

Environmental and Social Management System Arrangements

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Proposed Loan and Technical Assistance Grant
Mongolia: Supporting the Credit Guarantee System
for Economic Diversification and Employment Project

CURRENCY EQUIVALENTS

(as of 17 August 2015)

Currency unit	–	Mongolian Tugrik
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\$1.00	=	MNT1,990.50

ABBREVIATIONS

ADB	-	Asian Development Bank
CGFM	-	Credit Guarantee Fund of Mongolia
EHS	-	Environmental, Health, and Safety
EIA	-	Environmental Impact Assessment
IEE	-	Initial Environmental Examination
ESMS	-	Environmental and Social Management System
FI	-	Financial Intermediary
GRM	-	Grievance Redress Mechanism
MBA	-	Mongolian Bankers Association
PIAL	-	Prohibited Investment Activities List
SME	-	Small Medium Enterprise
SO	-	Safeguards officer
SPS	-	Safeguard Policy Statement

NOTE

In this report, "\$" refers to US dollars.

This environmental and social management system and arrangement is a document of the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff, and may be preliminary in nature.

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I. INTRODUCTION

1. This environmental and social management system and arrangements (ESMS) document is prepared for the Proposed Loan and Technical Assistance Grant Mongolia: Supporting the Credit Guarantee System for Economic Diversification and Employment Project. The project will provide lending support to the small and medium-sized enterprise (SME) sector by backing the credit guarantee system operated by the Credit Guarantee Fund of Mongolia (CGFM). The Supporting the Credit Guarantee System for Economic Diversification and Employment Project in turn will expand access to finance by SMEs to diversify the economy through job creation in non-mining related sectors.

2. This ESMS will be established and maintained as part of CGFM's overall management system in relation to the ADB loan project in order to meet national laws for environmental and social assessment and protection, and ADB safeguards requirements for financial institutions as per ADB's Safeguard Policy Statement (SPS, 2009),¹ for the 5 year initial implementation period the project, until the project completion report. After that date ADB will cease its involvement in the ESMS. Before the transition period the CGFM, together with the participating financial institutions (PFI), will make best effort in evaluating the possibility of the ESMS continuing to function after the project completion report date. If that will prove not possible, the CGFM will establish a revised ESMS to handle sub-projects selection and their social and environmental due diligence in line with the up-to-date Mongolian Bankers Association recommendations.

3. The ADB ESMS is being prepared in view of the emerging environmental and social (E&S) policy framework of the Sustainable Finance Program (SFP) that was put in place in 2014 by the Mongolian Bankers Association (MBA) which the PFIs' are adapting to their own contexts alongside ongoing PFI compliance with the national requirements for environmental assessment and protection for SMS loan development. Thus, the ADB ESMS will supplement the existing SFP, and the national requirements for environmental and social impact assessment and protection.

CGFM Credit Guarantee Activity to 2015

4. The CGFM was formed in 2012 following the promulgation the Credit Guarantee Fund Law (2012). To date the CGFM has provided credit guarantees for a range of sub-project loans from the PFIs within the sector classification list summarized in Appendix 1 when activities also have met SME definitions by the Law on SMEs.

5. The ESMS is being developed for SME subprojects that may have environment, resettlement, and indigenous peoples' issues as defined by the SPS (2009). The ESMS will guide the CGFM and PFIs with selecting and confirming the subprojects, and with the preparation and appraisal of IEEs/EMPs after loan effectiveness. The SMEs with their consultants will be responsible for preparing the IEE/EMPs to meet the requirements of the ESMS and SPS (2009). The PFIs and CGFM will ensure only subprojects are selected that Category B or C for environment, and Category C for involuntary resettlement and indigenous peoples. The ESMS will be adopted by the CGFM and PFIs before the disbursement of ADB loan. ADB's safeguard policy framework consists of three operational policies on the environment, indigenous peoples, and involuntary resettlement. In order to ensure that the ADB safeguard policies are enforced by PFIs the key elements of an ESMS are as follows:

¹ ADB. 2009. Safeguard Policy Statement. Manila.

- (i) Existence of guiding environmental and social management policy;
- (ii) Organizational structure and staffing including necessary skills and competencies in environmental and social issues;
- (iii) Screening, categorization, and review procedure;
- (iv) Procedures for preparation of IEEs
- (v) Training capacity; and
- (vi) Self-monitoring and reporting.

II. ENVIRONMENTAL AND SOCIAL MANAGEMENT POLICY

A. ADB Safeguard Policy

6. The ADB Safeguard Policy and Good Practice Sourcebook² provide information on good approaches to implementing safeguards. In addition to the three safeguard policies, several sector policies have environmental safeguard elements, for example, those pertaining to water, energy, and forestry. Further, ADB's SPS (2009) contains poverty, labor, and gender issues that would need to be addressed as part of the environmental review.

B. National Environmental and Social Laws

7. A list of Mongolia's existing national laws³ governing environmental and social impact assessment (EIA) is provided in Appendix 2. The laws prescribe the requirements and procedures for conducting environmental and social due diligence of development projects which are currently being applied by the PFIs for the approval of SME loans. The national EIA requirements which are administered under the authority of the Ministry of Environment and Green Development (MOEGD) apply at the provincial and municipal levels.

C. Environmental and Social Management Policy of CGFM

8. The scope of CGFM's policy and guidelines for environmental and social due diligence of individual credit guarantees to date is dictated by the guiding Credit Guarantee Fund Law (2012). The CGFM does not currently have a formal policy for environmental and social management. The only reference to environmental or social safeguards in their existing operational policy is the single directive sentence in section 3.2.2 that CGFM will.....*support environmentally sound manufacturing*. The absence of policy does not mean that the CGFM is not responsible to meet national safeguard requirements; rather the CGFM used to rely on the PFIs to implement their own safeguard policies which at a minimum must meet the environmental and social safeguard requirements of the government. This ESMS document now allows CGFM to implement their own environmental and social safeguard policy in accordance with PFIs' E&S policies.

D. Environmental and Social Policy Framework of the MBA

9. Concern of environmental and social protection is central the overall risk management program for SME lending by the PFIs. The MBA has developed a 17 page E&S Policy Framework Template which is being used by the PFIs to strengthen their bank's E&S safeguard

² ADB. 2012. Environmental Safeguards: A Good Practice Sourcebook (Draft Working Document). Manila.

³ Updated 2001. Mongolian Compendium of Laws, Vol 1 and Vol 2.

policies pursuant to the national EIA and environment and social protection requirements. The template is based on 8 guiding principles which in part govern how social and environmental issues should be taken into consideration when reviewing SME loan applications. The banks that developed their own ESMSs prior to the SFP are in the process of adapting their ESMS to accommodate the MBA E&S Policy Framework. The MBA template has been developed with the assistance of international agencies such as the IFC, the Netherlands Entrepreneurial Development Bank (FMO).

E. Environmental and Social Policies of PFIs

10. In addition to the CGFM, MBA, and the EIA Division of the MOEGD, 10 commercial banks were interviewed to determine the scope and content of existing environmental and social management policies and management systems. The 10 banks interviewed had previously responded to the original request for expressions of interest (EOI) to participating in the project.

11. The policies and guidelines for environmental and social management of SME loans vary greatly among the banks interviewed. Some banks reported relatively well developed safeguard policies as part of their overall risk management policies which were developed prior to the MBA SFP initiative with assistance from through developmental assistance programs. Alternatively, some banks currently have no policies or they are in process of formulating policies.

12. For their ESMS a PFI will need to prepare, document, and institutionalize a policy of sufficient scope to meet the ADB and government safeguard requirements of their lending activities and portfolio. The MBA has provided a solid framework for policy development which banks, as of July 2015, are planning to develop for their own application. The MBA framework will assist the development of the ESMS. Coupled to the policy is the required institutional framework necessary to effectively implement the policies.

III. INSTITUTIONAL RESPONSIBILITY, STAFFING, AND TRAINING

A. Organization and Responsibilities

1. CGFM

13. The Ministry of Finance is the executing agency of the project and the follow-on ADB loan implementation technical assistance (TA) with the CGFM acting as the implementing agency. The implementing agency will appoint a project implementation unit (PIU) to take the lead with day-to-day implementation activities of the project. The PIU will assign an environmental and social safeguard officer (SO) to integrate the ADB ESMS into the operations of the CGFM to ensure complete understanding and application of the ESMS with CGFM operations. The SO will work directly with the national consultant under the capacity development TA.

