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REGIONAL: ISLAMIC INFRASTRUCTURE FUND

Asian Development Bank

GUIDELINES FOR ESTABLISHING THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

A. Guiding Principles

1. The General Partner will review its overall risk management process in the context of any proposed Investment. The General Partner will formulate a policy for environmental and social management and establish an environmental and social management system (ESMS) consistent with the safeguard policy principles and requirements of the ADB. Guiding principles are:

- (i) Compliance of the Partnership with ADB's applicable environmental and social safeguard policies,¹ and the environmental and social laws and policies (including labor, land acquisition, and resettlement) of the host governments;
- (ii) Integration of environmental and social safeguard compliance of Investments in the Partnership's due diligence and risk assessment;
- (iii) Establishment of a process and/or system for screening, categorization/classification, and assessment, to identify and monitor adverse environmental and social impacts of the Partnership's business activities;
- (iv) Identification of appropriate mitigation and compensation measures to minimize adverse impacts in line with international best practices and applicable environmental and social safeguard requirements;
- (v) Public disclosure of environmental and social impact information;
- (vi) Promotion of Investee Company compliance with applicable environmental and social safeguards, including resettlement laws and standards in the host country, through appropriate documentation of environmental and social impact studies, approvals by authorities, and site visits as appropriate;
- (vii) Where applicable, prompt collaboration with the Investee Company to prepare a corrective action plan in the case of breach of relevant ADB environmental and social policy requirements and host government laws and standards; and
- (viii) Appropriate staffing of the Advisers to implement the ESMS.

B. Environmental and Social Management System

2. The General Partner will establish and adopt an ESMS consistent with the Partnership's environmental and social safeguard policies. The ESMS will comprise an ESMS policy, ESMS procedures, and ESMS capacity-building plan.

1. Environmental and Social Management System Policy

3. As part of the process of establishing an ESMS, the General Partner will prepare and adopt an environmental and social safeguard policy statement which mentions, among other things:

- (i) That the business activities of the Partnership will be consistent with the Partnership's policies on environment, involuntary resettlement, indigenous peoples/ethnic minorities (IP/EMs), and other social and disclosure policy requirements;
- (ii) That the Partnership will actively require its Investee Companies to observe all applicable national and local environmental and social requirements, particularly those governing land acquisition, compensation, involuntary resettlement, and indigenous peoples;

¹ ADB has three safeguard policies: Environment Policy (2002), Indigenous Peoples (IP) Policy (1998), and Involuntary Resettlement (IR) Policy (1995).

- (iii) That the Partnership will actively require its Investee Companies to follow internationally recognized labor practices consistent with national labor laws and regulations; and
- (iv) That if the relevant business activities of the Investee Company contravene applicable environmental and social safeguard requirements, the Partnership will take action to understand the reasons for non-compliance and shall discuss with the Investee Company corrective actions acceptable to the relevant authorities.

4. Wherever the relevant business activities of the Investee Company involve involuntary resettlement impact, the General Partner will satisfy itself that the Investee Company has: (i) avoided involuntary resettlement wherever feasible; (ii) minimized resettlement where population displacement is unavoidable; and (iii) ensured that affected persons have been compensated and assisted through replacement of land, housing, infrastructure, resources, income sources, and services, in cash or in kind, so that their economic and social circumstances will be at least restored to the pre-project level. All compensation is based on the principle of replacement cost.

5. Wherever the relevant business activities of the Investee Company affect IP/EMs, the Partnership will satisfy itself that the Investee Company has: (i) avoided negative impact on IP/EMs where possible; (ii) provided adequate and appropriate compensation when negative impact is unavoidable; and (iii) ensured that development initiatives affecting indigenous peoples are effective and sustainable, and are compatible in substance and structure with their cultures and social and economic institutions, and commensurate with their needs, aspirations, and demands.

2. Environmental and Social Management System Procedures

6. **Screening.** Before making any specific investment, the General Partner will verify that the proposed business activity is not on ADB's list of Prohibited Activities. The General Partner will undertake an initial assessment of whether the relevant business activities of the Investee Company, in the reasonable opinion of the General Partner, have a potential to have adverse environmental or social impacts or may involve land acquisition or involuntary resettlement, or affect IP/EMs. These issues will continue to be assessed during the investment due diligence process, in order to ensure that the relevant business activities of the Investee Company comply with the environmental and social requirements of the national and local governments. The General Partner will develop and implement a rigorous screening system to assess whether the proposed investments have adequately addressed environmental and social safeguards.

