

SAFEGUARDS AND SOCIAL DIMENSIONS SUMMARY

A. Safeguards

1. The proposed project is a \$10 million senior unsecured loan to Bai Tushum Bank (BTB) for on-lending to micro, small and medium-sized enterprises (MSMEs). BTB was established in 2000 as a local microfinance institution, and is the first of this type of institution to obtain a banking license Kyrgyz Republic. It has 32,000 clients and provides a diverse range of financial services to entrepreneurs, MSME borrowers and small corporations. Its MSME segment comprises about 40% of its portfolio. ADB's loan will be used exclusively for on-lending to MSMEs involved in agriculture, trade, production, and mortgages. ADB funds will not be used for financing subprojects classified as category A for environment and category A and B for involuntary resettlement and indigenous peoples safeguards.
2. BTB has an environmental risk management policy that was approved by its Board of Directors in September 2013. The policy was developed in accordance with environmental protection statutes of the Kyrgyz Republic and the requirements of international institutions (European Bank for Reconstruction and Development and International Finance Corporation). Guidelines on the environmental and social assessment of loans have been developed in accordance with the environmental risk management policy to establish procedures and a methodology to carry out environmental and social assessments of BTB's activities.
3. To determine the possible environmental and social risks associated with the activities of borrowers, the guidelines require a preliminary environmental and social assessment (due diligence) at the project selection and review stage. Prior to making a decision on funding a borrower's activity, BTB will: (i) ensure the prospective borrower's activities are verified against the list of prohibited activities under environmental laws of Kyrgyz Republic and the exclusion list of European Bank for Reconstruction and Development and International Finance Corporation; and (ii) identify an environmental risk category based on the loan purpose (type of activities), loan amount, loan period and type of collateral. All borrowers are required to complete an environmental and social assessment form, which includes information on the environmental, safety, and labor aspects of the borrower's activities. The loan purpose is selected from a list that includes the most common types of activities in each sector that are assigned a risk category of average or high for environmental risks, and risks related to healthcare and safety.
4. For all projects that are identified as being in an average or high environmental risk category, during the loan period loan officers will carry out periodic monitoring, review borrower compliance with environment requirements, and suggest corrective actions.
5. The existing policy on environmental risk management and the guidelines for implementation of BTB's policy (i) incorporates screening, categorization and review procedures for risk assessment of loan applications; (ii) defines the staffing requirements and responsibilities for implementation of its environmental policy, including training and capacity building requirements; and (iii) establishes procedures for monitoring and reporting. BTB has the commitment and capacity to manage the environmental and social impacts and risks of its existing and future portfolio. Its procedures will ensure that its investments comply with applicable national laws, and that no proceeds from the ADB loan can be used to finance activities on the ADB Prohibited Investment Activities List.

6. BTB's environment and social management systems (ESMS) have been reviewed against ADB's Safeguard Policy Statement (2009) requirements, with gaps identified as outlined in the ESMS "Financial Intermediary: Environmental and Social Management System" document).¹ Modifications have been agreed upon and will be incorporated in the ESMS.

B. Other Social Dimensions

7. The project is categorized as effective gender mainstreaming under ADB guidelines,² and will include measures to benefit women's MSMEs,³ including in terms of allocation of loan proceeds, increases in loan accounts, acceptance of collateral in the form of personal guarantees rather than real property, and the launch of a financial product. Specifically, key gender designs include ensuring (i) that women's MSMEs form 20% of the total loan portfolio and 30% of new loan accounts, (ii) BTB sponsors a Network of Women's Entrepreneurs, (iii) at least one new gender-inclusive financial product is introduced, and (iv) at least 30% of all business development skills training participants are women. Additionally, at least five high-quality success stories will be produced each year on successful women entrepreneurs for wide dissemination. BTB and its borrowers are expected to comply with relevant national labor laws, and take measures to comply with internationally recognized core labor standards and ADB's social protection strategy.⁴

¹ ADB. 2009. *Safeguard Policy Statement*. Manila.

² ADB. 2012. *Guidelines for Gender Mainstreaming Categories of ADB Projects*. Manila

³ Women's MSMEs will be defined as follows (based in part on other ADB projects): (i) at least 50% of enterprise ownership is controlled by women, or (ii) at least 60% of senior managers are women, or (iii) at least 50% of the employees of the enterprise are women.

⁴ ADB. 2001. *Social Protection Strategy*. Manila.