ENVIRONMENTAL AND SOCIAL REQUIREMENTS FOR FINANCING MODALITIES AND PRODUCTS

September 2023
Consultation Draft

Note: This document is being circulated for consultation purpose only. Guidance from the ADB Board of Directors will be sought on this document as part of the Working Paper, scheduled in Q4 2023. The final Financing Modalities Requirements contained in this document will be considered for approval by the ADB Management, following the approval of the Environmental and Social Framework by the ADB Board of Directors.

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Asian Development Bank
ENVIRONMENTAL AND SOCIAL REQUIREMENTS FOR FINANCING MODALITIES AND PRODUCTS

I. INTRODUCTION

1. ADB offers various financing modalities and products to promote inclusive growth and development in its developing member countries. These include grants, loans, debt securities, guarantees, risk participations, and equity investments. This document, the Requirements for Financing Modalities and Products (Financing Modalities Requirements), recognizes that environmental and social (E&S) risks and impacts as well as assessment and management of such risks and impacts will differ depending on the type of support ADB financing offers and the intended use of proceeds.

II. SCOPE OF APPLICATION

2. The Financing Modalities Requirements explain how E&S requirements stemming from ADB’s Environmental and Social Framework (ESF), including ADB’s Environmental and Social Policy (E&S Policy) and Environmental and Social Standards (ESSs) apply to the different financing modalities and products offered by ADB. ADB and the borrower/client will apply the relevant requirements of the E&S Policy and the ESSs, respectively, to the financing modalities and products, except to the extent such requirements are explained further in this document.

3. All disclosure requirements set out in this document are subject to ADB’s Access to Information Policy (2018), including the exceptions to disclosure.

A. Sector Lending

ADB Responsibilities

4. ADB will undertake risk classification in accordance with the requirements of the E&S Policy prior to the approval of a sector loan, based on the scope of the sector loan and the highest risk classification among the sample subprojects identified by ADB.

5. ADB will review and disclose all the relevant assessment tools and management tools for subprojects under the sector loan, proportionate to the E&S risks and impact of a project. ADB will also disclose monitoring reports submitted by the borrower.

6. Where a sector loan directly supports the host country’s policy reforms or development expenditure programs that are likely to have E&S impacts, the responsibilities under the policy-based lending set out in para 22 will also apply.

Borrower Requirements

7. The borrower will undertake an E&S assessment of the sample subprojects in accordance with ESS1 proportionate to the nature and scale of the E&S risks and impacts. For these

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1 Financing modalities and products include project lending, sector lending, emergency assistance loan, multitranchefinancing facility, policy-based lending, results-based lending, project readiness financing, small expenditure financing facility, technical assistance, financial intermediaries, and corporate finance. The terms “lending” and “loan(s)” as used in this document also refer to “grants” as relevant.
subprojects, a borrower will prepare relevant assessment tools and management tools, in accordance with the applicable ESSs.

8. If any significant strategic, geographic, and/or sector-wide E&S risks and impacts related to the scope and nature of a sector loan are identified by a borrower or ADB, a borrower will undertake further assessment, such as a strategic environmental and social assessment, to inform the design of the sector loan and associated E&S management.

9. The borrower will develop an Environmental and Social Management Framework (ESMF), following indicative requirements in Annex-1 to address the E&S risks and impacts of subprojects/components to be developed by a borrower after ADB’s approval of the sector loan. The borrower will select and appraise all of the subsequent subprojects/components during project implementation in accordance with the requirements set out in the ESMF, ESS1, and other relevant ESSs.

10. The borrower will submit to ADB for review and disclosure all the relevant assessment tools and management tools, as well as monitoring reports prepared in accordance with the relevant ESSs and ESMF documenting the E&S performance of every subproject under the sector loan.

11. Where the sector loan directly supports the host country’s policy reforms or development expenditure programs that are likely to have E&S impacts, the requirements under the policy-based lending set out in paras 23-24 will also apply.

