



Extended Annual Review Report

Project Number: 49074-001
Loan Number: 3278
December 2020

BRAC Bank Sustainable Projects (Bangladesh)

This is an abbreviated version of the document, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit		–	taka (Tk)
At Appraisal		At Project Review	
14 August 2015		20 August 2020	
Tk1.00	–	\$0.01286	\$0.01179
\$1.00	–	Tk77.775	Tk84.814

ABBREVIATIONS

ADB	–	Asian Development Bank
CAGR	–	compounded annual growth rate
CAP	–	corrective action plan
COVID-19	–	coronavirus disease
E&S	–	environmental and social
ESMS	–	environmental and social management system
ETP	–	effluent treatment plan
FMO	–	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV (Netherlands Development Finance Company)
FY	–	fiscal year
GAP	–	gender action plan
IFC	–	International Finance Corporation
IFI	–	international finance institution
ILO	–	International Labour Organization
LIBOR	–	London interbank offered rate
NPL	–	nonperforming loan
RMG	–	ready-made garment
SMEs	–	small and medium-sized enterprises

NOTES

- (i) The fiscal year (FY) of BRAC Bank ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 30 June 2019.
- (ii) In this report, “\$” refers to United States dollars.

Vice-President	Ashok Lavasa, Private Sector Operations and Public–Private Partnerships
Director General Director	Michael Barrow, Private Sector Operations Department (PSOD) Maria Eufemia V. Apilado, Portfolio Management Division (PSPM), PSOD
Team Head PSPM-FI	Emaad Siddiqui, Principal Investment Specialist, PSPM, PSOD
Team leader Team members	Doukas Doukidis, Senior Investment Specialist, PSPM, PSOD Mohit Bahl, Associate Investment Officer, PSPM, PSOD Agatha Diaz, Associate Social Development Officer, PSTS, PSOD Melissa Manguiat, Safeguards Specialist, PSTS, PSOD Ozden Onturk, Young Professional, PSPM, PSOD Amanda Satterly, Senior Social Development Specialist (Gender), Private Sector Transaction Support Division (PSTS), PSOD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgment as to the legal or other status of any territory or area.

CONTENTS

	Page
BASIC DATA	i
EXECUTIVE SUMMARY	ii
 I. THE PROJECT	 1
A. Project Background	1
B. Key Project Features	2
C. Progress Highlights	3
 II. EVALUATION	 3
A. Project Rationale and Objectives	3
B. Development Results	4
C. ADB Additionality	8
D. ADB Investment Profitability	9
E. ADB Work Quality	9
F. Overall Evaluation	9
 III. ISSUES, LESSONS, AND RECOMMENDED FOLLOW-UP ACTIONS	 10
A. Issues and Lessons	10
B. Recommended Follow-Up Actions	10
 APPENDIXES	
1. Business Performance of BRAC Bank Limited	12
2. Financial Statements	19
3. Results and Ratings for Project Contributions to Private Sector Development and ADB Strategic Development Objectives—Financial Intermediaries	20
4. Design and Monitoring Framework	24
5. Environmental and Social Impact	25
6. Implementation of Gender Action Plan and Achievements	29

BASIC DATA
Sustainable Projects
(Loan No. 3278 – Bangladesh)

Key Project Data	As per ADB Loan Documents (\$ million)	Actual (\$ million)
Total Project Cost		
ADB investment:		
Loan:		
Committed	30.0	30.0
Disbursed	30.0	15.0
Outstanding		0.0
Equity:		
Committed		
Disbursed		
Key Dates	Expected	Actual
Concept Clearance Approval		10 February 2015
Board Approval		16 September 2015
Loan Agreement		6 April 2016
Loan Effectiveness		
Loan Disbursement		16 July 2016
Loan Maturity	July 2021	January 2020
Project Administration and Monitoring	Number of Missions	No. of Person-Days
Concept Clearance
Due Diligence Mission		
Private Sector Credit Committee Meeting
Board Approval
Project Administration	3	30
XARR	0	0

... = data not available, ADB = Asian Development Bank, XARR = extended annual review report.

EXECUTIVE SUMMARY

In August 2015, the Board of Directors of the Asian Development Bank (ADB) approved a loan of up to \$30 million to BRAC Bank in Bangladesh. The loan was to support financing of sustainable projects, in particular construction or expansion of garment factories that met sound labor, health, and safety standards. The project would also support construction of effluent treatment plants, particularly in the ready-made garment (RMG) industry.

The industry had grown rapidly and was a key component of the Bangladesh economy, accounting for more than 80% of exports and 4.2 million manufacturing jobs, 80% of whom were for women. Despite the industry's success, its prospects were uncertain following two major industrial disasters in 2012 and 2013, leading to a multipartite effort to improve labor, health, and safety standards across the industry.

The resulting upgrading and construction of factories compliant with international standards required financing of about \$1 billion. BRAC Bank was the seventh largest private bank in Bangladesh. It had a diversified portfolio and aimed to increase sustainable financing for the RMG industry. The ADB loan supported BRAC Bank's efforts in collaboration with other international finance institutions (IFIs). Rationale for the project was strong, as continued market access and growth of Bangladeshi garments was critically dependent on the adoption of sound health and safety standards.

A loan of \$15 million to BRAC Bank was signed on 6 April 2016 and was disbursed on 11 July 2016. The amount was less than the \$30 million approved because of changes in BRAC Bank's pipeline at the time and the launch of alternative low-cost sources of sustainable finance in Bangladesh in 2016. The outstanding balance of the loan was prepaid in January 2020, 3.5 years after disbursement, as new central bank regulations on offshore banking significantly raised the effective cost of foreign currency loans.

The development impact is rated *satisfactory* overall, based on satisfactory ratings for the project's contribution to private sector development and ADB strategic objectives, economic performance, and business success. Environmental and social (E&S) performance is rated *less than satisfactory*. BRAC complied with its obligation to submit annual E&S monitoring reports to ADB, but its performance in implementing the environmental and social management system (ESMS) for ADB-funded subprojects was considered inadequate. Gender performance is rated satisfactory.

ADB additionality is rated *satisfactory*. BRAC Bank needed long-tenor financing, since corporate clients needed term loans for the construction or expansion of factories and the addition of effluent treatment plants, while BRAC Bank funding was predominantly short-term. Moreover, the ADB loan contributed to the combined effort by IFIs and development partners to bring the Bangladesh RMG industry in line with international standards.

ADB's investment profitability is rated *satisfactory*. Loan pricing was consistent with ADB policies and in line with comparable loans by other international lenders.

ADB work quality is rated *satisfactory*. Borrower selection and appraisal, project structuring, and monitoring and supervision were of satisfactory quality. Issues with E&S performance were promptly identified and coordinated with the BRAC safeguards team. ADB's Private Sector Operations Department teams effected three annual onsite visits, conducted due diligence on all

subborrowers, and assisted BRAC to update its ESMS for ADB-funded subprojects and to fully close out corrective action plan items.

Overall, the project is rated *successful* because of its strong development impact and financial performance.

There are several lessons: (i) sustainable finance can generate a strong development impact and financial results, especially in export industries where social, health, or environmental issues are important for international buyers; (ii) at the origination level, clients have to fully understand and confirm their strong willingness and ability to pursue with rigor and secure the implementation of ADB's E&S requirements, which in most cases are stricter than local requirements. Before ADB enters into an agreement with a new financial institution client, it would be beneficial for the client to familiarize itself with ADB requirements. This could be done through ADB E&S training to assist them in differentiating ADB requirements from local and other IFI requirements; and (iii) IFIs and bilateral agencies should consider more fully aligning their E&S requirements to agree on common standards and procedures.

BRAC Bank is a well-managed institution that exhibits strong financial performance and focuses on areas of primary interest to ADB, in particular small and medium-sized enterprises. ADB should continue to monitor the financial performance of BRAC Bank, especially the impact of the coronavirus disease (COVID-19) pandemic on the economy, finance sector, and BRAC Bank clients and examine the case for a potential COVID-19-related facility. ADB could explore with large international apparel buyers the potential for tripartite collaboration with banks to support sustainable growth of the RMG industry in Bangladesh. ADB could also consider replicating this project in other sectors or countries, especially where labor, health, and environmental concerns are important for international buyers and could hamper the development of otherwise competitive industries.

I. THE PROJECT

A. Project Background

1. In August 2015, the Board of Directors of the Asian Development Bank (ADB) approved a loan of up to \$30 million to BRAC Bank in Bangladesh. The loan was to support financing of sustainable subprojects, in particular garment factories meeting sound labor, health, and safety standards. The project would also support construction of wastewater and effluent treatment plants, particularly in the textile and garment industry.

2. Bangladesh had experienced rapid growth following the global financial crisis of 2008–2009, with real gross domestic product (GDP) growing by more than 6% per year from 2010.¹ The ready-made garment (RMG) industry had been particularly successful and was a key driver of growth. In 2014, it accounted for 17% of GDP, 83% of exports, and employed 4.2 million people, or 45% of the industrial workforce, with women comprising about 80% of the RMG industry's workforce.² Bangladesh had become the second largest exporter of garments in the world, as rising labor costs in the People's Republic of China and other regional countries prompted international buyers to shift to lower-cost sources such as Bangladesh.

3. Despite these successes, prospects for the industry were uncertain following two major disasters, the 2012 Tazreen factory fire and the 2013 Rana Plaza building collapse. This led to a multipartite effort to improve health and safety standards across the industry. The government signed the Bangladesh Sustainability Compact with the European Union, the United States, and the International Labour Organization (ILO) in 2013 with the objective of ensuring the structural integrity of buildings, occupational safety and health, respect for labor rights, and responsible business conduct. The RMG industry also entered into agreements with associations of international buyers and local and global trade unions under the auspices of the ILO, including the Accord on Fire and Building Safety in Bangladesh (the Accord) and the Alliance for Bangladesh Worker Safety (the Alliance).³ All factories covered by these standards were inspected by independent consultants, with weaknesses documented and corrective action plans (CAPs) devised.⁴ Local banks and international finance institutions (IFIs) devised plans to finance the CAPs and other remedial measures.

4. Industrial growth in Bangladesh had also led to severe environmental problems, in particular water pollution from textile printing, dyeing and washing plants, tanneries, and pulp and paper factories. Studies estimated that less than 10% of all factories⁵ and only 30% of dyeing and printing units⁶ had effluent treatment plants (ETP). This was causing severe health and pollution problems, and was a particular risk factor for the garment industry, which depended on upstream printing, dyeing, and washing. It was, therefore, necessary to provide funding and strengthen regulations to install or upgrade ETPs in key industries such as textiles.

¹ World Bank. Indicators. <https://data.worldbank.org/indicator>.

² ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to BRAC Bank for Sustainable Projects in Bangladesh*. Manila.

³ The Accord is a 5-year independent, legally binding agreement between global (mostly European) brands and retailers and trade unions designed to build a safe and healthy Bangladeshi RMG industry. The Alliance was founded by a group of North American apparel companies and retailers; it is a binding, 5-year undertaking also designed to improve safety in Bangladeshi RMG factories. Both started in 2013 and continued until 2018. Accord work was extended up to 2020.

