GUIDELINES ON
ENVIRONMENTAL & SOCIAL RISK MANAGEMENT

PUBALI BANK LIMITED

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Preamble

Bangladesh is one of the most vulnerable countries, being at the forefront of threats from climate change effects in terms of rising of sea level, salinity ingress, storm surges, cyclones, floods, loss of habitat, destabilization of agriculture, etc. Rapid economic growth coupled with a rising population is putting a high toll on the environment, ecology and natural resources in Bangladesh. Due to simulation of these incidences our country has become highly vulnerable towards climate changes. These incidences are the major hindrances to our sustainable development.

In order to ensure the best possible opportunities for a productive and healthy life for the people while maintaining the balance in nature and ensuring sustainability for future generations, Sustainable Development Goals (SDGs) have been declared by United Nations and have already been fully adopted by Government of Bangladesh. Bank can play a significant role to achieve these Sustainable Development Goals (SDGs).

To ensure Banks' active participation in achieving Sustainable Development Goals (SDGs), Bangladesh Bank is exploring scopes & opportunities for the Banks to manage credit portfolios through active consideration of environmental and social vulnerabilities. As an environmental & social stakeholder and development business practitioner, Pubali Bank Limited is also in its way to protect its financings from environmental & social risks through own initiatives of sustainable banking. To contribute significantly for betterment of the environment and the society, Pubali Bank Limited is firmed to integrate sustainability into overall credit management by adopting sustainable financing policy.

It is a matter of great pleasure that a guideline has been prepared for Pubali Bank Limited in conformity with the "Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh" circulated by Bangladesh Bank vide SFD Circular No. 02, dated February 8, 2017.

The Guidelines on ESRM will be the master framework for our Bank in assessing Environmental & Social Risks in credit/investment decisions and establishing Environmental and Social Management System within the organization. Officials are expected to go beneath the yardstick set forth in these guidelines aligned with current changes in banking sector.

(Md. Abdul Halim Chowdhury)
Managing Director

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List of Abbreviations

BDT	Bangladeshi Taka
CAMELS	Capital Adequacy Assets Management Capability Earnings Liquidity Sensitivity
CITES	Convention on International Trade in Endangered Species
CRMC	Credit Risk Management Committee
DoE	Department of Environment
E&S	Environmental & Social
EC	Executive Committee
ECR	Environment Conservation Rules
ERM	Environmental Risk Management
ESAP	Environmental and Social Action Plan
ESDD	Environmental & Social Due Diligence
ESIA	Environmental & Social Impact Assessment
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
IMF	International Monetary Fund
IP	Indigenous People
MD	Managing Director
NGO	Non-Governmental Organization
ODS	Ozone Depleting Substances
PAH	Polycyclic Aromatic Hydrocarbons
PCB	Polychlorinated Biphenyl
PM	Particulate Matter
RMC	Risk Management Committee
RMG	Ready Made Garment
RO	Relationship Officials
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

1. Overview of the Guidelines

As a financial institution, risk is inherent in all of the banking activities. In our Bank, managing risk well-including environmental & social risk- is a key part of our responsible, sustainable growth strategy. It contributes to the strength and sustainability of the bank for the future, and supports the works we do today to serve all stakeholders of the bank. From the perspective of the banking sector, the role of Environmental and Social (E&S) Risk Management is aimed at reducing the Probability of Default (PD) in credit/investment stemmed from environmental and social risk factors as well as ingraining the sustainability in the core business model.

With a view to contributing significantly for betterment of the environment and the society, Pubali Bank Limited is firmed to integrate sustainability into overall credit management by adopting sustainable financing policy. To this effect, the bank opts to expand its credit/investment portfolio rather than avoid investment involving high E&S risks. Bank will do this by integrating Environment & Social (E&S) risks and incorporating appropriate risk mitigation measures in overall credit management. So, compared to the former ERM Guidelines, the introduction of this ESRM Guidelines is expectedly to be more efficient, interactive and user friendly in nature, partaking the following features:

- The ESRM Guideline provides a robust, auto generated, quantitative risk rating system to reduce the subjectivity of a qualitative risk assessment method presented in the former ERM Guidelines.
- The ESRM guideline has a bigger focus on social and climatic risks becoming threats upon our sustainability.
- The generic and sector specific E&S Due Diligence (ESDD) checklists (Annex-B) in the ESRM Guideline incorporate guidance to assist the Relationship Managers/ Officers in carrying out the due diligence process.
- In addition to creating scopes for investment, the Guidelines define applicability based upon sector specific E&S impacts and the applicability is mentioned categorically including agriculture, retail, trade, microfinance, SME and, corporate financing and project financing.
- The organizational roles and responsibility described in the ESRM Guidelines are designed so that the bank takes necessary steps to integrate E&S risks into its overall credit policy. It clearly outlines the responsibility of different functions of the bank in terms of E&S risk assessment and thus helps bank make credit-decision based upon E&S risk rating.
- The new ESRM Guideline includes one Generic ESDD checklist and 10 sector specific checklists for high risk sectors. Thus it broadly creates scopes and at the same time is much well-run in use by the practitioners of our bank.

2. Typical E&S Risks for Bank

It may seem that no significant or relevant potential risks are observed at the time of approval of a financial transaction. But, it may be appeared during execution, for example, 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 impact may be extremely high. Some of the common E&S risks are furnished below in brief (Details at Annex-A):

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 burning, storage of materials or other industry-sector specific processes.

Concerned officials may advise the client to possibly 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. Bank also may help the clients to identify areas for reductions in air emissions and to identify environmental business opportunities.

Water Use and Conservation

A client's operations use water in various production processes, which vary according to industry sector types. Typically, water use at the facility level is associated with various processes such as process water, building facility operations, cooling systems heating systems etc.

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. Concerned officials of the bank may 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 as per industry sector types. Concerned Bank’s officials may 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.

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.

Concerned officials may advise the clients to implement sound waste management practices at the facility.

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.

Bank’s concerned officials may advise the clients to implement the necessary measures to prevent releases of hazardous materials, waste, or oil to the ground.

Labour 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. Clients may create tangible benefits, such as enhancement of the efficiency and productivity of their operations through a constructive worker-management relationship and by treating the workers fairly and providing them with safe and healthy working conditions.

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. It is the client’s responsibility to avoid or minimize these risks and impacts that may arise from operations. 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 (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.

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.

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”.

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.

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. 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.

To reduce exposure involving risk arising from environmental & social sources, bank needs to ensure that clients’ financial and operational sustainability does not put on adverse impacts on the environment and surrounding communities. Bank’s officials (particularly credit officials) need to have a clear understanding of potential E&S risks associated with client’s business-operations prior to going for making credit-decision.

For understanding of potential E&S risks associated with client’s business-operations, it requires proactive identification, assessment, and management of E&S risks before they result in an adverse outcome on the client. This can be achieved by developing and implementing an Environmental and Social Management System (ESMS). For managing exposures involving risks, it is imperative to systematically assess the E&S risks and opportunities arising from clients’ business-operations.

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

Bank is exposed to some level of E&S risk through its clients. If these risks are left unmanaged, they can lead to a decline in the bank's reputational image, loss of revenues or may lead to costly litigation. The type, quantity and severity of E&S issues which may arrive while lending process 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.

Credit Type Wise E&S Risks may be described as under:

Risks 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, Bank will have limited leverage to manage E&S risks once a transaction has been approved. However, Bank 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 the Bank.

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 while lending or investing in small and medium enterprises generally try to develop long-term relationships, which may further expose bank 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 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.

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 labour 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 labour and working conditions, in the supply chain of raw materials and goods.

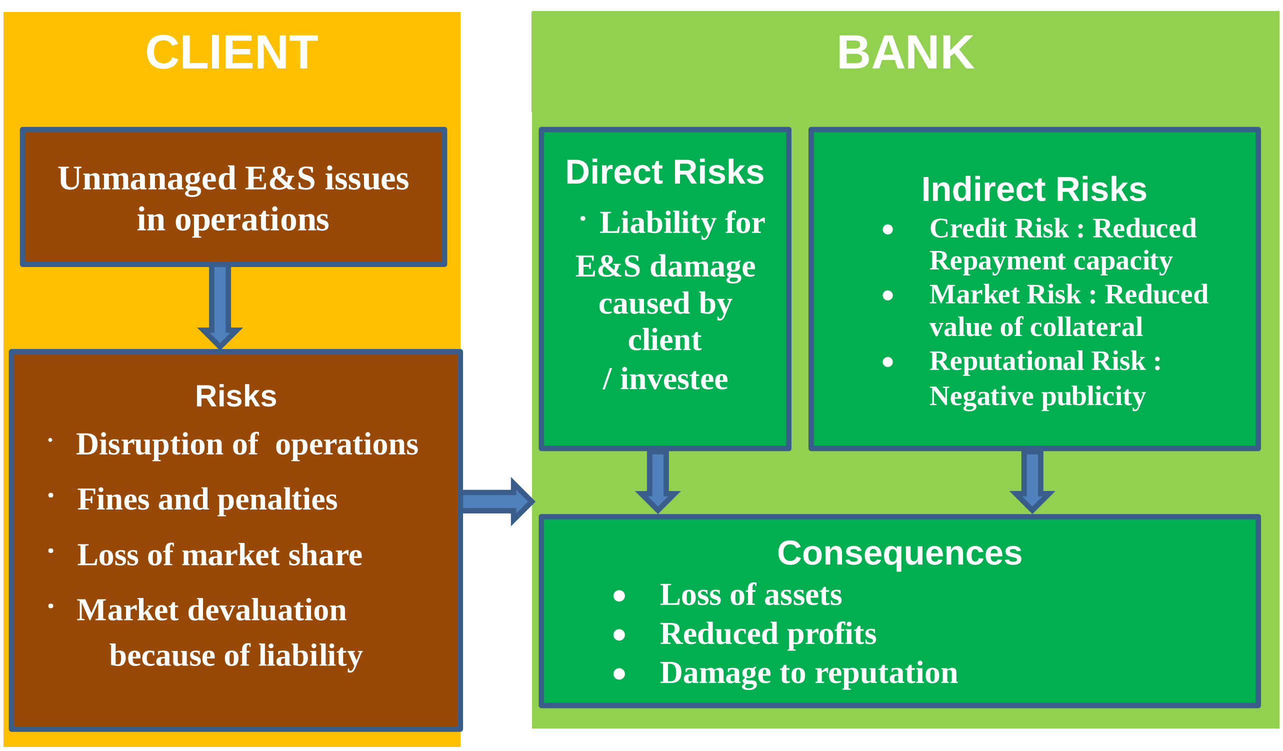
E&S issues may threaten the financial and operational viability of a commercial operation. For a commercial operation, the source of repayment of a loan or payment of dividends on an investment is from the operation itself, backed by its entire balance sheet, rather than a specific asset. A corporate transaction exposes the Bank 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 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 while 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.