14. After loan effectiveness and before the first loan disbursement the CGFM will assign the SO or a replacement staff to a permanent safeguard position with the responsibility for application of the ESMS by the CGFM. The permanent SO position will be dedicated solely to safeguards. The CGFM SO will report directly to the CGFM management.

a. SME loan guarantee processing with CGFM

15. The ESMS will be integrated into the PFI organizations given that the project is ADB category FI. It is important that the ESMS is also integrated into the CGFM organization given the shared approvals of CGFM and PFI of individual SME loans. The permanent CGFM SO will coordinate with the PFIs to apply the ESMS to subproject loan applications. While the PFIs take the lead with overseeing that required environmental and social due diligence of subproject loan applications is conducted by the SMEs and their consultants, the SO of the CGFM will provide a secondary screening and review of proper application of the ESMS. The SO of the CGFM will provide advisory support to the PFIs when needed, and will be responsible for compiling and regular (semi-annual) ESMS monitoring reports prepared by the PFIs into overall ESMS performance reports across all participating banks using ESMS performance indicators established during the TA. The semi-annual report will be submitted to the MOF and ADB.

16. The TA consultant in consultation with the CGFM (PIU and SO) and PFIs' SOs will refine and make final the ESMS performance indicators starting with the following placeholder indicators:

- (i) List of Category C subprojects approved for environment, involuntary resettlement, and indigenous peoples.
- (ii) List of Category B subprojects approved for environment.
- (iii) List of subprojects excluded from loans with the ESMS exclusion criteria identified for each excluded subproject.
- (iv) Tabulate with brief descriptions the unforeseen environmental or social issues or impacts arising from implementation of Category C subprojects, and Category B subprojects for environment. The issues and impacts must be organized by Physical resources, Biological Resources, and Socioeconomic Resources consistent with the structure of the descriptions of environment in the IEEs
- (v) Summary of comparative successes and difficulties SMEs have had with: a) preparing satisfactory IEEs; and b) implementing EMPs with contractors.
- (vi) GRM records of complaints, responses and solutions
- (vii) Provision of example IEEs and EMPs "success" and "difficult" IEEs from above.
- (viii) Incidence of non-compliance with national EIA and safeguard requirements.
- (ix) Summary of progress of each PFI with application of the ESMS with recommendations for further assistance such as training or bank-specific required modifications

17. The ESMS performance indicators initially will be compiled by individual PFIs, and then transferred for subsequent compilation and reporting by CGFM in their semi-annual reports to the ADB. As part of the semi-annual reporting the CGFM will maintain a database of subproject categorization, required safeguards, and performance with ESMS.

2. MBA

18. The MBA will continue to provide policy and guideline support to the banks. The MBA must understand and endorse the ESMS, and ensure compatibility between their evolving E&S policy of the SFP, and the ESMS. The MBA will continue to provide SFP policy and guideline support to the banks, and provide advisory assistance on the implementation of the ESMS.

3. PFIs

19. All participating banks have a risk management team to address the financial risk and performance of loans. Some banks either inside or outside of the risk management department also have a dedicated staffer who oversees the environmental and social due diligence of subproject loan applications that the bank must conduct to satisfy the national regulations for EIA and environmental protection (Appendix 2).

20. Similar to the CGFM the PFIs will assign a SO position, or an equivalent skill set in a cross appointed staffer from their risk management department to manage the ESMS during project implementation. This staffer will continue to satisfy the environmental and social safeguard requirements of the government, but will also be responsible to ensure that the safeguard requirements of the ESMS not addressed by the government are addressed to meet the SPS (2009). Unlike the CGFM, the SO of the PFIs will provide technical oversight of successful environment and social due diligence of subproject applications that is conducted by the SME consultants to ensure it meets the ESMS. Along with meeting national requirements the SO will screen subproject loan applications to ensure ESMS screening criteria are applied, and then oversee successful completion of required assessment of category B or C subprojects. CGFM will confirm the results of the selection criteria and IEE reviews

B. Application and Sustainability of ESMS

21. The ESMS shall serve as the basis for categorization and due diligence of all SME subproject loans with ADB loan support. Future loan agreements between the PFIs, CGFM, and SMEs will contain appropriate environmental and social covenants requiring that SME borrowers are in compliance, in all material respects, with the applicable safeguard requirements as stated in the ESMS in addition to the requirements of individual PFIs and the MOEGD.

22. The CGFM and PFIs with assistance from the MBA will work together to continually ensure and enhance effective environmental and social management practices in all of its SME loan activity with a special focus on the following:

- (i) Ensuring that applicable safeguard requirements are met for all SME subprojects;
- (ii) Ensuring appropriate consultation and transparency in its selection and managing of subproject activities;
- (iii) Working together with the SME subproject management to put into practice applicable safeguard requirements, and
- (iv) Promoting SME subprojects with environmental and social benefits.

1. Credit guarantee process with ESMS

23. The current PFI process for receiving and approving a SME loan and subsequent guarantee is summarized briefly as follows. A SME submits a complete loan application to a PFI. The PFI assesses the total risk of the loan request. If risk is acceptable and the PFI approves, the loan application along with a guarantee request is forwarded to the CGFM which assesses the risk of issuing a guarantee. Part of the PFI's risk assessment is confirming if the SME has performed and is in compliance with necessary national environmental and social safeguards. Currently, the CGFM does not have the skills or capacity to assess environmental and social issues of loan guarantee applications, but instead relies on the PFIs for this function. The SO of CGFM will be trained on the application of the ESMS under the TA.

a. Assignment of responsibilities

24. The CGFM will operate the ESMS as well as PFIs. The SO of the CGFM will support PFIs with the application of the ESMS. The permanent SO will be appointed before the first disbursement of ADB loan, and will report directly to the director of the CGFM.

25. A new or existing SO position will be established in the PFI risk assessment departments for the ESMS ahead of the first loan disbursement. Compared to the CGFM the SO of PFIs will provide technical direction and oversight of the application of the ESMS to loan applications by SME consultants. The PFIs will oversee the required environmental and social due diligence of SME loan applications of the ESMS, along with the safeguard requirements of MOEGD with the CGFM providing backup safeguard review and ESMS advice when necessary.

26. The SME borrowers will continue to hire MOEGD-registered consultants to conduct the required environmental and social due diligence for the subprojects for the MOEGD, and for the ESMS. Along with the PFIs and the CGFM, the SME consultants will also be trained on application of the ESMS as per the safeguard requirements of the ADB SPS (2009), and Good Practice Sourcebook (2012).

Table 1 summarizes the roles and responsibilities of organizations supporting the ESMS.

Table 1: Roles and responsibilities for ESMS

Organization		During Loan Implementation
MOF		<ul style="list-style-type: none"> Support integration of ESMS into CGFM and PFI systems, coordinate with PFIs, and liaise with ADB
CGFM	PIU	<ul style="list-style-type: none"> Assist SO integrate ESMS in CGFM procedures. Liaise with CGFM, PFIs, and ADB
	SO	<ul style="list-style-type: none"> Lead establishment of procedures for application of ESMS in CGFM With assistance from TA consultant clarify annual reporting process and templates to ADB Review and approve the results of the PFIs screening of subprojects to determine subproject exclusions, and Category B and C subprojects Compile annual PFI monitoring reports on safeguards of subprojects with emphasis on category B subprojects, and including category C projects Submit annual reports to ADB on PFI-wide performance of ESMS including example IEEs CGFM to ensure sufficient annual budget is provided to support SO and ESMS including provision of staff training on the ESMS Submit first five screening reports for confirmation
PFI SOs		<ul style="list-style-type: none"> With assistance from TA consultant integrate ESMS into existing bank E&S management procedures. Coordinate with CGFM / PIU / SO to integrate ESMS requirements into PFI - CGFM subproject loan approval and guarantee process