7. Projects are categorized by the significance of their environmental, involuntary resettlement, and indigenous peoples impacts. Significance is determined by scrutinizing the type, location, scale, nature, and magnitude of a project's potential impacts. The environmental and social safeguard categories that ADB uses are as follows:

a. Environmental

- (i) **Category A.** Projects with anticipated significant adverse impact on the environment. These include the following types of projects: thermal and hydro power plants; irrigation systems; roads, bridges, tunnels, railways, and airports; forestry; farming; general construction; waste processing and disposal facilities (landfill, transfer station and incineration); mining, oil extraction and refinery; iron, steel, and metals production; chemical plant installation; skin and hide processing, and tanneries; sawdust processing, and pulp and paper production; and establishment of artificial lakes or reservoirs. Category A projects will require an adequately prepared environmental impact assessment (EIA) with environmental management plan (EMP) and environmental monitoring program (EMoP).
- (ii) **Category B.** Projects with anticipated insignificant adverse impacts on the environment. These include projects with minor environmental impacts, such as

transmission lines and substations; rehabilitation projects of power plants, factories, or roads within the same corridor or footprint; and other developments anticipating insignificant adverse impacts. Category B projects will require the preparation of an initial environmental examination (IEE) with an environmental mitigation and monitoring program. Any project listed (by type) as Category B, but deemed to be of significant anticipated environmental impact, can be determined to be a Category A project by the General Partner.

- (iii) **Category C.** Projects with no anticipated adverse environmental impacts. Category C projects require no impact assessment studies.

b. Social

- (i) **Category A.** Projects where 200 or more people will experience major involuntary resettlement impacts, which are defined as being physically displaced from housing, or losing 10% or more of their productive (income-generating) assets. A full resettlement plan is required for Category A projects. A project's impact is also significant if it positively or negatively: (i) affects IP/EMs' customary rights of use and access to land and natural resources; (ii) changes IP/EMs' socioeconomic status; (iii) affects IP/EMs' cultural and communal integrity; (iv) affects IP/EMs' health, education, livelihood, and social security status; or (v) alters or undermines the recognition of indigenous knowledge. For projects significantly affecting IP/EMs, an Indigenous Peoples/Ethnic Minority Development Plan (IPDP/EMDP) is prepared.
- (ii) **Category B.** Projects where fewer than 200 people will experience major involuntary resettlement impacts. Category B projects require a short resettlement plan. Projects that are expected to have limited impacts on IP/EMs require a specific action favorable to indigenous peoples in the project design or in related plans (e.g. a resettlement plan).
- (iii) **Category C.** No indigenous peoples or involuntary resettlement impacts are expected. Category C projects require no plans.

8. **Impact Assessment and Safeguards Planning.** In the event that the General Partner determines that the relevant business activities of the potential Investee Company may have a potential significant adverse environmental or social impact, or may involve involuntary resettlement or affect indigenous people, the General Partner will, prior to investing in that Investee Company:

- (i) Consult with the Partnership and assist in providing advisory or other services related to safeguards to such Investee Company; and
- (ii) Where the relevant business activities of the Investee Company have significant impacts on the environment, procure the review/preparation of a feasibility study, to include an environmental and social assessment, which addresses the following key environmental and social issues:
 - a. Environmental and socioeconomic impacts of the investment;
 - b. Requirements under relevant laws and regulations, and applicable international agreements, including but not limited to laws and regulations governing land acquisition, compensation, resettlement and indigenous peoples;
 - c. Sustainable development and use of renewable natural resources;
 - d. Protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems;

- e. Land acquisition and land use;
- f. Impact on IP/EMs and communities;
- g. Cumulative environmental and social impacts of existing, proposed, and anticipated future investments;
- h. Disclosure of impacts and mitigation measures to and participation of affected parties in the design, and review of mitigation and rehabilitation measures;
- i. Consideration of environmentally, socially, and economically feasible alternatives; and
- j. Pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions), and solid and chemical waste management.

9. For "greenfield" development or rehabilitation and/or expansion of existing facilities, the General Partner will procure the screening, categorization and environmental due diligence to determine the required level of environmental assessment for each sub-project. During implementation of the sub-project, the General Partner will require the Investee Company to comply with required EMP and EMoP indicated in the EIA or IEE. Whenever an EIA is required, a summary EIA must be prepared by the Investee Company and posted on ADB's website.

