902474 - Legal advisory Firms	Green	Not available
902476 - Private Survey Institutions	Green	Not available
902481 - Audit and Accounting Firm/CA Firm/ Credit Rating Company	Green	Not available
902486 - Consultancy & Supervisory Farms	Green	Not available
902487 - Interior Design & Decorators and other engineering consultancy farms	Green	Not available
902488 - Contractor and Supplier farms	Green	Not available
902451 - Photo Studios and Color labs	Green - Photography Orange B - processing of films for movie and x-ray	Green - Photography Orange B - processing of films for movie and x-ray

902454 - Beauty Parlors/ Saloons/ Health Club/ Fitness center	Green	Not available
902463 - jewellery Services	Green	Not available
902475 - Laundry Services	Green - Laundry (excluding washing) Orange A - washing and dry cleaning	Green - Laundry (excluding washing) Orange A - washing and dry cleaning
902478 - Tailoring Shop and Tailors	Green	Not available
902410 - Entertainment Services (Amusement Park, Theme park, eco park, zoo etc.)	Green	Not available
902466 - Advertising Industry and modeling (print modeling, TV commercials, ramp modeling, catwalk, fashion-show)	Green	Not available
902470 - Community Centers/ Convention centers/Auditorium	Orange	Not available
902477 - Sports and Event management organization	Green	Not available
902482 - Cinema Studio	Green	Not available
902483 - Cinema Hall/Cineplex	Orange A - cinema halls	Orange A - cinema halls
902484 - Graphic Designers	Green	Not available
902420 - Hospitals, Clinics, Diagnostic Centers and Other Health Services	RED - hospitals Orange B - Clinics and pathological labs Orange A - other health services	RED - hospitals Orange B - Clinics and pathological labs
902461 - Chain Super Market/Shopping Mall	Green	Not available
902405 - Publishing Industries (including printing press)	Orange A - printing Green - publishing (without printing)	Orange A - Printing Press
902456 - Testing Laboratory	Green	Not available
902458 - Filling Stations (Petrol pump, CNG Station)	RED	Not available
902462 - Stone Crushers	Orange B - Stone grinding, cutting, polishing	Orange B - Stone grinding, cutting, polishing
902465 - Auto mobile service including CNG conversion center.	RED - Repairing of motor vehicles: capital above 10 (ten) hundred thousand Taka. Orange B - Motor vehicles repairing works (up to 10 hundred thousand Taka capital	RED - Repairing of motor vehicles: capital above 10 (ten) hundred thousand Taka. Orange B - Motor vehicles repairing works (up to 10 hundred thousand Taka capital
902485 - Light Engineering and Metal-workshop		Not available
902499 - Other Services/ Production Organizations	depending on the sector	Not available
902501 - Processing of bread and biscuits, vermicelli, laccha, chanachur, noodles etc.	Orange A - Factory for production of biscuit and bread (capital < 5 lakh Taka) Orange B - Biscuit and	Orange A - Factory for production of biscuit and bread (capital < 5 lakh Taka) Orange B - Biscuit and

	bread factory (capital > 5 lakh Taka)	bread factory (capital > 5 lakh Taka)
902502 - Processed fruit products (jam, jelly, juice, pickles, asrbat, syrup, sauce etc.)	Orange B - processing food	Orange B - processing food
902503 - Fruits processing including vegetables (tomato, guava, jackfruit, lichee, pineapple, coconut etc.)	Orange B - processing food	Orange B - processing food
902504 - Manufacturing of flour, sujee (Flour Mills)	Orange B - flour (large)	Orange B - flour (large)
902505 - Processing of mushroom and spirulina	Orange B - processing food	Orange B - processing food
902506 - Starch, glucose and other dextrose product	Orange B - Starch and glucose	Orange B - Starch and glucose
902507 - Processing of potato products (chips, potato, flex, starch etc.)	Orange B - processing food	Orange B - processing food
902508 - Processing of powder spice	Orange A - Grinding/husking of wheat, rice, turmeric, pepper, pulses (up to 20 Horse Power machine) Orange B - Grinding/husking wheat, rice, turmeric, chilly, pulses – machine above 20 Horse Power	Orange A - Grinding/husking of wheat, rice, turmeric, pepper, pulses (up to 20 Horse Power machine) Orange B - Grinding/husking wheat, rice, turmeric, chilly, pulses – machine above 20 Horse Power
902511 - Seed processing and preservation	Orange A	Not available
902512 - Pulse Mills	Orange A - Grinding/husking of wheat, rice, turmeric, pepper, pulses (up to 20 Horse Power machine) Orange B - Grinding/husking wheat, rice, turmeric, chilly, pulses – machine above 20 Horse Power	Orange A - Grinding/husking of wheat, rice, turmeric, pepper, pulses (up to 20 Horse Power machine) Orange B - Grinding/husking wheat, rice, turmeric, chilly, pulses – machine above 20 Horse Power
902515 - Meat processing	Orange B	Orange B - Processing fish, meat, food
902518 - Sweetening products	Orange A	Not available
902519 - Soya food production & processing	Orange B	Orange B - processing food
902520 - Mustard oil producing industry (if local variety is used)	Orange B - processing food, edible oil	Orange B - processing food, edible oil
902521 - Coconut oil production industries	Orange B - processing food, edible oil	Orange B - processing food, edible oil

