

A. Introduction and Scope

1. This Framework describes environmental and social safeguard requirements pertaining to relevant national laws and regulations, as well as ADB's Safeguard Policy Statement (SPS, 2009) as set out in **Annexure-A**.
2. Considering the SBP's Green Banking Guidelines (SBP Circular 08 issued in October 2017 as well as subsequent SBP instructions), PFIs/ BFIs will be responsible to avoid adverse environment and social impacts as defined therein.
3. This document defines required policies and processes for screening and identifying adverse environmental and social impacts and avoiding associated risks that may result from lending to sub-borrowers under WMCGF. It has the following elements:
 - (i) Compliance with environmental and social safeguards based on applicable national laws.
 - (ii) Identification of environmental and social risks and adverse impacts and categorization of sub-loans based on nature of activities, scale of operations, technology, locations, significance and severity of risks and impacts.
 - (iii) Avoidance of environmental and social safeguards risks and impacts through exclusion of such activities, unless impacts are considered minor.
 - (iv) Staffing and related skills required.

B. Legal Frameworks for Environmental and Social Safeguards

National and Provincial Environmental Laws

4. This section provides an overview of relevant legislation (both federal and provincial) applicable for the mitigation of environmental impacts. Any loan application considered from the end borrowers (sub-loan) needs to comply with applicable environmental policies, acts, and guidelines, issued by Pakistan's national and provincial governments.
5. With the 18th Constitutional Amendment in 2010, the environment, as a subject, has been fully devolved to the provinces and the environmental legislation is a provincial responsibility.

Provincial Environmental Acts

6. The following provincial environmental acts are in effect:
 - Sindh Environmental Protection Act, 2014
 - Punjab Environmental Protection (Amendment) Act, 2017
 - Baluchistan Environmental Protection Act, 2012
 - Khyber Pakhtunkhwa Environmental Protection Act, 2014
7. Each provincial act defines requirements for environmental assessment and due diligence within public and private sector investments and operations.

Provincial Acts to prevent Child Labor

8. The following acts are in effect to prevent child labor:
 - Punjab Restriction on Employment of Children Act, 2016
 - Khyber Pakhtunkhwa Prohibition of Employment of Children Act, 2015
 - Baluchistan Employment of Children (Prohibition & Regulation) Act, 2021
 - Sindh Prohibition of Employment of Children Act, 2017
9. These acts state that no child shall be employed or permitted to work in any of the occupations or any workshop as set forth in these acts (such as transport sector, railways, construction, and ports).

Prohibited child labor activities include carpet weaving, biri (kind of a cigarette) making, cement manufacturing, textile, construction, mining, working in kilns and others).

Provincial Workers' Compensation Acts

10. The following acts are in effect related to workers' compensation:

- Punjab Workmen's Compensation (Amendment) Act, 2013
- KPK Workers Compensation Act, 2013
- Sindh Workers Compensation Act, 2016
- Baluchistan The Workmen Compensation Act, 1923

11. These acts deal with compensation by the employers to workers related to accidents during work. These acts are relevant to BFIs and their sub-borrowers.

Provincial Factories Acts

12. The following acts are in effect relating to factories:

- Sindh Factories Act, 2015
- KPK Factories Act, 2013
- Baluchistan Factories Act, 2021
- Punjab Factories (Amendment) Act, 2012

13. The factories acts provide that no adult worker shall be allowed to work in a factory for more than 48 hours per week; if the factory is seasonal, 50 hours per week are permitted and if the work is of a continuous nature, up to 56 hours per week are permitted. Daily hours may not exceed 9 hours or in case of seasonal work 10 hours.

C. Categorization of Sub-Loans and Reporting Requirements

Environmental Safeguards

14. BFIs shall screen environmental impacts for each sub-loan as to its type, location, scale, and sensitivity and the magnitude of its potential environmental impacts. Environmental impacts include those related to the natural environment (air, water and land), human health and safety aspects.

Social Safeguards

15. Social Safeguards in this policy entail Involuntary Resettlement (IR) and Indigenous Peoples (IP) under ADB's SPS 2009.

Involuntary Resettlement

16. The Constitution of Pakistan (1973) protects individual property rights in Article 24 as follows: "no person shall be deprived of his/ her property save in accordance with law" (Article 24(1)), and "no property shall be compulsorily acquired or taken possession of save for a public purpose, and save by the authority of law which provides for compensation therefor and either fixes the amount of compensation or specifies the principles on and the manner in which compensation is to be determined and given" (Article 24(2)).
17. Further, Article 4(2a) reiterates the right of the people by stating that "No action detrimental to the life, liberty, body, reputation or property of any person shall be taken except in accordance with law". Further, the Land Acquisition Act, 1894 (LAA) provides for acquisition of land and compensation to the titleholders.