Risks associated with different types of transactions are described below:



Credit Risk: Credit risk may arise when a client is unwilling and /or unable to fulfill the contractual obligations associated with the credit as a result of E&S issues. For example, client may be unable to fulfill the contractual obligations if he faces increased capital or operating costs of complying with E&S standards. Breach of contractual obligations may also be occurred if the client operates the business without emission /discharge permits or with those having no validities resulting in regulatory fines or penalties. Again, bank may be exposed to credit risk stemming from a reduction in the value of collateral associated with the credit 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 taking possession of collateral assets, bank may be exposed to liability risk stemming from a client's legal obligations. Legal obligations includes fines, penalties, and other costs for addressing third-party claims for damages due to negligence in managing E&S risks associated with client's operations and/ or due to negligence in clean-up of contamination. As a principal shareholder of a client's operations, bank is liable for all E&S risks associated with client's operations.

Operational Risk: Bank may be confronted with operational risk stemming from potential disruption of client's operations for E&S problems. If not managed properly, these problems can affect the clients' stability to meet-up its financial obligations to the Bank. Apart from these, the unmanaged problems can cause a decrease in collateral value in the context of the loan. If a client fails to take necessary measures against probable E&S issues effectively, the failure can jeopardize client's business operations as well as the bank providing the loan.

Liquidity Risk: Bank may 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: Bank may face reputational risk due to negative news associated with the client's poor E&S practices. This may harm our Bank's brand value and image in the media, with the public, with the business and financial community, and even with our staffs. For example, if a client faces strong public opposition against its operations, our Bank's reputation may be tarnished through its association with this particular client.

4. Applicability of the Guidelines

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 following exclusion list:

Exclusion List

SL. No.	Sector / Activities
1	Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species (CITES). Links: United Nations (UN) list of banned chemicals and products: http://www.un.org/esa/coordination/Consolidated.list-13FinalFinal.pdf CITES list of endangered species: http://www.cites.org/eng/app/E-Apr27.pdf.
2	Ship breaking/ trading activities which include: i. Ships with prevalent asbestos use (for e.g. passenger cruise); ii. Ships listed on the Greenpeace blacklist*; iii. Ships not certified "gas free" for hot work
3	Drift net fishing, deep sea bottom trawling, or fishing with the use of explosives or cyanide
4	Operations impacting UNESCO World Heritage Site and/or Ramsar site
5	Illegal logging, and logging operations or conversion of land for plantation use in primary tropical moist forests
6	Production or activities involving forced labour/ child labour
7	Production or trade in: 1. Weapons and munitions 2. Tobacco 3. Gambling, casinos 4. Pornography (goods/stores/web-based)
8	Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples

***** http://www.greenpeace.org/international/en/campaigns/oceans/pirate-fishing/Blacklist1/

Any transaction in the Exclusion List will have to be avoided. But if the proposal is out of the Exclusion List, the bank will apply the ESRM before going for lending.

Approaches to ESRM for Transactions out of Exclusion List

a) **Agriculture:** In the agriculture sector, if a loan application (New/Renewal/Rescheduling /Restructuring) involves farming/crop production activities, poultry and dairy, it is to be checked using the generic ESDD checklist **(Annex-B),** 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. Disbursement of loans to other agribusinesses involving sorting, packaging, distribution and sales will not require completing ESDD checklist.

b) **Small Enterprises:** 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 **(Annex-B):**

   i. Washing, dyeing and finishing units of RMG sector (water, chemical pollution)
   ii. Small steel re-rolling mills (operational health and safety, thermal, air pollution)
   iii. Brick kilns (air pollution, child labour, burning of fossil fuel)
   iv. Units for tanning, dressing and dyeing of leather and fur (water, chemical, air pollution)
   v. Pesticides, agrochemical and nitrogen manufacturing units (land contamination, water, air pollution)
   vi. Chemicals and chemical products manufacturing units (safety, pollution)
   vii. Rubber and plastic products manufacturing units (pollution)
   viii. Batteries and accumulators manufacturing units (chemical pollution)

Other cases, transaction will not be subject to due diligence using ESDD checklist.

c) **Medium Enterprises:** 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.

d) **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 and where applicable, the sector-specific ESDD checklist (Annexure-B).

e) **Trade, Retail and Microfinance:** Any transaction under these category sectors will not be subject to due diligence using ESDD checklist.

f) **Project Finance:** For all Project Finance transactions will have to undergo E&S due diligence as per the generic or sector specific checklist. In addition to that, 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.

Table-1: Applicability of the Guidelines by Transaction Types

Sl. No.	Transaction Type	Exclusion List	ESDD Checklist	Third Party ESIA
1	Agriculture Activities involving farming, crop production, poultry and dairy	√	√	
2	Other Agricultural Activities	√		
3	Trade, Retail and Microfinance	√		
4	Small Sector falling in one of the categories listed above from b-i to b-viii. & worth above BDT 1.00 million (BDT 10.00 Lakh)	√	√	
5	Small Sector not falling in one of the categories listed above from b-i to b-viii.	√		
6	Medium Sector	√	√	
7	Corporate Finance	√	√	
8	Project Finance	√	√	√

5. Applicable Standards

While allowing a particular credit, the related officials will carry out E&S due diligence observing applicable all national regulations pertaining to E& S governance. 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. A list of applicable national regulations and international treaties where Bangladesh is a signatory is provided as **Annex-C** for reference.

If clients have management systems in place as per international frameworks such as ISO 14001 for environmental management, OHSAS 18001 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 will be considered in case of large project financing as a good practice and optional requirement.

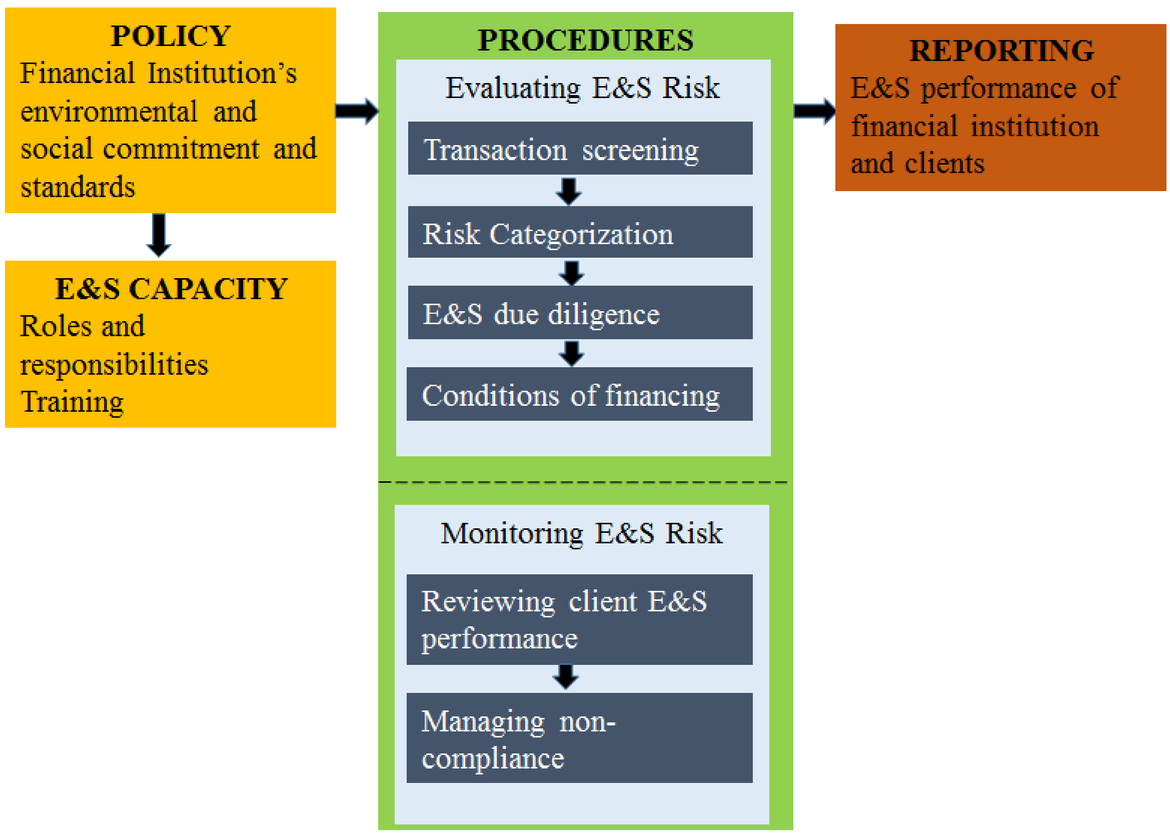
In order to identify, manage and mitigate E& S Risks in lending, Bank's officials will have to follow ESRM guidelines and its system.