902522 - Rice mills including puffed rice, chirra , fine rice, flavored rice etc.	Orange A - Grinding/husking of wheat, rice, turmeric, pepper, pulses (up to 20 Horse Power machine) Orange B - Grinding/husking wheat, rice, turmeric, chilly, pulses – machine above 20 Horse Power	Orange A - Grinding/husking of wheat, rice, turmeric, pepper, pulses (up to 20 Horse Power machine) Orange B - Grinding/husking wheat, rice, turmeric, chilly, pulses – machine above 20 Horse Power
902523 - Milk Processing Industries (Pasteurization, milk powder, ice-cream, condensed milk, sweet, cheese, butter, ghee, chocolate, curd etc.)	Orange	Orange A - Factory for production of chocolate and lozenge (capital < 5 lakh Taka) Orange B - Production of powder milk/condensed milk/dairy, factory for production of chocolate and lozenge (capital > 5 lakh Taka).
902524 - Food Processing Industry (PRAN, AFTAB, BD-Food etc.)	Orange B	Orange B - processing food
902525 - Salt Processing Industries	Orange A - Production of salt (capital < 10 lakh Taka) Orange B - Salt production, (capital > 10 lakh Taka)	Orange A - Production of salt (capital < 10 lakh Taka) Orange B - Salt production, (capital > 10 lakh Taka)
902526 - Tea processing industries	Orange B - Tea processing	Orange B - Tea processing
902527 - Refining and hydrogenation of edible oil, vanaspati, Ghee etc.	Orange B	Orange B - edible oil
902528 - Processing of Prawn/Shrimp and other fishes and freezing	Orange B	Orange B - Processing of prawns & shrimps
902599 - Other Agro based Industries/ Processing Industries	Orange B	Orange B - processing food
902509 - Manufacturing of Unani and Ayurvedic Medicines/Herbal Cosmetics	Orange B	Orange B - cosmetics
902510 - Fish feed and fish meal processing for poultry and livestock	Orange B	Orange B - Animal feed
902513 - Processing of rubber tape, shellac	Orange A	Orange A - rubber goods
902514 - Production of bamboo and cane furniture (excluding cottage industry)	Orange A - furniture of wood (capital < 5 lakh Taka) Orange B - furniture of wood (capital > 5 lakh Taka)	Orange A - furniture of wood (capital < 5 lakh Taka) Orange B - furniture of wood (capital > 5 lakh Taka)
902516 - Production of bio slurry, mixed manure and urea.	Orange B	Not available