18. ADB's SPS relates to IR via relocation or loss of shelter or related economic impacts such as loss of assets or access to assets that lead to loss of income or means of livelihood through: (i) expropriation based on eminent domain, (ii) expropriation resulting from the absence of a negotiated settlement, or (iii) clearance of assets established on publicly owned land and public right of way. It does not apply to physical displacement or resettlement resulting from voluntary land transactions.
19. BFIs may not fund any activities of sub-borrowers involving IR.

Indigenous Peoples (IPs)

20. Although the Government of Pakistan (GOP) does not explicitly recognize IPs, Article 36 of the Pakistan Constitution requires the authorities to safeguard the legitimate rights and interests of minorities. While Pakistan does not have national policies on indigenous and tribal peoples, it ratified the International Labor Organization (ILO) Convention 107 on Indigenous and Tribal Populations in 1960.
21. ADB's SPS relating to IPs ensures that the design and implementation of ADB funded projects foster full respect for IPs' identity, dignity, human rights, livelihood and cultural uniqueness as defined by IPs to receive appropriate social and economic benefits and avoid harm by ADB funded projects.
22. To avoid any adverse IP impacts under the ADB funded programs, the BFIs will not fund activities of sub-borrowers in the settlement areas of the Kalash located in the Chitral region and the 'Makranis', residing along the Makran coast.
23. PFIs to ensure submission of the ESMF reports on sub-loans issued under the Scheme as per their reporting arrangements with the BFIs, including their risk classification. A list of typical sub-loan activities considered acceptable (classified 'C' under the ADB's SPS) is provided in Annexure-B.

Responsibilities of BFIs

24. The ESMF will be maintained by each BFI to ensure that:
 - i. Sub-borrower has provided to the Credit officer or Relationship Manager relevant documentation and official permits related to the operation of a sub-project.
 - ii. Credit Officer or Relationship Manager or authorized official has properly screened and categorized sub-loans, and eliminated any ineligible sub-loans as stated in **Annexure-C** and category 'A' or 'B' sub-loans before submission to the credit committee.
 - iii. Proper auditing is performed in the context of regular internal audit function to ensure that the categorization complies with this ESMF and that any issues are reported and addressed by management.
 - iv. Are able to represent compliance with this ESMF in their annual report to SBP through PFIs.

Staffing of BFIs

25. Each BFI will have the following focal staff for implementation of this ESMF:
 - i. Relationship Manager or authorized official will screen each sub-loan request against the PIAL and classify each sub-loan to ensure that only category 'C' sub-loans are submitted for approval.
 - ii. Risk Officer who also covers the safeguard function will review the credit proposal of the credit officer before submission to the credit committee to ensure compliance with applicable laws and this ESMF.
 - iii. The internal audit function will periodically audit related credit operations, including compliance with the ESMF.

D. Environmental and Social Compliance through Screening

26. BFIs shall use the following process to comply with (i) national safeguard systems and (ii) ADB's SPS

(2009).

- a) The BFI will screen each sub-loan prior to funding against the Prohibited Investment Activities List (PIAL, **Annexure-C**) to exclude funding under the Scheme.
- b) After PIAL screening, proposed sub-loans will be screened to ensure that only sub-loans categorized 'C' are admitted for processing to classify the expected environmental, IR and IP impacts. A screening checklist on Environment, IR and IP risks is provided as **Annexure-D**.
- c) The sub-loan screening will:
 - i. identify specific (physical, biological, social, cultural) risks.
 - ii. determine land ownership, the need for land transactions and possible impacts on livelihoods.
 - iii. identify vulnerable groups that require special attention.
 - iv. Identify IP presence and determine any potential impacts on the communities.

Sub-loan categorization

27. Environmental Impacts Category C: Only proposed sub-loan activities that are not in close proximity to any environmentally sensitive area or religious or cultural site, and there are low or temporary environmental impacts can be categorized as 'C' and be eligible for financing.
28. IR Category C: Only proposed sub-loan activities that do not involve IR can be categorized as 'C' and be eligible for financing.
29. IP categorization Category C: Only proposed sub-loan activities that are not located in the Kalash and Makrani coast can be categorized as 'C' and be eligible for financing.