⁴ Alliance for Bangladesh Worker Safety. <http://www.bangladeshworkersafety.org/>

⁵ Centre for Water Policy and Development. 2004. *Managing Pollution from Small-scale Industries in Bangladesh*. Leeds.

⁶ 2020. *The Financial Express*. <http://www.thefinancialexpress-bd.com/2015/03/22/85979>

5. ADB sought to support these efforts as part of its strategy to promote sustainable growth and employment in Bangladesh.⁷ It identified BRAC Bank as a strong candidate for a sustainable financing program because of its good corporate governance, strong financial performance, adequate safeguard capacity, and experience and commitment to supporting sustainable projects in Bangladesh. BRAC Bank also needed long-term funding to provide the longer maturities needed for many industrial investments.

6. BRAC Bank was established in 2001 as a private commercial bank by BRAC NGO, an organization with a microfinance background headquartered in Bangladesh and operating in 12 countries. In December 2014, BRAC NGO owned 44.6% of the share capital of BRAC Bank and International Finance Corporation (IFC), as second-largest shareholder, owned 5.3%. A large number of institutional investors and the general public held the remainder of shares.

7. BRAC Bank had been successful in Bangladesh and was the seventh-largest bank, with assets of \$2.5 billion at the end of 2014. BRAC Bank's clients were a mix of corporate, retail, and small and medium-sized enterprises (SMEs). Its primary objective was to serve SMEs. The corporate loan portfolio, including the RMG industry, was \$700 million in 2014 and was expected to grow by about 20% per annum. BRAC Bank sought to enhance its financing of sustainable investments in the textile and garment industry, including remediation of health and safety issues, construction or expansion of factories compliant with Accord or Alliance standards, and addition of ETPs. It had already extended credit of \$196 million to 27 RMG factories and financed five ETPs at a total cost of \$6.1 million (footnote 2). BRAC Bank also managed a \$10 million program for funding fire and building safety improvements in partnership with IFC and VF Corporation, a large United States apparel company.⁸

B. Key Project Features

8. An ADB senior unsecured loan of \$15 million to BRAC Bank was signed on 6 April 2016 and was disbursed on 11 July 2016. The amount was less than the \$30 million approved because of changes in BRAC Bank's pipeline at the time and the launch of alternative low-cost sources of sustainable finance in Bangladesh in 2016.⁹ The loan had a maturity of 5 years, a grace period of 1.5 years, and a floating interest rate of 2.75% over the London interbank offered rate (LIBOR). The outstanding balance of the loan was prepaid in January 2020, 3.5 years after disbursement, as new regulations by the central bank, Bangladesh Bank, on offshore banking significantly raised the effective cost of foreign currency loans.¹⁰ BRAC Bank paid all fee, interest, and principal payments on time.

9. The proceeds of the loan were to finance socially and environmentally sustainable projects, defined as: (i) construction or expansion of garment factories that meet the high structural, fire, and electrical safety standards of the Accord or the Alliance; (ii) improvement of existing garment factories to meet the above standards; and (iii) construction of wastewater and ETPs, primarily in the textile industry. The loan amount was on-lent to three RMG companies—

⁷ ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila.

⁸ IFC and VF Corp. December 2014. *Corporate Guarantee to Finance Fire and Building Safety Upgrades in Bangladesh*. Washington, DC.

⁹ For example, Bangladesh Bank Green Transformation Fund, IFC Remediation Financing for RMG, United States Agency for International Development (USAID) Credit Guarantee Program, and Japan International Cooperation Agency (JICA) Financing Scheme.

¹⁰ As of September 2019, all local banks must maintain cash reserve and statutory liquidity ratios for foreign currency borrowings from financial institutions outside Bangladesh.

Energypac Fashion Limited (Energypac), Graphics Textiles Limited (Graphics), and Raquef Washing and Packaging Industries Limited (Raquef).

10. Given the predominance of female workers in the garment industry, and the importance of the industry for employment of women in Bangladesh, a gender action plan (GAP) was adopted as part of the project. The GAP included provision of separate toilet facilities for women and men, provision of day-care facilities for mothers working at garment factories, adequate health center sections for women and men, and fire and building safety training for female and male workers.

C. Progress Highlights

11. The Bangladeshi economy continued to grow strongly in the years following loan approval, with average real GDP growth of 7.6% per annum from 2016 to 2019.¹¹ The garment and textile industry performed well, with continued growth in production, exports, and employment. Exports grew from \$28 billion in 2016 to \$34 billion in 2019.¹² Demand from international buyers increased, with rising costs and trade tensions affecting other exporting countries. Safety, social, and environmental standards also improved, as measures taken under the Bangladesh Sustainability Compact, Accord, Alliance, and other initiatives were implemented.

12. In June 2020, the Accord and Alliance were replaced by the RMG Sustainability Council. Although mainly an institutional change, it will lead to factory owners adopting common standards for European and North American buyers, and represents an effort to more closely involve buyers and government authorities alongside factory owners in maintaining sound labor, health, and safety standards in the Bangladeshi textile and garment industry.

13. The performance of BRAC Bank was strong during the project period. Its total loan portfolio more than doubled, from \$1.555 billion as of 31 December 2014 to \$3.180 billion as of 31 December 2019. Financial indicators remained satisfactory (please see Appendix 1 and 2). Sustainable financing increased from \$90.5 million in fiscal year (FY) 2016 to \$190.9 million in FY2019. The Bangladeshi economy, including the banking sector, has been negatively affected by the coronavirus disease (COVID-19) pandemic. However, BRAC Bank is well placed to weather the crisis because of its strong capitalization, human resources, brand, and market position.

II. EVALUATION

A. Project Rationale and Objectives

14. Rationale for the project was strong. The RMG industry is critical for growth, exports, employment, and gender equality in Bangladesh. At the time of project conception, the industry was reeling from the two major disasters and the growing demand of international buyers for Bangladesh to ensure sound labor, health, and safety standards.¹³ BRAC Bank was a well-suited intermediary to support the related funding needs of the industry because of its social objectives, strong governance and performance, and existing activities and plans in the RMG industry. BRAC Bank needed long-term financing to meet the investment needs of its growing corporate loan portfolio, as deposits and commercial bank funding were predominantly short-term. IFIs like IFC

¹¹ World Bank. Indicators. <https://data.worldbank.org/indicator>.

¹² Textile Focus: RMG Industry Outlook 2019. Dhaka.

¹³ World Bank. 2019. *Policy Research Working Paper. The Effects of International Scrutiny on Manufacturing Workers: Evidence from the Rana Plaza Collapse in Bangladesh*. Washington, DC.

and the Netherlands Development Finance Company (FMO) were providing longer tenor funds, and BRAC Bank sought to extend and supplement these by seeking funding from ADB.

15. The project was in line with ADB's country partnership strategy for Bangladesh, 2011–2015 (footnote 7), which supports government policies to encourage private sector growth and export expansion, especially in apparel and textiles, and requires environmental considerations to be integrated into ADB sector interventions. The project was also fully aligned with the country partnership strategy for Bangladesh, 2016–2020, which has the overarching goal of achieving faster, inclusive, and environmentally sustainable growth.¹⁴ The project directly or indirectly supported all four pillars of the strategy by facilitating rapid and sustainable growth and productive employment for low and semi-skilled workers.¹⁵ The project was also fully in line with ADB's Strategy 2020 in strengthening the capacity of the finance sector to support socially and environmentally sustainable investment.¹⁶

B. Development Results

16. The overall development impact is rated *satisfactory*, based on satisfactory ratings with regard to contribution to private sector development and ADB's strategic development objectives, economic performance, and business success. Environmental, social, health, and safety performance is rated *less than satisfactory*, as BRAC Bank was not able to demonstrate full compliance with the environmental and social management system (ESMS) agreed with ADB. Gender performance is rated *satisfactory* and the project team considers the project to have significantly contributed to achieving gender equality.

1. Contributions to Private Sector Development and ADB Strategic Development Objectives

17. The project's contribution to private sector development and ADB strategic objectives is rated *satisfactory*. The project has exceeded the key performance indicators defined in the design and monitoring framework (Appendix 3) by a large margin.

18. The only exception is the nonperforming loan (NPL) ratio for the RMG portfolio, which reached 7.74% in 2019, although it had been consistently below the target ceiling of 2% until then (para. 21).

19. This evaluation assesses the overall sustainable financing activities of BRAC Bank, not the relatively small portion attributed to ADB. The latter is based on a decision of BRAC Bank to assign certain projects to ADB, based on acceptance by the borrower of ADB's terms. This earmarking of proceeds is not meaningful from an economic or development perspective, which requires consideration of total sustainable financing by BRAC Bank regardless of funding source.

20. **Health, safety, and labor standards.** The main outcome target was to ensure 100% compliance of all RMG clients with the health, labor, and safety standards of the Accord or Alliance, and 100% of all RMG clients with dyeing, printing, or washing facilities to have operational ETPs. Both targets are fully met. As of 2019, 48 out of 48 RMG clients are in compliance with Accord or Alliance standards, and 29 out of 29 clients with dyeing or washing facilities have functioning ETPs. This is an indicator of BRAC Bank's attention to these issues and

¹⁴ ADB. 2016. *Bangladesh: Country Partnership Strategy, 2016–2020*. Manila.

¹⁵ The pillars are: (i) accelerating growth rate; (ii) making growth more inclusive, pro-poor, and environmentally sustainable; (iii) reducing poverty; and (iv) providing productive jobs for new entrants to the labor force.

¹⁶ ADB. 2008. *Strategy 2020: Working for an Asia and Pacific Free of Poverty*. Manila.

the general improvement of standards in the Bangladesh RMG industry following the 2012 and 2013 disasters.

21. **Sustainable financing.** BRAC Bank's lending for sustainable projects (para. 9) was supposed to increase from \$16 million in 2014 to \$46 million in 2018; actual lending was \$148.2 million as of 31 December 2018, more than three times the target, and increased further to \$190.9 million as of 31 December 2019. Ten RMG factories were targeted for upgrades or expansion by 2018 in line with Accord and Alliance standards, and one new factory was to be built. The actual number of factories supported by BRAC Bank and meeting standards was 62 as of end of 2018.¹⁷ Similarly, BRAC Bank was supposed to finance five ETPs under the project; 29 RMG clients had operational ETPs as of the end of 2019.¹⁸

22. **Asset quality.** NPL ratios were expected to stay below the threshold of 2% for the RMG portfolio and 7.6% for the entire portfolio. The latter target was comfortably met, with NPL ratios remaining between 3%–4% from 2015 to 2019. The NPL ratio for the RMG portfolio breached the ceiling and reached 7.74% in 2019. However, it had been below 2% for all previous reporting periods, and the sudden spike was because of a small number of problem accounts, and these were being addressed. Most importantly, the spike has not impacted BRAC Bank's continued interest in sustainable finance. Despite the negative impact of COVID-19, prospects for the RMG industry in Bangladesh remain good as the country is expected to benefit further from rising wages and trade tensions affecting other suppliers.

23. **Gender aspects.** The project was expected to benefit 22,000 women by 2018. The actual number of women employed in factories upgraded or expanded under the project is estimated at more than 25,000. The GAP has been successfully implemented with all targets met (please see Appendix 6).