902517 - Production of bio-pesticides, neem pesticides etc.	Orange B	Not available
903010 - Importers	Green	Not available
903020 - Exporters	Green	Not available
903030 - Importers and Exporters	Green	Not available
903040 - Whole Sale Traders	Green	Not available
903050 - Retail Traders	Green	Not available
903090 - Other Business Institutions	Green	Not available
907601 - Newspaper	Green	Not available
907602 - Television	Green	Not available
907603 - Radio	Green	Not available
907604 - Online News Media	Green	Not available
908100 - Private Schools, Colleges, University Colleges & Madrasahs	Green	Not available
908200 - Medical & Dental Colleges	Green	Not available
908300 - Private Universities	Green	Not available
908400 - Private Institute of IT	Green	Not available
908900 - Other Educational /Training institutes /Technical Vocational Institute	Green	Not available
915051 - Other Private Sector (Official Account i.e.) (Sundry Deposit, CIB Inquiry Charge, Clearing Adjustment Account, Inoperative Account, Suspense account etc.)		
909200 - Leasing Companies	Green	Not available
909300 - Central Co-operative Bank	Green	Not available
909400 - Land Mortgage Co-operative Bank	Green	Not available
909500 - Other Co-operative Banks/Societies	Green	Not available
909600 - Grameen Bank	Green	Not available
909650 - Bangladesh Samabaya Bank Ltd	Green	Not available
909699 - Other Depository Corporations	Green	Not available
909210 - Investment Companies	Green	Not available
909220 - Leasing Companies (Non-depository)	Green	Not available
909230 - Mutual Funds	Green	Not available
909240 - Merchant Banks	Green	Not available
909250 - NGO/Micro Credit Organizations (BRAC, ASA, PROSHIKA etc.)	Green	Not available
909299 - Other Financial Intermediaries	Green	Not available
909110 - a) Life Insurance Companies	Green	Not available

909120 - b) General Insurance Companies	Green	Not available
909199 - Pension Funds /Provident Funds of private organizations	Green	Not available
909700 - Money Changers	Green	Not available
909710 - Stock Exchanges (DSE, CSE, etc.)	Green	Not available
909720 - Brokerage Houses/ (Share & Security Trading Houses)	Green	Not available
909730 - Issue manager, Underwriter, Asset Management Company etc.	Green	Not available
909799 - Other Financial Auxiliaries	Green	Not available
912051 - Foreign Offices/ Embassies/Enterprises/Companies/Liaison Offices/ Farms/NGOs (Excl. Multinational Companies incorporated in Bangladesh)	Green	Not available
914051 - Mosques	Green	Not available
914052 - Temples, Churches & the like	Green	Not available
914053 - Sports Clubs	Green	Not available
914054 - Other Clubs	Green	Not available
914055 - Theatre & Cultural Organizations	Green	Not available
914056 - Political Parties	Green	Not available
914057 - Trade Unions	Green	Not available
914058 - District/Upazila Associations	Green	Not available
914059 - Professional Associations (Doctors, Engineers, Statisticians, Economists etc.)	Green	Not available
914060 - Chambers of Industries	Green	Not available
914061 - Other Associations, n.e.s.	Green	Not available
914062 - Trust fund & Other Non-profit Organizations	Green	Not available
914099 - Other Non-profit Organizations	Green	Not available
901009 - Farmer/Fishermen	Green	Not available
903009 - Businessmen/Industrialist	Green	Not available
910500 - Wage Earners (Bangladeshi nationals working abroad)	Green	Not available
911000 - Wage & Salary Earners (working in the country)	Green	Not available
910000 - Professionals and Self-employed Persons (Such as Doctors, Lawyers, Contractors, Taxi Drivers, Architects, Consultants, etc.)	Green	Not available
912050 - Foreign Individuals	Green	Not available



915001 - Housewife	Green	Not available
915002 - Student	Green	Not available
915003 - Minor/Autistics/Disabled and other dependent persons	Green	Not available
915004 - Retired Persons	Green	Not available
915005 - Old/Widowed/Distressed person	Green	Not available
915006 - Land Lord	Green	Not available
915059 - Other Local Individuals not above mentioned	Green	Not available

