

## Environmental Assessment and Review for Project Loans

Environment must be considered at all stages of the project cycle from project identification through implementation. This section provides a detailed description of the environmental assessment and review process for project loans in terms of activities that take place during the project cycle. The environmental assessment requirements depend on the environment category (Table 1). Category A projects have the most stringent requirements and need the highest level of effort and resources; category B have less stringent requirements, and category C, has the minimum requirements.

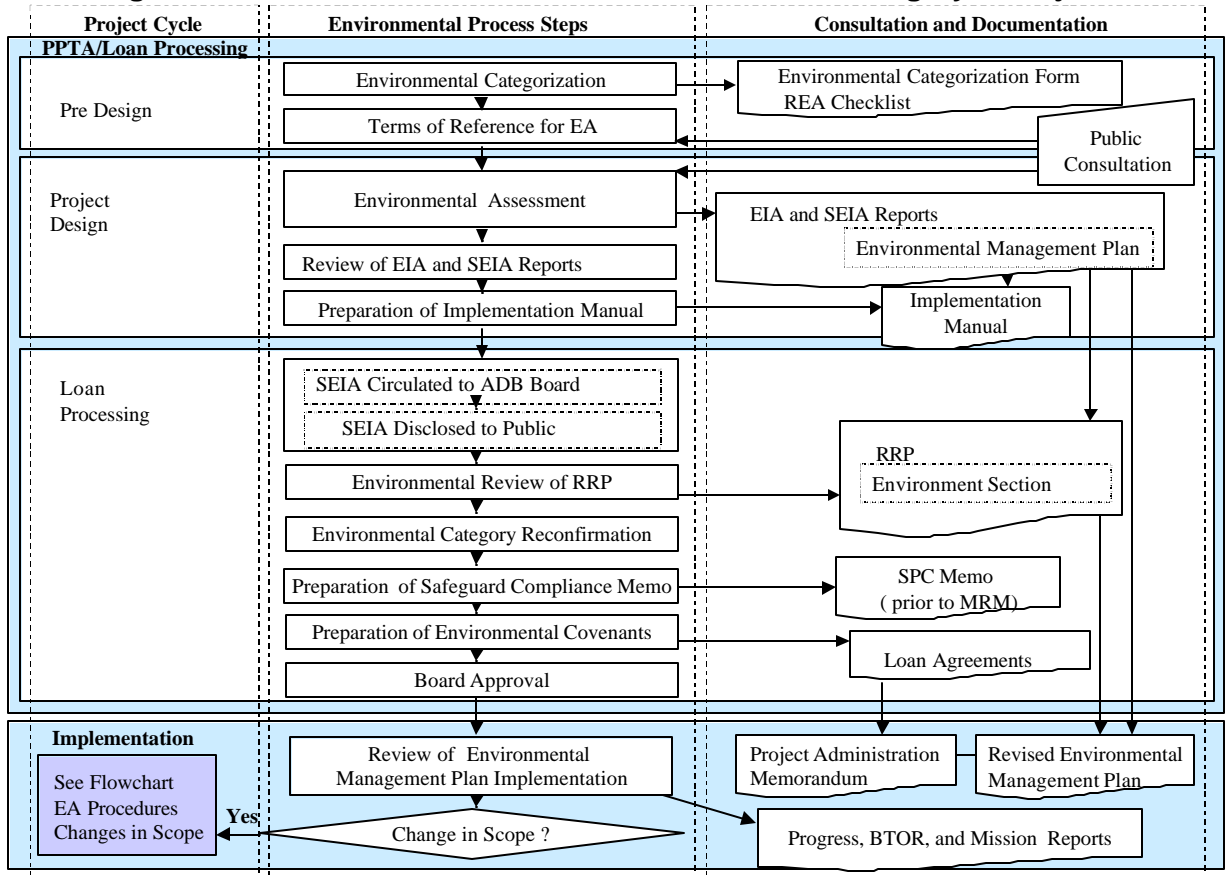
**Table 1: Environmental Assessment Requirements for Project Loans**

Category	Basic Environmental Assessment Requirements
A. Projects with potential for significant adverse environmental impacts ( <i>OM 20</i> )	<ul style="list-style-type: none"> <li>• EIA</li> <li>• Public consultation (at least twice)</li> <li>• EIA report to be prepared (see Appendix 2 for contents)</li> <li>• Environmental management plan and budget to be prepared</li> <li>• SEIA to be circulated to the Board 120 days prior the Board consideration</li> <li>• SEIA to be disclosed to public</li> <li>• EIA available to public on request</li> </ul>
B. Projects judged to have some adverse environmental impacts – but of lesser degree and/or significance than category A ( <i>OM 20</i> )	<ul style="list-style-type: none"> <li>• IEE</li> <li>• Public consultation</li> <li>• IEE report to be prepared (see Appendix 3 for contents)</li> <li>• For projects deemed to be environmentally sensitive,               <ul style="list-style-type: none"> <li>(i) SIEE to be circulated to the Board 120 days prior to Board consideration</li> <li>(ii) SIEE to be disclosed to public</li> <li>(iii) Environmental management plan and budget to be prepared</li> </ul> </li> <li>• IEE available to public on request</li> <li>• if it is not circulated, the SIEE is normally to be attached as a core appendix to the RRP</li> </ul>
C. Projects unlikely to have adverse environmental impacts ( <i>OM 20</i> )	<ul style="list-style-type: none"> <li>• No IEE or EIA</li> <li>• Environmental implications to be summarized in the RRP</li> </ul>

### a. Category A

In ADB's business processes, environmental categorization during project design is the first step in the environmental assessment of a project loan (Figure 1). Because a category A project has potential for significant adverse environmental impacts, it is necessary that a rigorous scoping to determine the TOR for the EIA be undertaken at this early stage in project preparation.

**Figure 1: Environmental Assessment and Review of Category A Projects**



**Scoping<sup>2</sup> during PPTA Fact Finding.** In many projects, project preparation is supported by a PPTA<sup>3</sup>. During the PPTA Fact-finding Mission, participation by an Environment Specialist from the RD is desirable to: (i) to inform the borrower of the environmental category and corresponding environmental assessment requirements, and (ii) to discuss and agree with the borrower and environmental agencies on a TOR for the EIA. Based these discussions the environment category should be confirmed or the project reclassified, if necessary. The Mission's environmental assessment activities usually involve: (i) collection of information in the field, (ii) conducting reconnaissance surveys of the potential sites for projects, and (iii) holding discussions with all concerned agencies. The Mission assesses the environmental policy, management system, and capacity of the executing agency and determines the need for any institutional strengthening. Through consultation, where appropriate, the Mission discloses the project information<sup>4</sup> to project-affected people and local NGOs to solicit their views and concerns - taking account of their comments and suggestions.

The findings of the Mission may include:

<sup>2</sup> Scoping is a process for determining the issues to be addressed, the information to be collected, and the analysis required to assess the environmental impacts of a project.

<sup>3</sup> Note private sector projects do not use PPTAs for project preparation.

<sup>4</sup> The information disclosed includes the project's objective, description, and potential impacts

- (i) an evaluation of the environmental soundness of the concept, approach, and prospective sites of the project;
- (ii) an evaluation relevant environmental legislation including environmental standards,
- (iii) a review of the DMC's administration of the EIA process and degree of participation in multilateral environmental agreements;
- (iv) an identification of major environmental concerns;
- (v) an exploration of other feasible technology and design alternatives;
- (vi) a determination of the level and scope of environmental assessment; and
- (vii) an assessment of the environmental management capability of the executing agency.