Organization	During Loan Implementation
	<ul style="list-style-type: none"> • In conjunction with CGFM, and with assistance from TA consultant begin screening subprojects to determine subproject exclusions, and Category B and C subprojects • Initiate and oversee process of requesting an SME to prepare IEE for each subproject. Review and approve IEEs for Category B subprojects, initially with assistance from TA consultant. Obtain CGFM approval on subproject screening and IEE approval. See Table 2 below for more detailed steps. • With assistance from TA consultant submit sample first five representative complete IEEs to ADB for review results confirmation • Advise SME whether sub-loan is approved • Screen subproject loan applications using criteria of ESMS to determine if subproject excluded from funding, Submit the CGFM the screening results • Determine whether proposed subproject is Category C or B as per SPS (2009) • For selected category B subprojects include terms of reference for IEE in SME loan agreement • Provide advice and guidance to SMEs for conducting IEEs • Monitor EMP implementation category B subprojects <ul style="list-style-type: none"> Review IEEs prepared by SME consultants and determine whether IEE meets requirements of SPS. Identify required improvements to IEE if necessary • With assistance from TA consultant confirm quarterly monitoring reporting protocol to CGFM • Prepare triannual reports on IEEs of category B subprojects and submit to CGFM • Maintain a database on safeguard requirements of all subprojects receiving loans and CGFM guarantees • PFI to ensure sufficient budget is provided to support SO and ESMS including provision of staff raining on the ESMS
MBA	<ul style="list-style-type: none"> • Stay apprised of ESMS and provide policy support when necessary • During the TA coordinate as necessary with the TA consultant and CGFM SO
TA Consultant	<ul style="list-style-type: none"> • With assistance from SOs of CGFM and PFIs convene a series of ESMS training workshops for CGFM, PFIs, and SME consultants • Assist PFI SOs individually with ESMS where required • Submit initial PFI screenings of representative subprojects to ADB for confirmation after the PFI and CGFM review • Assist SO of PIU/CGFM with ESMS where necessary
Registered consultants of SMEs	<ul style="list-style-type: none"> • Participate in training on the ESMS with particular emphasis on preparing ADB Category B IEEs to meet SPS (2009) • Prepare IEEs for category B subprojects
EIA Division of	<ul style="list-style-type: none"> • Provide assistance with interpretation of national EIA regulations to TA

Organization	During Loan Implementation
MOEGD	consultant when necessary <ul style="list-style-type: none"> • Participate in training workshops • Provide national policy and guideline support to PFIs and CGFM • Provide advice on alignment of ESMS with national regulations when required
ADB	<ul style="list-style-type: none"> • Confirm participation of EIA Division of MOEGD • Provide advice to TA consultant when requested • Confirm initial PFI participation • Review initial screenings of subprojects by PFIs and CGFM • Confirm first representative initial IEEs and monitoring reports on the performance of ESMS • Review semi-annual ESMS performance reports submitted by CGFM

b. Process for implementing due diligence of Category B subprojects

27. The indicative process that PFIs and the CGFM will follow to oversee the required due diligence of category B subprojects for environment is outlined in Table 2. The process is derived from the current process PFIs use to oversee the implementation by SMEs of the required national safeguard requirements.

Table 2: Implementation of due diligence of Category B subprojects

Screening and Due Diligence
<ol style="list-style-type: none"> 1. SME submits completed loan application to PFI 2. PFI reviews application and conducts complete financial, environmental, and social risk assessment of proposed subproject. 3. PFI completes current subproject screening to meet national safeguard requirements, and determines required impact assessment and reporting. 4. PFI screens subproject with criteria of ESMS to determine whether subproject is excluded, category C for involuntary resettlement or indigenous peoples, or category B or C for environment. 5. PFI and CGFM confer on screening decision 6. PFI notifies SME outcome of screening for national and SPS safeguard requirements. 7. PFI writes terms of reference for SMEs for required national impact assessment requirements supplemented by SPS requirements 8. SME conducts the environmental and social due diligence required to satisfy national requirements and ESMS as per TOR prepared by PFI. 9. Any required amendments to the national and SPS assessments are identified, and addressed by the SME.

10. The PFI reviews the draft EIA and develops draft comments. The SO of SGFM reviews the comments and forwards them to the SME for the EIA finalization with copy the SO of PFI.
11. The PFI reviews the revised EIA if warranted.
12. On obtaining the PFI approval the revised (if warranted) EIA is sent by the SME to the EIA Division of MOEGD for review with copy to the PFI.
13. On obtaining the MOEGD EIA approval the PFI forwards the EIA to CGFM.
14. The PFI will translate the EIA into English
15. CGFM seeks ADB approval for the initial five representative sub-project IEEs.
16. Subproject is approved and implementation begins, or subproject not approved.
17. If a category B subproject approved, the PFI sets up the process to monitor the implementation of the EMP of the IEE.

Sequence of Screening and Approvals

1. The sequence of subproject approvals is described by steps 2 – 5. The subproject must first meet national and PFI environmental and national safeguard criteria including exclusion criteria. If a subproject fails to meet national or PFI criteria then the subproject will not proceed to receive ADB credit guarantee funding.
2. If subproject meets at a minimum the national safeguard criteria then subproject can proceed to be screened using the criteria of the ESMS.

Reporting to ADB

1. The CGFM will send the results of the first few (five) subproject screenings to the ADB for review.
2. The first few (five) category B IEEs completed by SMEs will be sent to the ADB for review.

c. Training and capacity development

28. The follow-on loan implementation TA will deliver ADB-sponsored workshops and training to the CGFM, PFIs, and SME consultants on use of the ESMS, and how to integrate the ESMS into existing E&S frameworks that the MBA/PFIs are using. A major training topic will be subproject screening, and preparation of an ADB Category B IEE.

29. After the TA is completed an integral component of the ESMS is the in-house capacity for follow-up training on ESMS and application to loan applications for example for future new staff. The EOs will be responsible for managing and updating the training capacity of the organizations. The training capacity is important for the sustainability of the ESMS.

IV. ENVIRONMENTAL AND SOCIAL MANAGEMENT PROCEDURES

A. Initial Alignment with National Safeguard Requirements

30. Ultimately, the ESMS will be integrated into the presently variable E&S management procedures of the PFIs which are being adapted to the MBA's emerging SFP. Because PFI loans to SMEs currently at a minimum must meet the national safeguard requirements (Appendix 2), the ESMS should first be aligned and compared with the national requirements while integration of the MBA SFP into individual PFIs is completed. In this way the elements of screening and category B IEEs that are not addressed by the national requirements will be the focus of initial training on the ESMS while the MBA SFP framework is integrated. Moreover, the TA consultant will provide training to SME consultants on the ESMS and requirements of the SPS (2009) for category B subprojects for environment. The SMEs will include the SPS (2009) requirement in the terms of reference of their consultants.

31. The procedures identified below focus on the requirements of the ESMS, and only generally highlight government safeguard requirements, and PFI E&S protocols for context.

B. Screening and Required Categorization in ESMS

32. The PFI SOs with parallel review by the CGFM will screen loan applications with the following criteria listed in the order of execution. Parallel application of MOEGD and PFI (MBA) criteria is implied to determine Mongolian EIA safeguard categorization.

1. ADB Prohibited Investment Activities List (PIAL)

33. The list of SME sub-projects that are included in ADB's PIAL (Appendix 3) are automatically excluded from ADB loan support.

2. Sectors and sub-project exclusions

34. The SME subprojects in the sectors of Mining, and Construction, and subprojects focused on wastewater treatment and water supply will also be excluded from ADB loan support because these sectors are not considered to lead to economic diversification.

3. Environmental and social Impacts

35. The ESMS has been developed for SME subprojects that may have Environment, and Involuntary Resettlement, and Indigenous Peoples issues. The impact screening criteria listed below will be applied following the sector exclusion list.

- (i) Subproject must not have significant adverse environment impacts requiring that it be categorized as A for environment according to criteria of ADB SPS (2009) (Appendix 4). All category A subprojects for environment must be excluded from PFI loans.
- (ii) Subproject must not cause any involuntary resettlement due for example to any demolition of residential or private commercial buildings. Subproject proposal will be screened with the involuntary resettlement impact checklist (Appendix 4) to ensure that it does not have IR impacts, i.e., must be Category C.
- (iii) Subproject must not cause any direct or indirect impacts on ethnic minorities. No

impact on ethnic minorities is required of ADB Category C status for ethnic minorities. Subproject proposal will be screened with an ethnic minority impact screening checklist (Appendix 4) to ensure that it does not have IP impacts, i.e., must be Category C.

- (iv) Subproject must not be located in, or near any national ecological protected area such as parks, and wildlife reserves. This is criterion avoids the Category A condition for Environment.
- (v) Subproject must acquire required approvals from national and local authorities in charge, and be designed, constructed, and operated in accordance with relevant national social and environmental laws and regulations (Appendix 2).
- (vi) SME borrowers must obtain all relevant environment permits with respect to the proposed subproject according to Mongolian legislation.
- (vii) Subproject must be in compliance with all relevant domestic occupational health and safety standards.

36. The SO of the PFIs with input from the CGFM will complete the initial screening with the three sets of criteria (1-3) above to determine whether a subproject will be automatically excluded. The results of initial screening to determine subproject exclusion (or inclusion) will be conveyed to the SME in a brief letter with copies to the CGFM and EIA Division of the MOEGD.

C. Climate change risk

37. The subproject screening checklists in Appendix 4 include a preliminary Climate Change Risk Assessment. If the climate risk is medium to high then apply ADB's AWARE Climate Risk Screening Tool with assistance of ADB project officer, and followed by a climate risk and vulnerability assessment depending on the outcome of the AWARE.