**Index of Sub-Sectoral E&S Guidelines**  
(72 guideline files are enclosed separately)

<b>Sector</b>	<b>guideline</b>
<b>Agriculture, Forestry and Fisheries</b>	Agricultural crop production (detailed) Animal feed processing (detailed) Aquaculture (marine and freshwater) – Onshore and Offshore (detailed) Commercial fishing (detailed) Fish processing (detailed) Livestock farming (detailed) Livestock farming - poultry (detailed) Meat processing (detailed) Poultry processing (detailed)
<b>Chemical Industries</b>	Agrochemicals (detailed) Chemicals plastics and paints – small scale (short) Chemicals – distribution and storage (detailed) Industrial inorganic chemicals production (detailed) Organic chemicals production (detailed) Paints and allied products (detailed) Pharmaceuticals (detailed)
<b>Construction</b>	Brick manufacture (detailed) Cement production (detailed) Ceramic, clay and refractory materials (detailed) Construction works (detailed)
<b>Electronic and Electrical Equipment</b>	Electrical goods (detailed) Electronic products (short)
<b>Food and Beverages</b>	Bakery products (detailed) Beverages - nonalcoholic (short) Dairy processing (detailed) Edible oils, soap and candle manufacture (short) Food processing - general (short) Fruit and vegetable processing (detailed) Grain mill products (detailed) Sugar production (detailed)
<b>Manufacturing - miscellaneous</b>	Glass and glass wool (detailed) Industrial equipment and machines (detailed) Miscellaneous manufacturing (detailed) Motor vehicles assembly (detailed) Plastic products (detailed) Rubber products (detailed)
<b>Metal Industries</b>	Metal fabrication (detailed) Ship breaking (detailed) Shipbuilding and shipyards (detailed) Steel & re-rolling mills (short) Steel & re-rolling mills (detailed)
<b>Mining, Oil &amp; Gas, Mineral Processing</b>	Gas processing & distribution (short) Mining & quarrying (short) Petroleum storage (detailed) Stone, sand and gravel extraction (detailed)

<b>Paper and Printing</b>	Packaging manufacture (detailed) Paper products (short) Printing and publishing (detailed) Pulp and paper manufacture (detailed)
<b>Power Generation &amp; Transmission</b>	Power generation thermal – large combustion plants (detailed) Power transmission (detailed) Renewable power generation incl. solar (detailed)
<b>Real Estate and Equipment Leasing</b>	Leasing of machinery and equipment (short) Leasing of property and land (short) Leasing of vehicles (short) Real estate (short)
<b>Retail Trade</b>	Petrol / gasoline retailing (detailed)
<b>Services</b>	Car repair, services and parking (short) Health services – hospitals and clinics (detailed) Hotels and lodging (detailed) Laundry services / dry-cleaners (short) Restaurants, fast foods, cafes (detailed) Tourism (short)
<b>Telecommunications</b>	Telecommunications (detailed)
<b>Textile Manufacture, RMGs, Leather processing</b>	Apparel and cloth making (detailed) Leather and footwear (short) – for small scale operations Tanneries and leather processing (short) Tanneries and leather processing (detailed) Textile manufacture – composite units (detailed)
<b>Transport</b>	Air transportation (detailed) Road freight services (detailed) Water transportation (detailed)
<b>Wood Products</b>	Furniture and fittings (detailed) Wood processing (detailed) Wood products (short)

## E&S covenants – guidance and examples

### Guidance

E&S clauses can be incorporated into legal agreements with clients. This helps reduce a Bank's exposure to potential E&S risks associated with a client's operations.

Bank staff can incorporate E&S clauses into legal agreements with clients to require clients to comply with the Bank's E&S requirements. Doing so helps a Bank reduce its exposure to the E&S risks associated with a client's operations throughout the lifetime of a transaction and gives the Bank legal recourse in the case of non-compliance.

A Bank's E&S Management System should state the circumstances under which specific E&S conditions such as the need for a corrective action plan should be inserted into the legal agreement for a proposed transaction.

The Legal Department should be involved in developing and inserting the necessary clauses on E&S matters into legal agreements. The specific language will depend on the type of transaction and potential E&S risks identified during the due diligence process but generally addresses the following areas:

- **Positive Covenants:** Measures or actions to be taken by the client. These may include the requirement for compliance with national E&S regulations and international standards, and periodic reporting on E&S performance. In the event of significant accidents and incidents, with potentially adverse E&S effects such as spills or workplace accidents resulting in death, serious or multiple injuries or major pollution, the client is required to notify the Bank in a timely manner, such as within 3 days.
- **Negative Covenants:** Actions that the client should refrain from undertaking. These include the Bank's E&S requirements.
- **Conditions Precedent:** Conditions and requirements that the client has to fulfil prior to disbursement of funds by the Bank. These may include proof of valid permits and licenses, preparation of government-requested reports and delivery of completion of mitigation actions stipulated in the corrective action plan.
- **Event of Default:** An event that entitles the Bank to cancel a transaction and declare all amounts owed by the client to become immediately due and payable. For transactions that involve complex E&S issues, this may include specifying a time period such as 30 days during which the client can resolve the issue after notification by the Bank.
- **Corrective Action Plan:** The Plan is typically included as an annex to the legal agreement, outlining the specific mitigation actions to be taken by the client according to an agreed timeframe for implementation.