Table 1: Sub-loan Proposal Eligibility for Financing

	Environmental Categorization	IR Categorization	IP Categorization
A	Significant environmental impacts; <i>Not eligible for financing</i>	Significant IR impacts (200 or more persons); <i>Not eligible for financing</i>	Significant impacts; <i>Not eligible for financing</i>
B	Less significant, site- specific environmental impacts; <i>Not eligible for financing</i>	Less significant IR impacts; <i>Not eligible for financing</i>	Insignificant impacts; <i>Not eligible for financing</i>
C	Low or no impact; compliance with national laws & regulations required <i>Eligible for financing</i>	No impact; no monitoring requirement <i>Eligible for financing</i>	No impact; no monitoring requirement <i>Eligible for financing</i>

Compliance Monitoring and Reporting

30. For category 'C' classified sub-projects, on-site supervision is not necessary.
31. BFIs will ensure that the consolidated screening checklists are systematically filed. These documents will be made available to their internal audit, SBP and ADB on request. ADB may conduct periodic review missions which may include review of screening checklists in its performance audit function.
32. PFIs to submit consolidated annual environmental and social performance report as per Annexure E. In the annual reports, PFIs will confirm that only sub-projects categorized as 'C' for environment with no impacts on IR and IP, have been financed.

Grievances

33. The sub-loan borrowers may submit any grievance through BFIs'/PFIs' established grievance processes in compliance with SBP/ SECP regulations.

ANNEXURE-A: Key applicable ADB Safeguard Policies

1. Where investments of the BFIs have minimal or no adverse social or environmental risks, the project will be treated as category C project and need not apply any other specific requirements.
2. BFIs screening procedure will ensure that all subprojects are screened against the prohibited investment activities list (**Annexure-C**).
3. Sub-projects involving business activities included in the prohibited investment activities list do not qualify for PFIs support and applications involving such activities will be rejected.
4. BFIs will appoint a member of its management or one or more staff responsible for day-to-day implementation of the ESMF to have overall responsibility for environmental and social impacts under the project.
5. Where the subprojects financed have potential for significant environmental or social impacts, the PFIs will disqualify such subprojects.

ANNEXURE-B: Typical Sub-Loan Activities

Trade
Textiles, clothing, shoes
Food, Drinks
Production and sale of consumer goods
Stationary
Electronic appliances
Furniture
Vehicles and spare parts
Construction materials
Pharmacy
Equipment/ machinery for production
Oil products
Services
Photographs
Secretarial and translation activities
Lawyers, Legal advice
Accounting, Audit, Tax consultancy
Market research and public opinion polling
Architects and Engineers
Advertising and PR
Security Services
Industrial Cleaning
Hospital, clinic services
Medical services
Veterinary services
Education, school, social work, kindergarten
Other Social Services
Travel and ticketing services
Restaurant, Café, Bar, Canteen, Catering
Sports and Fitness
Motion picture and video production
Radio and television, film, music production
Literature publication, library, and archive services
Beauty, Hair
Repair and renovation of household goods
Telephone, Internet Provider, social media services
Agriculture
Fruits and Nuts
Vegetables and Horticulture
Cereals
Cotton
Rice
Tea/ Tobacco
Other crop growing
Forestry and Logging
Cattle and dairy farming
Sheep, Goats, horses, poultry, bee keeping
Fish breeding
Agriculture related services and agricultural inputs

ANNEXURE-C: Prohibited Investment Activities List (PIAL)

The following do not qualify for financing:

- (i) Production or activities involving harmful or exploitative forms of forced labor¹ or child labor²;
- (ii) Production of or trade in any product or activity deemed illegal under Pakistan's laws or regulations or international conventions and agreements or subject to international phase outs or bans, such as (a) pharmaceuticals³, pesticides, and herbicides⁴, (b) ozone-depleting substances⁵, (c) polychlorinated biphenyls⁶ and other hazardous chemicals⁷, (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora⁸, and (e) transboundary trade in waste or waste products⁹
- (iii) Production of or trade in weapons and munitions, including paramilitary materials;
- (iv) Production of or trade in all types of alcoholic beverages,
- (v) Production of or trade in tobacco¹⁰;
- (vi) Gambling, casinos, and equivalent enterprises¹¹;
- (vii) Production of or trade in radioactive materials¹², including nuclear reactors and components thereof;
- (viii) Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations;
- (ix) Production or activities involving harmful or exploitative forms of forced labor or harmful child labor;
- (x) Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement;
- (xi) Any activities involving significant degradation or conversion of natural and/or critical habitats and/or any activities in legally protected areas;
- (xii) Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes, and so on);
- (xiii) Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by Indigenous Peoples;
- (xiv) Activities involving significant adverse impacts on critical cultural heritage;
- (xv) Activities resulting in conflicts between different castes or religious sects;
- (xvi) Activities resulting in loss of trees;
- (xvii) Activities resulting in contamination of groundwater and/or surface water bodies;
- (xviii) Activities threatening the safety of communities;

¹ Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

² Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" (www.ilo.org).

