

Abridged Environmental & Social Risk Management (ESRM) guideline

Introduction

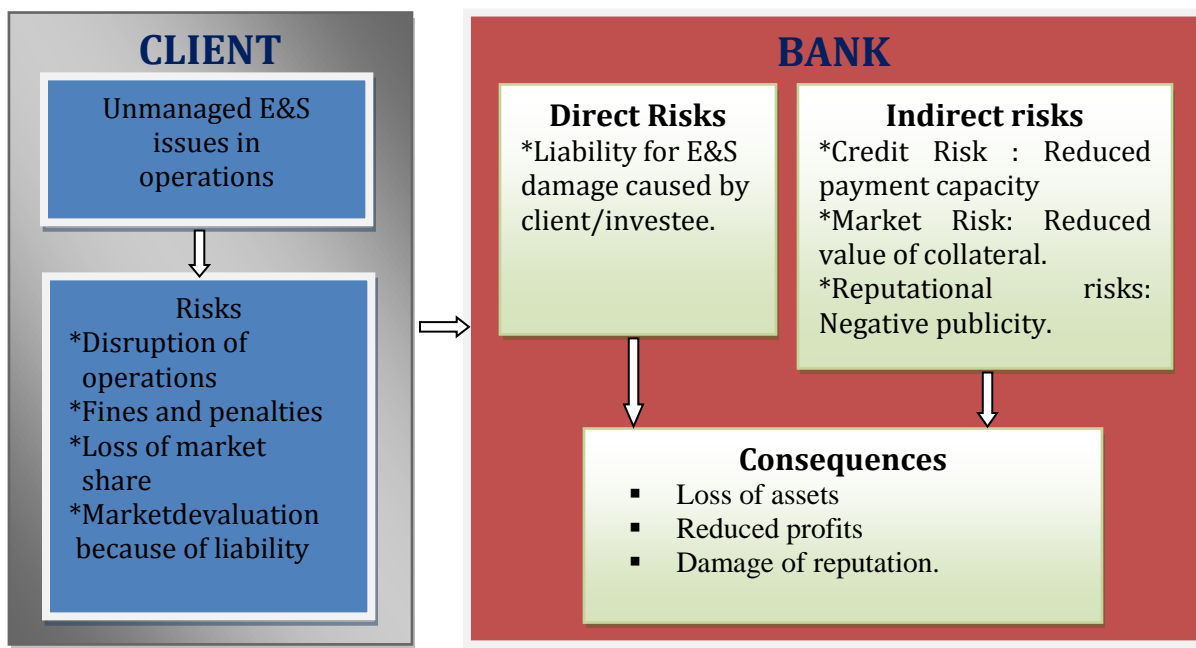
Prime Bank Limited is committed to ensure that its clients are fulfilling their environmental and social responsibilities. Therefore, the bank has developed a policy and procedure manual for managing environmental and social risks in its lending operation as stipulated by Bangladesh Bank.

Purpose

The purpose of the environmental and social due diligence is to review any potential environmental and social risks associated with the business activities of potential borrowers. It minimises the Bank's exposure to environmentally or socially derived financial, reputational, legal & credit risks, liabilities associated with its lending, and also helps to identify the opportunities to support eco-friendly, environmentally and socially sustainable and responsible business activities.

Associated E&S Risk in Credit Management

The following schematic will give a clear idea about the risks associated with E&S issues.



Prime Bank's Exclusion List

Prime Bank Limited will not finance any activity, production, use of, trade in, distribution of or any other areas involving:

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; <http://www.greenpeace.org/international/en/campaigns/oceans/pirate-fishing/Blacklist1/>
 - 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. Destruction of High Conservation Value areas including impacting UNESCO World Heritage Site and/or Ramsar site: Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

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
 - i. Forced Labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions and/or local legislations;
 - ii. To address the issue of Child Labour, persons may only be employees if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply;
7. In the event that any of the following products form a substantial part of a company's primary operations, or a financial institution, investment fund or company's financed business activities:
 - i. Alcoholic beverages (excluding beer and wine)
 - ii. Weapons and munitions
 - iii. Tobacco
 - iv. Gambling, casinos
 - v. 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.
9. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
10. Racist and anti-democratic media
11. Radioactive materials but will not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.
12. Unbounded asbestos fibers, but does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

Applicability of the ESRM guideline:

The loan categories for which the ESRM Manual is applicable are agriculture, retail, trade, microfinance, SME, corporate finance and project finance. All loan proposals (New/Renewal/Enhancement/ Rescheduling/Restructuring) for the above applicable sectors will have to be first screened against the Exclusion List.