To assess compliance with the E&S clauses stipulated in the legal agreement, Bank staff should periodically monitor clients and, as necessary, require the preparation of a periodic E&S performance report for review by the Bank. The Bank should consider material non-compliances with the E&S clauses as a breach of contract, which constitutes an Event of Default under the terms of the legal agreement.

In case of such an event, Bank staff needs to work with clients to resolve non-compliance issues in order to ensure that any potential exposure of the Bank to the client's E&S risks is mitigated. Where resolving the non-compliance issue is not possible, the Bank may be required to take legal action against the client to reduce its exposure to the E&S risks associated with the transaction.

### **Examples of specific environmental and social covenants**

According to the Bangladesh Bank guidelines for Environmental and Social Risk Management, wherever the ESRR is “High” or “Medium”, the credit risk management function will ensure that additional conditions / covenants are included. Examples of Environmental risk-related financing conditions / covenants are as follows:

- The borrower will conduct business and maintain property in compliance with all environmental laws
- The borrower will provide environmental clearance certificates as and when obtained or renewed
- The borrower will have emergency response procedures in place
- The borrower will take immediate and necessary remedial action in the event of a hazardous spill or release.
- The borrower will not use the property for disposing of, producing, treating, storing or using contaminants, pollutants, toxic substances or hazardous materials or wastes without proper legal permission.
- The borrower will employ a separate environmental manager with required background and skills to address environmental problems.
- The borrower will ensure adequate preparedness to climate change induced extreme events such as floods and cyclones.

In addition, when considering use of specific covenants the bank staff may consider using any of the following examples for specific covenants. These covenants are only intended to provide an indication of the types of clauses that can be used in legal agreements. Legal advice should be taken before adapting these covenants or elements of them for use in shareholder or subscription agreements.

### **Preparing the Client’s response to environmental and social risks identified during environmental and social appraisal of the Project, and ensuring its implementation**

1. The Client shall have prepared an environmental and social action plan, (\*), [and an environmental and social monitoring/worker training plan/on site emergency response plan] for the facility operations, which shall, in particular:
  - [state how the project will comply with the relevant environmental/sanitary/health and safety /labour regulations and standards/Bank requirements regarding \_\_\_\_\_ (specify)]
  - [determine the Project activities and environmental and social components to be monitored, the location of monitoring sites, and the frequency, standards, criteria, and techniques for carrying out the monitoring activities]
  - [identify the person in the company with overall responsibility for environmental, health & safety, and human resources matters](\* ) Examples of other environmental and social action programmes which may be required: environmental management plan; environmental monitoring plan; occupational health and safety management system; worker training programme, emergency response plan, human resources policy on ...
2. The Client shall ensure that appropriate budgetary allocations are made to meet capital and operating expenses, including skilled manpower resources, relating to the environmental and workplace protection measures referred to in \_\_\_\_\_ [the Environmental and Social Assessment/the conditions stated in the permit \_\_\_\_\_ issued by \_\_\_\_\_ (specify)/the environmental and social action plan]. Such allocations will include, at a minimum, \_\_\_\_\_ (provide details of the resources to be allocated to specific environmental and social measures required in other provisions).

3. The Company shall implement the environmental and social monitoring/ [pollution control/worker training] provisions outlined in the environmental and social action plan [as referred to in Section \_\_\_\_/ as agreed with the Bank pursuant to Section \_\_\_\_ (see (1)) and furnish a summary report on those activities to the Bank within [30 days of the end of each financial year].

4. Responding to changes or unforeseen circumstances:

If (i) there is any adverse environmental or social impact or issue that was not foreseen by or contemplated in the environmental and social action plan, or if (ii) any mitigation measure set out in the environmental and social action plan is not sufficient to eliminate or reduce the environmental or social impacts and meet the applicable regulations [Bank requirements] within the time frame set out in the environmental and social action plan, the Company shall, as soon as reasonably practicable and subject to the consent of the Bank, incorporate into the environmental and social action plan additional or revised mitigation measures to achieve compliance with applicable regulations [Bank requirements], in a manner satisfactory to the Bank.

5. *For privatising/privatised companies:* the Client shall:

- Have negotiated with [state agency responsible for privatisation; former owner/operator of the facility] an indemnification [or: an agreement defining the responsibilities of each party] for past environmental contamination and/or the cost of clean-up or any other costs related to such contamination.
- Develop and implement a plan to mitigate the adverse impacts of collective dismissals, in line with national law and good industry practice and based on the principles of (i) non-discrimination and (ii) consultation with workers and their representatives and, where appropriate, relevant public authorities.

