

SAFEGUARDS AND SOCIAL DIMENSIONS SUMMARY

A. Safeguards

1. The proposed Asian Development Bank (ADB) assistance to Khan Bank is a senior unsecured \$40 million loan for a tenor of 5 years for the exclusive purpose of funding micro, small, and medium-sized enterprises (MSMEs) in Mongolia to support MSME growth. The investment is classified category FI for environment, involuntary resettlement and indigenous peoples. No subprojects classified category A for environment and category A and B for involuntary resettlement and indigenous peoples safeguards will be financed under the ADB loan.

2. Khan Bank's Environmental and Social Policy, 2011 requires the bank to (i) conduct all operations, products, and services provided to the public keeping in mind environment and social aspects and adhering to the laws of Mongolia; (ii) implement policy provisions with respect to environmental and social issues associated with Khan Bank's operations; (iii) comply with Mongolian laws, social welfare, and children's right laws; (iv) comply with the environmental and social standards and requirements of international financial institutions for activities carried out with funding from these organizations; (v) appoint officer(s) responsible for implementation of the environmental and social policy, who ensure implementation, monitoring and reporting of progress; and (vi) ensure transparency and commitment to improvement of the environment and social policy. To implement the environmental and social policy, Khan Bank developed a project environmental and social impact assessment manual in 2012, which outlines (i) the procedures to be followed in carrying out an assessment of the environmental and social impacts and risks; and (ii) defines roles and responsibilities of the loan officers and environmental and social officers of Khan Bank in implementing the environmental and social policy provisions.

3. The Credit Risk Division of Khan Bank, under the direct supervision of the chief risk officer (CRO), is responsible for ensuring the implementation of Khan Bank's environmental and social policy. The loan officer is responsible for risk assessment of environmental and social impacts of loans of which they are in charge. Two officers, one each for environment and social aspects, have been assigned responsibility for reporting, educating, and conducting training for bank management, loan officers, and other staff on Khan Bank's environmental and social policy, operations, responsibility, and structures with respect to activities that impact the environment and people. The environment and social officers directly report to the CRO on the implementation of the policy provisions in Khan Bank's operations.

4. All loan applicants are required to furnish information pertaining to safeguards in the loan application, which are evaluated by the relevant loan officer:

- (i) Information on environmental aspects include (a) whether the project has a negative impact on the environment; (b) whether there is a general and detailed assessment of the environmental impacts; (c) whether the project has an adverse impact on biological diversity; and (d) whether the project carries out operations on protected or designated areas.
- (ii) Information on social aspects include (a) whether the project is compliant with the Labor Code of Mongolia; (b) whether each employee has occupational safety and health protection; (c) whether the project has negative impacts on public health and safety; (d) whether the project has an adverse impact on the cultural and historical heritage and livelihood of indigenous people; (e) whether any disputes and complaints are related to land possession and forced evacuation; and (vi) whether there are gender issues associated.

5. The applications are classified into four categories, based on the sensitivity of the risk levels of environmental and social factors: (i) no support for financing (Khan Bank does not provide the loan because of significant environmental and social adverse impacts); (ii) required to get permission (Khan Bank reviews loan proposals after receiving clearance from the environmental and social officer); (iii) required to make an assessment (loans will be considered after environmental and social risk assessment); and (iv) not required to make an assessment (loans are provided without environmental and social risk impact assessment, as Khan Bank regards the safeguard risks low or negligible).

6. During processing, prospective clients are advised to comply with applicable Mongolian laws and regulations. Khan Bank policy requires that loan officers and credit specialists check all documentary proof to ensure the business complies with the necessary environmental, social, and health requirements. When gaps are identified, corrective action is agreed with the client as a condition of the application. During the loan period, the environmental and social officer will carry out periodic monitoring and a review of the borrowers' compliance level on environment and social safeguard requirements, and suggest corrective action. No reports of noncompliant investments with national and international safeguard requirements have been recorded to date.

7. The existing Environmental and Social Management System (ESMS) of Khan Bank (i) incorporates screening, categorization, and review procedures for risk assessment of loan applications; (ii) defines the staffing requirements and roles and responsibilities of staff in ESMS implementation, including training and capacity building requirements; and (iii) establishes procedures for monitoring and reporting of ESMS implementation. Khan Bank has the commitment and capacity to manage the environmental and social impacts and risks of its existing and likely future portfolio. Its procedures ensure that its investments comply with applicable national laws and no proceeds from ADB loan can be used to finance activities in the ADB Prohibited Investment Activities List.

B. Other Social Dimensions

8. Provision of equal opportunities for employment and compensation is stated in the Khan Bank Human Resources Policy, and 67% of Khan Bank's staff of 5,000 are women. This transaction is classified as some gender elements under ADB guidelines. Khan Bank's Business Incubator Centre, established in 2006, provides practical assistance to individuals and MSMEs, including women, on making business decisions as well as skills development programs including training, in urban and rural areas. Khan Bank commits to continue implementation of the following gender measures to promote a gender-inclusive ethos, which is likely to generate significant benefits for female customers: (i) prioritize hiring of women for at least 60% of jobs created; (ii) provide outreach training to Khan Bank staff on servicing MSMEs and borrowers; (iii) provide assistance, including training, to individual borrowers and MSMEs through Khan Bank's Business Incubator Centre; and (iv) include in the annual report gender-disaggregated information.

9. Khan Bank, through the Khan Bank Foundation, supports activities and programs for the improvement of the environment, society, and social development. The foundation supports projects (i) having long-term benefits for society; (ii) supporting Mongolian history, tradition, cultural heritage, culture, and sport; (iii) focusing on children and youth education, rural development, livelihoods, and employment; and (iv) committed to environmental protection and ecological education. Khan Bank and its borrowers are expected to comply with relevant national labor laws, internationally recognized core labor standards, and ADB's Social Protection Strategy.¹

¹ ADB. 2001. *Social Protection Strategy*. Manila.