D. Level of Assessment

38. After initial screening the remaining Category B and C subprojects for environment which were not automatically screened out as Category A subprojects will be screened further following the SPS (2009).

1. Overview of ADB EIA requirements

39. The EIA requirements of the ADB for development projects are described by the SPS (2009) as supported by the ADB good practice sourcebooks, modules, operational manuals, and review procedures. The ADB protocol defines three levels of impact assessment for development projects as summarized below:

(i) Category A:

For a subproject that is expected to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. A full-scale EIA and report is required including an Environmental Management Plan (EMP). Category A also applies separately to Involuntary Resettlement or Indigenous Peoples. Category A impacts may affect an area larger than the sites or facilities subject to physical works. An environmental impact assessment (EIA), including an environmental management plan (EMP), is required. **Note: Category A subprojects are excluded from PFI loans.**

(ii) **Category B:**

For a project which potential adverse environmental impacts are less adverse, site-specific, mostly reversible, and in most cases can be mitigated. An IEE including an EMP is required. Category B also applies separately to Involuntary Resettlement or Indigenous Peoples.

(iii) **Category C.**

For a project expected to have minimal to no adverse environmental impacts. An EIA or IEE is not required beyond screening. Category C also applies separately to Involuntary Resettlement or Indigenous Peoples (i.e., no impacts). An EMP may be needed for certain sensitive category C subproject situations.

40. A Grievance Redress Mechanism (GRM) is required for category A and B subprojects, and may be required for sensitive environment category C cases.

41. An environment category of a subproject is determined from the most environmentally sensitive component including direct, indirect, induced, and cumulative impacts. Sub-project categorization is not a simple matter of assigning a category using a prescriptive list of project type and size. Although the project type and size are major determinants of the environmental category, the project site, design and operating processes also have to be considered to identify the most significant adverse impacts.

42. For this reason professional judgment is important in weighing the variables to categorize a project. For example, a wind farm is likely to be categorized as B for most sites, but if it is proposed in an ecologically sensitive area or in the view-shed of a significant historic site it could be category A. Table 2 exemplifies ADB categories for different generic project types.

Table 3: Assessment categories of example generic project types⁴

Category A	Category B	Category C
Dams and reservoirs	Agro-industries	Forestry research and extension
Forestry and production projects (large-scale)	Rural electrification	Rural health services
Industrial plants (large-scale)	Electrical Transmission	Marine research
Irrigation, drainage, and flood control (large-scale)	Urban water supply and sanitation	Family planning program
Mineral development (oil and gas)	Rural water supply and sanitation	Microfinance projects likely to have minimal or no adverse impacts
Port and harbour development	Irrigation and drainage (small-scale)	Construction activities within existing building boundaries
Thermal and hydropower development	Watershed projects	
	Renewable energy	

⁴ Footnote 1.

Category A	Category B	Category C
	Construction activities beyond existing building boundaries	

43. Table 4 summarizes level of assessment required for SME subproject that are Category A, B and C for environment, involuntary resettlement, and indigenous peoples.

Table 4: Safeguard Requirements

Category (Risk Rating)	Environmental	Involuntary Resettlement	Indigenous Peoples
Category A (major potential significant impacts)	Excluded, no further assessment	Excluded, no further assessment	Excluded, no further assessment
Category B (less significant impacts)	Comply with national laws, ADB PIAL, & sector exclusions Prepare IEE	Excluded, no further assessment	Excluded, no further assessment
Category C (with minimal or no impacts)	Comply with national laws, ADB PIAL, & sector exclusions	No impacts. No further action required	No impacts. No further action required

2. Category C subprojects

44. For all category C subprojects (after screening with ADB PIAL and sector exclusion lists) only the current national and MBA environmental and social safeguard requirements need to be addressed. If sensitive issues exist then it may be necessary to develop a simplified EMP and GRM, or to categorize as category B.

3. Category B subprojects

45. Environmental safeguards for Category B subprojects need to comply with the ESMS. The ADB Initial Environmental Examination (IEE) will be prepared for Category B subprojects for environment following the SPS (2009). Key components of an IEE are summarized in section VI below.

V. INITIAL ENVIRONMENTAL EXAMINATION AND REPORT

46. The assessment of potential impacts of a subproject must follow the structured steps of an IEE as outlined in Annex 1 of Appendix 1 of the ADB SPS (2009). The assessment process systematically links detailed descriptions of project activities to the detailed descriptions of affected components of the natural and social environments in an assessment of potential impacts of the project. Moreover, the IEE is logically executed and reported by the three phases of project implementation defined by pre-construction, construction, and operational phases.

47. The IEE assesses potential impacts and risks of a subproject within the following context and shall identify the boundary of impacts, and assess direct, indirect, and cumulative impacts.

- (i) the primary project sites and related facilities;
- (ii) areas and communities potentially affected by cumulative impacts of the investment program and other sources of similar projects in the geographical area; and
- (iii) areas and communities potentially affected by impacts from unplanned but predictable developments caused by the project that may occur later or at a different location.

48. The major components of an IEE are summarized below. The table of contents for an example IEE or EIA report is provided in Appendix 5.

- (i) Description of Project
- (ii) Description of Affected Natural and Social Environments
- (iii) Assessment of Impacts
- (iv) Public Consultation, Disclosure, and Grievance Redress Process
- (v) Assessment of Alternatives
- (vi) Environmental Management Plan⁵
 - (a) Impact Mitigation Plan
 - (b) Monitoring Plan
 - (c) Institutional Responsibilities and Capacity Needs
 - (d) Reporting Requirements
 - (e) Budget

A. Environmental Management Plan

49. An EMP must be developed for all subprojects. The EMP carries the results of the IEE forward to ensure that impacts of a project are mitigated, and that unexpected impacts are identified and managed through follow-up environmental monitoring during project implementation. The major contents of an EMP are found in Appendix 5.

VI. INFORMATION DISCLOSURE, CONSULTATION, AND GRIEVANCE REDRESS

A. Public Disclosure and Consultation

50. The PFIs and CGFM must ensure meaningful consultation of affected people and concerned stakeholders is conducted for each category B subproject to determine their views and concerns of the project. Meaningful consultation occurs when the affected community is able to freely and comfortably express their views of the project in their own language. Public consultation can take the form of distributed information materials and pamphlets, individual interviews, and formal public meetings. If there are changes to sub project details and context, further consultations must be conducted by the concerned PFI to ensure that all environmental and social concerns of the affected households are addressed.

51. Similarly, the PFIs and CGFM shall be responsible for ensuring that a meaningful public

⁵ Organized and reported by pre-construction, construction, and operational phase of project.

consultations and disclosure of the project is undertaken. All environmental and social documents shall be subject to public disclosure. These documents will be posted on the PFI website and made available to the public in English and Mongolian. All environmental and social assessment documents including the environmental and social due diligence and monitoring reports should be systematically kept by the concerned PFI with copy with the CGFM.

52. The results of the IEE must be communicated to the local community well before commencement of construction in accordance with ADB's Public Communication Policy 2011⁶ (PCP). The PCP outlines clear guidelines and directives for maximizing transparent interaction among the PFI & CGFM, SME proponents, and the affected public and community stakeholders. The public will be able to access all IEE/EMPs from the PFI/CGFM web sites. The upfront and active policy for information disclosure is linked directly to and in support of the Grievance Redress Mechanism described below.

B. Grievance Redress Mechanism

53. A grievance redress mechanism (GRM) will be established to prevent and address community concerns, reduce risks, and assist the PFI subprojects to maximize environmental and social benefits. In addition to resolving grievances the GRM will help achieve the following objectives:

- (i) Open channels for effective communication allowing identification of new environmental issues arising from a subproject;
- (ii) Demonstrate concerns of community protecting their environmental well-being; and
- (iii) Prevent and mitigate any adverse environmental impacts on the community caused by subproject implementation. The GRM is accessible to all members of the community.

1. Grievance Redress System

54. The GRM follows the existing approach taken for managing complaints about local issues by members of the public in Mongolia. Community resident complaints or concerns are normally taken to *Soum* representatives for resolution, and thus this system is proposed for the GRM. The GRM also fits with the *Aimags* existing approach to managing complaints for the public which is focused on receiving and taking complaints to *Soums*.

55. As the IA for the project the CGFM will establish a Public Complaints Unit (PCU). The PCU will be established within the PIU prior to the first loan guarantee to deal with complaints from affected people (AP) throughout implementation of the project. The PCU must include an offsite representative of each PFI. It is recommended that the SOs of PIU and PFIs represent the PCU/PFI. The PCU role should be continued in both organizations after the loan implementation TA is completed.