B. Emergency Assistance Loan

ADB Responsibilities

12. ADB will undertake risk classification in accordance with the E&S Policy based on the potential E&S risks and impacts of the Emergency Assistance Loan (EAL).

13. Due to the immediate nature of the required assistance and the short time available to prepare an EAL, ADB may accept that an E&S assessment may be undertaken after ADB’s approval of the EAL, but before project implementation.

14. ADB will review and disclose all the relevant assessment tools and management tools for the project under the EAL, proportionate to the E&S risks and impact of a project. ADB will also disclose monitoring reports submitted by the borrower.

Borrower/Client Requirements

15. For EALs, the completion of the E&S assessment process, and the preparation of assessment tools and management tools may not be possible before ADB’s EAL approval due to the nature of the emergency. In such cases, an ESMF will be prepared, following indicative requirements in Annex-1. In order to address the E&S risks and impacts of a project, a borrower/client will undertake the assessment and management of the E&S risks and impacts in accordance with the requirements set out in the ESMF, ESS1, and other relevant ESSs. The borrower/client will submit to ADB for review and disclosure all the relevant assessment tools and management tools, as well as monitoring reports prepared in accordance with the relevant ESSs and ESMF documenting the E&S performance of the project.
C. Multitranche Financing Facility

ADB Responsibilities

16. Where a multitranche financing facility (MFF) finances multiple projects or subprojects through different tranches, ADB will undertake risk classification in accordance with the E&S Policy for each tranche based on the E&S risks of the projects or subprojects financed under each such tranche. Projects with risk classification of High Risk in a subsequent tranche will be submitted to the ADB Board of Directors for its decision on whether to authorize the ADB President to convert the tranche.

17. Where an MFF finances a large standalone project with each tranche financing slices of long-term contract packages, ADB will undertake risk classification in accordance with the E&S Policy based on the highest risk classification among all the tranches to be financed under such project. For each subsequent tranche, if the scope of the MFF remains unchanged, the risk classification will remain the same as the classification for the first tranche.

Borrower Requirements

18. Where an MFF finances multiple projects or subprojects through different tranches, the borrower will undertake E&S assessment in accordance with ESS1, proportionate to the nature and scale of the E&S risks and impacts associated with such projects or subprojects to be financed under each tranche. For the first tranche, the borrower will prepare relevant assessment tools and management tools in accordance with the applicable ESSs, proportionate to the nature and scale of the identified potential E&S risks and impacts in accordance with the applicable ESSs.

19. Where an MFF finances a large standalone project that would be implemented over the duration of the MFF with each tranche financing slices of long-term contract packages, a borrower will undertake and complete all relevant E&S assessments in accordance with ESS1 to address the E&S risks and impacts of the project prior to ADB’s approval of the MFF. For each subsequent tranche of such a standalone project, if the scope of the MFF remains unchanged, the borrower will verify whether any further E&S assessments or updates to the relevant assessment tools and/or management tools are necessary.

20. To address the E&S risks and impacts of projects or subprojects under subsequent tranches, the borrower will agree with ADB on the use of the ESMF following indicative requirements in Annex-1. For subsequent tranches, the borrower will follow the requirements specified in the ESMF for the assessment and management of the E&S risks and impacts related to projects or subprojects to be financed under each tranche. The borrower will undertake the E&S assessment for projects and subprojects to be financed under subsequent tranches in accordance with the requirements set out in the ESMF, ESS1 and other relevant ESSs, prior to ADB’s approval of each such tranche. The borrower will submit to ADB for review and disclosure all the relevant assessment tools and management tools, as well as monitoring reports prepared in accordance with the relevant ESSs and ESMF documenting the E&S performance of the tranches under the MFF.

21. If any significant strategic, geographic, and/or sector-wide E&S risks related to the scope and nature of an MFF are identified by a borrower or ADB, the borrower will undertake further
assessment, such as a strategic environmental and social assessment, to inform the design of the MFF and associated E&S management.