2. Economic Performance

24. Economic performance is rated *satisfactory*. The RMG industry in Bangladesh is internationally competitive and does not benefit from significant distortions. Financing of sustainable RMG investments generates substantial economic and social benefits beyond the immediate beneficiaries by affirming the health and safety record of the industry—an issue of considerable concern to international buyers and essential for the continued acceptance of Bangladeshi garments by the global market. The project has thus contributed to the development and continued success of the industry, including industry-generated employment and exports. The project has also generated significant social, environmental, and gender benefits inherent in Accord, Alliance, and related sustainability standards.

25. Other financing facilities were established during the investment period to improve social and environmental standards in the textile, garment, and other industries in Bangladesh.¹⁹ In 2015, IFC approved a \$50 million RMG remediation financing program to finance the implementation of CAPs by the Accord or the Alliance.²⁰ Other IFIs and development partners²¹ established financing programs with similar objectives. In 2016, Bangladesh Bank established the

¹⁷ Although BRAC Bank does not finance start-ups, some RMG clients build greenfield factories. The overall mix of new and existing factories is not tracked, although BRAC Bank certainly exceeded the target for newly built factories.

¹⁸ All 29 ETPs may not have been financed by BRAC Bank term loans, but the companies will have used BRAC financing for other investments or for capital or trade finance needs.

¹⁹ IFC and ILO. 2016. *Remediation Financing in Bangladesh's Ready Made Garment Sector*. Washington, DC.

²⁰ IFC. 2016. *Remediation Financing for RMG in Bangladesh*. Washington, DC.

²¹ For example, USAID, FMO, and JICA.

Green Transformation Fund, a \$200 million refinancing scheme for environment-friendly initiatives. In 2017, Bangladesh Bank instituted a requirement for all Bangladeshi banks to adopt an ESMS. These initiatives demonstrate the importance attached to the issues addressed by the project, and the market-leading impact of the ADB project and BRAC Bank with regard to sustainability in the RMG industry.

3. Environmental, Social, Health, and Safety Performance

26. The overall environmental, social, health, and safety performance is rated *less than satisfactory*. BRAC Bank complied with its obligation in submitting annual environmental and social (E&S) monitoring reports to ADB, but its performance in implementing the ESMS was considered inadequate as per ADB requirements. It generally conducted high-level reviews of subprojects' compliance with local regulatory requirements and was not able to demonstrate full compliance with the ESMS agreed with ADB.

27. In compliance with the ADB Safeguard Policy Statement (2009), ADB's loan was categorized *financial intermediary* (FI) for all three safeguard categories: environment, involuntary resettlement, and indigenous peoples. BRAC Bank had an existing E&S risk management policy and procedures before ADB approved the project in 2015. Because of ADB's more specific requirements for this project, BRAC Bank agreed to adopt a separate ESMS for ADB-funded subprojects that required compliance with the Safeguard Policy Statement, the Accord and the Alliance, international certification programs such as those required by buyers, and regulatory requirements to address E&S impacts associated with category B projects. The ESMS was approved by BRAC Bank's board before ADB disbursed the loan. Subprojects with the following activities were excluded from ADB funding: (i) activities on ADB's Prohibited Investment Activity List; (ii) activities classified by the Accord or Alliance as "high-risk" in their safety audit; (iii) activities categorized Red under the Bangladesh Environmental Conservation Rules, 1997; and (iv) zero-tolerance activities (forced labor, child labor, discrimination, disciplinary practices, nonpayment of minimum wages, human trafficking, harassment, restriction of workers' freedom to organize) identified through the buyer's report or an international accreditation program.

28. In 2017, ADB engaged an external consultant to review BRAC Bank's E&S performance against its ESMS. The consultant visited the three subprojects supported by ADB, reviewed the E&S reports, and confirmed the subprojects' category B rating for environment. The consultant also confirmed that subprojects did not physically or economically displace any informal land users or other individuals and had no adverse impacts on indigenous peoples as per the ADB Safeguard Policy Statement. The consultant prepared an E&S compliance audit report that presented the review findings and CAP to address gaps in BRAC Bank's ESMS performance. BRAC Bank was not able to close out the CAP items within the specified timelines and requested several deadline extensions. Consequently, ADB's E&S team along with the deal team of the Portfolio Management Division (PSPM) conducted annual review missions to assist BRAC Bank in closing-out the CAP items. ADB assisted BRAC Bank in updating the ESMS for ADB-funded projects in November 2019 to fully close-out the external audit CAP items, and BRAC Bank prepaid ADB's loan in January 2020.

29. BRAC Bank had a designated E&S manager with experience implementing regulatory E&S requirements. However, the E&S team's monitoring of subproject E&S impacts tended to focus only on requirements of the corporate E&S risk management policy and procedures, which mainly incorporate local regulations. The annual E&S monitoring reports that BRAC Bank submitted from 2017 contained information gaps, as noted by the external auditor in its first annual monitoring report. Through calls and on-site discussions during review missions, ADB guided

BRAC Bank to obtain the proper information and improved its succeeding E&S monitoring reports.

30. The 2019 E&S mission noted the following in relation to the Energypac and Graphics subprojects: (i) they had allocated sufficient resources within their factories to meet Bangladesh regulatory requirements and international requirements, as required by their buyers; the subprojects' wastewater and air emissions had been monitored against World Bank Group standards, and their occupational health and safety performance had been assessed against Occupational Safety and Health Administration standards; (ii) they had engaged external experts to conduct annual monitoring of their environmental, health, and safety performance; (iii) they had installed all safety equipment in accordance with the Accord CAP, but the subprojects had not received Accord CAP completion certification because of a delay in Accord's final verification activity; (iv) they complied with national labor policies and regulations as well as internationally recognized core labor standards; (v) they had not physically or economically displaced any informal users of land or other individuals; and (vi) they had caused no adverse impacts on indigenous peoples as per the ADB Safeguard Policy Statement.

31. Hence, the E&S mission determined that the environmental performance of the two subprojects was compliant with BRAC Bank's ESMS requirements, which is due to the alignment of the bank's ESMS with the requirements of the subprojects' multiple buyers. The third subproject (Raquef) faced commercial issues and was not visited by ADB in 2019. However, it was able to provide proof that its use of proceeds was in accordance with the legal agreement. The main concern was that BRAC Bank did not fully implement the corrective actions from the external audit in 2017 until the time it prepaid in 2019. (Appendix 5 contains more information on the project's E&S impact).

4. Gender Performance

32. The gender performance of the project is rated *satisfactory* (Appendix 6). The project was categorized *effective gender mainstreaming*. The project implemented GAP measures to promote gender equality in its operations, including integration of gender-sensitive measures into RMG factories. The Gender Action Plan Implementation and Achievement Matrix (Table A6.1) shows that, overall, the project was successful in delivering the intended gender equality results, based on: (i) 100% (1/1) of activities under the GAP were implemented and completed; (ii) 100% (5/5) of quantitative targets under the GAP were fully met; and (iii) sex-disaggregated data on garment factory workers were provided as of December 2019. The project significantly contributed to achieving gender equality by providing separate toilet facilities for women and men, day care facilities for working mothers, and adequate health centers for women and men; conducting fire and building safety training for all male and female workers in the garment factories; and enhancing BRAC Bank's database to include the monitoring of gender indicators. In addition, the project was aligned with the following pillars of ADB's Strategy 2030 Operational Plan for Priority 2—Accelerating Progress in Gender Equality: increasing women's economic empowerment, reducing time poverty and drudgery, and enhancing gender equality in human development.²²

5. Business Success

33. The business success of the project is rated *satisfactory* as BRAC Bank has achieved most of the project business objectives. BRAC Bank funding for sustainable projects totaled

²² ADB. 2019. *Strategy 2030 Operational Plan for Priority 2—Accelerating Progress in Gender Equality, 2019–2024*. Manila.

\$148.0 million as of 31 December 2018, exceeding the target of \$46.0 million, and this grew to \$190.9 million as of 30 June 2019.

34. BRAC Bank's financial performance is rated *satisfactory*.²³ Capitalization was adequate throughout ADB's investment period (2015–2019), with the tier 1 capital adequacy ratio and total capital adequacy ratio always above the regulatory requirements. Asset quality significantly improved over the same period, with the total NPL ratio declining from 5.99% as of end-FY2015 to 3.99% as of end-FY2019.²⁴ Profitability improved as the share of the higher-yielding SME segment increased. BRAC Bank's liquidity and funding profile remained adequate during the investment period. Deposits were the main source of funding, accounting for 81% of total funding in FY2019, up from 73% in FY2015, reflecting local depositors' confidence in the BRAC name. BRAC Bank's long-term funding mostly came from IFIs, with ADB's loan helping BRAC Bank move toward a longer-term funding mix. In addition, all of BRAC Bank's liquidity metrics remained strong.

35. BRAC Bank's management quality and corporate governance are rated *satisfactory*. Corporate governance is largely compliant with the Securities and Exchange Ordinance, 1969 of Bangladesh, also aligning with the international best practices recommended by the Basel Committee on Banking Supervision; the Bank Companies (Amendment) Act, 2013; and the procedures and practices of the Bangladesh Securities and Exchange Commission and Bangladesh Enterprise Institute. Four out of the seven members of BRAC Bank's board of directors are independent directors, up from three in FY2015. The board appoints the chief executive officer and the managing director of the bank with the approval of Bangladesh Bank. The shareholding of nominee and independent directors in BRAC Bank did not exceed 0.1% as of the end of FY2019, which is in compliance with the limit imposed by the Securities and Exchange Ordinance, 1969. In addition, the audit, risk management, and executive board committees are led by independent directors.

C. ADB Additionality

36. ADB additionality is rated *satisfactory*. BRAC Bank needed long-tenor financing, since corporate clients needed term loans for the construction or expansion of factories and the addition of ETPs, while BRAC Bank's funding was predominantly short-term. In 2015, 21% of BRAC Bank loans to the RMG industry had maturities of more than 3 years; this had increased to 32.9% as of December 2019.²⁵ By comparison, 19.4% of BRAC's taka funding and 11.1% of BRAC's foreign currency funding had maturities of more than 3 years in 2015. The term structure of foreign currency funding is particularly relevant for RMG companies, which generate export earnings and often prefer dollar-based financing, which carries lower interest rates.

37. BRAC Bank was able to raise longer-term funds from IFIs, including IFC and an FMO-led syndicate in 2016, but the amounts provided fell short of the bank's funding needs. A joint IFC and ILO study on the RMG industry in Bangladesh estimated total costs of factory remediation needed to comply with Accord or Alliance standards at \$929 million in 2016 (footnote 19). Even after taking into account work already undertaken and various credit facilities established at the time, the remaining financing gap was estimated at \$448 million. The ADB loan contributed to a combined effort by IFIs and development partners to meet those needs.

²³ Appendix 2 contains a more detailed analysis of the bank's performance from FY2015 to FY2019.

²⁴ The NPL ratio for the SME and retail segments improved significantly from FY2015 to FY2019. The ratio for SMEs declined from 6.40% in FY2015 to 2.85% in FY2019; for retail it declined from 4.90% in FY2015 to 2.14% in FY2019.

²⁵ Data provided by BRAC Bank.