6. Clarifying liabilities for ongoing/future pollution e.g. between neighbouring companies or in the case of shared facilities: The client and \_\_\_\_\_ (name of neighbouring company) have entered into an agreement, satisfactory to the Bank, defining the responsibilities of each party with respect to the clean-up of potential soil and groundwater contamination on the site [or off-site], and the payment of damages, fines or other costs related to [ongoing/historical] air pollution and soil or surface/groundwater contamination resulting from the operation of the facilities by each party.

### **Environmental and social considerations relating to project execution and the Client's operations**

7. The Client shall conduct its business and operations [including the operations of any subsidiaries] with due regard to environmental and social factors

- Including compliance with environmental, health, safety and labour laws and regulations applicable in \_\_\_\_\_ (country)]. See also section (10) below
- [in accordance with internationally recognised/ occupational health and safety practices]
- [in accordance with principles and standards included in the International Labour Organisation's fundamental conventions concerning abolition of child labour, elimination of discrimination at the workplace and elimination of forced and compulsory labour]
- [and in accordance with good international industry practices]
- Without limiting the generality of the foregoing, the Client shall
  - Ensure that potentially adverse environmental effects, such as \_\_\_\_\_ (describe possible problems – e.g., erosion, drainage, groundwater depletion, etc.) and other damage to the natural environment [or to important cultural and historic sites] receive due consideration in the design, construction, operation,

- and maintenance of project facilities.
- Ensure that appropriate health and safety protection measures are being used in connection with the implementation and operation of the Project.
- Take all action necessary to ensure that the following pollution control standards are monitored and enforced with compliance procedures acceptable to the Bank: \_\_\_\_\_ (specify).
- Adopt and implement human resources policies and management practices to ensure compliance with labor laws and regulations in [country x] including without limitation, requirements on [non-discrimination and equal opportunity]

### **Monitoring and reporting on environmental and social performance**

8. The Client shall submit to the Bank, as soon as available, but in any event within (...) days after the end of the (financial) year, an annual report on environmental and social matters relating to the project, in a form satisfactory to the Bank, including copies of any information on environmental and social matters the Company may have to make available to the authorities and, in any event,
  - the current status of environmental, health, safety and labor permits, licences or other approvals required for the projects and the Client's operations [including copies of renewals or modifications of any such approvals]
  - summary of incidents of non-compliance with the applicable environmental, health, safety and labor law, [including findings of inspection reports, penalties or increased charges imposed on the Client, and legal or administrative action or proceedings involving the Client or fines]
  - progress made on the implementation of the environmental and social action plan
  - worker health protection/safety initiatives [including training programmes] taken by the Client
  - public complaints/representations, if any

The report shall state the steps taken or proposed by the Client to address any problems in the above areas, and shall identify the person at the company with overall responsibility for environmental, health, safety and human resources matters.

9. The Client shall furnish to the Bank immediate notice of any incident or accident relating to the Project and likely to have a highly adverse effect on the environment or public or occupational health and safety. In particular, such adverse effect is deemed to have occurred: (i) where the applicable law requires notification of the accident/incident to the authorities, (ii) where the accident/incident involves fatality of any person or more than one person has received serious injury requiring hospitalisation, (iii) where it has become public knowledge inter alia through coverage in the media.

### **Environmental and social laws and regulations applicable to the Project**

10. The Client shall ensure that the Project is designed and implemented, and the Project facilities are designed, installed, operated, and maintained, in conformity with all applicable national, provincial, and local environmental, sanitary, health and safety and labour laws and other regulatory requirements. Without limiting the generality of the foregoing, the Client shall ensure compliance with:
  - the \_\_\_\_\_ (title of the applicable environmental/health and safety/labour legislation) of \_\_\_\_ (date), as amended, or any successor legislation;
  - all applicable regulations and standards concerning \_\_\_\_\_ (indicate the relevant subject-matter) issued by (name of the relevant environmental /sanitary/labour/health and safety authority); and
  - All terms and conditions of the \_\_\_\_\_ (identify the applicable environmental clearance or permit) of \_\_\_\_\_ (date), issued by the \_\_\_\_\_ (name of the relevant environmental agency).