56. The PIU of the CGFM will be responsible for initial set up of PCU and the coordination of the GRM at the local levels and will staff the PCU. The SOs of the PCU and PFIs will be the key contact points for *Soum* representatives who may require information about the project or who have an issue they would like to discuss. The PIU and PFI SOs will issue public notices to inform the public within the project area of the GRM. The PCU and PFI phone and fax numbers, and email addresses will be disseminated to the people at the *Soum* levels. The

⁶ ADB. 2011. Public Communications Policy 2011: Disclosure and Exchange of Information. Manila.

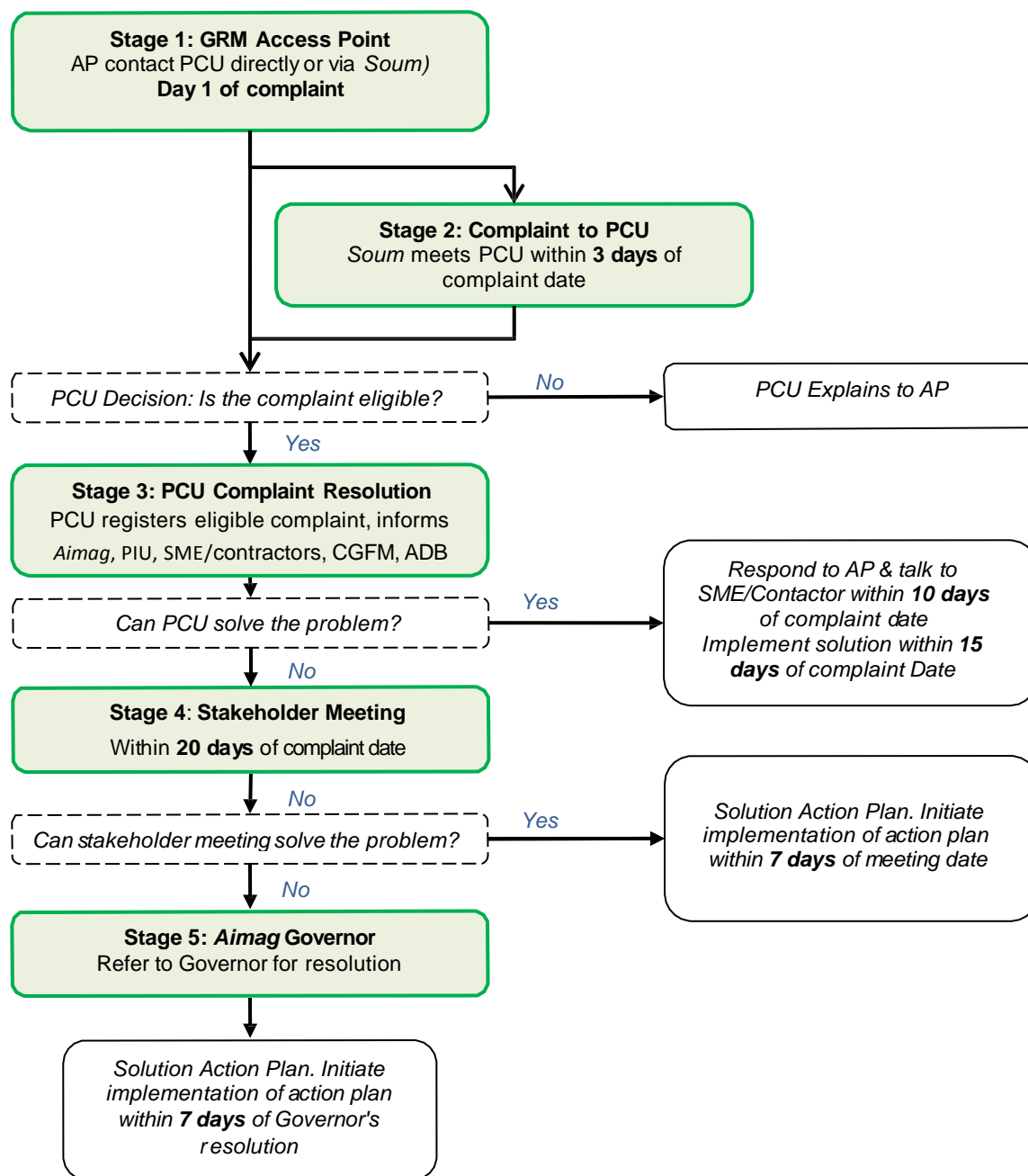
PCU will have facilities to maintain a complaints database and communicate with SME & contractors, supervision engineers, the MOEGD, and environmental inspectors, *Aimag* environmental authorities, and representatives of affected *Soums*.

a. GRM Steps and Timeframe

57. Procedures and timeframes for the grievance redress process are as follows and shown in Figure 1.

- (i) **Stage 1: Access to GRM.** If a concern arises, the AP may resolve the issue of concern directly with the contractor, or make his/her complaint known to either the PFI or PCU directly, or through the *Soum*, whichever level of authority he/she is most comfortable with.
- (ii) **Stage 2: Official Complaint to PCU or PFI.** When a complaint is filed at *Soum level*, the *Soum* representative will submit an oral or written complaint to the SOs of the PFI or PCU which each will exchange with the other. For an oral complaint the PCU must make a written record. For each complaint, the PCU/PFI must assess its eligibility. If the complaint is not eligible, e.g. related to an issue outside the scope of the project, PCU will provide a clear reply within five working days to the AP;
- (iii) **Stage 3: Complaint Resolution.** The PCU will register the eligible complaint informing the *Aimag*, the CGFM, SME & contractor, the MOF, and ADB. The PCU/PFI, with support of the TA consultant will take steps to investigate and resolve the issue. This may involve instructing the SME contractor to take corrective actions. Within seven days of the redress solution being agreed upon, the SME & contractor should implement the redress solution and convey the outcome to the PCU;
- (iv) **Stage 4: Stakeholder Meeting.** If no solution can be identified by the PCU or if the AP is not satisfied with the suggested solution under Stage 3, within two weeks of the end of Stage 3, the PCU will organize a multi-stakeholder meeting under the auspices of the head of the *Aimag* where all relevant stakeholders will be invited. The meeting should result in a solution acceptable to all, and identify responsibilities and an action plan. The SME & contractor should implement the agreed redress solution and convey the outcome to the PCU within seven working days;
- (v) **Stage 5: Aimag Governor Resolution.** If the multi-stakeholder meeting cannot resolve the problem, and the AP is unsatisfied, the PCU will set up a meeting with the *Aimag* Governor to identify a solution.

Figure 1: Grievance Redress Mechanism



b. Reporting

58. The PCU/PFI will record the complaint, investigation, and subsequent actions and results. The PFI SO will include this information in the quarterly EMP progress reports to the PIU. In the construction period and the initial operational period covered by loan covenants the EA via PIU will periodically report complaints and their resolution to ADB in the quarterly project progress reports and annual environmental monitoring reports. The tracking and documenting of grievance resolution within the PCU will include the following elements: (i) tracking forms and procedures for gathering information from project personnel and complainant(s); (ii) dedicated staff to update the database routinely; (iii) periodic reviews of complaints so as to recognize grievance patterns, identify any systemic causes of grievances, promote transparency, publicize how complaints are being handled, and periodically evaluate the overall functioning of the mechanism; (iv) processes for informing stakeholders about the status of a case; and (v) procedures to retrieve data for reporting purposes, including the periodic reports to the EA and ADB.

c. Roles and Responsibilities of the PCU

59. The responsibilities of the PCU are implemented by the PIU-SO with assistance from the PFI-SO which are the PCU focal points. In addition to the SOs the members of the PCU will be those in a position to resolve complaints and will include representatives of: (i) PIU and PFI SO focal points of PCU; and (ii) affected Aimag(s) and Soum(s). The responsibilities of the PCU are as follows:

- (i) The PCU will instruct SMEs & contractors, and construction supervisors to refer any complaints that they have received directly to either SO of PIU or PFI. Similarly, the PCU will coordinate with local government departments capture complaints made directly to them;
- (ii) The PIU/PFI SOs, as focal points of the PCU will log complaints and date of receipt onto a complaints database and inform the IA/PIU and the Contractor.
- (iii) The PCU will investigate the complaint to determine its validity and to assess whether the source of the problem is because of project activities, and identify appropriate corrective measures and responsible persons;
- (iv) The PCU will inform the AP of investigation results and the action taken;
- (v) If a complaint is transferred from local government agencies, the PIU-SO will submit an interim report to local government agencies on status of the complaint investigation and follow-up action within the time frame assigned by the above agencies;
- (vi) The PCU will review the contractor's response to the identified corrective measures, and the updated situation;
- (vii) The PCU will undertake additional monitoring, as necessary, to verify as well as review that any valid reason for complaint does not reoccur.

d. Multi-stakeholder Meetings

60. The invitees to this meeting will depend on the nature of the complaint. For example if the complaints relate to health, land disputes, or labor issues, the appropriate specialist in this field will be invited to the stakeholder meeting. This may include officers from the Land Administration (land rights issues), Mongolian Chamber of Commerce Policy & Representative (business/commercial issues), Women's Union NGO (gender issues), Health

authority (health issues), MEOGD (environmental issues), Ministry of Labor & Social Security Officer (labor issues).