6. Environmental and Social Management System (ESMS) for our Bank

E&S Management System is designed with a set of policies, procedures, tools and internal capacity to identify, monitor and manage our Bank's exposure to the E&S risks of clients. It provides guidance on how to screen transactions, categorize transactions based on their E&S risks, conduct E&S due diligence and monitor the client's E&S performance. The ESMS also includes our Bank's environmental and social policy and designated roles and responsibilities of the staffs. It is implemented through a set of procedures for:

i. Screening transactions,
ii. Conducting environmental and social due diligence,
iii. Categorizing transactions based on their environmental and social risk,
iv. Decision-making process,
v. Monitoring the client's/investee's environmental and social performance, and
vi. Managing a client's/investee's non-compliance with the environmental and social standards of our bank.

Components of an ESMS



The procedures outlined in the ESMS need to be applied to each transaction as part of overall risk management framework of our bank. For each transaction, officials will formally document environmental and social review as part of record-keeping process. Concerned officials will also consider environmental and social findings during the decision-making process, and incorporate environmental and social requirements such as a corrective action plan as clauses in legal agreements with clients.

To ensure the effective implementation of the ESMS across operations, necessary trainings are to be arranged and fruitful internal communication procedures are to be put in place. As part of bank's commitment to good corporate practices, concerned officials will need to periodically report on the environmental & social performance of transactions and measures taken to reduce overall exposure to environmental and social risk.

ESMS is expected to help in:

i. Identifying environmental and social risks associated with clients/investees and understanding the potential impact on bank's portfolio;
ii. Systematically assessing and managing environmental and social risks;
iii. Implementing the necessary steps within bank's risk management system including documentation and recordkeeping;
iv. Monitoring client/investee compliance with national environmental and social regulations and international best practices and standards;
v. Implementing mitigation measures for identified environmental and social risk by the clients;
vi. Identifying social and environmental business opportunities; and
vii. Developing good reputation among clients, bank and other relevant parties in the financial market.

Key Components of ESMS are described below:

A. E&S Policy;
B. Organization Structure;
C. Screening Transaction;
D. Categorizing Transaction;
E. Conducting ESDD;
F. Decision Making Process;
G. Corrective Action Plan and Covenants;
H. Monitoring;
I. Managing Eventualities in Investment Projects;
J. Internal/External Communication.

A. E&S Policy

E&S policy has been designed to state our Bank's vision and mission with respect to the environment, society and contributions to sustainable development. The Bank continually will endeavor to ensure effective Environmental & Social management practices in all its activities, products and services with a special focus on the following:

- Concerned officials/ executives will incorporate E&S risk considerations into all financing activities;
- Concerned officials/ executives will ensure that all activities undertaken by the client company are consistent with the Applicable Requirements;
- New products are to be introduced addressing E&S sustainability;
- Clients whose business activities do not meet our Bank's principles are to be excluded from financing;

- Compliance of the clients with national E&S regulations and international standards is to be included along with other requirements for financing;
- Concerned officials/ executives will ensure that all projects are reviewed against the Applicable Requirements;
- Bank will go for financing only when the projects are designed, built operated and maintained in a manner consistent with the Applicable Requirements
- Necessary communications on E&S issues are to be made with all staffs, clients and other external stakeholders;
- Communications are to be made to improve bank's overall E&S performance through enhanced risk management;
- This Policy will be communicated to all staffs and operational employees of the Bank.
- Necessary measures are to be adopted for continually building staffs' capacities to identify E&S risks.

E&S policy has been tailored to the specific objectives of our bank, reflecting key E&S priorities and concerns as well as the E&S standards that clients are required to comply with.

B. Organization Structure

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

a) ***Relationship Officials (In Branches):*** Relationship Officials will identify E&S risks in a client's operation by talking to the client/ relevant officials, visiting site, collecting documents, permits relevant for the credit proposal. They will also fill up the ESDD checklist in consultation with the client at approval stage, collect additional information and respond to credit queries, if necessary. They will also follow up with client if there are any pre-disbursement actions to be completed. Relationship Officials will also negotiate with the client in finalizing action plans and timelines where necessary.

They will perform their duties as under:

- Primarily, the Branch Relationship Officer will apply Exclusion List to the project. If the project involves an excluded activity, the prospective client will be so informed, and financing for the project will be terminated. Otherwise, he will indicate the Applicable Requirements for the project.
- When the Relationship Officer indicates that the project does not involve an excluded activity, the prospective client will be informed that an Environmental & Social Due Diligence (ESDD) is required as part of the appraisal process.

- The Relationship Officer will observe an ESDD (or appoint a consultant to observe if the project is complex). In case of ESDD conducted by a technically qualified person or consultant (for complex project), the same is to be reviewed by Relationship Officer based on his site visit.
- The client company must be able to demonstrate compliance to the Applicable Requirements to the concerned Relationship Officer. Demonstration of compliance must be to the Relationship Officer's satisfaction. Where compliance cannot be demonstrated, a Corrective Action Plan will have to be agreed in order to going for investment. The plan will specify all of the necessary actions to bring a project into compliance. A target completion date for each specified action must also be agreed.
- Prospective clients will provide all requested information and the Relationship Officer must have conclusion that the Project is expected to meet the Applicable Requirements (with Corrective Action if required) prior to going for lending.
- Environmental and Social performance will be evaluated on an annual basis, including status of implementation of the Corrective Action. The benchmark for performance will be the ongoing compliance against the Applicable Requirements. Performance evaluation will be undertaken by:
    - The client who will provide annual reports to the Relationship manager who may follow up as required with further queries or site visits; and
    - The Relationship Manager/ Officer who will provide Performance Reports to the Head of Branch/ Region/ Principal Office/ Credit Division (as the case may be), to be prepared on the basis of the Client annual reports provided to him and the ESDD and supervision conducted.
- All investment agreements will contain appropriate environmental representations, warranties, and covenants requiring that projects are in compliance in all material respects with the country's environmental, health, safety and social requirements embodied by country's general laws and implementing agencies and conducted in accordance with any Applicable Requirements.

b) Officials in Regional Offices: Concerned officials in Regional offices will check & verify that the Branch has forwarded the proposal observing all E&S due diligence issues (i.e. screening against exclusion list, following applicability of ESRM, using the generic ESDD checklist and where applicable, the sector-specific ESDD checklist to determine the E&S risk grading). If not, they will advise the branch to be compliant as per applicable standard.

c) Officials in Principal Offices: Concerned officials in Principal offices will check & verify that the Regional Office has forwarded the proposal observing all E&S due diligence issues (i.e. screening against exclusion list, following applicability of ESRM, using the generic ESDD checklist and where applicable, the sector-specific ESDD checklist to determine the E&S risk grading). If not, they will advise the Regional Office to be compliant as per applicable standard.

d) ***Officials in Credit Division:*** Concerned officials in Credit Division will check & verify that the Regional Office/ Principal Offices/ Corporate Branches has forwarded the proposal observing all E&S due diligence issues (i.e. screening against exclusion list, following applicability of ESRM, using the generic ESDD checklist and where applicable, the sector-specific ESDD checklist to determine the E&S risk grading). If not, they will advise the Regional Office to be compliant as per applicable standard.

e) ***Head of Branch/ Regional Office/ Principal Office/ Credit Division:*** Head of Branch/ Regional Office/ Principal Office/ Credit Division will ensure that in each transaction no critical E&S issues were overlooked, there is adequate documentary evidence to support client's E&S performance and enough measures have been taken to manage identified risks. They will also ensure that all investment decisions are supported by appropriate due diligence documentation.

f) ***Credit Administrator:*** Credit Administrators at various level will have oversight for environmental and social issues, will ensure resources are made available for environmental management, and will sign the Client Company's annual environmental performance report. The responsibilities also include:

- During due diligence, the evaluation of environmental compliance of a target client company with Applicable Requirements;
- Supervising projects in the portfolio against on-going compliance with the Applicable Requirements.
- The preparation of an annual environmental performance report, based on the annual performance report prepared by the client companies.
- Ensuring that these procedures are implemented for each project, and that records of environmental reviews are maintained.
- Ensuring that appropriate environmental representations, warranties, and covenants are incorporated in each stock purchase agreement.
- Working with management to ensure that adequate Company resources have been committed to allow for the effective implementation of the environmental policy and procedures of the Company.
- Submitting report on E&S due diligence issues to Sustainable Finance Unit (SFU).