**Terms of Reference for the EIA.** The findings of the mission are used to prepare the draft TOR, cost estimates, and implementation arrangements for the EIA. The draft TOR are to be discussed and agreed to with the national environmental agency. ADB, the executing agency, and the national environmental agency then agree on the level of effort and TOR for the environmental assessment.

The TOR defines the scope of the environmental assessment, the responsibilities or obligations of the environmental assessment team, and the expected outputs, and may include:

- background of the project;
- objectives, scope, and size of the project;
- delineation of the area(s) to be covered by the environmental assessment;
- brief description of the potential environmental problems and possible alternatives to address the environmental problems that the consultants will be required to investigate;
- description of the expected outputs, including information to be collected, analysis of environmental impacts of alternative project sites and designs, mitigation measures, monitoring programs, an EMP, and action plan for implementing the EMP;
- estimates of inputs required for the environmental assessment;
- institutional involvement/strengthening;
- public consultation and information disclosure action plan; and
- arrangements for implementing the environmental assessment.

The TOR for EIA are incorporated into the draft PPTA paper. At this stage, RSES reviews and provides comments, with particular emphasis on the TOR. After the TA paper is approved and early in the field work of the PPTA, the environment assessment team is to disclose the TOR to the affected people and local NGOs to seek additional views and concerns to be included as part of the EIA study. In addition, the final TOR for the EIA should be discussed and agreed to by the executing agency, and the national environmental agency.

**Environmental Impact Assessment.** During the project design, the EIA should be undertaken as part of the feasibility study. The environmental assessment team should work closely with the technical planning and design group to ensure that environmental considerations are integrated into the project design. Representatives of the executing agency should participate as members of the environmental assessment team. Their participation in field work, public consultations and report writing will increase their understanding of the environmental issues and will help build institutional capacity in EIA. In general, the environmental assessment team will:

- (i) coordinate with government concerned and environment agencies;
- (ii) prepare a project description, define the study area, collect environmental baseline data, prepare site maps, and other relevant maps for the study area;
- (iii) identify potential environmental impacts based on the information obtained on the proposed project and the baseline environmental conditions of the study area;
- (iv) identify alternatives and analyze the environmental impacts of each alternative and propose measure to avoid or prevent impacts;
- (v) estimate the magnitudes of environmental impacts and assess the significance of the impacts;<sup>5</sup>
- (vi) recommend environmental mitigation measures and estimate the mitigation costs;
- (vii) prepare an EMP to be implemented by the executing agency during project implementation, operation and abandonment;
- (viii) prepare the EIA and SEIA reports;
- (ix) conduct public consultation and ensure information disclosure; and develop plans for public consultation and information disclosure during project implementation;
- (x) assess the executing agency's capacity to undertake an environmental review of the environmental assessment report and EMP recommendations, and recommend measures for capacity building, if necessary; and
- (xi) ensure that the proposed project, with EIA and EMP implementation, conforms to the Government and ADB environmental assessment requirements, policies and regulations.

**Review of the Draft EIA and SEIA Reports.** The draft EIA, as well as SEIA, which highlights the main findings of the report, is to be reviewed by ADB (RD sector division and then RSES) and the executing agency. The Borrower should provide the SEIA conclusions to the project-affected people and local NGOs to solicit their comments. The Borrower should also

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<sup>5</sup> The assessment of the significance should include consideration of whether the impacts are (i) acceptable, (ii) acceptable after mitigation measures are applied, or (iii) are unacceptable – because of significant adverse impacts to people and their livelihoods, or because there will be an irreversible impact on the ecosystem.

solicit the comments of the national environmental agency on the draft environmental assessment documents. Comments are to be incorporated in the final environmental assessment reports together with those of ADB, the project executing agency, the affected groups and local NGOs.

**Environmental Considerations in Loan Fact Finding.** During the early stages of loan processing, loan fact finding is undertaken to: evaluate the soundness of the proposed project; identify unresolved issues; identify loan covenants; revise the project design and implementation plan, as appropriate; prepare an appropriate financing plan and determine a suitable ADB loan amount; and reach initial agreement with the Borrower on various aspects of project implementation. At this stage, the EIA results and recommendations including mitigation costs and EMP costs should be available and incorporated into the proposed project design.

The loan fact-finding Mission is to assess the institutional capability of the executing agency and environmental agency and designs appropriate implementation and institutional arrangements for the environmental monitoring program. Consistent with the specific environmental requirements of the DMC, the national environmental agency clears the EIA and SEIA reports. Agreement is then reached with the executing agency on the implementation of the EMP.

The final environmental assessment documents prepared under the PPTA are further reviewed and processed. The environment specialist in the RD reviews the SEIA report. From the safeguard compliance point of view, RSES reviews the report to ensure that the environmental assessment recommendations comply with ADB's environmental assessment requirements. The project executing agency and the national environmental protection agency make a final review the EIA and EIA reports. The executing agency then officially submits the EIA and SEIA reports to ADB for submission to the Board of Directors or for incorporation in the RRP. The SEIA report is edited by the Economics Editor prior to circulation to the Board of Directors and the public. The cover memo, attached to the report, highlights that the report is a Borrower's document and that it has not been formally reviewed nor approved by ADB.

**Circulation to the Board.** SEIA is to be submitted to the Board at least 120 days before Board consideration. The SEIA and the EIA, if requested, may also be made available by ADB to locally affected groups and NGOs through the Board of Directors. The RD also provides RSES with copies of the SEIA. Similarly, a copy of the report is provided the CCO; Director, RSES; and General Counsel, OGC.

**Disclosure of the SEIA to the Public.** After Management approval to circulate the report to the Board has been sought, the report is forwarded to the Secretary's office for circulation and posting in the ADB website. The Office of External Relations circulates the report to the members of the ADB Library Depository Program and places this in the ADB website.

**Environmental Review of the RRP.** ADB's final evaluation of the environmental aspects of the project including loan covenants and assurances are documented in the environment section of the RRP. An economic evaluation of environmental impacts is also to be incorporated in the RRP. The RRP should document any prominent recommendations of the EMP, environmental loan covenants, and other special features. If any changes to the project that have been made after SEIA circulation to the Board, an assessment of any environmental impacts associated with these changes should be included.

RSES reviews the first draft of the RRP and provides advice to the Mission on safeguard compliance issues. The Mission includes its response in an Issues Matrix, which documents how any issues raised by RSES will be addressed in subsequent processing of the project.

**Issuance of the Safeguard Policy Compliance Memo before the MRM.** The MRM is a critical checkpoint for environmental safeguard compliance with ADB's safeguard policies. Compliance is assessed based on the review by RSES and the Issues Matrix prepared by the Mission leader. Immediately prior to the MRM the CCO issues the Safeguard Policy Compliance (SPC) Memorandum. The SPC memorandum advises Management either that (i) the project in compliance, or (ii) certain actions are necessary to ensure compliance prior to the second MRM.