- **Agriculture:** In the agriculture sector, if a loan application (New/Renewal/Enhancement/Rescheduling/Restructuring) involves farming/crop production activities, poultry and dairy, then in addition to exclusion list, it is to be checked using the generic ESDD checklist, if there is any environmentally or socially adverse agricultural practices involved such as use of pesticides, agro-chemicals leading to top soil depletion, ground water contamination; use of nitrogenous fertilizers instead of organic fertilizers leading to nitrous oxide emissions etc. Agribusiness involving sorting, packaging, distribution and sales will not require completing ESDD checklist.
- **SME:** In the small enterprise category sector, if the following activities are involved, then a loan application (New/Renewal/Enhancement/ Rescheduling/Restructuring) will be subject to due diligence using generic ESDD checklist, in addition to exclusion list, irrespective of loan amount. For other loans (not in the below list) When the loan amount worth above BDT 1.00 million (BDT 10.00 Lac), then the loan application (New/Renewal/Enhancement/ Rescheduling/Restructuring) will be subject to due diligence using generic ESDD checklist, in addition to exclusion list.
 - 1) Washing, dyeing and finishing units of RMG sector (water, chemical pollution)
 - 2) Small steel re-rolling mills (operational health and safety, thermal, air pollution)
 - 3) Brick kilns (air pollution, child labor, burning of fossil fuel)
 - 4) Units for tanning, dressing and dyeing of leather and fur (water, chemical, air pollution)
 - 5) Pesticides, agrochemical and nitrogen manufacturing units (land contamination,

water, air pollution)

- 6) Chemicals and chemical products manufacturing units (safety, pollution)
- 7) Rubber and plastic products manufacturing units (pollution)
- 8) Batteries and accumulators manufacturing units (chemical pollution)

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

- **Trade with Hazardous Chemicals and Substances:** If trading activity also includes transportation and temporary storage of hazardous chemical and substances, all loan applications for such trading (New/Renewal/Enhancement /Rescheduling/Restructuring) will be subject to due diligence using generic ESDD checklist.
- **Corporate Finance:** All loan applications (New/Renewal/Enhancement /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.
- **Retail, Microfinance and Trade with Regular Goods:** For retail, trade with regular (non-hazardous) goods and microfinance only the exclusion list will have to be consulted. Any transaction in the Exclusion List will have to be terminated.
- **Project Finance:** For all Project Finance transactions, apart from Exclusion List and Generic or sector specific checklist, a third party Environmental and Social Impact Assessment (ESIA) will have to be conducted. ESIA will generally be arranged by the client at his/her/its own cost and submitted along with loan application. Bank will ensure that the third party will be qualified by the criteria set by Bangladesh Bank in this purpose.

Sl	Transaction Type	Exclusion List	ESDD checklist	Third party ESIA
1	Agriculture activities involving farming, crop production	√	√	
2	Other agricultural activities	√		
3	Retail, Trade with regular goods, Microfinance	√		
4	Small sector falling in one of the categories listed above from 1 to 8	√	√	
5	Small sector NOT falling in one of the categories listed above from 1 to 8	√		
6	Trade with hazardous substances	√	√	
7	Medium sector	√	√	
8	Corporate Finance	√	√	
9	Project Finance	√	√	√

Table: Applicability of ESRM Guideline by Transaction Type

Environmental and Social Management System (ESMS):

An E&S Management System is a set of policies, procedures, tools and internal capacity to identify, monitor and manage a Bank's exposure to the E&S risks of its clients. An E&S Management System states a Bank's commitment to E&S management, explains its procedures for identifying, assessing and managing E&S risk of financial transactions, defines the decision-making process, describes the roles, responsibilities and capacity needs of staff in doing so and states the documentation and recordkeeping requirements. It also provides guidance on how to screen transactions, categorize transactions based on their E&S risk, conduct E&S due diligence and monitor the client's E&S performance. The ESMS includes the Bank's environmental and social policy and designated roles and responsibilities of its staff. We shall have a clear picture about ESMS from the following schematic:

Components of ESMS