D. Policy-Based Lending

**ADB Responsibilities**

22. During the preparation and prior to finalization of a policy matrix, ADB will undertake risk classification in accordance with the E&S Policy of the proposed policy actions based on the likely **E&S risks and impacts** resulting from the policy actions, factoring in contextual or sector specific risks. ADB will review any mitigation measures proposed by the borrower.

**Borrower Requirements**

23. The borrower will identify and assess the potential **direct and indirect E&S risks and impacts** associated with the policy actions. The borrower will integrate mitigation measures proportionate to the E&S risks and impacts into the design of the final policy actions to achieve objectives materially consistent with the relevant ESSs.

24. If any significant strategic, geographic, and/or sector-wide E&S risks related to the scope and nature of a policy-based loan operation are identified by a borrower or ADB, the borrower will undertake further assessment, such as a strategic environmental and social assessment, to inform the design of the policy actions and associated E&S management.

E. Sector Development Program

25. A Sector Development Program (SDP) is a combination of an investment component and a policy-based loan component. In an SDP, the E&S requirements as set out in the policy-based lending section of these Financing Modalities Requirements apply to the policy-based loan component, while the E&S requirements for the investment component will follow the modality of the investment component.

F. Results-Based Lending

**ADB Responsibilities**

26. ADB will undertake risk classification in accordance with the E&S policy based on the likely **E&S risks and impacts** of the program supported by ADB financing (RBL program), factoring in risks associated with the implementation capacity of the borrower and other contextual risks.

27. ADB will require the borrower to achieve the objectives of the ESSs applicable to the RBL program.

28. The RBL program systems refer to relevant systems, rules, and procedures used for RBL program implementation. ADB will assess the adequacy of the RBL program systems and capacity to manage relevant E&S risks.

29. ADB will undertake a Program Safeguard Systems Assessment (PSSA) of the RBL program systems, proportionate to the nature, scope, and the risk classification of the RBL program. The PSSA will include an assessment of the borrower’s capacity and commitment to
manage and mitigate unanticipated impacts or existing impacts; and identify programmatic, institutional, and contextual risks that may adversely affect the borrower’s ability or capacity to implement the E&S requirements applicable to the RBL program.

30. The PSSA results will inform the integrated risk management plan for the RBL program that will identify the RBL program’s strengths, weaknesses, and risks, and will help develop measures and actions to ensure that the RBL program system can manage and mitigate program risks and build capacity in the RBL program. ADB and the borrower will agree on such measures and actions, which will be included in an integrated risk management plan and a program action plan (PAP).

31. ADB will disclose a draft PSSA prior to ADB’s project appraisal and undertake consultations with RBL program stakeholders. ADB will include a summary of the basis for the risk classification and conclusions and recommendations of the PSSA, and substantiation that the RBL systems can manage and mitigate the RBL program related E&S risks in the relevant project document, and a final PSSA for disclosure on ADB’s website.

32. All activities are eligible under the RBL program unless they are assessed to be classified as High Risk. This will consider the type, location, scale of activities, the magnitude and nature of potential adverse impacts on the environment and affected people, and/or other factors that contributed to a project being classified as High Risk, while considering the broader programmatic risks of the RBL program. The process will involve (i) classification of activities in accordance with the E&S Policy, and (ii) additional due diligence and analysis through the PSSA.

33. The report and recommendation of the President will document the findings of the E&S due diligence process. This will include documentation on risk classification; potential E&S risks and impacts; programmatic, institutional and contextual risks; and other relevant factors such as legacy issues. The documentation will also provide substantiation that the RBL program systems can manage and mitigate safeguard risks.

34. Where changing circumstances or unanticipated impacts result in E&S risks and impacts that differ from those identified at the time of ADB’s RBL program approval, ADB, in consultation with the borrower, will agree to adjust the integrated risk management plan and the PAP in a manner consistent with the E&S risks associated with such changes.

**Borrower Requirements**

35. Under an RBL program, the borrower uses the RBL system and will comply with the applicable objectives of the ESSs for the RBL program. The borrower will agree with ADB on measures and actions to address gaps identified by ADB in a PSSA that are included in an integrated risk management plan and a PAP.