10. In the event that "greenfield" development is involved, the General Partner will determine whether indigenous peoples will be affected and land acquisition and involuntary resettlement may be involved. In the event that the General Partner is not able to reasonably satisfy itself that the relevant business activities of the Investee Company comply with all applicable environmental and social requirements of the national and local government, and that IP/EMs are not affected and involuntary resettlements are not involved, the General Partner will:

- (i) Decline to provide funding to such Investee Company; or
- (ii) Offer funding and associated services subject to the condition that the Investee Company implements an agreed corrective action plan within a specified period of time; or
- (iii) If involuntary resettlement and/or impacts on IP/EMs cannot be avoided, the General Partner will require the prospective Investee Company to prepare and submit a resettlement plan (RP) and/or IPDP/EMDP, prepared in accordance with the policy as outlined under section 3. The RP and/or IPDP/EMDP will need to satisfy the General Partner that impacts on IP/EMs are mitigated and involuntary resettlement is minimized, and that affected people will receive compensation at replacement cost. During implementation of the investment, the Advisers will monitor implementation of RPs and IPDPs/EMDPs, and ensure that such plans are publicly available.

11. In the event that the sub-project involves rehabilitation and/or expansion of existing facilities, the General Partner will procure that due diligence be undertaken to determine if there are any outstanding compensation or involuntary resettlement issues, unaddressed adverse impacts on ethnic minorities, unresolved grievances, or related areas of reputational risk to the Partnership and to ADB. If there are any outstanding involuntary resettlement and ethnic minority issues, the General Partner will inform ADB and require the Investee Company to prepare corrective measures in the form of a retrofit plan to achieve compliance with ADB's social safeguard policy requirements. The retrofit plan should be disclosed to affected persons and submitted to ADB for review and approval.

12. Wherever a resettlement plan is required, affected persons will be fully informed and consulted on compensation and resettlement options, including relocation sites, and socioeconomic rehabilitation. Pertinent resettlement information will be disclosed to the affected persons at key points, and specific opportunities will be provided for them to participate in choosing, planning, and implementing options. The information will be disclosed in a manner that is accessible to the affected

people where there are differing levels of literacy. Grievance redress mechanisms for affected persons with adequate representation of affected people and with adequate multi-gender presence will be established in each resettlement plan. The plan will be made available to the affected persons before its implementation in their own language(s), with details on their entitlements.

13. Whenever an IPDP or EMDP is required, adequate consultations will be held with indigenous peoples or ethnic minorities during its preparation. They will be informed of the mitigation measures proposed and their views will be taken into account in finalizing the plan. The IPDP or EMDP will be translated into the language of the indigenous peoples or ethnic minorities and made available to them before implementation. The disclosure will be in a manner accessible to the affected people where there are differing levels of literacy. Indigenous people or ethnic minority institutions and organizations in the affected area will also be involved in implementing the IPDP or EMDP and in resolving any disputes that arise.

14. Draft resettlement plans or IPDPs or EMDPs will be made publicly available. ADB will review and approve the necessary resettlement plans as they are prepared, and, once they are finalized, will disclose these on its website before implementation. Plans may be revised after submission in response to: (i) requests for revision during the review process, or (ii) changes in design during implementation. Such revised plans will also be made available to the affected people, in a form and language they can understand, and in English on ADB's website.

15. **Reporting.** The General Partner will require reporting mechanisms from its Investee Companies appropriate to the significance of environmental and social impacts (e.g. semi-annual reports in case of significant impacts). The environmental and social monitoring reports prepared by Investee Companies will be submitted to the General Partner. The General Partner will then procure the preparation of, and submit to ADB, an annual environmental and social performance report, with respect to investments made by the Partnership, summarizing:

- (i) Environmental and social impacts of investments financed by the Partnership, including progress and performance for each investment under its environmental management plan, RP, and/or IPDP/EMDP;
- (ii) Any areas of non-compliance or other issues arising from the environmental and social safeguards, including resettlement (for each individual investment), and a description of any prospective investments where such policies may be triggered; and
- (iii) Periodic reviews of the ESMS, striving for continual improvement.

c. Environmental and Social Management System Capacity

16. The ESMS will be established through:

- (i) Integration of environmental and social safeguard aspects in the appraisal, approval, and monitoring process; and
- (ii) Procurement by the General Partner of appropriately qualified consultants to undertake the functions associated with the ESMS.

17. The General Partner will assign staff to monitor the consultants.

18. The General Partner will ensure that at least one of its senior representatives receives environmental and social safeguard training under a recognized program.