VII. MONITORING AND REPORTING

61. An important element of the ESMS is monitoring and regular reporting on the performance of the ESMS which is the joint responsibility of the PFIs and CGFM. After an environment category B subprojects is approved the SO of the PFI monitors the implementation of the subproject, and maintains a living file on any environmental and social issues of the subproject including issues not addressed by the IEE, or which have become more significant. The monitoring information is provided by the SMEs as part of the implementation of the EMPs for the Category B subprojects. The PFI must be ready to call for any corrective action plan to address any unforeseen subproject impact or issue.

62. The PFIs will submit to the SO of the CGFM quarterly reports on ESMS implementation, processing and implementing the subproject IEEs prepared, which will highlight any environmental or social issues, and any implemented corrective actions. Central to the report will be the ESMS performance indicators. Any Category C subprojects that end up causing environmental or social issues must also be included in the reports. With the PFI reports the SO of the CGFM in turn prepares semi-annual PFI-wide summaries of the safeguard performance of category B subprojects for ADB Resident Mission in Ulaanbaatar. On an annual basis the CGFM report will provide a summary of overall performance of the ESMS and will include approved IEEs translated in English. The ADB will disclose sample IEEs on ADB web site. Initially the CGFM will provide ADB five representative examples of subproject screenings and EIA reviews. CGFM reporting to ADB and ADB posting of the English IEEs will cease after the project completion report date.

VIII. TWO TIERED APPLICATION OF ESMS

63. The differences in the development of environmental and social safeguard systems among PFIs likely means that the ability of PFIs to be able to start conducting the environmental and social due diligence for Category B projects pursuant to the SPS (2009) also is variable. As a result some PFIs will likely need more training and experience with the ESMS than others before being able to identify (screen) and oversee completion of required due diligence of Category B projects that they outsource to national consultants.

64. In order to implement the ESMS as soon as possible following the initiation of the follow-up loan implementation TA, the ESMS will initially be implemented at two levels by the PFIs and CGFM. At the beginning of the TA, the TA consultant will review in detail the current competencies of the PFIs to implement required due diligence for Category B subprojects. After initiation of ESMS workshop training from the TA the PFIs with more complete and accomplished E&S safeguard systems will start applying the ESMS to process Category C and B subprojects while the less capable PFIs will only process Category C subprojects.

65. Throughout the TA required training and hands-on experience with overseeing and conducting environmental and social due diligence due diligence for category B subprojects will be given to the PFIs and SME national consultants. As PFIs develop skills and experience with the ESMS they may advance to processing category B and C safeguards, subject to CGFM and ADB clearance.

APPENDIX 1: SECTOR CLASSIFICATIONS USED FOR LOAN GUARANTEES

Notes: CGFM prohibited investment activities list is consistent with ADB's prohibited investment list found in appendix 3. Not all listed activities and sectors referenced below are authorized for the issuance of guarantees by CGFM.

1. Agriculture, Timber Industry, Fishing, and Hunting

- 1.1. Agronomy, animal husbandry, hunting and related activities
- 1.2. Timber and logging
- 1.3. Fishing and breeding

2. Mineral Industry and Mining⁷

- 2.1. Coal and brown coal mining
- 2.2. Petroleum and natural gas extraction
- 2.3. Metal ore extraction
- 2.4. Mining of other natural resources
- 2.5. Activities supporting the mineral industry

3. Processing industry

- 3.1. Production of foodstuffs
- 3.2. Beverage industry
- 3.3. Cigarette production
- 3.4. Textile industry
- 3.5. Clothing industry
- 3.6. Animal skin and leather industry
- 3.7. Wood and wood industry except furniture; straw and feather-grass manufacture
- 3.8. Industry of paper and paper products
- 3.9. Activities of printing, recording, copying and reproduction
- 3.10. Industry of coccus and processed petroleum products
- 3.11. Chemistry and chemical industry
- 3.12. Medicine, pill preparation, and chemical and herbal drug industry
- 3.13. Rubber and plastic products' industry
- 3.14. Non-metallic minerals and materials' industry
- 3.15. Metal production
- 3.16. Metal products except machine and equipment
- 3.17. Computer, electronic goods and optical products' industry
- 3.18. Electrical appliance industry
- 3.19. Other machine and equipment production not included above
- 3.20. Motor vehicles, trailers and semi-trailers' industry
- 3.21. Other vehicles' equipment industry
- 3.22. Furniture industry
- 3.23. Other processing industry
- 3.24. Assembly and installation of machines and equipment, and related repair services

4. Electric, Gas, Steam and Airing

- 4.1. Electric, gas, steam and airing

⁷ Mining activities are excluded from the definition of SMEs authorized for CGFM guarantee issuance.

5. Water Supply, System of Sewage Disposal, Waste Management, and Cleaning Activity

- 5.1. Collection of water, disinfection and providing water supply
- 5.2. Collection of dirty water, purification and disinfection
- 5.3. Collection of waste, sterilization and related products
- 5.4. Waste management and other cleaning activities

6. Construction

- 6.1. Building construction
- 6.2. Construction engineering activities
- 6.3. Special building activities

7. Wholesale and retail trade; repair services of machines and motorcycles

- 7.1. Wholesale and retail trade of motor vehicles, motorcycles and repair services
- 7.2. Wholesale trade of other goods except for machines and motorcycles
- 7.3. Retail trade of other goods except for machines and motorcycles

8. Transportation and Warehouse Activities

- 8.1. Overland transportation of gas and pipeline activities
- 8.2. Overseas transportation
- 8.3. Air transportation
- 8.4. Warehouse and transportation activities
- 8.5. Mail, courier, and messenger services

9. Hotel, apartment, and public food services

- 9.1. Hotel, apartment, and accommodation services
- 9.2. Public food services

10. Communication

- 10.1. Printing and publishing
- 10.2. Movie, music, video and TV program recording and production
- 10.3. Broadcast preparation
- 10.4. Telegraph services
- 10.5. Computer programming, advice and activities
- 10.6. Information services

11. Finance and Insurance

- 11.1. Financial services except for insurance and retirement
- 11.2. Insurance, reinsurance, and retirement financing activities except for mandatory social insurance
- 11.3. Other financial activities

12. Immoveable Property Activities

- 12.1. Immoveable property activities

13. Professional, scientific and technical activities

- 13.1. Legal and registration activities
- 13.2. Governing body activities
- 13.3. Architecture and engineering activities: technical testing and research
- 13.4. Activities of scientific institutes and research
- 13.5. Advertising market research
- 13.6. Other professional, scientific and technical activities
- 13.7. Veterinary medicine

14. Administrative activities

- 14.1. Renting and leasing activities
- 14.2. Employment activities
- 14.3 Travel agent, tour operator, and related services
- 14.4. Security, defense and investigation activities
- 14.5 Building and garden protection and maintenance services
- 14.6. Organization, administration and related activities and other business support services

15. Public Management and Defense

- 15.1. Public management and defense activities

16. Education

- 16.1. Education

17. Human Health and Social Welfare

- 17.1. Human health activities
- 17.2. Social welfare activities to serves to residents
- 17.3. Social assistance activities, senior services, and services to people with developmental problems

18. Art, Entertainment and Gaming

- 18.1. Activities to create artwork, and related art and entertainment activities
- 18.2. Library, archive, museum and other cultural activities
- 18.3. Games of chance and gambling activities
- 18.4. Sports and leisure activities

19. Other Service Activities

- 19.1. Organization with membership activities
- 19.2. Commodity, computer repair, and private and family services
- 19.3. Other private service activities

20. Family-linked activities, products and services

- 20.1. Activities related to domestic help
- 20.2. Products and services for family needs and other areas without classification