During loan appraisal, if undertaken, the Mission makes a final evaluation of the proposed project, refines the project design, addresses issues raised at the MRM, resolves pending issues with the project executing agency and the government, and finalizes implementation arrangements. At this stage, environmental aspects are to be integrated with the technical, institutional, economic, and financial aspects of the project, and the foundation is laid for implementing and evaluating the project. The Environment Specialist in the RD is to confirm final agreement on the implementation of the EMP executing agency and the national environmental agency.

**Environmental Loan Covenants.** At this stage, loan covenants are to be finalized and included in the Loan Agreement to ensure efficient and effective EMP implementation by the agencies concerned, including the executing and environmental agencies. The environmental covenants should cover the following:

- key environmental mitigation measures and monitoring requirements;
- institutional arrangements and responsibilities for EMP implementation;
- requirements for evaluating the EMP's effectiveness, and reporting to ADB; and
- special requirements, as necessary, for public consultation and environmentally responsible procurement.

During the Loan Appraisal, the Mission should confirm clearance of the environmental assessment by the national environmental agency and the final agreement reached with the project executing agency and the national environmental agency on the implementation of the EMP. At this stage, the project team leader assisted by the RD environment specialist should translate the relevant provisions of the EMP into the Project Administration Memorandum.

Before the second MRM or Staff Review Committee (SRC) meeting, RSES reviews the revised RRP, and where warranted, issues a second SPC memo to advise Management of environmental safeguard risks posed by the project. For fully compliant projects, RSES reaffirms its satisfaction of the project's environmental safeguards in a memo to the Mission leader.

## **b. Category B**

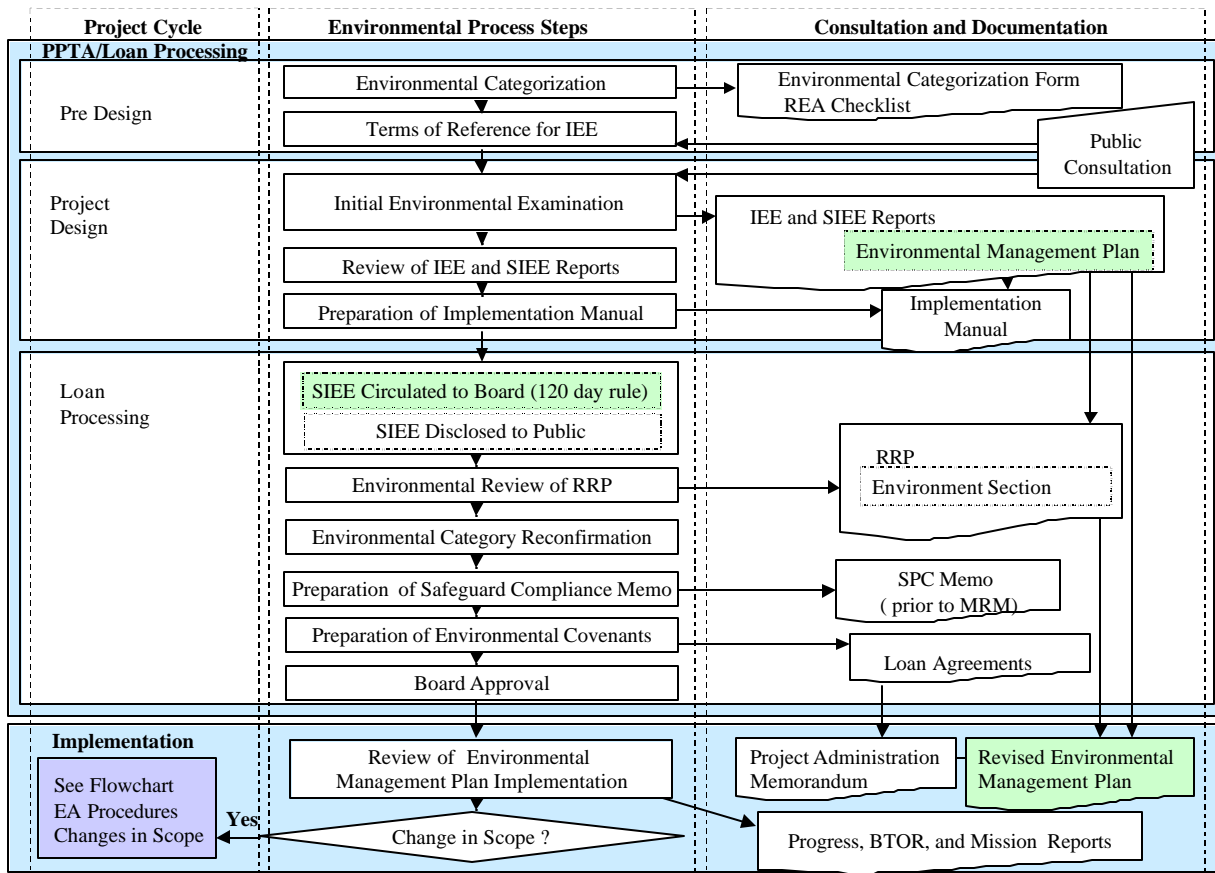
Category B projects must follow the same general set of steps as Category A projects (Figure 2). However, the environmental assessment requirements for Category B are less stringent than those for Category A. The main differences are:

- (i) the requirement is for an IEE, which has a more limited scope and content than an EIA;
- (ii) less public consultation is required; and

- (iii) with the exception of projects deemed to be environmentally sensitive, there is no specific requirement for an EMP; and circulation to the Board and public disclosure of the SIEE are not required to meet the “120 day rule”.

**Terms of Reference for the IEE.** In general, the scope of the IEE is more limited and the level of effort to prepare the IEE is significantly less than for an EIA. Specifically, there is limited consideration of alternatives and a description of “institutional arrangements and environmental monitoring plan” replaces the requirement for preparation of an EMP.

**Figure 2: Environmental Assessment and Review of Category B Projects**



*Green shaded areas only apply to Category B projects deemed environmentally sensitive*

**Initial Environmental Examination.** The IEE should be conducted as part of feasibility study. The environmental assessment team should work closely with the technical planning and design group to ensure that environmental considerations are integrated into the project design. While scope of the IEE TOR is the more limited and the level of effort needed smaller, the environmental assessment team conducts many of same tasks and analysis as required for an EIA (see Appendix 3). The IEE must come to a conclusion as to “whether or not significant environmental impacts warranting an EIA are likely.” If the EIA is warranted, the IEE must provide a recommendation on scope and TOR for the EIA.

**Review of Draft IEE and SIEE.** The draft IEE, as well as SIEE, which highlights the main findings of the IEE, is reviewed by ADB (RD sector division and then RSES) and the executing agency. Depending the scope of public consultation activities, additional comments may be sought from the project affected people and other stakeholders. All comments are to be incorporated into the final documents. The project executing agency and the national environmental protection agency make a final review the IEE and SIEE reports. The executing agency then officially submits the reports to ADB for submission to the Board of Directors or for incorporation in the RRP, as required. The SIEE report is edited by the Economics Editor prior to circulation to the Board of Directors and the public. The cover memo, attached to the report, highlights that the report is a Borrower's document and that it has not been formally reviewed nor approved by ADB.

**Circulation to the Board and Disclosure to the Public.** SIEE reports are required to be circulated world wide, through the depository library system and ADB web site. IEEs will also be made available on request. Only Category B projects deemed to be environmentally sensitive have the requirement that SIEEs must be circulated to the Board and disclosed to the public following the "120 day rule".