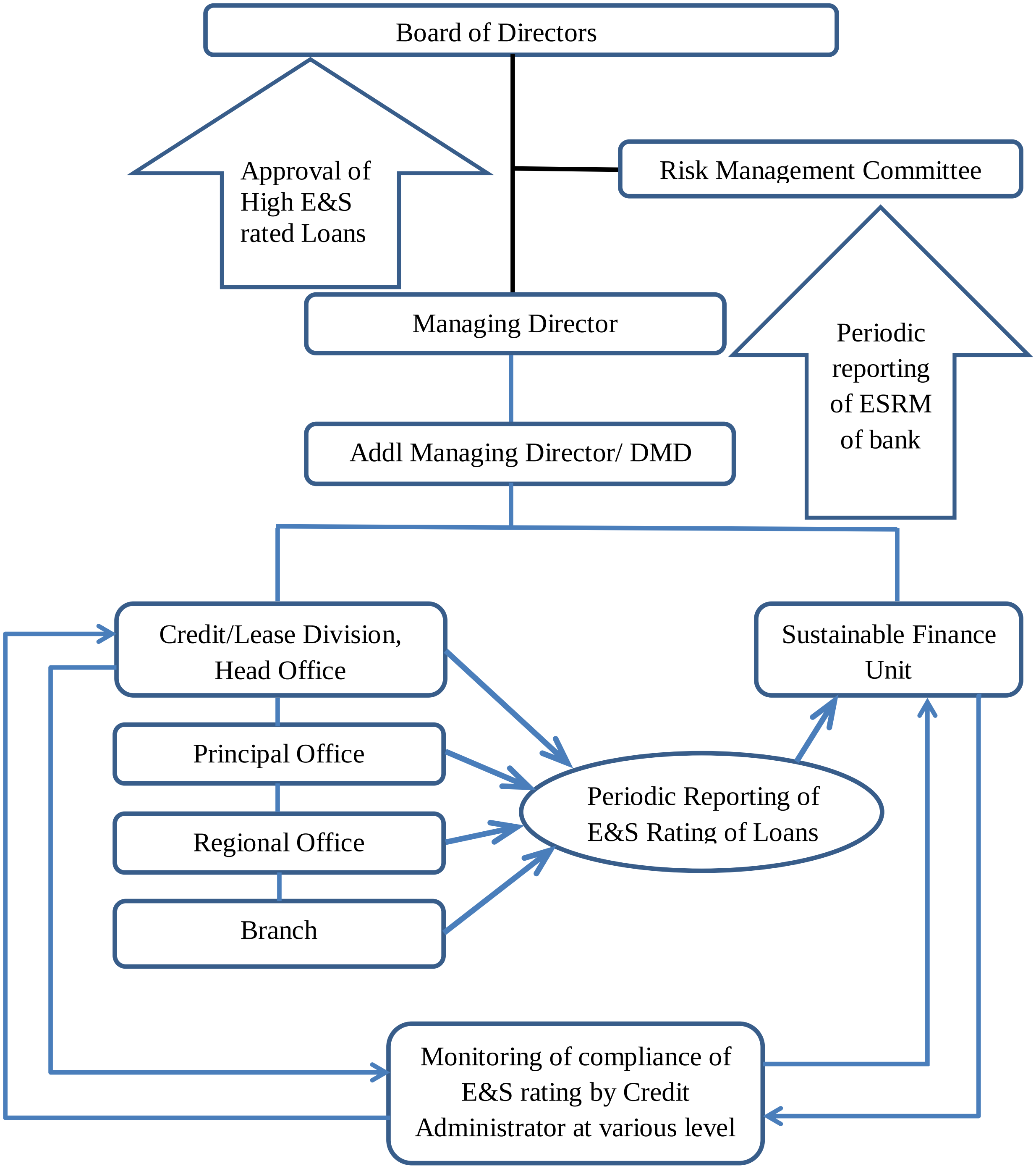
They will also perform their duties with consultation with Relationship Manager/ Officers if & when necessary.

g) ***Senior Management:*** The Senior Management will ensure Bank's overall commitment to E&S objectives. In cases of unresolved E&S issues or non-compliance associated with a transaction that cannot be resolved by the Head of Branch/ Regional Office/ Principal Office, Senior Management will determine the appropriate course of action to be followed to reduce the Bank's potential exposure to E&S risks, which may include taking legal action against the client.

Board of Directors: The Board of Directors will guide the Management to ensure compliance with due diligence issues of ESRM. Board will decide 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 the Bank.

h) ***Legal Department*****:** The Legal Department will incorporate Bank's E&S requirements in legal agreements for each transaction. The Legal Department may advise if a client's non-compliance with E&S clauses constitutes a breach of contract and if such non-compliance is considered an Event of Default under the terms of the legal agreement that requires follow up by Senior Management.

i) ***Sustainable Finance Unit (SFU):*** SFU (Please refer to SFU Circular No. 02/2016 issued by BB on December 01, 2016) of the Bank is responsible for coordination with different divisions/ 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 the Bank'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. SFU will need to be technical qualified to be able to carry out the due diligence or review work carried out by a consultant. The Unit will enlist qualified environmental consultants who can be called upon to assist in conducting environmental reviews.



C. Screening Transaction

At the initial stage of evaluating a potential borrower, Branch Relationship Officer/ concerned official will screen the activities of the potential client to determine if it is an excluded activity. If the activity falls on the list of excluded activities, the loan proposal will not be considered. During the initial screening the Branch Relationship Officer will consider the Department of Environment (DoE) categorization as it gives Guidelines on Environmental & Social Risk Management (ESRM). DoE categorization is important to understand sectorial risk, but the officials are required to complete the ESDD to identify transaction specific risks.

D. Categorizing Transaction

To determine the extent of required E&S due diligence for a particular loan proposal, an E&S risk category are to be determined. This provides an initial assessment of the E&S risk associated with the lending. This E&S risk category is to be incorporated into the overall risk assessment of a lending. Decision on the proposal is to be made on the basis of overall risk assessment. This initial categorization is to be done by considering DoE categories of Green, Orange A, Orange B and Red (**For details see Annex-D**). A list of business categories is available in the Environment Conservation Rules (ECR), 1997. Officials can also assign financial intermediary as a risk category to those transactions involving clients such as banks, microfinance institutions, private equity funds, and leasing and insurance companies, which act as financial intermediaries in making financing available to other clients. By assigning the financial intermediary category, the environmental and social risks related to these types of transactions are to be managed accordingly.

An environmental and social risk categorization system enables the Bank to monitor and evaluate its exposure to environmental and social risk aggregated at the portfolio level. Bank will set internal threshold levels for overall exposure as a function of environmental and social risk category or by exposure to industry sector or transaction type as a function of environmental and social risk category. This allows the Bank to better manage and track changes in the overall risk profile of its portfolio and the associated environmental and social impacts of the clients/investees. This information is to be reported internally to Senior Management of the bank and externally to stakeholders on overall environmental and social performance.

E. Conducting ESDD

Conducting ESDD on lending is a critical component of the ESMS and its outcome is factor in the decision-making process of lending. The purpose of the E&S due diligence is to review any potential E&S risks associated with the business activities of a potential client to ensure overcoming E&S risks to Bank's exposures. The purpose of the E&S appraisal is to:

i. Identify and assess potential E&S impacts and issues, both adverse and beneficial, associated with a proposed investment project;
ii. Conduct a gap analysis to define areas of project noncompliance with the requirements of the national laws;
iii. Assess the commitment and capacity of the client to manage identified impacts and define remedial measures as needed;

iv. Assess the quality and adequacy of the client's E&S management systems and practices to avoid, minimize, or mitigate adverse impacts, and define remedial measures as needed;
v. Identify measures to avoid, minimize, mitigate, or offset/compensate for adverse impacts on workers, affected communities, and the environment;
vi. Design an Environmental and Social Action Plan (ESAP or Action Plan) addressing all deficiencies and non-compliances discerned during the appraisal containing specific tasks designed to close all significant gaps;
vii. Ensure that the investment contracts (e.g., loan documentation) include appropriate definitions, covenants, clauses and associated elements to obligate the client to comply with all E&S laws and regulations, the ESAP, and applicable sections of general and sector specific checklists; and stipulate progress and performance reporting obligations;
viii. Identify opportunities (e.g., clean production and energy efficiency) to improve E&S performance and
ix. Conceptualize specific reporting needs for the supervision phase to ensure clear understanding of client performance, behavior, and achievement of sustainability in operations.

E&S due diligence involves the systematic identification, quantification and assessment/evaluation of E&S risks associated with a proposed lending. This process also helps identify the mitigation measures that are necessary to reduce any E&S risks that are identified. The extent of the E&S due diligence and level of detail is based on the loan's E&S risk category and will vary by transaction type.

Concerned officials need to refer to the generic ESDD checklist for sectors where a sector specific ESDD checklist is not available. For sectors where a sector specific ESDD checklist is available, the concerned officials need to refer to the respective sector specific ESDD checklist only for carrying out the ESDD. The ESDD checklists (both generic and sector specific) will auto generate the E&S risk ratings- high, medium and low based on the responses provided to the questions in the checklist. The process of E&S due diligence, filling in the ESDD checklists can involve a simple desktop review or may require a site visit with the use of technical experts, if necessary, to understand potential E&S risks associated with business activities and review a client's compliance with the Bank's E&S requirements. Relevant documents will have to be collected to support E&S findings. The ESDD checklist has relevant guidance to assist in collecting proof points.

Below are typical steps for conducting ESDD.

- **Step1: Exclusion List:** Screening of the project against a list of excluded activities adopted by the financial institution;

- **Step 2: DoE Categorization:** Review of industry sector and environmental and social issues that are typically associated with this type of operation;
- **Step 3: ESDD:**
    - Review the project's compliance with applicable national environmental and social regulations;
    - Review the project sponsors' track record on environmental and social issues, in terms of potential non-compliance with national regulations or negative publicity;
    - Review the project's compliance against international standards or industry best practice regarding environmental and social issues; and
    - Documenting all required information. Every loan file should have a fully completed E&S checklist, copies of all permits, clearances (DoE clearance certificate, fire license, buyer's audit report), ESAP, E&S Covenants in loan agreement and after disbursement subsequent supervision reports.
- **Step 4: Generate Risk Rating:** Upon completion of the relevant checklist a risk rating (High, Medium, or Low) will be generated automatically.
- **Step 5: ESAP:** For High and Medium Risk transaction, a time bound action plan and relevant covenants will have to be included in the loan documentation.
- **Step 6: Escalation:** Depending upon the risk rating, the transaction will have to be escalated to the relevant authority. Please refer to the following escalation matrix for the process to be followed.