21. International Organization and resident representative activities

- 21.1. International organization and resident representative activities

APPENDIX 2: NATIONAL LAWS FOR NATIONAL ENVIRONMENT, HEALTH, & SAFETY

- (i) Law on Environmental Impact Assessments
- (ii) Law on Environmental Protection
- (iii) Law on Land Fees
- (iv) Law on Land
- (v) Law on Subsoil
- (vi) Law on Disaster Protection
- (vii) Law on Household and Industrial Waste
- (viii) Minerals Law of Mongolia
- (ix) Law on Natural Plants
- (x) Law on Sanitation
- (xi) Law on The Government Of Mongolia
- (xii) Law on Land Ownership
- (xiii) Law on The National Human Rights Commission
- (xiv) Law on Fire Protection for Forests and Grasslands
- (xv) Law on Forest
- (xvi) Law on State and Local Property
- (xvii) Law of Mongolia on Buffer Zones
- (xviii) Law on Special Protected Areas
- (xix) Law on Water
- (xx) Law on Hazardous And Toxic Chemicals

APPENDIX 3: EXPANDED ADB PROHIBITED INVESTMENT ACTIVITIES LIST

The following activities do not qualify for Asian Development Bank financing according to SPS of 2009 and as expanded for this loan:

- (i) production or activities involving harmful or exploitative forms of forced labor¹ or child labor;²
- (ii) production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phaseouts or bans, such as (a) pharmaceuticals,³ pesticides, and herbicides,⁴ (b) ozone-depleting substances,⁵ (c) polychlorinated biphenyls⁶ and other hazardous chemicals,⁷ (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora,⁸ and (e) transboundary trade in waste or waste products;⁹
- (iii) production of or trade in weapons and munitions, including paramilitary materials;
- (iv) production of or trade in alcoholic beverages, excluding beer and wine;¹⁰
- (v) production of or trade in tobacco;¹⁰
- (vi) gambling, casinos, and equivalent enterprises;¹⁰
- (vii) production of or trade in radioactive materials,¹¹ including nuclear reactors and components thereof;
- (viii) production of, trade in, or use of unbonded asbestos fibers;¹²
- (ix) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests;
- (x) 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;
- (xi) real estate investment, if non-owner occupied, or property acquisition;
- (xii) commercial real estate construction unless SME owner-occupied
- (xiii) heavy construction material-related sectors;
- (xiv) multi-family housing construction;
- (xv) all mining, mineral processing and extraction activities;
- (xvi) businesses involved with oil or energy import;
- (xvii) businesses involved primarily with the import of luxury items;
- (xviii) SMEs that are subsidiaries of or controlled by large enterprises; and

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 <http://www.basel.int>.

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

¹¹ This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and adequately shielded.

¹² This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

- (xix) wastewater treatment activities.
- (xx) water supply activities.

APPENDIX 4: SUBPROJECT SCREENING AND CATEGORIZING WORKBOOK

This workbook comprises **four** worksheets to be filled out by PFI staff in consultation with the SME borrower, and in conjunction with CGFM. The 4th worksheet is for a preliminary climate change screening.

The workbook can be completed in the field by PFI staff, for site assessments and discussions with end-borrowers. The workbook is retained by the PFI and CGFM in their records for each sub-loan application.

Each sub-project is recorded in a separate workbook. Complete the details below.

Name of PFI	
Sub-project title (name of entity)	
Name of sub-loan applicant	
Name of end-borrower (if same as applicant write "as above")	
Information on the proposed sub-project	
Proposed sub-project activity	
Province	
District (Aimag)	
Sub-district (Soum)	
Date of site visit	
Name of assessor	
Geographic coordinates (if available)	
Affected population	
of which:	
# poverty households involved	
# poverty people involved	
# EM households involved	
# EM people involved	
Name of ethnic minority group*	
# women involved	
Notes:	

EM = Ethnic minority

Worksheet 1: Rapid Environmental Assessment Checklist

1. Follow question matrix below to answer the first question (“Will it happen?”) assuming that no mitigation measures will be conducted. The purpose is to identify potential impacts.
2. If the answer is “Yes” then fill out the next two columns, “is it irreversible?” and “can it be minimized?”
3. If the answer is “No” then place a “C” in the final column.
4. The first three columns (“will it happen?”, “is it irreversible?”, “can it be minimized?”) should be filled out by discussions with the end-borrower and a site inspection.
5. The final column refers to the ADB categories “A”, “B” and “C” for environmental impacts. They are defined below. Use these definitions to decide on the category.

Category A. Sub-project likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. Impacts may extend beyond the sub-project sites. Environmental impact assessment (EIA) including environmental management plan (EMP) is required. Examples: conversion of wetlands; sub-projects in or next to protected areas; large scale pollution of water resources.

Category B. Potential adverse environmental impacts are site-specific, few if any are irreversible. In most cases mitigation measures can be designed more readily than for Category A sub-projects. Initial environmental examination (IEE) including EMP is required. Examples: crop farming on land already used for the same crop type; farming which does not result in increased pressure on water resources.

Category C. Sub-project likely to have minimal or no adverse environmental impacts. EIA or IEE not required. Environmental implications need to be reviewed. Examples: construction of small offices, financing, training, or planning activities.

Screening and Impact Questions	Will it happen? Y/N	If YES		ADB Category
		Is it irreversible? Y/N	Can it be minimized?	
Sub-project Siting				
Is sub-project in or next to (i) a cultural heritage site, (ii) a protected area, (iii) wetland or (iv) special area for protecting biodiversity?				
Is siting of the sub-project likely to be affected by climate conditions including extreme weather related events such as floods, droughts, storms, landslides?				
Potential Environmental Impacts				
Will the sub-project cause...				
• damage to historical/cultural areas or physical cultural resources?				
• disturbance to precious ecology (e.g. sensitive or protected areas)?				
• alteration of surface water hydrology of waterways resulting in increased sediment in streams affected by increased soil erosion at construction site?				
• deterioration of surface water quality due to silt runoff and sanitary wastes from worker-based camps and chemicals used in construction?				
• increased air pollution due to sub-project construction and operation?				
• noise and vibration due to sub-project construction or operation?				

Screening and Impact Questions	Will it happen? Y/N	If YES		ADB Category
		Is it irreversible? Y/N	Can it be minimized?	
• generation of solid waste and/or hazardous waste?				
• use of chemicals?				
• generation of wastewater during construction or operation?				
In land leveling and other earthworks as necessary will there be:				
• construction dust and erosion				
• loss of micro-habitat for local biodiversity				
• changes to local drainage				
In the upgrade or establish irrigation system, including wells, canals, pipes. Installation of quota irrigation systems will there be:				
• Unsustainable use of local water resources				
• Water use conflicts				
• Cumulative impacts on limited water resource				
For construction of livestock pens and other livestock structures will there be problems with:				
• location (too close to residences / waterways)				
• construction impacts - dust, noise				
• operational impacts – noise, odor				
In electricity use for machinery, greenhouses, pumps, ventilation will there be:				
• GHG emissions from electricity use				
• GHG emissions and flue gas emissions from on-site electricity generator				
In the establishment of on-site wells for process water and drinking water will there be:				
• unsustainable use of local water resources				
• water use conflicts				
• cumulative impacts on limited water resource				
For handling, transport, and storage of materials and inputs of seeds, seedlings, fertilizers and chemicals will there be:				
• application of chemicals and fertilizer not carefully managed - increased volumes enter soil and water				
• noise, dust, pollution from haulage, handling and storage of materials				
• extensive residue of plastic mulch material in soil and water				
• loss of crop diversity and self-sustaining household plots				
In the collection, treatment, disposal / reuse processes built as part of the facilities will there be:				
• pollution of land and rivers from wastewater disposal or via land application as liquid fertilizer				

Overall conclusion on Environment Category (circle one):

A

B

C

Note: for a subproject to be approved for FI loan, it must not be category A.

Reason for conclusion:

Notes

Worksheet 2: Involuntary Resettlement and Land Acquisition Checklist

Question: Does the subproject involve physical changes to the land or changes to land use?

Yes No

If no, skip to Worksheets 3. If yes, answer the questions below.

Question: What is the current status of the land ownership and land use rights of the land to be used?

- 1) **Ownership:** state-owned farm ; managed collectively ; privately owned
- 2) **User rights:** enterprise ; cooperative ; herder group ; or household

Probable Involuntary Resettlement Effects	Yes	If Yes, give number of affected persons and households	No
Will there be land acquisition for this sub-project?			
Will there be loss of land use rights due to change in land use resulting from the sub-project (e.g., expanded village road)?			
Has the land for the sub-project been acquired in the past 3 years?* If so, provide results of due diligence in the "Notes" section.			
Will there be residential house demolition causing loss of shelter to people due to land acquisition or construction activities?			
Will there be any temporary occupation of land that affects the land, housing, assets or livelihoods/business of people?			
Will there be losses of crops, trees, graves and fixed assets?			
Will people lose access to natural resources, communal facilities and services?			
If land use is changed, will it have an adverse impact on social and economic activities?			
Will access to land and resources owned communally or by the state be restricted?			