**Environmental Review of the RRP.** As with category A projects, ADB's final evaluation of the environmental aspects of the project, loan covenants and assurances are included, and special features of the project are documented in the RRP. Unless it is has been circulated, the SIEE is normally attached as a core appendix of the RRP.

From this stage onward, the environmental assessment steps (review by RSES, issuance of the SPC Memo, loan covenants) are the same as for Category A projects.

#### **c. Category C**

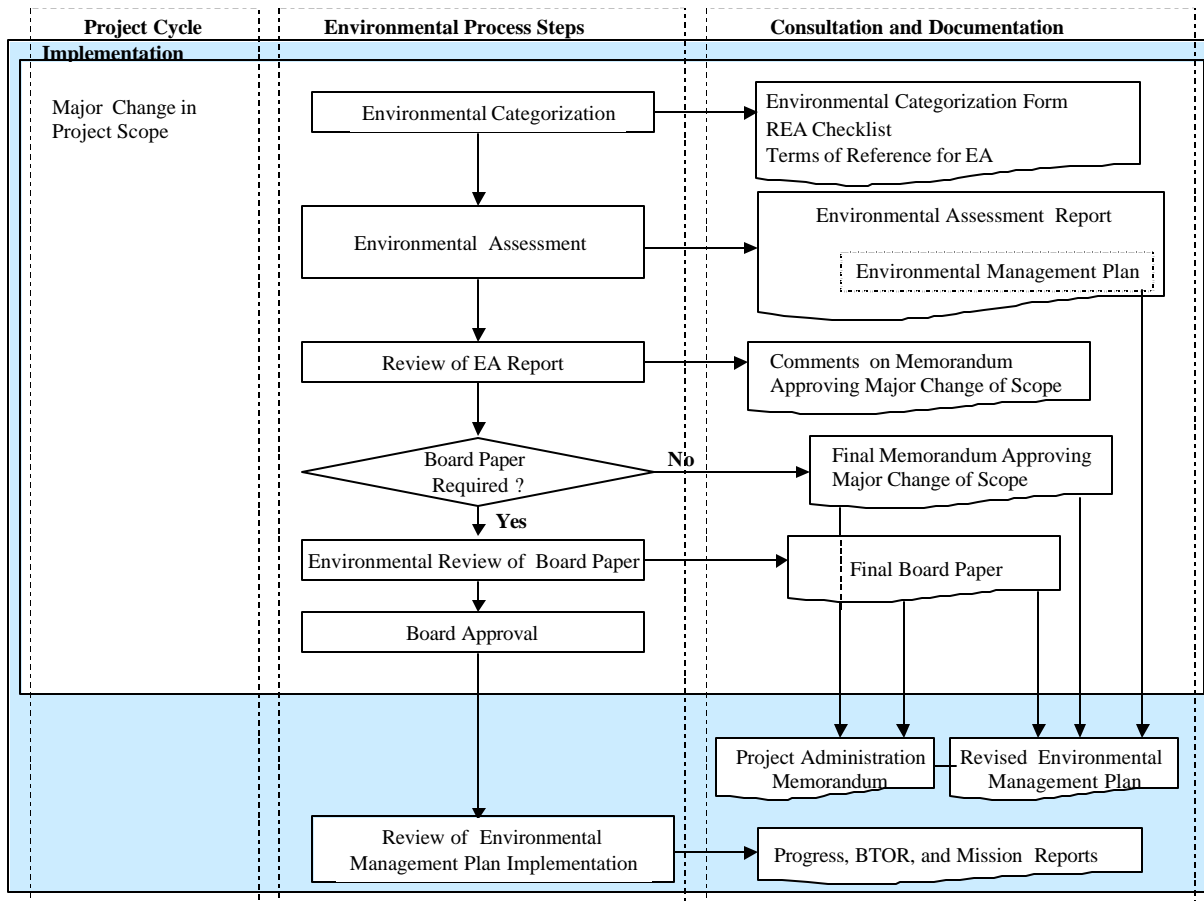
Category C projects do not require the preparation of EIAs or IEEs. However, environmental assessment is to be undertaken. The environmental implications of these projects need to be assessed. The assessment is to be reported in the RRP. In some instances, capacity building activities during implementation may be needed to ensure that environmental considerations are addressed. In other cases, environmental loan covenants may be needed to ensure to ensure compliance with environmental and social safeguards policies.

#### **d. Change in Scope During Implementation and Supervision**

Project implementation commences after the loan is declared effective, and includes the preparation of detailed engineering designs and tender documents, construction of project facilities or physical development of project sites, and testing and commissioning of project facilities. Mission leaders should provide copies of the back-to-office reports (BTORs) of review missions to RSES. The BTOR should provide details on major environmental issues discovered during field visits and on proposed remedial measures, with an indication of the nature of follow-up action needed.

Major changes in a project will trigger the environmental assessment process (Figure 3). A major change is one that materially alters or fundamentally affects the project's purpose (immediate objectives), components, costs, benefits, procurement, or other implementation arrangements as approved by the Board.<sup>6</sup> All major changes in scope will be screened for environmental significance, and the environment category determined. All proposed changes classified as category A will require an EIA, and those classified as B, will require an IEE. In the case of environmentally sensitive changes, the SEIA or SIEE will be made available to the general public, as well as the Board of Directors, at least 120 days before the change in scope is approved.

**Figure 3. Environmental Assessment and Review of a Major Change in Scope**



### Environmental Assessment and Review of Program Loans

Program loans must follow the same general environmental assessment and review process as projects loans. However, analysis of environmental impacts takes on different form. ADB requires that the environmental impacts of policy actions associated with program loans be evaluated, and that appropriate mitigation measures be identified and incorporated as loan covenants. The environmental assessment will focus on the policy actions to be supported by

<sup>6</sup> Project Administration Instructions 5.04 on Change on Project Scope or Implementation Arrangements.

the program loan. While IEEs and SIEEs or EIAs and SEIAs do not have to be prepared for program loans, unless there is also an investment component in the loan, a matrix of potential environmental impacts of each policy action, together with appropriate mitigation measures, will be prepared for each program loan, with a qualitative indication of the likely order of magnitude of each impact and brief reasons for the judgment. The principles followed in preparing the matrix include screening of potential environmental impacts (including indirect impacts); mitigation of potential adverse impacts; and ensuring that the institutional basis for implementing mitigation measures, including environmental monitoring, is in place. The basic environmental assessment requirements for program loans are summarized in Table 2.

**Table 2: Environmental Assessment Requirements for Program Loans**

<b>Category</b>	<b>Basic Environmental Assessment Requirements</b>
A: Projects with potential for significant adverse environmental impacts. (OM 20)	<ul style="list-style-type: none"> <li>• Environmental Assessment of Policy Matrix (see Appendix 4 for contents)</li> <li>• Environmental Assessment of Policy Matrix is normally attached as a core appendix to the RRP</li> <li>• For any project loans included, the Category A requirements for project loans apply</li> </ul>
B: Projects judged to have some adverse environmental impacts – but of lesser degree and/or significance than category A (OM 20)	<ul style="list-style-type: none"> <li>• Environmental Assessment of Policy Matrix (see Appendix 4 for contents)</li> <li>• Environmental Assessment of Policy Matrix is normally attached as a core appendix to the RRP</li> <li>• For any project loans included, the Category B requirements for project loans apply</li> </ul>
C: Projects unlikely to have adverse environmental impacts (OM 20)	<ul style="list-style-type: none"> <li>• Environmental implications to be summarized in the RRP</li> </ul>

SEA, which facilitates systematic evaluation of the environmental impacts of a policy, plan or program and its alternatives, may be usefully applied as a best practice approach in the preparation of the environmental assessment (see Chapter VII). If an investment component is included in the program loan and specific projects are identified as a part of the program loan, these projects should follow normal project loan environmental assessment requirements for project loans.