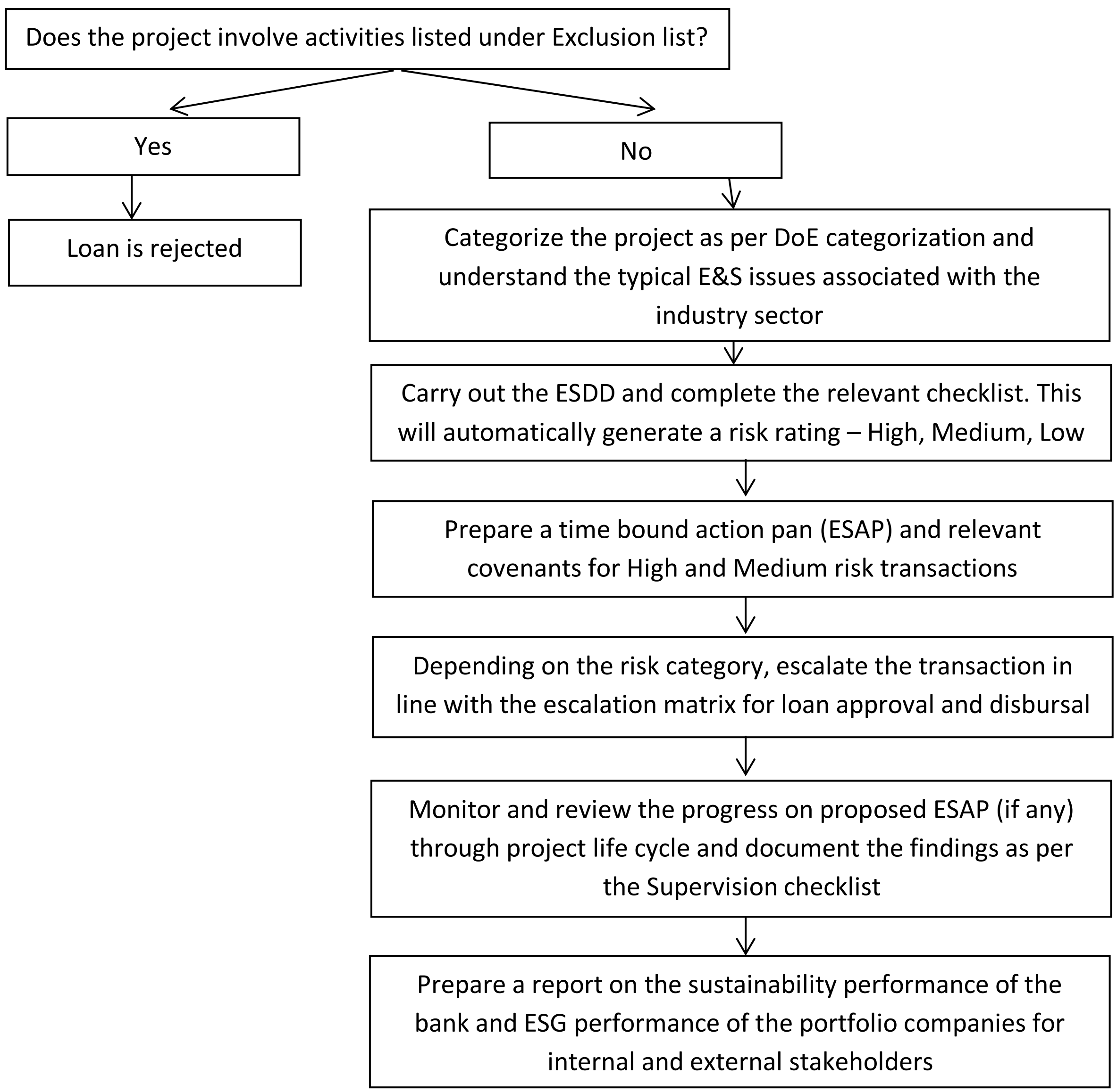
<table>
<tr><th>Risk Rating</th><th>Proposing Stage</th><th>Approval Stage</th><th>Disbursement Stage</th></tr>
<tr><td>Low</td><td colspan="3">ESDD Checklist is to be completed by Relationship Manager/ Officer, approved by Head of Branch/ Head of Region/ Head of Principal Office/ Head of Credit Division and / or other executives and processed as per normal credit process for both existing and new clients
If all (d -Not Applicable) are checked, state reasons why</td></tr>
<tr><td>Medium</td><td>Relationship Manager/ Officer & Head of Branch to sign off jointly for new or existing clients with proposals to:
PROCEED with ESDD submission (despite (b) being checked) but proper justification is to be provided</td><td>Escalation Process if Credit Official feels the transaction needs to be escalated:
Credit official will be the first point of review
If identified risk(s) is unresolved, proceed for review by Sustainable Finance Department and approval by Country/</td><td>If there are any conditions to be fulfilled as part of approval, Credit Risk Management Committee (CRMC)/ Credit Committee will check for the same before disbursing</td></tr>
</table>

		Head of Branch/ Head Region/ Head of Principal Office/ Head of Credit Division/ Senior Management/ Board 3. Credit approval can only be granted subsequent to resolution via above steps 4. Time-bound action plan to mitigate risks may form part of approval conditions	
High	Relationship Manager/ Officer & Head of Branch to sign off jointly for new or existing clients with proposals to: • REJECT (with reasons documented for record); or • PROCEED with ESDD submission (despite (c) being checked) but proper justification is to be provided	Escalation Process: 1. Credit official will be the first point of review 2. If identified risk(s) is unresolved, proceed for review by Country/ Head of Branch/ Head Region/ Head of Principal Office/ Head of Credit Division/ Senior Management/ Board 3. All high risk projects are to be escalated to Board with a recommendation from Head of Credit. 4. Credit approval can only be granted subsequent to resolution via above steps 5. Time-bound action plan to mitigate risks may form part of approval conditions	If there are any conditions to be fulfilled as part of approval, CRMC/ Credit Committee will check for the same before disbursing

- **Step 7: Monitoring:** Review of the proposed actions (if any) to mitigate potential environmental and social issues associated with the project throughout all phases of the project life cycle.

- **Step 8: Reporting:** Bank will have to report both internally to senior management and also externally to Bangladesh Bank, shareholders on their sustainability performance.

Concerned officials are to document all findings from the due diligence, which will be considered during the decision-making process before proceeding with a transaction. For transactions that have been categorized as high risk project finance, officials may take the services of an external expert/consultant to conduct the environmental and social due diligence. To do so effectively, concerned officials may communicate to the external expert/consultant the environmental and social requirements that clients/investees are required to comply with. Officials also need to ensure that the findings are reviewed and factored in to the decision-making process. The following flow chart summarizes the steps to be followed while conducting ESDD.



F. Decision making process

Once the ESDD is completed the checklist will auto generate a risk rating- High, Medium or Low.

- **High Risk:** Transactions typically involve clients with business activities with significant adverse E&S impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.
- **Medium Risk:** Transactions typically involve clients with business activities with specific E&S impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of High Risk transactions.
- **Low Risk:** Transactions typically involve clients with business activities with minimal or no adverse E&S impacts.

Approval Power

All the low risk transactions can be approved as per prevailing discretionary powers of executives (Head of Branch/ Head of Region/ Head of Principal Office or Executives of Head Office). All the medium risk transactions will be escalated to the next higher level of discretion for approval. All the high risk transactions will be escalated to the Board, after review by the MD/ CEO, for approval.

G. Corrective Action Plan and Covenants

For Medium and High Risk projects the concerned officials will identify risks which are to be mitigated. A corrective action plan may be developed identifying the risk, mitigation measure, timeline for implementation and who should be responsible for implementation. Transaction specific corrective action plan and covenants can be part of the legal loan documents. Different types of covenants are outlined as under:

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

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

In case of high risk of E&S, a corrective action plan will be inserted into the legal agreement for a proposed transaction.

The Legal Department will 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 fulfill 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, concerned officials will periodically monitor clients and, as necessary, require the preparation of a periodic E&S performance report for review by the Bank. The Bank will 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's official 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 official may be required to take legal action against the client to reduce its exposure to the E&S risks associated with the transaction.

  Concerned Officials will 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, concerned official will 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.

Concerned officials will 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.

Concerned officials 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 is to 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.

Annex-E (template) can be used for documenting the corrective action plan agreed with the client. The template also contains few examples for guidance.

H. 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. After approving a transaction, the Bank 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 risks 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 concerned official will chalk out the process for systematic monitoring on a periodic basis, such as by implementing procedures for verifying compliance with E&S requirements including implementation of any corrective action plans to resolve non-compliances. The frequency and extent of monitoring will depend on the complexity of

E&S issues associated with a client's operations. Monitoring may be monthly and / or quarterly basis depending upon the categories of risks.

The monitoring process generally involves a review of periodic E&S performance reports submitted by the client and regular site visits of the client's operations. Special attention will 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 the concerned officials identify E&S issues, such as a client's non-compliance with the E&S clauses stipulated in the legal agreement, they will 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, the officials are required 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 or monitoring by independent third parties and/or regulatory authorities. Officials will follow the monitoring checklist (**Annex-F**) for documenting their findings during the monitoring process.

I. 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 has financed
- Serious accidents, incidents including fatalities
- Worker unrest, riots, demonstration on the roads

As soon as the Relationship Officer knows about any such occurrence, the Relationship Officer and the Head of Branch will immediately inform Head of Region & Head of Credit Division/ Sustainable Finance Unit (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. Relationship Officer/ Head of Branch will revisit the business site for assessing the risk rating in light of the recent event.

J. Internal/External Communication

Branch will submit periodic report to Head Office through Regional Office/ Principal Office, on the E&S performance of transactions and measures taken to reduce its overall exposure to E&S risk. Corporate Branch will submit the report directly to Head Office

Concerned officials should compile all E&S findings from monitoring clients and aggregate findings at the portfolio level. Analyzing this information helps to have a better understanding of overall exposure to E&S risk through portfolio of the bank for further financing.

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

Bank will arrange internal and external reporting regarding the E&S risks and impacts associated with the portfolio.

7. Implementing ESMS

Our Bank is to implement ESMS for completing each task and the designated staff responsible for doing so. Bank will follow the E&S regulations of the country, testing phase, communications and training plan for officials, assigning responsibilities to applicable officials, review of international best practice that apply to clients and review of the ESMS on a periodic basis for continuous improvement.

When properly designed and implemented, the additional workload for staff and transaction costs associated with the ESMS are limited, especially when E&S risk management procedures are fully integrated into the Bank's existing risk management framework.

Senior Management is to be informed the challenges, successes and other important issues associated with the implementation of the Bank's E&S Management System. The Sustainable Finance Unit of the bank in consultation with relevant business teams and credit related departments will take initiatives for implementation of ESMS. Bangladesh Bank also monitors sustainability related progress of the bank. Thus Bank need to implement required changes for a robust ESMS and report on progress every quarter to Bangladesh Bank.

ESMS will be implemented to assess the risks of all credit facilities/ loans (as per applicability) w.e.f. 01.01.2018 under the new guidelines. Concerned officials will held responsible as outlined at organizational structure.