38. BRAC Bank was the first private bank in Bangladesh to obtain funding from ADB's nonsovereign lending window. This helped further enhance its brand and market recognition, especially with regard to sustainable finance, which was still relatively new for BRAC Bank.

D. ADB Investment Profitability

39. ADB's investment profitability is rated *satisfactory*. Loan pricing (2.75% over LIBOR) was in line with ADB policies and was consistent with interest rates charged to other finance sector borrowers in Bangladesh. For example, a senior IFC loan with a similar 5-year term in 2017 had an interest rate of 2.60% over LIBOR.

E. ADB Work Quality

40. ADB's work quality is rated *satisfactory*. The selection and appraisal of the borrower, structuring of the project, and supervision were all carried out satisfactorily.

1. Screening, Appraisal, and Structuring of the Project

41. Screening, appraisal, and structuring of the project are rated *satisfactory*. The selection of BRAC Bank as an intermediary was based on a careful assessment of its interest and ability to serve the target market. ADB provided long-term debt needed by BRAC Bank to meet the significant needs of the RMG industry to undertake remediation work and build upgraded facilities.

2. Monitoring and Supervision

42. Monitoring and supervision are rated *satisfactory*. ADB remained in close contact with the client, followed up diligently on reporting requirements and covenants, and maintained strong customer relations. BRAC Bank submitted financial and nonfinancial reports on time.

43. Issues with the ESMS were promptly identified and coordinated with the BRAC Bank E&S team. The PSPM and Private Sector Transaction Support Division teams of ADB's Private Sector Operations Department (PSOD) conducted annual site visits and conducted three rounds of due diligence on two of the three subborrowers (Energypac and Graphics) and two rounds on the third subborrower (Raquef). The PSOD teams followed up with BRAC Bank through numerous calls and assisted the bank in updating the ESMS for ADB-funded projects and in fully closing out the CAP items from the external audit.

F. Overall Evaluation

44. Overall, the project is rated *successful*. It generated strong development and economic impact, and contributed to the success of the RMG industry in Bangladesh.

Table 1: Evaluation of ADB's Equity Investment and Loan to BRAC Bank Limited

Indicator	Unsatisfactory	Less than Satisfactory	Satisfactory	Excellent
A. Development Results			√	
(i) Contribution to private sector development and ADB strategic development objectives			√	
(ii) Economic performance			√	
(iii) Environmental, social, health, and safety performance		√		
(iv) Gender performance			√	
(v) Business success			√	
B. ADB Additionality			√	
C. ADB Investment Profitability			√	
D. ADB Work Quality			√	
(i) Screening, appraisal, and structuring			√	
(ii) Monitoring and supervision			√	
Overall Rating			Successful	

ADB = Asian Development Bank.

Source: ADB.

III. ISSUES, LESSONS, AND RECOMMENDED FOLLOW-UP ACTIONS

A. Issues and Lessons

45. Sustainable finance can generate strong development impacts and financial results. This is especially true for export industries where social, health, and environmental issues have attracted the attention of international buyers and markets. ADB should seek to identify and support initiatives where the concerns of foreign companies and consumers dovetail with its own sustainable development agenda and the interests of its developing member countries.

46. At the origination level, ADB's clients have to understand and confirm their willingness and ability to rigorously pursue the implementation of ADB E&S requirements, which tend to be stricter than local requirements. Before ADB enters into an agreement with a new financial institution client, it would be beneficial for the client to familiarize with ADB requirements. ADB E&S training can assist clients with differentiating ADB requirements from local and other IFI requirements.

47. IFIs should consider more closely aligning their E&S requirements and procedures, with a view toward agreeing on common practices and avoiding duplicating efforts.

B. Recommended Follow-Up Actions

48. BRAC Bank is well-managed, exhibits strong financial performance, and focuses on areas of primary interest to ADB, in particular SMEs. ADB should continue to monitor the financial performance of BRAC Bank—paying close attention to the impact of COVID-19 on the economy, the finance sector, and BRAC Bank clients, and examining the case for a COVID-19-related facility. ADB could also explore with large international apparel buyers the potential for tripartite collaboration with local banks to support sustainable growth of the RMG industry in Bangladesh.

49. ADB should consider replicating this project in other sectors or member countries, especially where labor, health, and environmental concerns are important for international buyers and could hamper the development of otherwise competitive industries.

BUSINESS PERFORMANCE OF BRAC BANK LIMITED

A. Financial Highlights

Table A1.1: BRAC Bank Historical Financial Highlights, FY2015–FY2019
(Tk billion)

Indicator	FY2015	FY2016	FY2017	FY2018	FY2019
Total loans	147	174	203	238	264
Other assets	77	75	76	77	104
Total assets	224	249	279	315	368
Total deposits	150	169	196	234	268
Total other liabilities	55	59	57	49	62
Total liabilities	205	228	253	283	330
Total equity	19	21	26	32	38
Total operating income	7	8	9	8	10
Expenses and tax	5	4	4	2	4
Post-tax profit	2	4	5	6	6

FY = fiscal year.

Note: Numbers may not sum precisely because of rounding.

Source: BRAC Bank annual reports, FY2015–2019.

B. Ownership Structure

Table A1.2: BRAC Bank Ownership Structure, FY2015–FY2019

% of shares	FY2015	FY2016	FY2017	FY2018	FY2019
BRAC	44.64%	44.56%	44.42%	44.28%	44.28%
General public	47.00%	55.42%	55.56%	55.70%	55.71%
IFC	5.36%	0.00%	0.00%	0.00%	0.00%
Other investors (incl. mutual funds)	3%	0.02%	0.02%	0.02%	0.01%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

FY = fiscal year, IFC = International Finance Corporation.

Note: Percentages may not total 100% because of rounding.

Source: BRAC Bank annual reports, FY2015–2019.

1. BRAC Bank's major shareholder is BRAC NGO, with international operations headquartered in Bangladesh. BRAC Bank was listed on the Dhaka Stock Exchange in 2006 and on the Chittagong Stock Exchange in 2007. BRAC Bank's know-how in microloans and small and medium-sized enterprise (SME) lending makes BRAC Bank competitive in the SME and microloan segments.

C. Business Analysis

Table A1.3: BRAC Bank Total Loan Portfolio, FY2016–FY2019
(Tk million)

Loan Portfolio	2016	2017	2018	2019	CAGR ^a
Retail	34,558	40,741	43,614	48,451	8.82%
SME	62,468	76,461	97,442	120,786	17.92%
Corporate	76,587	85,357	96,952	94,855	5.49%
Gross Loans	173,612	202,560	238,008	264,091	11.06%
Loan provision charge	745	861	816	873	
Net Loans	172,867	201,698	237,192	263,218	11.08%

CAGR = compound annual growth rate, FY = fiscal year, SMEs = small and medium-sized enterprises.

Note: Numbers may not sum precisely because of rounding.

^a The CAGR is computed from FY2016 to FY2019.

Source: BRAC Bank Limited.

2. The business success of the project is rated *satisfactory*. BRAC Bank is a private commercial bank in Bangladesh with a market share of 2.5% as of the end of fiscal year (FY) 2018.¹ BRAC Bank's assets expanded at a compound annual growth rate (CAGR) of 10.4% from FY2015 to FY2019, with return on average total assets improving from 1.13% to 1.65% in the same period. BRAC Bank, which has been serving the unbanked population of the country since it launched banking operations in 2001, expanded its loan portfolio from Tk147 billion in FY2015 to Tk264 billion in FY2019.

3. With a clear focus on providing funding to SMEs, BRAC Bank serves clients across three core segments: corporate, retail, and SMEs. It covers most regions of Bangladesh, both in urban and rural areas, with a wide distribution network of 187 branches across seven business areas, 301 agent outlets, and 456 SME unit offices. BRAC Bank successfully implemented an agent banking model in 2018, starting with 50 outlets, in an effort to promote financial inclusion for the largely untapped SME segment in semi-urban and rural regions, as well as to provide innovative digital solutions to support this major initiative by the central bank.

4. BRAC Bank's loan portfolio recorded a 11.1% CAGR during FY2016–2019. The share of SME lending in the bank's loan portfolio was 46% as of end-FY2019, up from 36% as of end-FY2016. Retail loans made up of 18% of the total book, a slight decrease from 20% in FY2016. The corporate book declined from a 44% share by the end of FY2016 to 36% at the end of FY2019. BRAC Bank's wide network enabled growth of SME lending—its key focus area. Ready-made garment (RMG) companies made up of 6% of the total portfolio as of the end of FY2019, up from 5% at the end of FY2018 and 4.5% at the end of FY2015.

5. The slight deterioration in asset quality with NPL ratio from 3.1% in 2018 to 3.99% in 2019 was mainly because of the corporate segment. That segment, with a 36% share of the total portfolio, accounted for 59% of nonperforming loans (NPLs) in FY2019. The bank's competitive advantage in lending to the higher-yielding SME segment enhanced its profitability and liquidity.

6. Although BRAC Bank's portfolio demonstrated some concentration risk, it became more diversified during the life of the ADB loan. BRAC Bank's portfolio consisted of retail, SME, and corporate loans, with an increasing shift of focus toward the SME segment. The bank's total percentage exposure for the top 20 borrowers, regardless of segment, was 29% in 2017. This

¹ Moody's Investors Service. *BRAC BANL Limited Update to Credit Analysis*. 12 June 2020.

declined to 25% in 2019 as the bank shifted its focus to smaller-scale SME borrowers and implemented a strategy to gradually diversify away from the corporate segment.

7. The bank has a significant presence in the mobile financial services industry in Bangladesh through its subsidiary bKash Limited, which provides electronic payment and remittance services. BRAC Bank's focus on digitalization continues as it tries to bring down operational costs (cost-to-income ratio as of end-FY2019: 53%), which are higher in the target SME segment compared with corporates.

D. Financial Analysis

1. Capital Adequacy

Table A1.4: BRAC Bank Capital Adequacy, FY2015–FY2019

Item	FY2015	FY2016	FY2017	FY2018	FY2019	CAGR (%)
Tier 1 capital (Tk billion)	17	20	24	29	34	15%
Tier 2 capital (Tk billion)	3	3	3	3	3	(1%)
Total capital (Tk billion)	20	23	27	32	37	13%
Total risk-weighted assets (Tk billion)	167	188	209	234	244	8%
Tier 1 capital adequacy ratio (%)	10.27	10.46	11.24	12.31	13.82	
Total capital adequacy ratio (%)	12.23	12.26	12.72	13.67	15.07	
Dividend Payout (%)	25	30	25	15	15	

() = negative, CAGR = compound annual growth rate, FY = fiscal year.

Sources: BRAC Bank Limited annual reports and financial statements.

8. BRAC Bank's capitalization remained comfortably above the minimum total capital ratios mandated by the central bank, Bangladesh Bank, throughout the life of ADB's loan. BRAC Bank's capital strength stems from the bank's stable profitability and high retention rates, to go along with a conservative dividend policy. Expanding the higher-yielding SME segment has enabled BRAC Bank to further strengthen its profitability despite rising funding costs in the country.