### **Environmental Assessment and Review of Sector Loans**

Under the sector lending modality, ADB finances the capital investment needs of a given sector (i) in a specified geographical area, (ii) over a specified period of time, or (iii) both. Policy and institutional changes introduced as conditions under a sector loan may have an impact on the environment, directly or indirectly. Accordingly, policy and institutional changes proposed in a sector loan should also be examined to determine their environmental implications, and appropriate environmental interventions should be introduced. Under the sector lending modality, subprojects are not necessarily identified prior to loan processing, and ADB financed sector loans normally include only small subprojects. The basic environmental assessment requirements for sector loans are summarized in Table 2.

**Table 3: Environmental Assessment Requirements for Sector Loans**

<b>Category</b>	<b>Basic Environmental Assessment Requirements</b>
A. Projects with potential for significant adverse environmental impacts. (OM 20)	<p><u>Prior to Loan Approval</u></p> <ul style="list-style-type: none"> <li>• General Requirements for Category A Projects</li> <li>• EIAs of sample subprojects, as necessary</li> <li>• Environmental Assessment and Review Procedures for subprojects (including environmental criteria for subproject selection)</li> <li>• Environmental Assessment of Sector Impacts including analysis of cumulative and/or synergistic impacts (recommended)</li> </ul> <p><u>After Loan Approval</u></p> <ul style="list-style-type: none"> <li>• Category A subprojects and Category B subprojects deemed environmental sensitive are to be reviewed by ADB</li> <li>• SEIAs disclosed to public</li> </ul>
B. Projects judged to have some adverse environmental impacts – but of lesser degree and/or significance than category A (OM 20)	<p><u>Prior to Loan Approval</u></p> <ul style="list-style-type: none"> <li>• General Requirements for Category B Projects</li> <li>• IEEs of sample subprojects, as necessary</li> <li>• Environmental Assessment and Review Procedures for subprojects (including environmental criteria for subproject selection)</li> <li>• Environmental Assessment of Sector Impacts including analysis of cumulative and/or synergistic impacts (recommended)</li> </ul> <p><u>After Loan Approval</u></p> <ul style="list-style-type: none"> <li>• Category A subprojects and Category B subprojects deemed to be environmentally sensitive are to be reviewed by ADB</li> <li>• SIEE disclosed the Public</li> </ul>
C. Projects unlikely to have adverse environmental impacts (OM 20)	<ul style="list-style-type: none"> <li>• No IEE or EIA</li> <li>• Environmental implications to be summarized in the RRP</li> <li>• Feasibility studies of sample subprojects are to review of environmental implications</li> </ul>

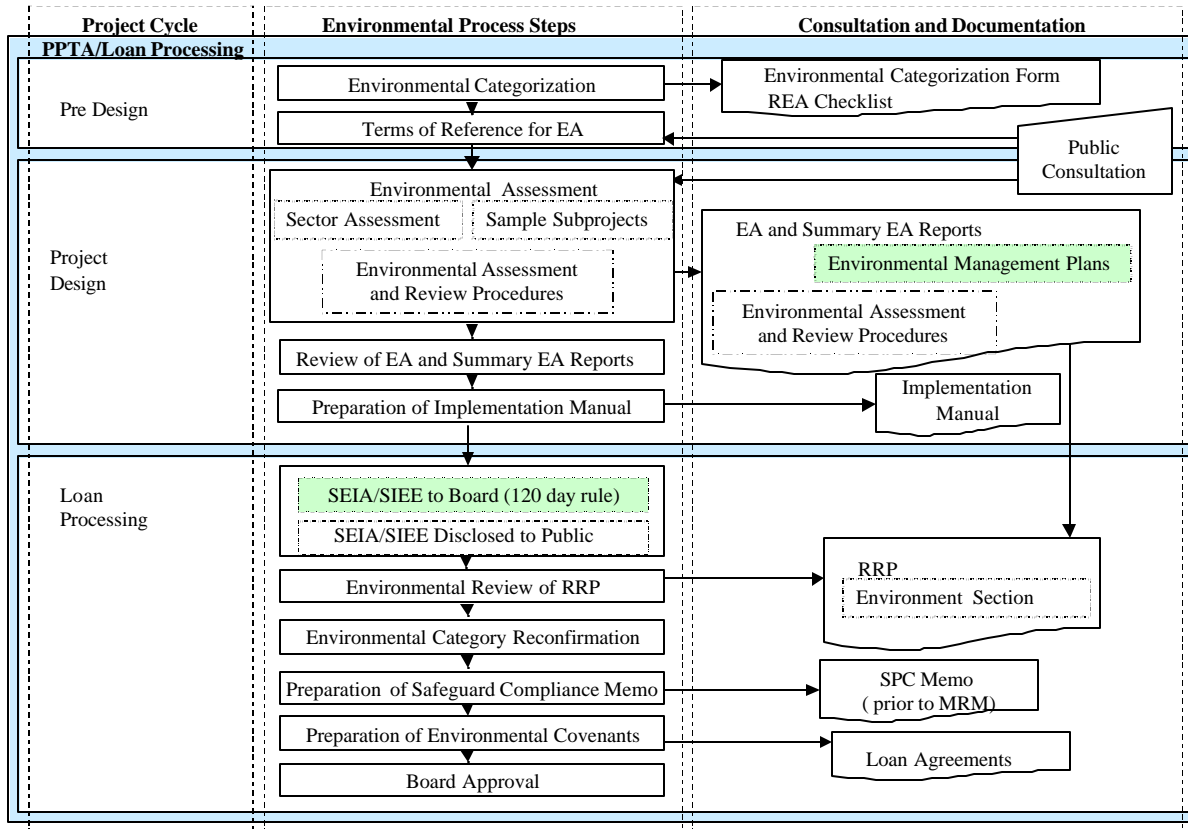
**a. Prior to Sector Loan Approval**

Sector loans must follow the same environmental assessment and review process as project loans (Figure 4). Sector loans must also fulfill the same public consultation, information disclosure, and reporting requirements as project loans. In addition, the Borrower is to:

- (i) conduct environmental assessments of sample subprojects;
- (ii) develop an environmental assessment and review procedures for subprojects; and
- (iii) undertake an environmental assessment of sector impacts (recommended).

These activities are to be completed during the project design phase and are to be incorporated in project reporting on the environmental assessment. The environmental assessment of sample subprojects is to follow project loan requirements of IEEs and EIAs.

**Figure 4. Environmental Assessment of Sector Loans - Prior to Loan Approval**



Note: Shaded boxes only apply for Category A projects and Category B projects deemed environmentally sensitive

1. To establish the broad parameters (including environmental parameters) for selecting subprojects to be financed under the loan, a few subprojects should be identified and appraised prior to loan approval. Feasibility studies are prepared for such subprojects during the formulation of the sector loan, and provide the executing agency with some indication of and experience with, how feasibility studies, including IEEs or EIAs, should be prepared and cost and benefit parameters established. These studies also help refine the eligibility criteria being developed for the sector loan, including specific environmental criteria and concerns that need to be carefully examined during subproject selection, design, appraisal, and implementation.