36. The borrower will provide relevant information to ADB to undertake a PSSA that will: (i) consider the host country’s applicable laws; (ii) identify applicable objectives of the ESSs for the RBL program; (iii) identify programmatic, institutional, and contextual risks that may adversely affect the borrower’s ability or capacity to implement the E&S requirements applicable to the RBL program supported by ADB finance, (iv) the borrower’s implementation track record, capacity, resources, and commitment to manage the applicable E&S risks; and (v) identify gaps between the objectives set out in the applicable ESSs and the borrower’s RBL system.

37. During implementation of the RBL program, the borrower will continue to assess RBL
program activities supported by ADB and will exclude activities that are likely to be classified as High Risk under the E&S Policy and those that are included in the ADB Prohibited Investment Activities List.

38. The borrower will monitor the implementation of the integrated risk management plan and the PAP and submit monitoring reports to ADB. If any E&S requirements specified in the integrated risk management plan or the PAP are not met, the borrower will develop and agree with ADB on a time-bound corrective action plan to bring the RBL program back into compliance with the E&S requirements in the integrated risk management plan and the PAP.

G. Project Readiness Financing

**ADB Responsibilities**

39. Because project readiness financing (PRF) only finance consulting services and pilot testing, it is unlikely to be classified High Risk. Where PRF will finance pilot testing of project designs, ADB will undertake risk classification in accordance with the E&S Policy. Where a PRF is classified as High Risk, it will be considered by the ADB Board of Directors, even if it is a small-scale PRF that does not exceed $15 million.

**Borrower Requirements**

40. Where a PRF is classified as having E&S risks and impacts, the borrower will assess and manage the E&S risks and impacts in accordance with the applicable ESSs, proportionate to the nature and scale of the E&S risks and impacts associated with activities supported by ADB financing.

H. Small Expenditure Financing Facility

**ADB Responsibilities**

41. Before ADB’s approval of a Small Expenditure Financing Facility (SEFF), ADB will undertake classification of the proposed first activity under a SEFF in accordance with the E&S Policy. Because SEFF only finance consulting services and small works and equipment, it is unlikely to be classified High Risk.

42. After ADB’s approval of a SEFF, where a subsequent activity proposed under a SEFF will likely have E&S risks and impacts, such as in the case of pilot testing of project designs, ADB will undertake risk classification of such activity in accordance with the E&S Policy. Should an activity under SEFF be classified High Risk, a major change in scope of the SEFF and such activity will be considered by the ADB Board of Directors.

**Borrower Requirements**

43. Where SEFF is classified as having E&S risks and impacts, a borrower will develop an ESMF, following indicative requirements in Annex-1, to address the E&S risks and impacts of activities to be proposed by a borrower after ADB’s approval of the SEFF. A borrower will also assess and manage the E&S risks and impacts for each activity that are classified as having E&S risks and impacts in accordance with applicable ESSs, proportionate to the nature and scale of the E&S risks and impacts associated with activities supported by ADB financing.
I. Technical assistance

ADB Responsibilities

44. Where Technical assistance (TA) output is a pilot testing of a project approach, ADB will undertake classification of such output in accordance with the E&S Policy. Pilot testing may not result in risk classification of either High, Substantial or Moderate.

45. Where a TA output is intended to directly support the host country’s policy reforms or development expenditure programs that are likely to have E&S risks and impacts, the responsibilities under the policy-based lending set out in para 22 will also apply in relation to such TA output.

Borrower/Client Requirements

46. Where E&S risks and impacts are identified for a TA output with pilot testing of a project approach, a borrower/client will agree with ADB on an arrangement under which the borrower/client will take responsibility for assessing and managing the E&S risks and impacts in accordance with the applicable ESSs. Such an arrangement will be proportionate to the identified potential E&S risks and impacts and will also confirm minimal or no adverse environmental or social risks or impacts due to TA activities.

47. Where a TA output is intended to directly support the host country’s policy reforms or development expenditure programs that are likely to have significant E&S risks and impacts, the requirements under the policy-based lending set out in paras 23-24 will also apply in relation to such TA output.