9. The bank's capital adequacy ratios were comfortably above the regulatory minimum of 10.0% for total capital as well as the Basel III requirement of 5.5%–6.0% for tier 1 capital and 10.0%–12.5% for total capital and conservation buffer, both regulatory thresholds implemented by 2019 in Bangladesh.² BRAC Bank's total capital adequacy ratio increased from 12.23% at the end of FY2015 to 15.07% at the end of FY2019, and its tier I ratio increased from 10.27% to 13.82% during the same period.

10. During FY2015 to FY2019, the bank's high retention rates with a conservative dividend payout policy supported an adequate level of internal capital generation for BRAC Bank. BRAC Bank did not pay cash dividends in FY2017 and in FY2018, while also lowering its total dividends ratio from 30% in FY2016 to 15% in FY2019. The bank's strong capitalization and stable core profitability allowed it to comfortably fend off last year's deterioration in asset quality.

² Bangladesh Bank. December 2014. *Guidelines on Risk Based Capital Adequacy – Revised Regulatory Capital Framework for Banks in Line with BASEL III*. Dhaka.

2. Asset Quality

Table A1.5: BRAC Bank Portfolio Quality Ratios, FY2015–FY2019

%	FY2015	FY2016	FY2017	FY2018	FY2019
NPLs to total loans and advances	5.99%	3.40%	3.56%	3.10%	3.99%
NPL coverage ratio (including general provisions) ^a (%)	110.00	143.00	132.00	123.00	97.00
NPL coverage ratio ^b (%)	86.00	94.00	86.00	76.00	65.00
Total provisions to equity (%)	11.70	4.12	4.43	2.34	3.79

FY = fiscal year, NPL = nonperforming loan.

^a Including general and floating provisions.

^b Based on specific provisions excluding write-offs.

Sources: BRAC Bank Limited Annual Reports, BRAC Bank Limited financial statements.

11. BRAC Bank's loan portfolio recorded a 12.4% compound annual growth rate (CAGR) during the life of ADB's loan (FY2015–FY2019), with the SME segment expanding much more rapidly than others. Asset quality significantly improved during this period, with the total NPL ratio declining from 5.99% in FY2015 to 3.99% in FY2019. BRAC Bank has maintained adequate coverage over the nonperforming portion of the loan portfolio, with general coverage averaging 121% during FY2015–FY2019, and specific coverage averaging 81%.

12. Asset quality has been improving overall, and the deterioration in FY2019 was mainly attributable to the corporate segment. The NPL ratio of the corporate portfolio increased from 3.44% in FY2018 to 6.13% in FY2019, mainly because of a few large accounts. However, for FY2015–FY2019, the NPL ratio for the corporate segment remained stable, slightly increasing from 6.10% to 6.13%. Some of the corporate NPLs in FY2019 were in the RMG segment. As a result, the NPL ratio of the RMG portfolio exceeded the development effectiveness threshold of 2% in 2019 as it reached 7.74%. The retail and SME portfolios performed better. The NPL ratio of the retail segment improved from 4.90% in FY2015 to 2.14% in FY2019, and that for the SME segment improved from 6.40% in FY2015 to 2.85% in FY2019.

3. Management

13. Management quality is rated *satisfactory*. BRAC Bank follows the Corporate Governance Code of Bangladesh Bank and Bangladesh Securities and Exchange Commission; and its corporate governance is compliant with the Securities and Exchange Ordinance, 1969 of Bangladesh.³ The bank's corporate governance is also in line with the international best practices recommended by the Basel Committee on Banking Supervision; the Bank Companies (Amendment) Act, 2013; and the corporate governance procedures and practices of the Bangladesh Securities and Exchange Commission and Bangladesh Enterprise Institute.

14. As of December 2019, the board of directors of BRAC Bank consisted of seven members, excluding the managing director and chief executive officer. Among the directors, three are nominated by BRAC. The other four are Independent directors, up from three in FY2015.

15. To strengthen the foundations of the bank and reinforce stakeholder confidence in its operational sustainability, the board appoints the chief executive officer and managing director of the bank, subject to Bangladesh Bank's approval. The shareholding of nominee and independent

³ BRAC Bank Limited Annual Reports.

directors in BRAC Bank did not exceed 0.1% as of the end of FY2019, which is within the limit of 1% set by the Securities and Exchange Ordinance, 1969.

16. BRAC Bank's board has three subcommittees including an audit committee, a risk management committee, and an executive committee. All three are led by independent directors. BRAC Bank has a 15-member core management team led by the chief executive officer. All managers are highly experienced professionals with expertise in the banking industry.

4. Earnings

Table A1.6: BRAC Bank Earnings Ratios, FY2015–FY2019

Ratio	FY2015	FY2016	FY2017	FY2018	FY2019
Net income (Tk billion)	2,436	4,460	5,250	5,547	5,646
Growth rate of net income		83.14%	17.70%	5.66%	1.78%
Net interest income to interest-earning assets ^a	4.12%	4.64%	4.48%	4.41%	4.23%
Noninterest income to total income	13.10%	11.57%	11.02%	8.67%	9.10%
Return on average equity	13.32%	22.16%	22.14%	19.25%	16.29%
Return on average assets	1.13%	1.89%	2.02%	1.87%	1.65%
Total income to interest-earning assets	10.85%	9.88%	9.97%	10.00%	10.15%
Cost-income ratio	52.00%	50.00%	52.00%	54.00%	53.00%

FY = fiscal year.

^a (Interest income – interest expenses) / interest-earning assets

Source: BRAC Bank Limited financial statements, BRAC Bank Limited Annual Reports.

17. BRAC Bank's operating performance was stable throughout the investment period. Bottom line profitability remained satisfactory, with the return on average total assets ratio at 1.65% and the return on average equity ratio at 16.29% in FY2019.

18. The steadily increasing share of SME lending in BRAC Bank's portfolio contributed to higher yields and stable profitability despite funding costs increasing from 6.64% in FY2015 to 7.08% in FY2019.

19. BRAC Bank's cost-to-income ratio remained solid and stable during the investment period. The bank continues to invest in technology to improve operational efficiency. Moreover, it has implemented effective policies to recruit and retain top talent.

5. Liquidity and Funding Mix

Table A1.7: BRAC Bank Liquidity Measures, FY2015–FY2019

Ratios	FY2015	FY2016	FY2017	FY2018	FY2019
Gross loans to deposits ^a	98.14%	102.81%	103.23%	101.93%	98.43%
Growth rate of loans		17.76%	16.67%	17.50%	10.96%
Customer deposits to total funding	73.04%	74.33%	77.50%	82.29%	81.24%
Growth rate of customer deposits		12.41%	16.21%	19.00%	14.90%
Regulatory average liquidity ratio ^b	NA	111.79%	125.51%	143.54%	218.19%
Net stable funding ratio ^b	NA	115.44%	114.38%	123.54%	110.01%

FY = fiscal year, NA = not available.

^a Total loans and advances to deposits and other accounts.

^b BRAC Bank's reporting, based on the Basel III framework.

Source: BRAC Bank Annual Reports, Asian Development Bank calculations.

20. Customer deposits are the primary source of funding for BRAC Bank. They accounted for about 81% of total funding at the end of FY2019, with a steady increase from 73% recorded at the end of FY2015. BRAC Bank's customer deposits grew at an average of 15.63% from FY 2015 to FY2019, slightly below the average gross loan growth of 15.72% for the same period, resulting in a stable loans-to-deposits ratio (Table A1.8).

21. BRAC Bank has comfortably complied with the regulatory liquidity ratios (liquidity coverage ratio and net stable funding ratio). Both ratios remained above the required regulatory thresholds of 100% throughout the investment period.

22. BRAC Bank has always had a positive funding gap in buckets above 3 months. Most of it is observed in the period longer than 1 year, indicating the bank's need for longer-term funds to support its long-term assets. However, the situation improved during the investment period as the positive gap over 1 year as a percentage of total funding gap declined from 84.7% in 2015 to 66% in 2019, indicating better access to long-term debt.

Table A1.8: BRAC Bank Asset and Liability Maturity Analysis, 2015–2019
(Tk million)

2015	0–1M	1–3M	3–12M	1–5Y	5Y+	Total
Total assets	27,924	37,406	55,920	67,630	42,944	231,824
Total liabilities	33,772	33,471	50,906	66,035	27,446	211,630
Funding gap	(5,848)	3,935	5,014	1,595	15,498	20,194
% of total funding gap	(28.96%)	19.49%	24.83%	7.90%	76.75%	
% of total assets	(2.52%)	1.70%	2.16%	0.69%	6.69%	8.71%
Long-term (1Y & above)	84.64%					
2019	0–1M	1–3M	3–12M	1–5Y	5Y+	Total
Total assets	50,359	63,310	117,087	91,583	45,582	367,921
Total liabilities	46,158	65,858	105,936	78,190	34,118	330,260
Funding gap	4,201	(2,548)	11,151	13,393	11,464	37,661
% of total funding gap	11.15%	(6.77%)	29.61%	35.56%	30.44%	
% of total assets	1.14%	(0.69%)	3.03%	3.64%	3.12%	10.24%
Long-term (1Y & above)	66.00%					

() = negative, M = month, Y = year.

Note: Numbers may not sum precisely because of rounding.

Source: BRAC Bank Annual Reports.

Table A1.9: BRAC Bank Funding Mix, 2015-2019
(Tk million)

Sources	FY2015	FY2016	FY2017	FY2018	FY2019
Deposits and other accounts	150,221	168,860	196,224	233,509	268,309
Banks, FIs and agents	15,533	18,838	23,211	22,958	22,902
Bangladesh Bank	4,528	6,753	5,596	8,345	12,488
Convertible subordinate bonds	3,000	2,951	2,850	0	0
Money at call on short notice	3,780	1,304	2,700	0	1,274
Other liabilities	28,616	28,459	22,615	18,966	25,290

FI = financial intermediary, FY = fiscal year.

Source: BRAC Bank Annual Reports, Asian Development Bank calculations.

23. Long-term funding from international financial institutions helped BRAC Bank move toward a longer-term funding mix. RMG companies tend to prefer foreign currency loans, as RMG industry revenues are mostly denominated in foreign currencies. After receiving the ADB loan, BRAC Bank also had access to other international finance institution facilities such as a \$50

million loan from IFC in 2017 and a \$30 million loan from CDC Group (Commonwealth Development Corporation) in 2019.

FINANCIAL STATEMENTS

Table A2.1: BRAC Bank Statement of Financial Position, FY2015–FY2019
(Tk billion)

Balance Sheet	FY2015	FY2016	FY2017	FY2018	FY2019
Customer loans	147	174	203	238	264
Investments	20	22	25	26	50
Cash and equivalents	38	32	37	37	35
Fixed assets	3	3	4	4	8
Other assets	16	18	10	10	11
Total Assets	224	249	279	315	368
Total deposits	150	169	196	234	268
Other liabilities	35	34	28	18	27
Borrowings	20	25	29	31	35
Total Liabilities	205	228	253	283	330
Common stock	10	11	12	15	16
Reserves and surplus	9	10	14	17	22
Total Equity	19	21	26	32	38
Total Liabilities and Capital	224	249	279	315	368

FY = fiscal year.

Source: Audited financial statements of BRAC Bank, 2016–2020; Asian Development Bank.