For category A or for category B sample subprojects deemed environmentally sensitive, the SEIA or SIEE shall be submitted to the Board at least 120 days before Board consideration of the sector loan to demonstrate the manner of treating environmental issues that may arise during and after subproject selection<sup>7</sup>. Environmental assessment and review procedures for subprojects are to be prepared (see Appendix 6) and be described in the SEIA or SIEE. Procedures are required for:

<sup>7</sup> The IEE or EIA shall also be made available to the Board upon request.

- determining the environment category (if necessary);
- using environmental criteria for subproject selection;
- specification of free limits<sup>8</sup> or other project size limits (e.g. capacity limits for energy facilities), as appropriate;
- preparation of IEEs/EIAs
- EMPs;
- public consultation and information disclosure;
- review of environmental assessment reports by environmental agencies;
- review of environmental assessment reports by ADB RDs and RSES (where necessary); and
- monitoring environmental performance – reporting on environmental assessment activities.

**Criteria for Exemption from the Requirement to Submit IEEs.** Sector loans, by the very nature, may contain a large number of small subprojects. It is important that the environmental assessment review procedures set free limits, project size limits, or other criteria for exemption of small projects from the requirements to submit IEEs to ADB for review and/or clearance. However, setting free limits does not exempt the executing agency from complying with the national and local legislation in terms of environmental assessment and permitting procedures.

During loan preparation, the capacity of the executing agency and environmental agencies to implement the environmental assessment and review procedures needs to be assessed. If the executing or environmental agency requires capacity building, a suitable mechanism to strengthen institutional capability should be established to ensure conformity with ADB's requirements. This may be done through special review arrangements, technical assistance (TA) provision, or staff consultant recruitment.

**Sector Impacts.** As a best practice approach, SEA (see Chapter XV) can be undertaken as part of the comprehensive sector study during program formulation to address social and environmental issues and the sector's development needs, and identify potential win-win policy interventions that can be included in the policy matrix. SEA can help identify better and more responsive environmental criteria for selecting subprojects and policies for implementing the sector loan. SEA is especially useful for assessing the cumulative and synergistic environmental impacts of a series of projects proposed for a sector.

SEA may be used to help identify better criteria for selection of subprojects and necessary policies for implementing the sector loan. SEA is appropriate if there is a need to assess the cumulative environmental impacts of all projects proposed for a sector. In addition, SEA can be useful where sector investment alternatives need to be evaluated e.g., expansion of power generation capacity as opposed to improved demand-side management. Sectoral policies can also be subjected to a "sector" SEA (e.g., setting of air emission standards for new and existing sources of air pollution). SEAs are also cost-effective in reducing the need for environmental assessments of individual projects. For sector loans, they can address possible cumulative impacts arising within the sector, and provide guidance for sectoral environmental policies, standards, institutional capacities, and environmental review requirements. SEA can be used to streamline monitoring and supervision requirements across a large number of projects while facilitating interagency coordination.

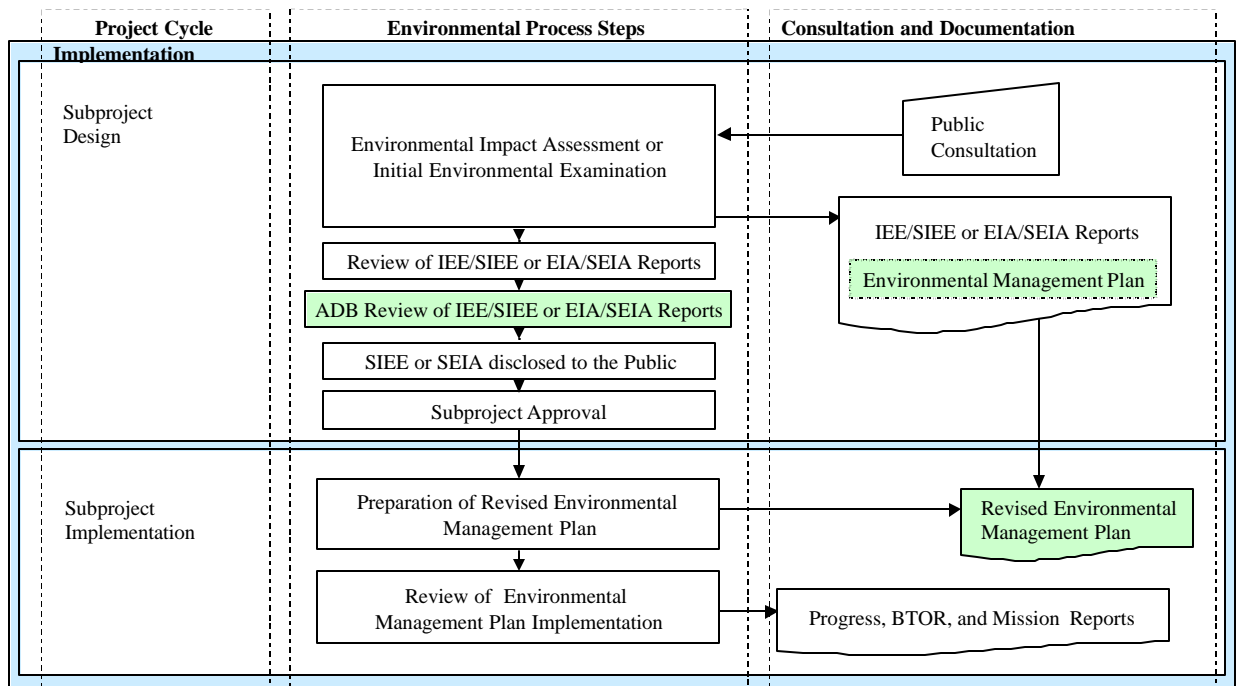
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<sup>8</sup> Free limit: A monetary limit above which subloans require the Bank's prior approval

## After Sector Loan Approval

Based on the environmental assessment and review framework agreed upon at the time of appraisal, the Borrower must undertake environmental assessment of all subprojects (Figure 5). As appropriate, the environmental agency or another mandated institution may assist the executing agency in subproject selection following the environmental and other eligibility criteria agreed upon. For any subprojects confirmed by ADB as a Category A project or a Category B project deemed as environmentally sensitive, the proposal and the IEE or EIA of the subproject should be forwarded to ADB for review and clearance. The SIEE or SEIA should be made available to the general public at least 120 days before the subproject is approved.

**Figure 5: Environmental Assessment and Management of Subprojects after Sector Loan Approval**



*Note: Shaded boxes only apply for Category A projects and Category B projects deemed environmentally sensitive*

## Financial Intermediation Loans and Equity Investments

ADB's involvement with financial intermediaries is normally in the form of credit lines or equity investments. Table 4 summarizes environmental assessment requirements for financial intermediaries. A detailed description is provided in Chapter IX.