### Corrective Action Plan - Guidance

Bank staff may develop a corrective action plan with a timeframe for the client to implement appropriate mitigation measures to comply with the Bank's E&S requirements.

Depending on the nature of E&S risks associated with a client's operations, Bank staff may develop a corrective action plan with a timeframe for the client to implement appropriate mitigation measures to comply with its E&S requirements. The purpose of a corrective action plan is to mitigate potential E&S risks in the context of a transaction to an acceptable level for the Bank.

Bank staff should tailor the scope of a corrective action plan to each client according to the specific risks identified during the E&S due diligence process or during subsequent transaction monitoring. Corrective action plans range from simple mitigation measures to detailed management plans with actions that can be measured quantitatively or qualitatively. The corrective action plan should include a description of the specific mitigation actions to be taken by the client, a timeframe for implementation and a reporting requirement to inform the Bank on the status of completion.

Bank staff will need to discuss the corrective action plan with the client and agree on its scope and timeframe for completion. If the corrective action plan is developed as part of the transaction appraisal process, it should be included in the legal agreement. The timeframe for implementation of specific mitigation measures will vary according to the E&S risk and may range from being a condition of transaction approval to a reasonable timeframe from disbursement or when E&S issues were identified during transaction monitoring.

### Corrective Action Plan Template With Examples

Area of E&S concern as identified through ESDD	Corrective Actions required	Timeframe	Action completion indicator	Responsibility (Client staff, management or board)	Cost involved
Evidence of land pollution due to discharge of untreated effluent	Action plan may include: <ul style="list-style-type: none"> <li>Removal and treatment of contaminated ground soil</li> <li>Construction of sewage system for industrial wastewater</li> <li>Construction of wastewater treatment facility and discharge system for treated</li> </ul>	6 months	<ul style="list-style-type: none"> <li>Installation of Effluent Treatment Plant (ETP). The ETP should be operational and the qualitative parameters of treated effluent should be within limits</li> <li>The discharge of treated effluent should be through the constructed discharge system and no other modes of discharge and leakages</li> <li>Qualitative parameters of treated</li> </ul>	Board	



	water		contaminated ground soil should be within limits		
Absence of grievance redressed mechanism	Establish a grievance redressed mechanism	3 months	Well established grievance redressed mechanism which is appropriately communicated to the external stakeholders	Board	
Displacement of community structure	Restoration of community structure for common benefits	3 months		Management	
Loss of trees, crops, perennials	Compensating for standing crops and trees	1 year	Plantation of trees	Management	

## Environmental and Social Risk Monitoring Checklist

Sl. No.	Question /Issues to check	Response
<i>Project Summary Information</i>		
1	Reporting period covered by this monitoring report	
2	Specification of project stage (design, construction, operation or closure stage)	
3	Key developments and any major changes in project location and design, if any from the time of loan disbursement or from the last supervision period.	
<i>General Information</i>		
4	<b>Status of implementation of covenants/corrective action plan. Is it in line with the agreed timeframe?</b> (i.e. if all covenants are implemented or partially implemented or not implemented or delayed implementation). <i>If partially implemented or not implemented or delayed implementation, RM to please mention the reason in the response column along with a timeline for completion of implementation as committed by the client during supervision.</i>	
<i>EHS Management</i>		
5	<b>Were there any accidents, spills, leakages, explosion etc. during the reporting period?</b>  <i>If yes, what was the scale of damage (e.g. if there was any fatality, monetary loss etc.)? What was the action taken in response to the incident?</i>	
6	<b>Have the company received recently any fines or penalties issued by the regulatory body on EHS issues?</b>  <i>If yes, RM to please mention the nature of violation, amount of fine/penalty paid, action taken by the client to address the issue to avoid any such fine/penalty in future.</i>	
7	<b>Were there any health &amp; safety incident in the company?</b>  <i>If yes, what was the extent of injury – minor, major or fatal? What was the action taken in response to the incident?</i>	
8	<b>Are there any new E&amp;S risks or adverse impacts observed due to client's operation?</b>  <i>RM to please mention the types of new E&amp;S risks, the reason for such new E&amp;S risks, mitigation measures undertaken by the client to address the E&amp;S risks.</i>	
<i>Permits and Compliance Certificates</i>		
9	<b>Are all the required permits, licenses and clearances in place?</b>  <i>RM to please mention the issuance dates and duration of validity of all such permits, licenses and clearances.</i>	
10	<b>Other international management systems (for e.g. ISO 14000, OHSAS 18001, SA8000) followed by the client and if they have valid certifications for those management systems?</b>	