Table A2.2: BRAC Bank Statement of Comprehensive Income, FY2015–FY2019
(Tk billion)

Income Statement	FY2015	FY2016	FY2017	FY2018	FY2019
Interest income	17	18	20	25	30
Interest expense	9	7	8	12	15
Net Interest Income	8	11	12	13	15
Net fee and commission income	3	3	3	3	3
Other operating income	5	8	9	10	12
Total Operating Income	14	16	19	19	21
Less: operating expenses	7	8	10	10	11
Pre-Provision Income	7	8	9	9	10
Provisions and contingencies	2	1	1	1	1
Pre-tax Income	5	7	8	8	9
Taxes	3	3	3	2	3
Net Income	2	4	5	6	6

() = negative, FY = fiscal year.

Sources: Audited financial statements of BRAC Bank, 2016–20; Asian Development Bank.

RESULTS AND RATINGS FOR PROJECT CONTRIBUTIONS TO PRIVATE SECTOR DEVELOPMENT AND ADB STRATEGIC DEVELOPMENT OBJECTIVES—FINANCIAL INTERMEDIARIES

Results Area	Actual Achievements	Rating	Justification	Potential Future Achievements	Risk
1. Financial institution and subborrower PSD effects					
1.1 Improved skills.					
i) Improved SME credit skills in the participant financial institution.	Corporate finance unit gained additional experience, especially in sustainable finance.	Satisfactory	Upgraded origination and monitoring processes to comply with E&S requirements		Low
(ii) Contribution via the participating financial institution(s) to improved subborrower skills in the operation of their businesses, e.g., via appropriate loan conditions and advisory services by the bank(s).	Requirement to meet Accord or Alliance standards and/or possess ETP imposed by BRAC Bank	Satisfactory	Improved operations by adopting required international standards		Low
1.2 Improved standards. Improved standards and practices with regard to corporate governance and transparency, stakeholder relations, and/or ESHS in participating financial institutions or subborrowers	100% compliance with Accord or Alliance standards required for RMG loans. 100% of RMG clients with dyeing or washing facilities required to have operational ETPs.	Satisfactory			Low
1.3 Innovation. Innovative ways of offering effective banking services to SMEs (including new products, services, and technologies)	BRAC Bank was built on innovative ways to meet the needs of “missing middle” SMEs. The ADB project focused on socially and environmentally sustainable finance for the textile and garment industry.	Satisfactory			Low
1.4 Catalytic element. Mobilizing or inducing more local or foreign market financing or foreign direct investment for the supported	Green and sustainable funds set up by others (Bangladesh Bank, FMO, USAID, etc.,)	Satisfactory			Low

Results Area	Actual Achievements	Rating	Justification	Potential Future Achievements	Risk
financial institution or subborrower					
1.5. Improved business performance. Expanded SME lending with good portfolio and subborrower performance. Expansion of market share.	The project helped BRAC Bank achieve rapid expansion of its sustainable finance business.	Satisfactory	BRAC Bank more than doubled its sustainable lending following the ADB loan.		Medium (could be affected by general problems in the economy as a result of COVID-19)
2. PSD effects beyond financial intermediaries and subborrowers					
2.1 Private sector expansion and institutional impact. (i) Contribution to an increased private sector share and role in the economy. (ii) Contribution to expanded SME lending in the financial system. (iii) Improved SME access to formal credit and banking services in the economy.	The project contributed to improved performance and prospects for the critical RMG industry in Bangladesh.	Excellent	International buyers of garments required adherence to satisfactory labor, health, safety, and environmental standards.		Medium (setbacks cannot be fully ruled out)
2.2 Competition. Enhanced competition in the microlending market segment among local banks or other types of financial institutions (including new product and service offerings, local-currency products) and/or contribution to increased competition in key subborrower markets.	Various credit and guarantee facilities have been established to provide sustainable financing for the RMG industry.	Satisfactory			Low
2.3 Demonstration effects. Replication of new ways of offering effective banking services to SMEs by other banks or institutions.		Not applicable			
2.4 Linkages. Contribution to local savings and deposit mobilization via networks of participant bank(s); contribution to notable	Growth in the RMG industry generates substantial linkages across the Bangladeshi	Satisfactory			Low

Results Area	Actual Achievements	Rating	Justification	Potential Future Achievements	Risk
upstream or downstream link effects to subborrowers' businesses in their industries or the economy.	economy, through export earnings and job creation for low-income groups and women.				
2.5 Catalytic element. Contribution to mobilization of other local or international financing for financial institutions with SME business, and by positive demonstration to market providers of debt and risk capital to SMEs.	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
2.6 Affected laws, frameworks, regulation. Contribution to (i) improved laws, regulation, and inspection affecting SME financing; or (ii) a more enabling environment for SMEs via lobby activity, policy dialogue, or otherwise.	Not applicable	Not applicable			
3. Contributions to other ADB strategic objectives					
3.1 Inclusion. Increased availability or reduced cost of financial services for the poor and other disadvantaged groups. Indirect inclusion benefits generated by subprojects and/or borrowers through forward or backward linkages to poor, female, or rural entrepreneurs; the provision of services or products for the poor, women, and rural populations; and employment of such groups.	Not applicable	Not applicable			Low
3.2 Job creation. Creation of additional sustainable jobs or self-employment. Distinguish between jobs created within supported FI, subborrowers, and beyond.	The project has supported RMG factories, the main source of industrial employment in Bangladesh, especially for women.	Excellent			Low
3.3. Environmental sustainability.	Sustainability has become a key	Satisfactory			Low

Results Area	Actual Achievements	Rating	Justification	Potential Future Achievements	Risk
Contribution to reductions in greenhouse gas emissions and other environmental improvements through relevant lending policies and practices, and targeting or allocations for borrowers with environmentally beneficial investments.	<p>objective and differentiating factor for BRAC Bank. It has become a leader in the field and was awarded the highest rating among Bangladeshi banks in the Carbon Disclosure Project.</p> <p>The construction of ETPs helps reduce water pollution and related health hazards.</p>				
3.4. Regional integration. Project contributions to regional cooperation and integration by facilitating trade or cross-border financial transactions.	Not applicable	Not applicable	Not applicable		Not applicable
3.5 Any other project development outputs and outcomes	Not applicable	Not applicable			
4. Overall Rating		Satisfactory			

ADB = Asian Development Bank; COVID-19 = coronavirus disease; E&S = environmental and social; ESHS = environment, social, health, and safety; ETP = effluent treatment plant; FI = financial institution; FMO = Netherlands Development Finance Company; IPO = initial public offering; PSD = private sector development; RMG = ready-made garment; SMEs = small and medium-sized enterprises; USAID = United States Agency for International Development.

DESIGN AND MONITORING FRAMEWORK

Results Chain	Performance Indicators	Target 2018	Baseline	Actual 2019
Outcome BRAC Bank's lending operations for social and environmental projects sustained	a. 100% of BRAC Bank's RMG clients have completed the safety remediation work required by the Accord or Alliance	100%	2016: 92.7%	2019: 100%
	b. 100% of BRAC Bank's RMG clients with dyeing or washing facilities have operational effluent treatment plant	100%	2016: 94.%. 2017: 94.7%	2019: 100%
	c. NPL ratio for the RMG portfolio is less than 2%	< 2%	2016: 0.38%	2017: 0.86% 2018: 1.50% 2019: 7.74%
	d. NPL ratio for the entire portfolio is less than 7.6%	< 7.6%	2016: 3.40%	2019: 3.99%
Outputs BRAC Bank's lending to safe garment factories and wastewater treatment plants expanded.	1a. BRAC Bank's lending program for sustainable projects increases to \$46 million	\$46 million	2014: \$16 million	2018: \$144 million 2019: \$190 million
	1b. 10 RMG factories are upgraded or expanded to the standards required by the Accord or Alliance by 2018	10	N/A	62
	1c. One new RMG factory that meets the Accord or Alliance standards is constructed by 2018	1	N/A	10
	1d. Development of five effluent or wastewater treatment plans in industry by 2018.	5	N/A	29
	1e. Improve working conditions for 22,000 women workers by 2018		N/A	> 25,000

NPL = nonperforming loan, RMG = ready-made garment, N/A = not applicable.
 Source: BRAC Bank, Asian Development Bank.

ENVIRONMENTAL AND SOCIAL IMPACT

A. Introduction

1. In compliance with the Safeguard Policy Statement (2009) of the Asian Development Bank (ADB), the ADB loan was categorized *financial intermediary* (FI) for all three safeguard categories: environment, involuntary resettlement, and indigenous peoples. The proceeds from the ADB loan were to be directed to the implementation of building safety improvements and expansion of ready-made garment (RMG) factories in Bangladesh based on the recommendations of either the Accord on Fire and Building Safety in Bangladesh (the Accord) or the Alliance for Bangladesh Worker Safety (the Alliance).¹ Subprojects categorized A for any of the three safeguard categories were not eligible for ADB financing. The Accord and Alliance were formed in the wake of two major industrial disasters: the 2012 Tazreen factory fire and the 2013 Rana Plaza building collapse. The new requirements led to increased costs for companies to comply with building safety improvements, particularly if construction or expansion were required. This created an opportunity for ADB to support the RMG industry in Bangladesh in complying with Accord or Alliance standards.

B. Review Findings

2. **Environmental and social management system.** Prior to ADB approving the project in 2015, BRAC Bank established an environmental and social risk management policy and procedures consistent with International Finance Corporation performance standards and Bangladesh Green Banking Policy as required by other lenders. In the due diligence conducted, ADB required BRAC Bank to enhance its environmental and social management system (ESMS) to include the following: (i) increase staff capacity to carry out both the assessment and progress of the safeguards and social monitoring, including aspects of labor conditions and fire protection; (ii) incorporate ADB's Prohibited Investment Activity List (PIAL) into BRAC Bank's exclusion list; (iii) enhance its screening process to incorporate ADB and other international finance institutions requirements; and (iv) improve monitoring by requiring subproject factories to submit clearances, updates on implementation of the corrective action plan (CAP) and an annual progress report. BRAC Bank adopted a separate ESMS to address environmental and social (E&S) impacts for ADB-funded subprojects. This ESMS required compliance with ADB's Safeguard Policy Statement, Accord or Alliance, international certification programs (based on buyers' requirements), and applicable regulatory requirements.

3. BRAC Bank's Board approved the ESMS prior to ADB's first disbursement. Subprojects with the following activities were excluded from ADB funding: (i) activities on the PIAL; (ii) activities classified by the Accord or Alliance as "high-risk" in their safety audit; (iii) activities categorized Red under the Bangladesh Environmental Conservation Rules, 1997; and (iv) zero-tolerance activities (forced labor, child labor, discrimination, disciplinary practices, nonpayment of minimum wages, human trafficking, harassment, restriction of workers' freedom to organize) identified through the buyer's report or an international accreditation program. BRAC Bank was required to obtain copies of the environmental compliance certificate and review the environmental assessment report of each subproject during due diligence to assess the factories' environmental

¹ The Accord is a 5-year independent, legally binding agreement between global (mostly European) brands and retailers and trade unions designed to build a safe and healthy Bangladeshi RMG industry. The Alliance was founded by a group of North American apparel companies and retailers; it is a binding, 5-year undertaking also designed to improve safety in Bangladeshi RMG factories. Both started in 2013 and continued until 2018. Accord work was extended up to 2020.

impacts. Due diligence was required to assess impacts on land acquisition, involuntary resettlement, and ethnic groups. Where due diligence identified such impacts, a social due diligence report was required. During monitoring, BRAC Bank was required to assess subprojects' ongoing environmental, health, safety, and labor performance; this was to be done through site visits using checklists, review of factories' annual environmental monitoring reports, status reports on Accord/Alliance CAP implementation, and buyers' annual labor-audit reports.