8. Provision of Incentives and Disincentives

On the basis of the performance of the borrower(s) Bank may allow the following incentives & disincentives to the high ESRR borrower.

8.1 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	7. Issuance of appreciation letter and upload the name of project on bank's website 8. Reduction in interest rate 9. Higher debt-equity ratio for borrowers 10. Flexibility in loan conditions 11. Favourable loan to value ratio for borrowers
2	Disincentive(s) if change in ESRR is negative	12. Increase in interest rate 13. Lower debt-equity ratio for borrowers 14. Tougher loan covenants/conditions 15. Tougher loan to value ratio for borrowers

8.2 High ESRR at portfolio level

The purpose of these Guidelines is to encourage 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 the bank in total loan profile and actions taken by the Board for high ESRR transactions. Bangladesh Bank will consider the following options with respect to the performance of bank towards meeting the sanction target for high ESRR projects:

16. Impact in CAMELS rating;
17. Impact on liquidity and capital requirements;
18. Impact on credit growth;
19. Impact on profit distribution.

Annex-A: E&S Risks in Detail

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 (NOx), sulfur dioxide (SO2), 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 (NOx, SO2 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, NOx, SO2, 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 vapours 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 baghouse 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, hydrochlorofluoro carbons (HCFCs), hydrobromofluoro carbons (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_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF_6). 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_2)*: Sulfur dioxide (SO_2) 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.

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.
- *Wastewater 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 river banks.
- *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.

Wastes - A client's operations may generate, store, or handle any quantity of hazardous or non-hazardous 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 non-hazardous 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 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.

Labour 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 labour 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 labour 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 labour and forced labour*. 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 labour, 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 labour practices of its suppliers, especially in instances where low labour cost is a factor in the competitiveness of supplies, and ensure that this is not due to harmful labour practices.

Respecting international standards with regard to labour 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 labour 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 land 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.

Annex-B

Environmental and Social Due Diligence (ESDD) Risk Assessment Tool

Userguide for Environmental and Social Due Diligence (ESDD)

This E&S risk assessment tool contains 13 tabs - user guide; one Generic and 10 sector specific Environment and Social Due Diligence (ESDD) checklists; and glossary of terms.
The user guide provides guidance to Risk Managers (RMs) on how to use this auto generating risk assessment tool. The generic and sector specific checklists contain questions under three categories - General; Environment, Health & Safety; and Social. Based on the responses provided to these questions, the tool will generate a quantitative risk rating. A guidance note is provided for each of the questions to help the RMs in providing their responses. The technical terms used in the checklist (including guidance notes) are further defined and explained in the tab called "glossary of terms". For ease of reference, these terms are shown in italics. For further detailed explanation on all types of E&S risks please refer to Annexure 10.D of the Environmental and Social Risk Management (ESRM) Guidelines. The RMs are also advised to use the comments section in the checklist to provide their comments in accordance to the guidance notes instructions and wherever necessary.
Step 1 Exclusion List: Please consult the Exclusion list provided below for activities and services that the Bank/FI will not finance. If your client's business is not in the Exclusion list please proceed to fill in the generic ESDD checklist OR wherever applicable sector specific ESDD checklist.
Step 2 ESDD: Please note that the RO needs to fill in ESDD for transactions defined under section 4 "Applicability of the guideline" in the ESRM guideline. Choose responses from the drop down list. Based on the reponses provided, the tool will generate a risk rating (High, Medium & Low Risk) to determine the overall escalation catogery. Please refer to the chart below for the escalation matrix. Please use the correct ESDD in accordance with the industry your client is in. Please use an Industry-specific ESDD
Step 3 ESDD: Please choose an answer for each question from the drop-down list. The ESDD checklist will then automatically genrate the transaction's overall risk rating.

Answer Interpretation

(a) would normally mean that every criteria is met

(b) would mean that criteria has been mostly met and further action underway for rest

(c) would mean that some of the criteria has not been met and no concrete action identified

(d) would mean “not applicable”

Annex-B

Environmental and Social Risk Assessment - Generic Checklist	

Basic Information	
Date	
Name of Client/Account	
Transaction ID	
Location	
Industry / Sector	
Product Manufactured / Traded	
Core Market	
Name of Relationship Official	
Business line (Sub-sector)	
DOE Categorisation (Red, Orange A, Orange B, Green)	
Transaction Type as Table 1 of Guidelines	

Please ensure that there is a record of relevant documents and references in order to support all responses. In the absence of documentary evidence, the RM needs to obtain verbal confirmation from the customer and insert information to the best of his knowledge.

S.NO.	Question	Answer		Comments
General Risks				
1.1	Are there any legal issues associated with the client's E&S performance?	**a)** Client has all valid permits AND has not faced any legal claims or any serious environmental/social incident in last three years **b)** Client does not have all valid permits but has taken definite steps to acquire them in next six months AND/OR client has faced legal claims but has addressed or has definite plan to address all of them **c)** Client does not have all valid permits and has not taken any definite step to acquire them AND/OR client has faced legal claims and has no definite plan to address them **d)** Not applicable	**Option (d)**	

1.2	Have operations ever been affected by local stakeholder grievances, media or non-governmental organization (NGO) campaigns over E&S issues?	**a)** There is no evidence of stakeholder grievances, negative media or NGO protest **b)** There is evidence of stakeholder grievances, negative media or NGO protest for a particular operation AND client has taken adequate steps to address the issue **c)** There is evidence of stakeholder grievances, negative media or NGO protest and client has not taken any step to address the issue **d)** Not applicable	**Option (d)**	
1.3	Is project site and/or its routing likely to have impacts on ecological sensitivity present on project site and/or within an area of 5 km radius surrounding project site)?	**a)** No eco-sensitive areas observed **b)** There are a few eco-sensitive areas AND the client has taken adequate measures to mitigate the impact of their operation on the eco-sensitive areas as per regulations **c)** There are eco-sensitive areas observed and mitigation measures are not adequate as per regulations and the client may face legal challenge in future **d)** Not applicable	**Option (d)**	
1.4	Does the client have robust/ adequate Environmental and Social Management system (ESMS)?	**a)** Client has robust ESMS, resources both people and budget to implement. **b)** Client does not have robust ESMS yet, however definite steps have been taken to ensure one. **c)** Client does not have any ESMS, neither are there any plans of setting up one. Different ad-hoc activities are carried out to manage E&S issues. **d)** Not applicable	**Option (d)**	
Environmental Health and Safety Risks				

Annex-B

2.1	Is there any evidence of air and noise pollution due to client's operation?	**a)** There is no evidence of air /noise pollution and/or all mitigation measures and monitoring systems are in place **b)** There is evidence of air/ noise emission AND partial mitigation measure, monitoring system is in place AND client is addressing or has a definite plan to address the remaining issues **c)** There is evidence of air emission/noise AND there is no mitigation measure/monitoring system in place AND client has no definite plan to address the issues **d)** Not applicable	**Option (d)**	
2.2	Is there any evidence of water pollution due to client's operation?	**a)** There is no evidence of water pollution and /or all mitigation measures and monitoring systems are in place **b)** There is evidence of water pollution AND partial mitigation measure, monitoring system is in place AND client is addressing or has a definite plan to address the remaining issues **c)** There is evidence of water pollution AND there is no mitigation measure/monitoring system in place AND client has no definite plan to address the issues **d)** Not applicable	**Option (d)**	
2.3	Is there any evidence of land pollution and lack of *waste* handling mechanism in the project operation?	**a)** There is no evidence of land contamination OR all mitigation measures and monitoring systems are in place **b)** There is evidence of land contamination AND partial mitigation measure, monitoring system is in place AND client is addressing or has a definite plan to address the remaining issues **c)** There is evidence of land contamination AND there is no mitigation measure/monitoring system in place AND client has no definite plan to address the issues **d)** Not applicable	**Option (d)**	

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2.4	Are there any Climate Change related risks (flood, drought, cyclone etc.) and opportunities (***GHG*** emission reduction) associated with the client's operation?	**a)** Client has a robust disaster management plan to combat climatic risks AND client has procedures in place to measure, disclose, set targets and mitigate its GHG emissions **b)** Client has a disaster management plan but it is not robust AND there is evidence that client has intention to measure, disclose, set targets and mitigate its GHG emissions in near future **c)** No disaster management plan AND no definite plan to measure, disclose, set targets and mitigate its GHG emissions in future **d)** Not applicable	**Option (d)**	
Social Risks				
3.1	Is there any evidence of occupational health & safety (OHS) risk?	**a)** The client does not have any OHS concern or have mitigated them adequately **b)** The client has some OHS concern but has taken definite steps to correct them **c)** The client has OHS concern in its operation and have no plans of correcting them **d)** Not Applicable	**Option (d)**	

3.2	Are the labor and working conditions poor and breaching local regulations / standards?	**a)** There is proper working condition and labor practice AND there is no evidence of poor working condition or labor practice for which client may face legal challenge or labor unrest or negative media coverage or protest from activist **b)** There are a few evidences of poor working conditions BUT no significantly poor labor practice such as child/forced labor is present AND the client has a definite plan to improve the working condition to ensure there is no legal challenge or labor unrest or negative media coverage or protest from activist in future **c)** Working condition is very poor AND/OR there is presence of significantly poor labor practice such as child labor/forced labor AND client is not addressing/has no definite plan to address the issues **d)** Not applicable	**Option (d)**	
3.3	Does the project pose a threat to Community Health, Safety and Security?	**a)** Presence of a robust plan for community health & safety which is developed in consultation with the local community AND there is no evidence of issues that may create nuisance/accidents/injuries to local community in future **b)** There is a plan for community health & safety but it is not robust or it is not developed in consultation with the community AND/OR there are a few evidences of issues that may create nuisance/accidents/injuries to local community AND the client intends to address the gaps **c)** Absence of a community health & safety plan AND/OR there is evidence of significant issues that can create nuisance/accidents/injuries to local community AND client has no definite plan to address the gaps **d)** Not applicable	**Option (d)**	

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3.4	Is there any evidence of community consultation with key stakeholders including indigenous people?	**a)** There is evidence that the client consults /engages with the stakeholders including local community, indigenous people on all relevant issues (such as rehabilitation, compensation, their expectations as the case may be) **b)** There is limited /inadequate consultations with the stakeholders **c)** No consultations with the stakeholders **d)** Not applicable	**Option (d)**	

Risk Rating of the Project	**Low Risk**

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Glossary

Below are the definitions provided by the ***International Labour Organization (ILO)*** for some of the key terms with regard to labor practices, used in this check list:

Child labor	Minimum Age Convention, 1973 sets the general minimum age for admission to employment or work at 15 years (13 for light work) and the minimum age for hazardous work at 18 (16 under certain strict conditions). It provides for the possibility of initially setting the general minimum age at 14 (12 for light work) where the economy and educational facilities are insufficiently developed.
Forced labor	Forced labor is defined as "all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily."
Minimum Wage	Bangladesh has national minimum wage and industry specific minimum wages. Minimum wage rates are declared by the Government on an industry basis following recommendations by the Wages Board. The national minimum wage is 1500 Bangladeshi Taka (BDT) per month. Ready Made Garment industry, for example, has a minimum wage of 5300 BDT per month.
Discrimination	Discrimination can be defined as any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation.

