INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE

Report No.: ISDSC17816

Date ISDS Prepared/Updated: 07-Jun-2016

Date ISDS Approved/Disclosed: 10-Jun-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Mongolia	**Project ID:**	P152343
Project Name:	Mongolia: Second Energy Sector Project (P152343)		
Task Team Leader(s):	Peter Johansen		
Estimated Appraisal Date:	03-Oct-2016	**Estimated Board Date:**	23-Mar-2017
Managing Unit:	GEE02	**Lending Instrument:**	Investment Project Financing
Sector(s):	Energy efficiency in Heat and Power (50%), Transmission and Distribution of Electricity (50%)		
Theme(s):	Regulation and competition policy (20%), City-wide Infrastructure and Service Delivery (30%), Rural services and infrastructure (50%)		

Financing (In USD Million)

Total Project Cost:	35.00	Total Bank Financing:	30.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	5.00
International Development Association (IDA)	30.00
Total	35.00

Environmental Category:	B - Partial Assessment
Is this a Repeater project?	Yes

B. Project Objectives

The development objective of the proposed project is to improve reliability of and access to electricity services and revenue collection in two regional distribution utilities in Mongolia.

C. Project Description

The proposed project would invest in high priority distribution infrastructure, information

communication technology (ICT) and technical assistance (TA). The project is expected to create new assets or rehabilitate existing parts of the power system in two regional distribution companies identified by GoM as the highest priority for investment. Infrastructure investment would cover distribution lines and substations, and to a lesser extent, transmission lines. The ICT investment would support better corporate and operations management at two distribution companies, while the TA would enable the distribution and transmission companies to implement the project.

The project is envisioned to consist of three components as described below:

- Component A: Upgrade and Expansion of Regional Distribution Companies (estimated cost of $29.2 million, of which $24.2 million is IDA credit): Baganuur -Southeastern Region Electricity Distribution Network (BSEDN) and Erdenet-Bulgan Electricity Distribution Network (EBEDN). The purpose of this component is to reduce system losses and improve reliability of and access to electricity services in selected parts of the distribution network through strengthening of power infrastructure. The support for the component would include: (i) rehabilitation, upgrade and expansion of selected existing substations and associated lines; (ii) construction of new substations and distribution lines; (iii) installation of e-meters and advanced metering infrastructure; and (iv) training in network design, proper installation of equipment, and power system loss reduction and basic financial management. The project would also provide additional substation capacity where needed so at to be able to supply the expected new loads and improve system reliability.

- Component B: Improved efficiency of National Power Transmission Grid (NPTG) (estimated cost of $1.8 million, all IDA credit). There are three subcomponents: (i) installation of switchgears with vacuum circuit breakers; (ii) provision of software for planning and management purposes; and (iii) staff capacity building. This component will invest in switchgears and introduce efficient ICT solutions in NPTG to help reduce transmission losses and improve the efficiency of the transmission network and capacity of NPTG in planning and operations.

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- Component C: Project Management, Technical Assistance, and Capacity Building (estimated cost of $4.0 million, all IDA credit). The purpose of this component is to strengthen the capacity of the project management office (PMO) under the Ministry of Energy and the implementing units (PIUs) of the regional distribution companies through provision of technical assistance, training and study tours. The component includes: (i) technical assistance for project implementation and special studies; (ii) training programs to improve the project management capabilities; and (iii) project management cost.

In parallel with this project the Bank will provide support to GoM through the Scaling up Renewable Energy Program (SREP), for which an Investment Plan was approved in November 2015. SREP will provide grant financing of around $30 million (about half through World Bank and the other half through ADB) to support development of renewable energy generation as well as to support and build capacity in the Energy Regulatory Commission (ERC). The objective of the ERC support will be to improve tariff methodologies, ensure efficient financial pass-through provisions to enable greater private participation, particularly in renewable energy generation - thereby moving the Mongolian power sector toward a more sustainable and market-based development model.

The SREP funded support to ERC will need to be linked to the ESP2 project since regulatory improvements will be critical to ensure improved financial performance and thereby sustainable operation of the regional distribution companies. In order to strengthen this link, the Bank is designing a TA activity supported from the Asia Sustainable and Alternative Energy Program

(ASTAE) which is intended to (i) provide a review of proposed investment plans of two of the regional distribution networks with a view on establishing a social baseline and understanding the affordability issues of electricity tariffs; and (ii) to provide a diagnostic of the power sector regulatory environment and market structure to identify key gaps and capacity constraints and outline a roadmap to address these issues.

Lessons and experience learned and reflected in the project design

The project has been designed to take into consideration the lessons learned from other relevant Bank projects in Mongolia and other similar countries, particularly through the experiences of ESP which include the following (Report No: ICR2955):

- Early, intensive and continuous training and capacity building have proven to be critical to the success of projects, particularly when the PIU has no previous experience with Bank processes and the domestic regulatory framework is weak;
- The practice of having the technical consultant sit with the aimag utilities to provide intensive hand-holding trainings and TAs is a key factor contributing to a project?s success; and
- The TA support to the regulator needs to be designed in a focused and pragmatic matter, while taking government?s will to act into consideration. On-going policy dialogue with high level government officials should be maintained during the whole course of the project.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

BSEDN distributes and supplies electricity to a total of 46,568 customers in the Baganuur District close to Ulaanbaatar and in 56 soums (villages) of 7 aimags (districts). The vast majority of the customers are residential households with a small portion of SMEs and mines. EBDEN serves 65,400 customers spread over 108 soums in 11 aimags. A majority of residential customers live in ger areas, where most residents are poor. Further characterization of the project areas will be made during the preparation mission when specific investments are established.