Sl. No.	Question /Issues to check	Response
<i>Grievance Redressed</i>		
11	<p><b>Have there been any recent complaints, grievance or protest received from local communities?</b></p> <p><i>If yes, RM to please specify the nature of grievances; actions taken by the client to resolve grievances and if there any outstanding issues and measures proposed by the client to resolve them.</i></p>	
12	<p><b>Were there concerns raised during the stakeholder consultations carried out by the client during the reporting period?</b></p> <p><i>If yes, what was the approach undertaken by the client to address those concerns?</i></p>	
<i>Other Information</i>		
13	<p><b>Any other information pertaining to environmental matters, management approach, and community, media or NGO coverage that need to be mentioned?</b></p> <p><i>If there are any environment friendly initiatives, energy saving equipment etc. that might be relevant for the Bank.</i></p>	

## CONSULTANT TERMS OF REFERENCE – ENVIRONMENTAL AND SOCIAL DUE DILIGENCE FOR A HIGH RISK CLIENT

*[This template can be used as a guide for developing a Terms of Reference (ToR) for a Consultant to perform certain aspects of the E&S appraisal of a Client's operation.]*

### **“Introduction**

The purpose of this Terms of Reference is to ensure that the Consultant performs the environmental and social review of a Client's operation.

It is the bank's policy that *[provide a summary statement of the E&S Policy, including a reference to that all commercial lending which the bank provides, will comply with all applicable E&S laws and regulations of the country. In addition, it should explicitly indicate that it will seek to ensure that these same projects are operated in a manner consistent with IFC's Performance Standards on Environmental and Social Sustainability (if applicable). These eight standards establish clear requirements for the Client's performance.*

*[The bank's review of a prospective Client in relation to the IFC Performance Standards shall determine the scope of the E&S conditions of the bank's financing.]*

### **“Consultant Qualifications**

The Consultant must have substantial experience in the E&S review of projects located in [country], with particular focus on the support of project finance activities. He/she must be thoroughly knowledgeable of the bank's environmental and social management policies and procedures, including the IFC Performance Standards.

### **“Scope of Work**

The Consultant will conduct the E&S appraisal of the activities of a prospective Client consistent with the bank's policies and procedures. For **new Client appraisals**, the four tasks include:

1. Preliminary Review. Review all available information and documentation related to project environmental and social impacts and risks. Prepare a list of additional information and/or questions that will be needed to continue the appraisal.
2. Site Visit and Further Review. Conduct site inspections, review facility-based records, and interview key staff, including both sponsor personnel and relevant stakeholders (regulatory officials, community leaders, suppliers, and customers).
3. E&S Performance Gaps and Necessary Corrective Actions Analyses. Analyse project environmental and social performance in relation to the Company's Environmental and Social policy, including IFC Performance Standards (if and where they apply). Identify these gaps and any corresponding corrective actions that will be necessary. Prioritize these and recommend acceptable and justified implementation schedules.
4. due Diligence Documentation. Prepare a report (see Appendix) summarizing the results of the E&S due diligence (ESDD). The ESDD report shall include a summary of the impacts and risks associated with the Client's activities, including the related performance gaps and corresponding correction actions that will be necessary in order for the bank to provide funds to the Client.

### **“Schedule**

The Consultant shall submit a draft *Due Diligence Report* by *[insert date]*. The final Report shall be submitted within 2 weeks after receiving comments from the bank on the draft report. All reports should be written and prepared in [language] and delivered in electronic and hard copy.”

**Trade with hazardous chemicals and substances (explanatory note)**

Trade with hazardous chemicals and substances includes trading and transportation and temporary storage of hazardous substances.

Hazardous chemicals are substances, mixtures and articles that can pose a significant risk to health and safety if not managed correctly. They may have health hazards, physical hazards or both.

Examples of chemicals that can cause adverse health effects include:

- toxic chemicals
- chemicals that cause skin damage
- carcinogens
- corrosive chemicals

Examples of chemicals that can immediately injure people or damage property include:

- flammable liquids (e.g. petroleum products, lubricants)
- compressed gasses
- explosives
- Acids and alkali substances.