Brief defibnition of few other terms are given below:

GHG	As per IPCC, Greenhouse Gases (GHGs) are those gaseous constituents of the atmosphere that absorb and emit radiation at specific wavelengths within the spectrum of infrared radiation. This process is the fundamental cause of the greenhouse effect. There are six principal GHGs (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulphur hexafluoride)
CITES	CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora) is an international agreement between governments. Its aim is to ensure that international trade in specimens of wild animals and plants does not threaten their survival.
Unbonded asbestos	Unbonded asbestos is where the raw mineral is used as lagging or insulation – in this form it is friable and easily gives off dust. Friable describe any asbestos-containing material that when dry, can be easily crumbled or pulverized to powder by hand.
Grievance mechanism	A grievance mechanism is a formal complaint process that can be used by individuals, workers, communities and/or civil society organisations that are being negatively affected by certain business activities and operations.
ISO 14001	The ISO 14001 Environment Management System (EMS) standard is an internationally recognised environmental management standard. It is a systematic framework to manage the immediate and long term environmental impacts of an organisation's products, services and processes.

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SA 8000	SA8000 is an auditable social certification standard for decent workplaces that encourages organizations to develop, maintain, and apply socially acceptable practices in the workplace.
OHSAS	Occupational Health and Safety Management Systems (OHSAS 18001) is an internationally applied British Standard for occupational health and safety management systems. It provides a framework for organisations to instigate proper and effective management of health & safety in the workplace.
ILO	The International Labour Organization (ILO) is a United Nations agency dealing with labour issues, particularly international labour standards, social protection, and work opportunities for all. It sets labour standards, develops policies and devises programmes promoting decent work for all women and men.
UNESCO World Heritage site	A World Heritage Site is a place (such as a building, city, complex, desert, forest, island, lake, monument, or mountain) that is listed by the United Nations Educational, Scientific and Cultural Organization (UNESCO) as being of special cultural or physical significance.

Annex-C: 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	National Environmental Policy, 1992; Environment Pollution Control Ordinance, 1977; Environmental Quality Standards for Bangladesh, 1991; National Environment Management Action Plan (NEMAP), 1995; Environment Conservation Act, 1995 and amended in 2002; Environment Conservation Rules, 1997 and amended in 2003; EIA Guidelines For Industry, 1997	
Management of labour related issues such as recruitment, wages, occupational health and safety and others	Labour Policy 2012; Bangladesh Labour Act, 2006 Labour Welfare Foundation law 2006; Bangladesh Labour (Amended) Law, 2013; Labour Relations under Labour Laws, 1996; National Child Labour Elimination Policy, 2010; Bangladesh Factory Act, 1965; Bangladesh Factory Rules, 1979; OSH Policy, 2011; The Employees State Insurance Act, 1948; The Employer's Liability Act, 1938; Maternity Benefit Act, 1950; Workmen's Compensation Act, 1923; The Employment of Children Act, 1938; Bangladesh Industrial Act 1974	
Resource efficiency and pollution prevention	The Environment Pollution Control Ordinance, 1977 National 3-R Strategy, 2010 (3R: Reduce, Reuse and Recycle) Ship-Breaking and Hazardous	International Convention on Climate Change (Kyoto Protocol), 1997 UN Framework Convention on Climate

Key E&S Areas	Relevant local regulation	Relevant international treaties and conventions for which Bangladesh is a signatory
	Waste Management Rules, 2010 Biomedical Waste Management Rules, 2008 Draft National Solid Waste Management Rules, 2010 Draft National River Conservation Act, 2011	Change (New York), 1992 International Convention on Civil Liability for Oil Pollution Damage (Brussels), 1969 Convention on Oil Pollution (London), 1990 UN Convention on the Law of the Sea (Montague Bay), 1982
Community health, safety and security	Disaster Management Act, 2012 Public Health Emergency Provisions Ordinance, 1994 Biomedical Waste Management Rules, 2008 Climate Change Act, 2010 Draft National Solid Waste Management Rules, 2010 National Plan for Disaster Management 2010-2015 Sound Pollution Law, 2006 Ship Breaking and Hazardous Waste Management Rules, 2010 Water Supply and Sewerage Authority Ordinance, 1963 Noise Control Rules National Health Policy, 2011	International Convention on Climate Change (Kyoto Protocol), 1997 UN Framework Convention on Climate Change (New York), 1992 International Convention on Civil Liability for Oil Pollution Damage (Brussels), 1969 Civil Liability on Transport of Dangerous Goods (Geneva), 1989
Land acquisition and involuntary resettlement	National Land Use Policy The Land Acquisition Act, 1894 The Acquisition and Requisition of Immovable Property Ordinance, 1982	
Biodiversity conservation and sustainable management of living natural resources	National Biodiversity Strategy and Action Plan (2004); Bangladesh Wildlife Conservation and Security Act, 2012; Bangladesh Wildlife (Preservation) Act, 2012; Bangladesh Wildlife (Preservation) Act, 1974; Bio Safety Rules, 2012; Forest (Amendment) Act, 2012; Forest Policy, 1994; Social Forestry Rules, 2004; National Forest Policy and Forest Sector Review (1994,2005); Draft Tree Conservation Act, 2012; The Private Forests Ordinance Act, 1959; Forest Transit Rule, 2011; Climate	Protocol on Biological Safety (Cartagena Protocol), 2000; UN Framework Convention on Climate Change (New York), 1992; International Plant Protection Convention (Rome), 1951; International Convention on Climate Change (Kyoto Protocol), 1997; Convention Relative to the Preservation of Fauna and Flora in Their Natural State (London), 1933;

	Change Act, 2010; Deer Rearing Policy, 2009; The Protection and Conservation of Fish Act, 1950; National Conservation Strategy, 1992; Private Fisheries Protection Act, 1889; Marine Fisheries Ordinance 1983; Revised National Conservation Act, 2010	International Convention for the Protection of Birds (Paris), 1950; Convention on Wetlands of International Importance Especially as Waterfowl (Ramsar), 1971; Convention on the Conservation of Migratory Species of Wild Animals (Bonn), 1979; Convention on Biological Diversity (Rio de Janeiro),1992; Convention on International Trade in Endangered Species of Wild Fauna and Flora; UN Convention on The Law of The Sea (Montague Bay), 1982
Indigenous Peoples	Social Forestry Rules, 2004; The Acquisition and Requisition of Immovable Property Ordinance 1982; The Land Acquisition Act, 1894	
Cultural Heritage	The Antiquities Act, 1968	World Cultural and Natural Heritage (Paris), 1972

Annex-D: Classification of industrial units or projects based on its location and impact on environment.

(A) GREEN Category

1. Assembling and manufacturing of TV, Radio, etc.
2. Assembling and manufacturing of clocks and watches.
3. Assembling of telephones.
4. Assembling and manufacturing of toys (plastic made items excluded).
5. Book-binding.
6. Rope and mats (made of cotton, jute and artificial fibers).
7. Photography (movie and x-ray excluded).
8. Production of artificial leather goods.
9. Assembling of motorcycles, bicycles and toy cycles.
10. Assembling of scientific and mathematical instruments (excluding manufacturing).
11. Musical instruments.
12. Sports goods (excluding plastic made items).
13. Tea packaging (excluding processing).
14. Re-packing of milk powder (excluding production).
15. Bamboo and cane goods.
16. Artificial flower (excluding plastic made items).
17. Pen and ball-pen.
18. Gold ornaments (excluding production) (shops only).
19. Candle.
20. Medical and surgical instrument (excluding production).
21. Factory for production of cork items (excluding metalic items).
22. Laundry (excluding washing).

Foot Notes:

(a) Units of all kinds of cottage industries other than those listed in this Schedule shall remain outside the purview of Environmental Clearance Certificate (Unit of cottage industry means all industrial units producing goods or services in which by full-time or part-time labour of family members are engaged and the capital investment of which does not exceed Taka 5 (five) hundred thousand).

(b) No industrial unit listed in this Schedule shall be located in any residential area.

(c) Industrial units shall preferably be located in areas declared as industrial zones or in areas where there is concentration of industries or in vacant areas.

(d) Industrial units likely to produce sound, smoke, odor beyond permissible limit shall not be acceptable in commercial areas.