*If "yes", due diligence is required to determine if the sub-project must be excluded e.g. if there are outstanding land acquisition and/or resettlement issues.

Overall conclusion on Involuntary Resettlement Category (circle one):

A B C

Note: for a subproject to be approved for FI loan, **it must be category C** and any due diligence for prior land acquisition should confirm there are no remaining issues.

Reason for conclusion:

Notes

Worksheet 3: Ethnic Minorities Impact Checklist

Will sub-project involve any ethnic minorities? (Y/N) If yes, complete form. If no, leave blank.

Name of ethnic minority: _____

The assessment should include consideration of: (i) magnitude of impact (including to customary rights for use and access to land and/or resources, socioeconomic status, cultural and communal integrity, health, education, livelihoods, and social security status, recognition of indigenous knowledge); and (ii) the level of vulnerability of the affected community.

Probable Indigenous Peoples Impacts	Yes/No	If Yes, give number of affected persons and households
Will the subproject directly or indirectly benefit or target ethnic minority households?		
Will the subproject affect the livelihood systems of ethnic minority households? (e.g., food production system, natural resource management, crafts and trade, employment status)		
Is there commercial development of the cultural resources and knowledge of ethnic minorities?		
Is there commercial development of natural resources (such as forests, grasslands or hunting grounds) within customary lands under use that would impact the livelihoods or the cultural, ceremonial, spiritual uses that define the identity and community of ethnic minorities?		
Will the subproject involve land acquisition or physical displacement of ethnic minority communities?		

Proposed activities	No. of villages targeted	No. of ethnic minority households	EM population	Beneficial and/or Adverse Impacts
1.				
2.				
3.				
4				
5				

Overall conclusion on Indigenous Peoples Category (circle one):

A B C

Note: Category A and B subprojects will be excluded from FI loan.

Reason for conclusion:

Notes

Worksheet 4: Preliminary Climate Risk Screening

Subproject Title:

Name of Borrower:

Subproject Location:

Screening Questions		Score	Remarks ²⁰
Location and Design of project	Is siting and/or routing of the project (or its components) likely to be affected by climate conditions including extreme weather related events such as floods, droughts, storms, landslides?		
	Would the project design (e.g. the clearance for bridges) need to consider any hydro-meteorological parameters (e.g., sea-level, peak river flow, reliable water level, peak wind speed etc)?		
Materials and Maintenance	Would weather, current and likely future climate conditions (e.g. prevailing humidity level, temperature contrast between hot summer days and cold winter days, exposure to wind and humidity hydro-meteorological parameters likely affect the selection of project inputs over the life of project outputs (e.g. construction material)?		
	Would weather, current and likely future climate conditions, and related extreme events likely affect the maintenance (scheduling and cost) of project output(s) ?		
Performance of project outputs	Would weather/climate conditions, and related extreme events likely affect the performance (e.g. annual power production) of project output(s) (e.g. hydro-power generation facilities) throughout their design life time?		

Options for answers and corresponding score are provided below:

Response	Score
Not Likely	0
Likely	1
Very likely	2

Result of Initial Screening (Low, Medium, High):

Other Comments:

Prepared by:

¹ If possible, provide details on the sensitivity of project components to climate conditions, such as how climate parameters are considered in design standards for infrastructure components, how changes in key climate parameters and sea level might affect the siting/routing of project, the selection of construction material and/or scheduling, performances and/or the maintenance cost/scheduling of project outputs.

APPENDIX 5: ANNOTATED TABLE OF CONTENTS OF AN IEE AND EMP

The generic table of contents of an IEE or EIA report is provided here below. The difference between the IEE and EIA is the scope of the assessment. The order of dominance of the different sections may vary slightly depending on the assessment context.

A. Executive Summary

This section describes concisely the critical facts, significant findings, and recommended actions.

B. Introduction

Introduces the project, project objectives, and key assessment context if exists

C. Policy, Legal, and Administrative Framework

This section discusses the national and local legal and institutional framework within which the environmental assessment is conducted. It also identifies project-relevant international environmental agreements to which Viet Nam is party.

D. Description of the Project

This section describes the proposed project, its major components, geographic, ecological, social, and temporal context, including any associated facility required by the project (for example, access roads, power plants, water supply, quarries and borrow pits, and spoil disposal). It normally includes drawings and maps showing the project's layout and components, the project site, and the project's area of influence.

E. Description of the Environment (Baseline Data)

This section describes relevant physical, biological, and socioeconomic conditions within the study area. It also looks at current and proposed development activities within the project's area of influence, including those not directly connected to the project. It indicates the accuracy, reliability, and the sources of data.

F. Environmental Impacts and Mitigation Measures

This section predicts and assesses the project's likely positive and negative direct and indirect impacts to physical, biological, socioeconomic (including occupational health and safety, community health and safety, vulnerable groups and gender issues, and impacts on livelihoods through environmental media), and physical cultural resources in the project's area of influence, in quantitative terms to the extent possible; identifies mitigation measures and any residual negative impacts that cannot be mitigated; explores opportunities for enhancement; identifies and estimates the extent and quality of available data, key data gaps, and uncertainties associated with predictions and specifies topics that do not require further attention; and examines global, trans boundary, and cumulative impacts as appropriate.

G. Analysis of Alternatives

This section examines alternatives to the proposed project site, technology, design, and operation - including the no project alternative - in terms of their potential environmental impacts; the feasibility of mitigating these impacts; their capital and recurrent costs; their suitability under local

conditions; and their institutional, training, and monitoring requirements. It also states the basis for selecting the particular project design proposed and, justifies recommended emission levels and approaches to pollution prevention and abatement.

H. Information Disclosure, Consultation, and Participation

This section:

- (i) describes the process undertaken during project design and preparation for engaging stakeholders, including information disclosure and consultation with affected people and other stakeholders;
- (ii) summarizes comments and concerns received from affected people and other stakeholders and how these comments have been addressed in project design and mitigation measures, with special attention paid to the needs and concerns of vulnerable groups, including women, the poor, and Indigenous Peoples; and
- (iii) describes the planned information disclosure measures (including the type of information to be disseminated and the method of dissemination) and the process for carrying out consultation with affected people and facilitating their participation during project implementation.

I. Grievance Redress Mechanism

This section describes the grievance redress framework (both informal and formal channels), setting out the time frame and mechanisms for resolving complaints about environmental performance.

J. Environmental Management Plan²¹

This section deals with the set of mitigation and management measures to be taken during project implementation to avoid, reduce, mitigate, or compensate for adverse environmental impacts (in that order of priority). It may include multiple management plans and actions. It includes the following key components (with the level of detail commensurate with the project's impacts and risks):

(i) Mitigation

- (a) identifies and summarizes anticipated significant adverse environmental impacts and risks;
- (b) describes each mitigation measure with technical details, including the type of impact to which it relates and the conditions under which it is required (for instance, continuously or in the event of contingencies), together with designs, equipment descriptions, and operating procedures, as appropriate; and
- (c) provides links to any other mitigation plans (for example, for involuntary resettlement, Indigenous Peoples, or emergency response) required for the project.

(ii) Monitoring

- (d) describes monitoring measures with technical details, including parameters to be measured, methods to be used, sampling locations, frequency of measurements, detection limits and definition of thresholds that will signal the need for corrective actions; and

²¹ ADB. 2003. Environmental Assessment Guidelines. Manila

- (e) describes monitoring and reporting procedures to ensure early detection of conditions that necessitate particular mitigation measures and document the progress and results of mitigation.

(iii) Implementation arrangements

- (f) specifies the implementation schedule showing phasing and coordination with overall project implementation;
- (g) describes institutional or organizational arrangements, namely, who is responsible for carrying out the mitigation and monitoring measures, which may include one or more of the following additional topics to strengthen environmental management capability: technical assistance programs, training programs, procurement of equipment and supplies related to environmental management and monitoring, and organizational changes; and
- (h) estimates capital and recurrent costs and describes sources of funds for implementing the environmental management plan.

(iv) Performance indicators

- (i) describe the desired outcomes as measurable events to the extent possible, such as performance indicators, targets, or acceptance criteria that can be tracked over defined time periods.

K. Conclusion and Recommendation

Provides overall conclusions of IEE/EIA, and if, or what additional assessment of the project is required. Provides recommendations for the EMP.