4. **Compliance with ADB safeguards and social protection requirements and local environmental and labor regulations.** BRAC Bank submitted its first annual E&S monitoring report to ADB in 2017 for the reporting period January–December 2016. The bank reported that the ADB loan proceeds had been used to support three subprojects—Energypac Fashion Limited (Energypac), Raquef Washing and Packaging Industries Limited (Raquef), and Graphics Textile Limited (Graphics). In the same year, ADB engaged an external consultant to audit BRAC Bank's E&S performance against the requirements of its ESMS, including review of E&S due diligence reports and annual E&S monitoring reports, and visits to the three subproject sites. The subprojects were confirmed as category B for environment. The project did not entail involuntary resettlement or indigenous peoples impacts. The audit confirmed that the three subproject factories were located on land owned by the companies, and that expansion activities were being implemented within the companies' own facilities and did not require additional acquisition of land.

5. ADB shared the audit results with BRAC Bank, highlighting the following key findings that required BRAC Bank to improve its ESMS and/or its implementation: (i) BRAC Bank lacked knowledge of the detailed E&S impacts associated with each subproject, which the bank was meant to gather through review of relevant documents (e.g. local environmental impact assessment reports, buyers' audit reports); (ii) there was potential improper use of proceeds for expansion at Raquef; (iii) BRAC Bank failed to prepare E&S annual site visit monitoring reports to assess subprojects' ongoing E&S performance; (iv) the annual E&S monitoring report submitted by BRAC Bank to ADB lacked details on ESMS implementation; and (v) contractual agreement clauses related to E&S information on the subprojects appeared to be unenforced in several cases. The audit also noted that the ESMS had no specific reference to the following: (i) social protection requirements; (ii) local labor laws; (iii) local discrimination laws; (iv) local industrial relations awards; and (v) laws related to involuntary resettlement and indigenous peoples.

6. The external expert also prepared a CAP to address the findings of the audit. The external expert provided additional recommendations to ensure that relevant BRAC Bank staff received ESMS training and that the ESMS was updated to include new local laws and regulations and a requirement that CAPs be implemented for any additional instances of noncompliance with environmental, health, and safety requirements that may be noted during ADB's annual site visits. BRAC Bank was not able to complete the CAP within the original specified timelines and requested an extension. ADB's E&S team conducted an annual monitoring mission in September 2018 to assist BRAC Bank in addressing the remaining corrective actions. ADB met with the bank's E&S team and discussed the ESMS, ADB's Safeguard Policy Statement, challenges in ESMS implementation, and the external auditor's findings and CAP. It was observed that BRAC Bank was not diligently monitoring the implementation of their CAP. ADB also visited the three subprojects and found that all documents required under the ESMS were available at the factories; these were duly shared with ADB.

7. About 45% of the CAP items were closed out after the 2018 annual E&S monitoring mission. BRAC Bank's action to address the remaining CAP items was slow throughout the succeeding year, and again the bank was unable to meet the revised timelines. The 2019 annual

E&S monitoring mission was limited to Graphics and Energypac site visits because of commercial issues with Raquef. However, BRAC Bank provided supporting documents that indicated that Raquef's use of proceeds complied with the legal agreement, and therefore findings in relation to this item were dropped.

8. The 2019 annual E&S mission noted the following in relation to the Energypac and Graphics subprojects: (i) they had allocated sufficient resources within their factories to meet Bangladesh regulatory requirements and international requirements as required by their buyers; the subprojects' wastewater and air emissions had been monitored against World Bank Group standards, and occupational health and safety performance had been assessed against Occupational Safety and Health Administration Standards; (ii) they had engaged external experts to carry out annual monitoring of their environmental, health, and safety performance and conduct health- and safety-related training; and (iii) they had installed all safety equipment in accordance with the Accord CAP, but subprojects had not received Accord CAP completion certification because of a delay in Accord's final verification activity. The subprojects had encountered issues with the Accord as for every visit they sent new engineers, who would come up with additional findings every time; the subprojects found this to be overly burdensome and a waste of funding.

9. ADB confirmed that both Energypac and Graphics complied with national labor policies and regulations, as well as internationally recognized core labor standards. Both factories only employ staff who are 18 or above, do not employ forced labor, and have established participation committees in compliance with the Bangladesh Labor Act, 2006 (sections 205–208) as amended in 2013. These committees essentially act as platforms for social dialogue and comprise owners' representatives and elected workers' representatives. The number of owners' representatives cannot exceed the number of workers' representatives. The committees' functions are to: (i) promote mutual trust, understanding, and cooperation; (ii) ensure application of labor laws; (iii) foster a sense of discipline, and improve and maintain safe and healthy working conditions; (iv) encourage vocational training, workers' education, and family welfare training; (v) adopt measures to improve welfare services for workers and their families; and (vi) meet production targets and improve productivity.² Workers were also interviewed during the visit and confirmed that they receive wages aligned with the minimum wage, with leaves, bonuses, and regular 8-hour working days.

10. About 80% of the CAP was closed after the 2019 annual review mission. ADB assisted BRAC Bank in revising the ESMS for ADB-funded projects in November 2019 to fully close out the CAP items from the external audit. Appendix 3, Environmental and Social Risk Assessment Tool of the ESMS, was revised to include assessment of subprojects' compliance with labor-related issues and applicable land acquisition, involuntary resettlement, indigenous peoples, and cultural heritage laws. However, this was no longer enforced as BRAC Bank subsequently prepaid ADB's loan in January 2020 as it found ADB's requirements burdensome. BRAC Bank remained cooperative even after prepayment and reported in July 2020 that both Energypac and Graphics had received Accord CAP completion certification, while Raquef had a pending certification before the Accord was shut down in May 2020. A national collaborative committee with representatives from brands, unions, and industry leaders took over the Accord's monitoring responsibility.³

² *Textile Today*. 2010. Solving Labour Disputes Though Participation Committees. 1 September. https://www.textiletoday.com.bd/solving-labour-disputes-though-participation-committees/?fbclid=IwAR14Cu15rwbe_oeM4Y8B27-Z_yz3l3Ch7G2f918xtZlZ98Rd67w82NJEkhw.

³ <https://www.thedailystar.net/business/accord-finally-leave-bangladesh-in-may-1854739>.

11. BRAC Bank has a designated E&S manager with experience implementing regulatory E&S requirements. However, the E&S team's monitoring of subproject E&S impacts tended to focus only on requirements of the corporate E&S risk management policy and procedures, which mainly incorporate local regulations, while overlooking the additional requirements of the ESMS for ADB-funded subprojects. BRAC Bank E&S team stated that there are no environmental requirements for renovation and expansion works in Bangladesh, as had been used consistently to explain why EIA monitoring reports were not reviewed. The annual E&S monitoring report that BRAC Bank submitted in 2017 contained information gaps, as noted by the external auditor in its first annual monitoring report. Through calls and on-site discussions during review missions, ADB guided the bank to obtain the proper information and improved its succeeding E&S monitoring reports. BRAC Bank finally submitted the 2019 E&S monitoring report in July 2020 after a delay caused by the coronavirus disease (COVID-19) pandemic.

C. Conclusion

12. Subproject E&S performance was compliant with BRAC Bank's ESMS requirements, which is due to the alignment of the ESMS requirements with the requirements of the subprojects' multiple buyers. Although BRAC Bank complied with its obligation to submit annual E&S monitoring reports to ADB, the bank's performance in implementing the ESMS was inadequate as per ADB requirements. It generally conducted high level review of its subprojects' compliance with local regulatory requirements instead of detailed E&S review of subprojects required to demonstrate full compliance with the ESMS that evolved over time due to the findings of the external E&S audit required by ADB. Therefore, the overall environmental, social, health, and safety performance of BRAC Bank is rated *less than satisfactory*.

IMPLEMENTATION OF GENDER ACTION PLAN AND ACHIEVEMENTS

A. Introduction

1. The BRAC Bank Sustainable Projects in Bangladesh was categorized *effective gender mainstreaming*. The project financed the construction or expansion of ready-made garment (RMG) factories that meet the stringent structural, fire, and electrical safety standards required by the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety. BRAC Bank committed to implement a comprehensive, time-bound, measurable gender action plan (GAP)¹ with the following measures: (i) 100% of garment factory subborrowers to integrate separate toilet facilities for women and men in building designs; (ii) 100% of garment factory subborrowers to provide day-care facilities for mothers working at the garment factories; (iii) fire safety training to be conducted for 100% of women and men workers in the garment factories; (iv) building safety training to be conducted for 100% of women and men workers in the garment factories; (v) 100% of garment factory subborrowers to integrate adequate health center sections for women and men in building designs; and (v) BRAC Bank to establish a database to monitor gender indicators. Further details are in the Gender Action Plan Implementation and Achievement Matrix (Table A6.1).

B. Key Gender Issues

2. The more than 4,500 garment factories in Bangladesh play a vital role in the country's economy as they are a major source of both employment and foreign currency. At the time of project inception, the industry constituted about four-fifths of the country's manufacturing exports.² Nearly 80% of the 4.2 million garment workers in Bangladesh were young women.³ The Tazreen Fashions factory fire, which killed 112 people in 2012 (footnote 2), and the Rana Plaza building collapse, which killed more than 1,000 and injured 2,500 people in 2013,⁴ touched off an unprecedented effort by the government, garment buyers, and international organizations to improve workplace safety and workers' rights in the RMG industry. The proposed project was designed to support the improvement of RMG factories in Bangladesh and benefit the significant proportion of female workers in the industry.⁵

C. Gender Action Plan Achievements

3. As shown in Table A6.1, the project is rated *successful* overall in delivering the intended gender equality results, based on: (i) 100% (1/1) of activities under the GAP were implemented and completed; (ii) 100% (5/5) of quantitative targets under the GAP were fully met; and (iii) sex-disaggregated data on garment factory workers were provided as of December 2019. The project significantly contributed to achieving gender equality. Specifically, the three subborrowers of the ADB funds—Energypac Fashion Limited (Energypac), Graphics Textiles Limited (Graphics), and Raquef Washing and Packaging Industries Limited (Raquef)—provided separate toilet facilities for women and men workers, day-care facilities for working mothers, and adequate health centers

¹ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to BRAC Bank for Sustainable Projects in Bangladesh*. Gender Action Plan (accessible from the list of linked documents in Appendix 2). Manila.

² J. A. Manik and J. Yardley. 2012. Bangladesh Finds Gross Negligence in Factory Fire. *The New York Times*. 17 December.