(B) ORANGE-A Category

1. Dairy Farm, 10 (ten) cattle heads or below in urban areas and 25 cattle heads or below in rural areas.
2. Poultry (up to 250 in urban areas and up to 1000 in rural areas).
3. Grinding/husking of wheat, rice, turmeric, pepper, pulses (up to 20 Horse Power).
4. Weaving and handloom.
5. Production of shoes and leather goods (capital up to 5 hundred thousand Taka).
6. Saw mill/wood sawing.
7. Furniture of wood/iron, aluminum, etc.,(capital up to 5 hundred thousand Taka).
8. Printing Press.
9. Plastic & rubber goods (excluding PVC).
10. Restaurant.
11. Cartoon/box manufacturing/printing packaging.
12. Cinema Hall.
13. Dry-cleaning.
14. Production of artificial leather goods (capital up to 5 hundred thousand Taka).
15. Sports goods.
16. Production of salt (capital up to 10 hundred thousand Taka).
17. Agricultural machinery and equipment.
18. Industrial machinery and equipment.

19. Production of gold ornaments.
20. Pin, U Pin.
21. Frames of spectacles.
22. Comb.
23. Production of utensils and souvenirs of brass and bronze.
24. Factory for production of biscuit and bread (capital up to 5 hundred thousand Taka).
25. Factory for production of chocolate and lozenge. (capital up to 5 hundred thousand Taka).
26. Manufacturing of wooden water vessels.

(C) ORANGE-B Category

1. PVC items.
2. Artificial fiber (raw material).
3. Glass factory.
4. Life saving drug (applicable to formulation only).
5. Edible oil.
6. Tar.
7. Jute mill.
8. Hotel, multi-storied commercial & apartment building.
9. Casting.
10. Aluminum products.
11. Glue (excluding animal glue).
12. Bricks/tiles.
13. Lime.
14. Plastic products.
15. Processing and bottling of drinking water and carbonated drinks.
16. Galvanizing.
17. Perfumes, cosmetics.
18. Flour (large).
19. Carbon rod.
20. Stone grinding, cutting, polishing.

21. Processing fish, meat, food.
22. Printing and writing ink.
23. Animal feed.
24. Ice-cream.
25. Clinic and pathological lab.
26. Utensils made of clay and china clay/sanitary wares (ceramics).
27. Processing of prawns & shrimps.
28. Water purification plant.
29. Metal utensils/spoons etc.
30. Sodium silicate.
31. Matches.
32. Starch and glucose.
33. Animal feed.
34. Automatic rice mill.
35. Assembling of motor vehicles.
36. Manufacturing of wooden vessel.
37. Photography (activities related to production of films for movie and x-ray).
38. Tea processing.
39. Production of powder milk/condensed milk/dairy.
40. Re-rolling.
41. Wood treatment.
42. Soap.
43. Repairing of refrigerators.
44. Repairing of metal vessel.
45. Engineering works (up to 10 hundred thousand Taka capital.)
46. Spinning mill.
47. Electric cable.
48. Cold storage.
49. Tire re-treading.
50. Motor vehicles repairing works (up to 10 hundred thousand Taka capital).

51. Cattle farm: above 10 (ten) numbers in urban area, and above 25 (twenty five) numbers in rural area.
52. Poultry: Number of birds above 250 (two hundred fifty) in urban area and above 1000 (one thousand) in rural area.
53. Grinding/husking wheat, rice, turmeric, chilly, pulses – machine above 20 Horse Power.
54. Production of shoes and leather goods, above 5(five) hundred thousand Taka capital.
55. Furniture of wood/iron, aluminum, etc., above 5(five) hundred thousand Taka capital.
56. Production of artificial leather goods, above 5(five) hundred thousand Taka capital.
57. Salt production, above 10(ten) hundred thousand Taka capital.
58. Biscuit and bread factory, above 5 (five) hundred thousand Taka capital.
59. Factory for production of chocolate and lozenge, above 5(five) hundred thousand Taka capital.
60. Garments and sweater production.
61. Fabric washing.
62. Power loom.
63. Construction, re-construction and extension of road (feeder road, local road).
64. Construction, re-construction and extension of bridge (length below 100 meters).
65. Public toilet.
66. Ship-breaking.
67. G.I. Wire.
68. Assembling batteries.
69. Dairy and food.

Foot Notes:

(a) No industrial unit included in this list shall be located in any residential area.

(b) Industrial units shall preferably be located in areas declared as industrial zones or in areas where there is concentration of industries or in vacant areas.

(c) Industrial units likely to produce sound, smoke, odor beyond permissible limit shall not be acceptable in commercial areas.

(D) RED Category

1. Tannery.
2. Formaldehyde.
3. Urea fertilizer.
4. T.S.P. Fertilizer.
5. Chemical dyes, polish, varnish, enamel.
6. Power plant.
7. All mining projects (coal, limestone, hard rock, natural gas, mineral oil, etc.)
8. Cement.
9. Fuel oil refinery.
10. Artificial rubber.
11. Paper and pulp.
12. Sugar.
13. Distillery.
14. Fabric dying and chemical processing.
15. Caustic soda, potash.
16. Other alkalis.
17. Production of iron and steel.
18. Raw materials of medicines and basic drugs.
19. Electroplating.
20. Photo films, photo papers and photo chemicals.
21. Various products made from petroleum and coal.
22. Explosives.
23. Acids and their salts (organic or inorganic).
24. Nitrogen compounds (Cyanide, Cyanamid etc.).
25. Production of plastic raw materials (PVC, PP/Iron, Polyesterin etc.)
26. Asbestos.
27. Fiberglass.

28. Pesticides, fungicides and herbicides.
29. Phosphorus and its compounds/derivatives.
30. Chlorine, fluorine, bromine, iodine and their compounds/derivatives.
31. Industry (excluding nitrogen, oxygen and carbon dioxide).
32. Waste incinerator.
33. Other chemicals.
34. Ordnance.
35. Nuclear power.
36. Wine.
37. Non-metallic chemicals not listed elsewhere.
38. Non-metals not listed elsewhere.
39. Industrial estate.
40. Basic industrial chemicals.
41. Non-iron basic metals.
42. Detergent.
43. Land-filling by industrial, household and commercial wastes.
44. Sewage treatment plant.
45. Life saving drugs.
46. Animal glue.
47. Rodenticide.
48. Refractories.
49. Industrial gas (Oxygen, Nitrogen & Carbon-dioxide).
50. Battery.
51. Hospital.
52. Ship manufacturing.
53. Tobacco (processing/cigarette/Biri-making).
54. Metallic boat manufacturing.
55. Wooden boat manufacturing.
56. Refrigerator/air-conditioner/air-cooler manufacturing.
57. Tyre and tube.
58. Board mills.

59. Carpets.
60. Engineering works: capital above 10 (ten) hundred thousand Taka.
61. Repairing of motor vehicles: capital above 10 (ten) hundred thousand Taka.
62. Water treatment plant.
63. Sewerage pipe line laying/relaying/extension.
64. Water, power and gas distribution line laying/relaying/extension.
65. Exploration/extraction/distribution of mineral resources.
66. Construction/reconstruction/expansion of flood control embankment, polder, dike, etc.
67. Construction/reconstruction/expansion of road (regional, national & international).
68. Construction/reconstruction/expansion of bridge (length 100 meter and above).
69. Murate of Potash (manufacturing).

Foot Notes:

(a) No industrial unit included in this list shall be allowed to be located in any residential area.

(b) Industrial units shall preferably be located in areas declared as industrial zones or in areas where there is concentration of industries or in vacant areas.

(c) Industrial units likely to produce sound, smoke, odor beyond permissible limit shall not be acceptable in commercial areas.

(d) After obtaining location clearance on the basis of Initial Environment Examination (IEE) Report, the Environmental Impact Assessment (EIA) Report in accordance with the approved terms of reference along with design of ETP and its time schedule shall be submitted within approved time limit.

Annex-E: 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 of due to discharge untreated effluent	Action plan may include: Removal and treatment of contaminated ground soil. Construction of sewage system for industrial wastewater. Construction of wastewater treatment facility and discharge system for treated water	6 months	Installation of Effluent Treatment Plant (ETP). The ETP should be operational and the qualitative parameters of treated effluent should be within limits The discharge of treated effluent should be through the constructed discharge system and no other modes of discharge and leakages. Qualitative parameters of treated contaminated ground soil should be within limits	Board	
Absence of grievance redressal mechanism	Establish a grievance redressal mechanism	3 months	Well established grievance redressal 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 oftrees, crops, perennials	Compensating for standing crops and trees	1 year	Plantation of trees	Management	

Annex-F: Monitoring Checklist

Sl. No.	Question /Issues to check	Response
Project Summary Information		
1	Reporting period covered by this supervision 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.	
General Information		
4	Status of implementation of covenants/corrective action plan. Is it in line with the agreed timeframe? (i.e., if all covenants are implemented or partially implemented or not implemented or delayed implementation). If partially implemented or not implemented or delayed implementation, RO to please mention the reason in the response column along with a timeline for completion of implementation as committed by the client during supervision	
EHS Management		
5	If there was any incidence of accidents, spills, leakages, explosion etc. during the reporting period. 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?	
6	If there were any recent fines or penalties issued by the regulatory body. If yes, RO 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.	
7	If there was any health & safety incident. If yes, what was the extent of injury – minor, major or fatal? What was the action taken in response to the incident?	
8	If there are any new E&S risks or adverse impacts observed due to client's operation. Relationship Officer/ Manager to please mention the types of new E&S risks, the reason for such new E&S risks, mitigation measures undertaken by the client to address the E&S risks.	
Permits and Compliance Certificates		
9	All the required permits, licenses and clearances in place. Relationship Officer/ Manager to please mention the issuance dates and duration of validity of all such permits, licenses and clearances.	

Sl. No.	Question /Issues to check	Response
10	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?	
Grievance Redressal		
11	If there have been any recent complaints, grievance or protest received from local communities. If yes, Relationship Officer/ Manager to please specify the nature of grievances; actions taken and measures proposed by the client to resolve them.	
12	If there were concerns raised during the stakeholder consultations carried out by the client during the reporting period. If yes, what was the approach undertaken by the client to address those concerns?	
Other Information		
13	Any other information pertaining to environmental matters, management approach, community, media or NGO coverage that need to be mentioned. If there are any environment friendly initiatives, energy saving equipment etc. that might be relevant for the Bank.	