**Table 4: Environmental Assessment Requirements for Financial Intermediation Loans and Equity Investments**

Category	Basic Environmental Assessment Requirements
FI: Projects are categorized FI if they involve and credit line through a financial intermediary for an equity investment in a financial intermediary.	<p><b>General Requirements:</b></p> <ul style="list-style-type: none"> <li>• The financial intermediary must adopt an appropriate environmental management system, comprising policy, procedures, and capacity, to comply with all relevant government environmental regulations and requirements in its operations.</li> <li>• Environmental assessment of financial intermediation loans and equity investments (see Chapter IX)</li> <li>• Reporting on Environmental assessment of financial intermediation loans and equity investments to included in the RRP (see Appendix 7)</li> </ul> <p><b>For credit lines, additional requirements include:</b></p> <p><u>Prior to Loan Approval</u></p> <ul style="list-style-type: none"> <li>• Environmental Assessment and Review Procedures for subprojects (including environmental criteria for subproject selection)</li> </ul> <p><u>After Loan Approval</u></p> <ul style="list-style-type: none"> <li>• Category A subprojects and Category B subprojects deemed environmentally sensitive:               <ul style="list-style-type: none"> <li>(i) SIEAs/SIEEs are to be cleared by ADB before subproject approval</li> <li>(ii) SEIAs/SIEEs disclosed to public</li> </ul> </li> </ul> <p><b>For Microfinance and subprojects projects below the free limit:</b></p> <ul style="list-style-type: none"> <li>• No requirement for the adoption of an environmental management system or environmental assessment report.</li> <li>• Projects must comply with all DMC environmental regulations</li> </ul>

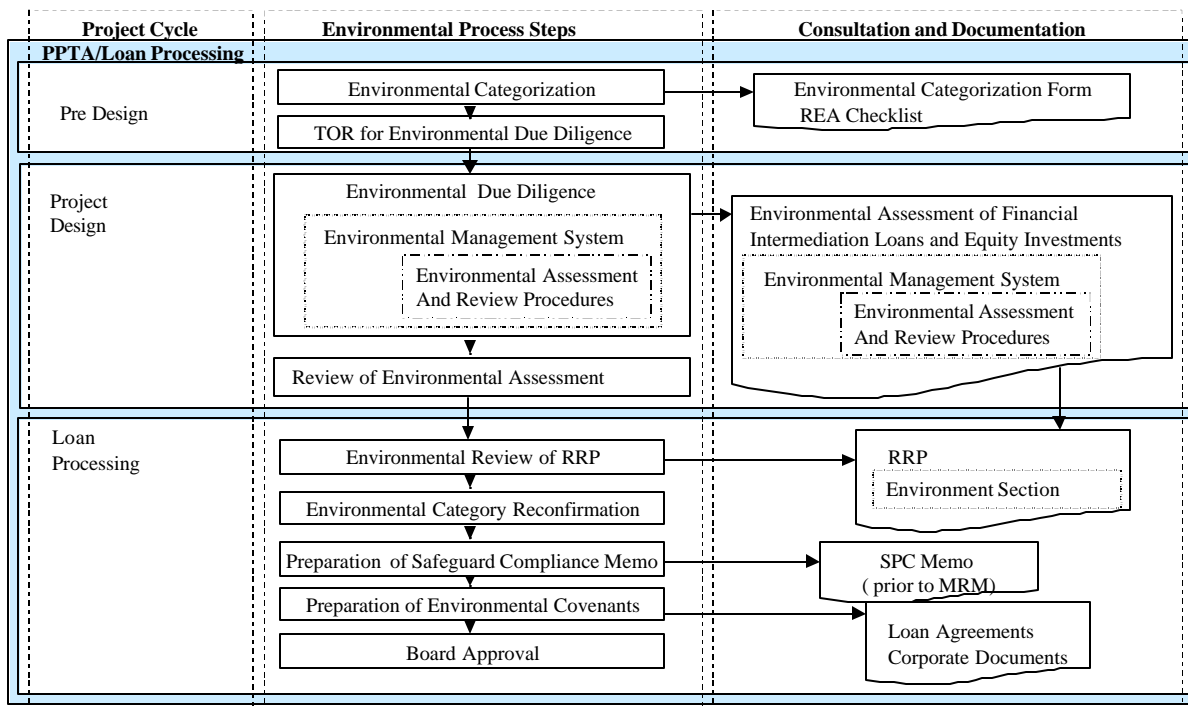
### a. Prior to Approval - Environmental Due Diligence

Financial intermediation loans and equity investments must follow the same environmental assessment and review process as other projects (Figure 6). However, the focus of the environmental assessment is on due diligence of the financial intermediary and its EMS.<sup>9</sup>

<sup>9</sup> Here the term "environmental management system" is defined as a system for planning, implementing, reviewing and improving the processes and actions that an organization undertakes to meet its environmental goals. The major components of an EMS are (i) policy, (ii) planning, (iii) implementation and operation, (iv) checking and corrective action, and (v) management review. Many EMSs are built on the "Plan, Do, Check, Act" model. This model leads to continual improvement based upon

- planning, including identifying environmental aspects and establishing goals [plan];
- implementing, including training and operational controls [do];
- checking, including monitoring and corrective action [check]; and
- reviewing, including progress reviews and acting to make needed changes to EMS [act].

**Figure 6: Environmental Assessment and Review of Financial Intermediation Loans and Equity Investments – Prior to Approval**



When ADB's investment is in the form of equity in a financial intermediary, no subprojects to be financed by the financial intermediary are directly involved. For ADB projects involving equity investment in a financial intermediary, where ADB funds will not finance specific subprojects but where the financial intermediary may have operations with adverse environmental impacts, the financial intermediary must adopt an appropriate environmental management system, comprising policy, procedures, and capacity, to comply with all relevant government environmental regulations and requirements in its operations. The financial intermediary will ensure that the sub-borrowers will comply with the environmental regulations and requirements of the DMC government and, if necessary, ADB. If required, ADB may also address any need for strengthening capacity building of the financial intermediary and the relevant environmental agency to deal with the environmental issues.

### **b. Credit Lines for Subprojects**

Where ADB involvement is a credit line for subprojects,<sup>10</sup> the assessment of the financial intermediary and its EMS must be undertaken. In addition, the financial intermediary must have

<sup>10</sup> Here the term "subproject" includes expansion or rehabilitation of an existing project.

appropriate environmental assessment and review procedures for all subprojects to be financed with ADB funds. This situation is analogous to that for sector loans. In this regard, the preparation of an environmental assessment and review procedures is required as part of the environmental assessment. Any need for strengthening the environment agency and/or the financial institution in the DMC should be addressed. For category A and category B projects deemed environmentally sensitive the IEE or EIA must be cleared by ADB before subproject approval. The SIEE or SIEA must be disclosed to the public at least 120 days before the subproject is approved. For these subprojects, ADB will review compliance with ADB environmental assessment requirements, including those related to consultation and information disclosure. For subprojects below the free limit, ADB reserves the right to review the subproject proposal and its IEE or EIA.

**c. After Approval of Financial Intermediation Loans and Equity Investments**

As with sector loans, all subprojects financed through the financial intermediary should follow the general environmental assessment requirement for projects loans (Figure 7). The environmental assessment and review procedures of the financial intermediary should be in place before the subproject approval.

**d. Environmental Reporting Requirements**

The environmental assessment reporting (Appendix 7) for a category FI project includes a description of the environmental management system to be applied by the financial intermediary. Reporting on the environmental assessment is to be included in the RRP.