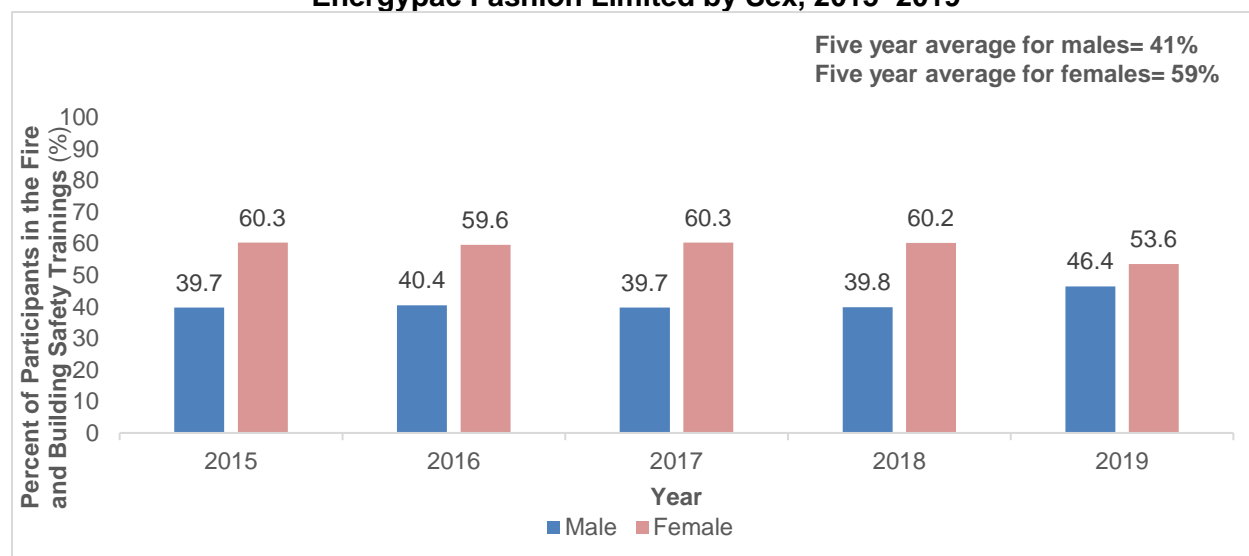
³ IFC. 2014. *Transforming Bangladesh's Garment Sector*. Washington. Statistics on female workers are estimates from the Bangladesh Garment Manufacturers and Exporters Association.

⁴ *BBC News*. 2013. Bangladesh Factory Collapse Toll Passes 1,000. 10 May.

⁵ Footnote 1, Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

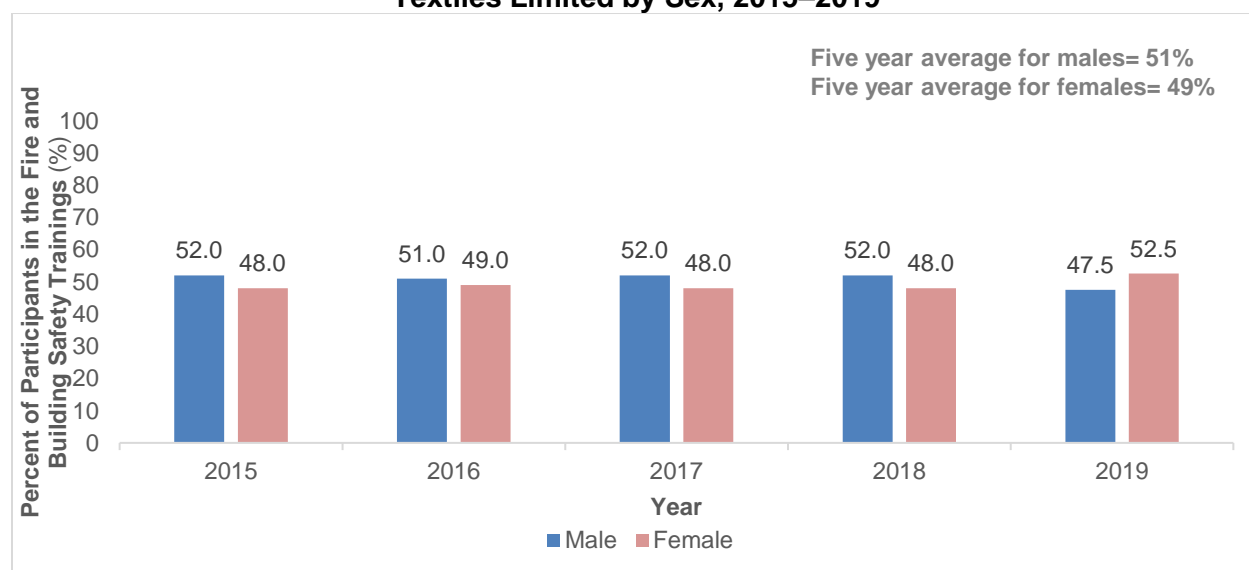
for women and men; and conducted fire and building safety training for all male and female workers in the garment factories (Figure A6.1, Figure A6.2, and Figure A6.3). In addition, BRAC Bank established a database to monitor gender indicators.

Figure A6.1: Participants in the Fire and Building Safety Training Conducted by Energypac Fashion Limited by Sex, 2015–2019



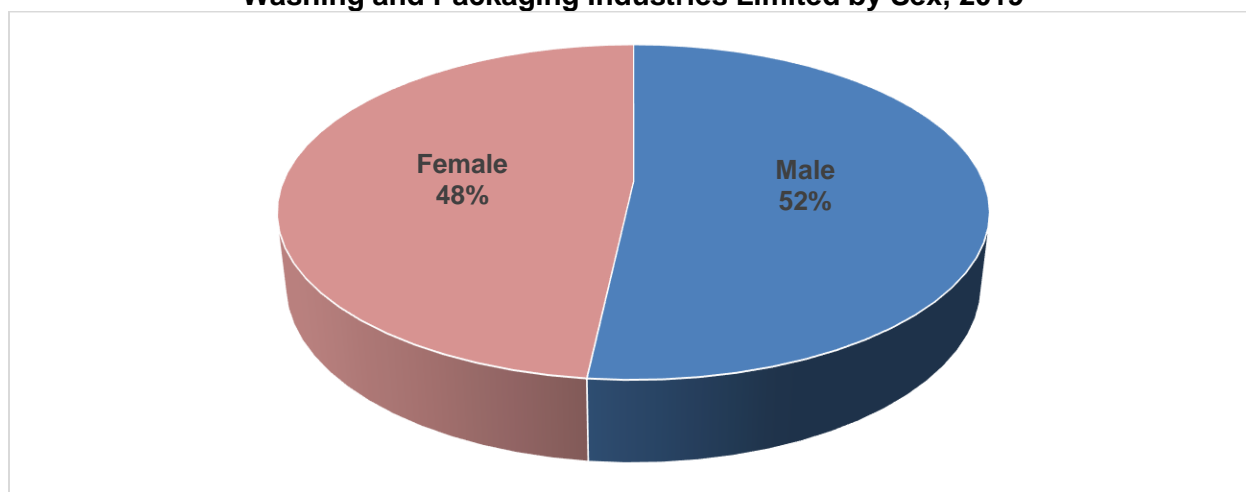
Note: Energypac Fashion Limited's fire building safety training covered all of its garment workers.
Source: BRAC Bank. 2020. *Gender Action Plan Report as of 14 July 2020*. Bangladesh.

Figure A6.2: Participants in the Fire and Building Safety Training Conducted by Graphics Textiles Limited by Sex, 2015–2019



Note: Graphics Textiles Limited's building safety training is a component of its fire safety training module.
Source: BRAC Bank. 2020. *Gender Action Plan Report as of 14 July 2020*. Bangladesh.

Figure A6.3: Participants in the Fire and Building Safety Training Conducted by Raquef Washing and Packaging Industries Limited by Sex, 2019



Source: BRAC Bank. 2020. *Gender Action Plan Report as of 14 July 2020*. Bangladesh.

D. Strategic and Practical Gender Benefits

4. The project delivered strategic gender benefits that are aligned with the following pillars of ADB's Strategy 2030 Operational Plan for Priority 2 (OP2)—Accelerating Progress in Gender Equality: increasing women's economic empowerment (by providing jobs to Bangladeshi women in the RMG industry), and reducing time poverty and drudgery (by providing gender-responsive infrastructure like day-care facilities for mothers working at the garment factories). The latter is expected to produce positive changes in the distribution of household care and domestic work between women and men, as the project enabled women to participate in the empowering activity of earning an income.

5. The remainder of project's gender measures produced practical benefits that were aligned with a third pillar of OP2—enhancing gender equality in human development. Such benefits included increased women's participation in training, which led to greater awareness of fire safety and building safety protocols at the garment factories; improved access to women's health services; and separate toilet facilities for women in the workplace. Furthermore, BRAC Bank improved the monitoring of implementation of these measures.

E. Lessons and Recommendations

6. The key lesson from this project is that requiring higher working standards through the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety, as part of additionality in financing agreements, was an effective mechanism to improve the health, occupational safety, and childcare needs of garment workers. This led to strategic and practical gender benefits for women given their high participation rate as workers in the RMG industry in Bangladesh.

F. Table A6.1: Gender Action Plan Implementation and Achievement Matrix

Measure/action	Activities, Indicators, and Targets	Results and Status upon XAR (July 2020)
1. Garment factory subborrowers to integrate in the building design a provision of separate toilet facilities for women and men	T1: 100% of garment factory subborrowers	Achieved. From 2015 to 2018, all (100%) garment factory subborrowers of BRAC Bank—Energypac Fashion Limited (Energypac), Graphics Textiles Limited (Graphics), and Raquef Washing and Packaging Industries Limited (Raquef) provided separate toilet facilities for women and men workers.
2. Provision of day-care facilities for mothers working at the garment factories	T2: 100% of garment factory subborrowers	Achieved. From 2015 to 2018, all (100%) garment factory subborrowers of BRAC Bank—Energypac, Graphics, and Raquef—provided day-care facilities for mothers working at the garment factories.
3. Fire safety training conducted for women and men workers in the garment factories	T3: 100% of garment factory male and female workers	Achieved. From 2015 to 2019, Energypac, Graphics, and Raquef, conducted fire and building safety training among 100% of male and female workers of their garment factories. Data for 2015–2019 showed that women (59%) had higher average participation rates than men (41%) in fire and building safety training conducted by Energypac; but women had slightly lower average participation rates than their male counterparts in fire and building safety training conducted by Graphics (49% versus 51%) and Raquef (48% versus 52% [2019]). Trainings were continuous (year-round) and covered all workers.
4. Conduct building safety trainings for women and men workers in the garment factory	T4: 100% of garment factory male and female workers	
5. Garment factory subborrowers to integrate adequate health center sections for women and men in the building design	T5: 100% of garment factory subborrowers	Achieved. From 2015 to 2018, all (100%) garment factory subborrowers of BRAC Bank—Energypac, Graphics, and Raquef—built health center sections for women and men working at their garment factories.
6. BRAC Bank to establish database to monitor gender indicators	A1: Establishment of database incorporating gender indicators by 2016	Implemented. BRAC Bank completed the establishment of database to monitor gender indicators in 2019. For instance, sex-disaggregated data for all GAP indicators were maintained and monitored in the databases of Energypac, Graphics, and Raquef factory workers.

GAP = gender action plan.

Source: BRAC Bank. 2020. *Gender Action Plan Report as of 14 July 2020*. Bangladesh.