³ A list of pharmaceutical products subject to phaseouts or bans is available at <http://www.who.int>.

⁴ A list of pesticides and herbicides subject to phaseouts or bans is available at <http://www.pic.int>.

⁵ A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phaseout dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>.

⁶ A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

⁷ A list of hazardous chemicals is available at <http://www.pic.int>.

⁸ A list is available at <http://www.cites.org>.

⁹ As defined by the Basel Convention; see

¹⁰ This does not apply to subproject sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a subproject sponsor's primary operations.

¹¹ This does not apply to subproject sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a subproject sponsor's primary operations.

¹² This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which the radioactive source to be trivial and adequately shielded.

- (xix) Production or trade in or use of non-biodegradable packaging material such as polythene bags and Styrofoam;
- (xx) Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction;
- (xxi) Prospection, exploration and mining of coal; land-based means of transport and related infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines;
- (xxii) Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands;
- (xxiii) Production of, trade in, or use of unbonded asbestos fibers¹³;
- (xxiv) Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests; and
- (xxv) Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.
- (xxvi) Additionally, in the Pakistani context, borrowers will not be allowed to:
 - Engage in cultivation, processing, and sale of poppy and/ or other illegal addictive substances (for example, heroin, hashish, opium, bhang).
 - Sale of addictive substances such as tobacco, gutka, niswar, cigarettes, beeri, hukka, paan parag, sheesha and any other products containing such substances to persons under the age of 18
 - Illegal wood extraction
 - Hunting, poaching and fishing in protected areas
 - Informal cross-border trade
 - Smuggling or sale and handling of smuggled goods.

¹³ This does not apply to the purchase and use of bonded asbestos content sheeting where the asbestos content is less than 20%.

ANNEXURE-D: Sub-Loan Environment & Social Safeguards Screening Checklist

(To be used by the BFIs for assessing and verifying each sub-loan)

Name of BFI:

Date of Screening (D/M/Y):/...../.....

Section A: Basic information

Borrower Name:

Location: Union Council:

District:

Section B: Checklist for Environmental Screening¹⁴

S. No.	Intervention Issues	Yes	No	N/A	Remarks
1	Will the subproject be in an area exposed to climate change related risks (ex. floods, droughts, cyclones etc.)?				
2	Will the subproject cause high air pollution?				
3	Will the subproject cause high noise pollution disturbing nearby communities and biodiversity (birds)?				
4	Will the subproject result in loss of topsoil?				
5	Are there Sensitive Receptors near the Subproject Site (Hospitals, Schools, and Residences)?				
6	Eligible for Financing				
		Environment: (A,B,C)	IR: (A,B,C)	IP: (A,B,C)	
7. Safeguards Category					

Prepared by
Relationship Manager

Checked by
Risk Officer

Approved by Credit Committee

Note: ESMF screening and categorization responsibilities rest with the sub-loan originator/BFI, while banks/DFIs shall ensure compliance through covenants and agreed reporting mechanisms.

¹⁴ The responses to the screening questions are to be provided in a qualitative context based on the scope, scale and sensitivity of the proposed sub-loan activity and as a result, a category for Environment, IR and IP will be assigned.

ANNEXURE-E: Annual Environmental & Social Safeguards Report

(To be submitted by the PFIs on behalf of the BFIs)

Please include additional sheets or attachments as required to provide details.

Name of BFI		
Completed by (name):		
Position in organization:		Date:
Reporting period	From:	To:

A. Sub-loans processed during the reporting period

Sector	Sub-loan Volume (PKR 000)	No. of Sub-loans disbursed	Safeguard Category			Environmental, IR or IP issues and actions taken
			Env	IR	IP	

Env = environment, IR = involuntary resettlement, IP = indigenous peoples

B. Additional Information for the Reporting Period

1. Please provide details of any sub-projects where field visit(s) were conducted to review aspects, including social and environmental issues.

- 1.
- 2.
- 3.
- 4.
- 5.

2. Please provide details of any accidents/ litigation/ complaints/ regulatory notices and fines, their causes and corrective actions taken.

- 1.
- 2.
- 3.
- 4.
- 5.

Note: ESMF screening and categorization responsibilities rest with the sub-loan originator/BFI, while Banks/DFIs shall ensure compliance through covenants and agreed reporting mechanisms.