E. Borrowers Institutional Capacity for Safeguard Policies

The Project Management Office sitting under the Ministry of Energy is familiar with Bank-funded projects and has developed internal capacity through its most recent implementation of the Energy Sector Project. Also the PMO envisaged the hiring of environmental and social (E&S) safeguards consultants to assist with conducting E&S assessment, consultation, and preparing safeguards instrument. During project preparation, safeguard specialists will assess the Borrowers capacities for implementing World Bank safeguard policies. If appropriate, recommendations for capacity development/strengthening will be made at that time.

F. Environmental and Social Safeguards Specialists on the Team

Bernard Baratz (GEEDR)

Reisha Anne Jones (GSU02)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The project will involve rehabilitation and/or replacement of several substation transformers, or other electrical equipment some of which may contain or be contaminated with polychlorinated biphenyls (PCBs). PCBs are considered hazardous

		materials and required specialized analytical equipment to establish their presence as well as special techniques for their management and disposal. The degree to which PCBs are present in various elements of the proposed project will have to be determined and a detailed management plan for the removal, handling, transport and ultimate disposal will be required as part of the overall project Environmental Management Plan (EMP). The EMP will also include requirements prohibiting all new electrical equipment (transformers, switches, capacitors etc.) from containing PCBs. The project will also involve removal and replacement of numerous wooden poles supporting existing power distribution lines. In general wooden poles are treated with wood preservatives (pentachlorophenol, creosote, copper salts, etc.). By their very nature, these materials may be considered hazardous which would make the wooden poles unsuitable for subsequent use as fuel. During project preparation, the wood preservatives used for these poles will be determined. The EMP will include specific guidance on the management (handling, transport, and disposal/recycle/reuse) of these poles. The project may also involve replacement of numerous electrical meters. Although these meters are not expected to contain hazardous materials, their disposal still represents a potentially significant waste management issue that will be addressed in the EMP.
Natural Habitats OP/BP 4.04	Yes	This project will not support or lead to the conversion of natural habitats. Most anticipated investments will be rehabilitation or replacement of existing equipment (substations, OHL support structures-wooden poles etc.). There may be investment in expanding existing substations or constructing new substations. However, screening criteria will be developed to ensure that: (a) no investments which involve the significant conversion of critical natural habitats; and/or (b) have acceptable mitigation measures in place for those investments likely to affect non-critical natural habitats
Forests OP/BP 4.36	Yes	This project will not lead to the destruction of forests

		or forest ecosystems. As mentioned above, most anticipated investments will be rehabilitation or replacement of existing equipment (substations, OHL support structures-wooden poles etc.). There may be some investment in expanding existing substations or constructing new substations. During preparation the Task Team will verify that no direct or linked investments in areas supporting destruction or conversion of forests and forest ecosystems which affect the management of forests or the rights and welfare of forest dependent communities, will be supported.
Pest Management OP 4.09	No	The project will not finance any activities that would result in procurement or use of pesticides. There will be no pesticide use in construction or maintenance of works. Any land clearing in preparation for civil works and/or maintaining rights-of-way will be undertaken manually or mechanically.
Physical Cultural Resources OP/BP 4.11	Yes	While known physical cultural resources can be avoided by sub-project design, there is a chance that these resources could be uncovered during the course of civil works hence this policy is triggered. A chance finds procedure will be included in the ESMF to cover these eventualities.
Indigenous Peoples OP/BP 4.10	No	Mongolia has an estimated 24 ethnic groups, which are either descendants of Mongolian nomadic tribes, or are groups of Turkic origin who have become Mongolised over time. The majority are the Khalkh who comprise over 90% of the population. Except for the Kazakh minority group residing in western Mongolia, all ethnic groups speak Mongolian dialects which are comprehensible to speakers of Khalkha and to each other. Only the Kazakhs rely upon a distinct spoken language. The majority of Mongolia➢(s ethnic minority groups share similar customs, traditions and systems of production as the Khalkh. With the exception of the predominantly Muslim and linguistically differentiated Kazakhs in western Mongolia, and traditionally nomadic reindeerherding Tsaatan peoples in the north, Mongolia➢(s ethnic groups are not considered to be economically, socially or legally marginalized or otherwise disadvantaged in a manner which would restrict their ability to participate in the project. The project will not cover those areas

		populated by either the Kazakh or Tsaatan and is therefore not expected to trigger this policy.
Involuntary Resettlement OP/ BP 4.12	Yes	Improvements to the distribution system will require installation of some physical infrastructure. Improvements will be within the existing infrastructure footprint, within the established right of way, or on government land. This OP is triggered in the event that improvements are installed on land that is not already within the established right of way, existing footprint or government land. As sites and any impacts on populations are yet to be finalized, a Resettlement Policy Framework (RPF) will be prepared. The RPF will lay out the steps to be taken when any land is involuntarily acquired, purchased under negotiated settlement or voluntarily donated for project activities.
Safety of Dams OP/BP 4.37	No	The project will not finance or retrofit any dams.
Projects on International Waterways OP/BP 7.50	No	Potential investments under the project are not expected to have any adverse effects on the water quantity or quality of international waterways.
Projects in Disputed Areas OP/ BP 7.60	No	Project activities be will not be undertaken in disputed areas

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 24-Oct-2016

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing[1] should be specified in the PAD-stage ISDS:

Environmental and Social Impact Assessment and Environment Management Plan: June-August 2016

Resettlement/ Land Acquisition Policy Frameworks: June-August 2016

IV. APPROVALS

Task Team Leader(s):	Name: Peter Johansen	
Approved By:		
Safeguards Advisor:	Name: Peter Leonard (SA)	Date: 10-Jun-2016
Practice Manager/ Manager:	Name: Julia M. Fraser (PMGR)	Date: 10-Jun-2016

[1] Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.