Financial intermediation loans and equity investments, generally microfinance projects, where all subprojects will result in insignificant environmental impacts will be treated as category C, and are not required to adopt of an EMS or prepare an environmental assessment report. However, the financial intermediary should review these projects for compliance with all government environmental regulations and abide by requirements outlined in an exclusion list.<sup>11</sup>

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<sup>11</sup> An exclusion list for screening negative activities should be established between the ADB and the financial intermediaries before the ADB's loan considerations.

## **Environmental Assessment of Sector Development Program Loans**

The sector development component follows the procedures for sector loans, while the policy-based loan component follows the requirements of program loans.

### **Requirements for Emergency or Rehabilitation Assistance Loans**

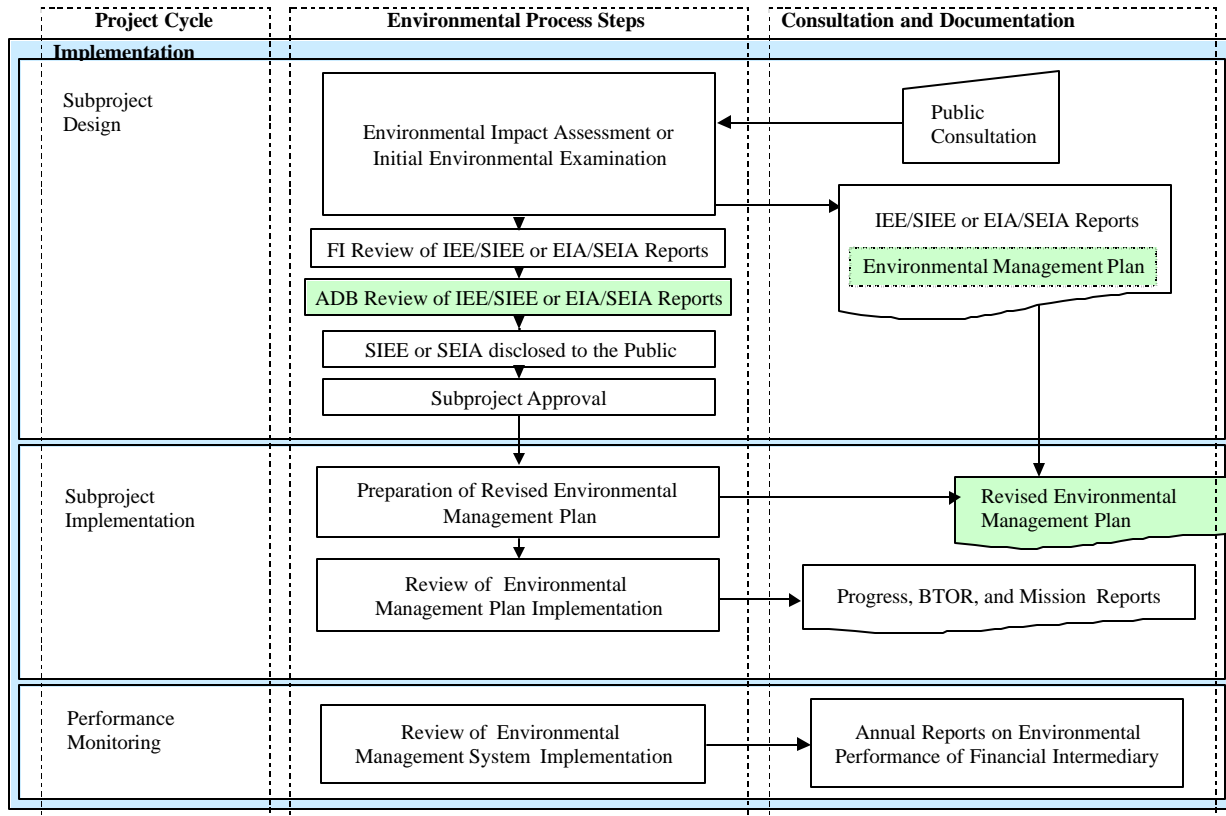
ADB has a special facility to assist DMCs in restoring vital economic infrastructure and social services following the damage caused by natural disasters. The emphasis is on financing urgent rehabilitation requirements to re-establish the status quo ante, particularly on (i) water, sewerage, and health facilities and education; (ii) power; (iii) transportation and communications; and (iv) irrigation and drainage. A rehabilitation project is categorized according to the significance of the environmental impacts of its components or subprojects.

The basic environmental assessment requirements for emergency or rehabilitation assistance loans are summarized in Table 5. If the subprojects to be financed are known, then environmental assessment requirements for project loans apply (see Table 2). If subprojects are not known, the requirements, except the requirement to conduct an environmental assessment of sector impacts, for sector loans apply (see Table 4).

## Private Sector Operations

ADB's environmental assessment requirements for private sector investments are the same as those for the public sector (Table 5). However, it should be noted that PSOD operations are not supported by PPTAs, and various approaches are used to assess the technical, economic, social and environmental aspects of the project.

**Figure 7: Environmental Assessment and Management of Subprojects Financial Intermediation Loans and Equity Investments - After Project Approval**



Note: Shaded boxes only apply for Category A projects and Category B projects deemed environmentally sensitive

**Table 5: Environmental Assessment Requirements for Private Sector Operations**

Basic Environmental Assessment Requirements	
Direct Loans	<ul style="list-style-type: none"> <li>Direct loans and equity investments are required to follow the project loan requirements</li> </ul>
Indirect Loans and Equity Investments	<ul style="list-style-type: none"> <li>Category FI: Indirect loans and equity investments are required to follow the requirements for financial intermediation loans and equity investments</li> </ul>

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Partial credit and political (partial) risk guarantees

- : Partial credit and political (partial) risk guarantees can only be provided to companies that have complied with Government environmental regulations and do not have any environmental liabilities (e.g. site contamination, pollution or encroachment on protected areas)
  - Guarantees for specific projects are required to follow the project loan requirements
  - Guarantees that enable a financial or other institution to establish a credit line or otherwise on lend are to follow the requirements for financial intermediation loans and equity investments
- 

Private sector entities and implementing institutions are a diverse group with varying environmental awareness and capabilities, and ADB generally adopts a flexible procedure in dealing with private sector loans, to tailor environmental requirements to the project and expected subprojects. Nevertheless, the substance of ADB's environmental assessment requirements for private sector investments is the same as those for the public sector. For direct investments and equity investments with specific identified projects or subprojects, the general environmental assessment requirements for project lending (see Table 2) will be applied. For indirect investments in the form of a credit line and equity investment operations through a financial intermediary where only some subprojects will be known prior to project implementation, ADB's environmental requirements for financial intermediation loans and equity investments will apply (see Table 6).

## **Cofinancing**

ADB's Environment Policy covers all components of projects, whether financed by ADB, governments, or cofinanciers. Cofinancing comprises financing from official sources (e.g., official loans and grant cofinancing) as well as commercial sources (e.g., commercial banks, insurance companies, institutional investors, and export credit agencies). Commercial cofinancing may be provided with or without an ADB credit enhancement instrument (i.e., a partial credit guarantee, a political risk guarantee, or the complementary financing scheme). Project components that use cofinancing in any form must have environmental assessments carried out in accordance with the requirements set forth in OM 20. Wherever possible, a single environmental assessment will be conducted to satisfy the requirements of ADB and the cofinanciers.