J. Financial Intermediaries

48. For purposes of FI, the term “project” as used in the E&S Policy and ESSs are interpreted as synonymous with “activities and transactions” as used in this Section J.

ADB Responsibilities

a. ADB Due Diligence

49. Where ADB provides financing to an FI, ADB will undertake due diligence (ADB DD) to review and evaluate the E&S risks and impacts related to the existing and planned activities and transactions of an FI’s borrower/investee to be financed by ADB. The ADB DD will also review an FI’s capacity and commitment to manage those risks. The results of this ADB DD will inform ADB’s review of an FI’s ESMS and/or an FI’s borrower/investee activities and transactions as described in paras 52-55.

50. For capital market transactions, E&S documentation prior to and after subscription may be subject to applicable capital markets rules and regulations and may not be available for review by ADB at the time of project processing. In such cases, ADB will assess an FI’s E&S performance, including its capacity and commitment to manage the E&S risks and impacts associated with its activities and transactions, against the applicable requirements of the ESSs based on publicly available information.
b. Environmental and Social Risk Classification

51. ADB will classify all activities and transactions involving FIs or delivery mechanisms involving financial intermediation as “FI” into subclassifications of FI-1, FI-2, and FI-3, in accordance with the E&S Policy. As part of the risk classification, ADB will also take into account risks relevant in the context in which an FI operates or activities and transactions supported by ADB financing will be developed and implemented, including those contextual risks described in para 21 of the E&S Policy.

c. Environmental and Social Due Diligence Review

52. For FIs with portfolio and/or proposed activities and transactions that present high to substantial E&S risks (part or all of FI-1 and FI-2 portfolio), ADB will require that such FIs assess and require higher risk activities and transactions they support to apply the relevant requirements of the ESSs. These higher risk activities and transactions are referred to as “higher risk transactions”.

53. ADB will review and provide guidance to FIs on the need and adequacy of an ESMS. If an FI has an existing ESMS, ADB will review a corporate audit of the ESMS prepared by a qualified and experienced specialist. For FIs that will support higher risk transactions with ADB financing, a corporate audit will evaluate the FI’s existing ESMS and an FI’s past and current performance against the applicable ESSs. If any gap is identified through ADB’s review, ADB will reach an agreement with an FI on a corrective action plan that sets out time-bound measures and associated budget needs to implement such a plan. ADB requires the FI to incorporate the corrective action plan into its corporate ESMS and will be reflected in an environmental and social action plan (ESAP), as necessary.

54. For any FI activities and transactions where other multilateral or bilateral funding agencies have already provided financing to the same FI, ADB may agree to rely on the requirements of such other agencies for the assessment and management of the E&S risks and impacts of the activities and transactions, including the institutional arrangements already established by the FI, provided that such requirements will enable the transaction to achieve objectives materially consistent with the applicable requirements as set out in this Section J. ADB may also require the FI to enhance its ESMS, as deemed necessary following review by ADB.

55. For higher risk transactions to be supported by ADB financing, ADB will review and clear the screening, risk classification, and FI’s E&S due diligence (FI ESDD) and relevant assessment tools and management tools prepared by FI borrowers/investees.

d. Information Disclosure

56. ADB will summarize the basis for an FI’s risk classification and ADB DD and include this summary in the relevant project document for disclosure on ADB’s website. For purposes of this disclosure, a summary of ADB’s review of the ESMS and/or corporate audit, E&S compliance audit report, land acquisition audit report and corresponding corrective action plan and ESAP, if any, will also be included. For capital market transactions, disclosure of E&S documentation prior to and after subscription is subject to applicable capital markets rules and regulations.

57. For FI-1 and FI-2, ADB will disclose a summary of ESMS and the monitoring reports for
the activities and transactions supported by ADB financing. For higher risk transactions to be supported by ADB financing, ADB will also disclose relevant assessment tools and management tools prepared by FI borrowers/investees and submitted to ADB.

e. Monitoring

58. ADB will require FI-1 and FI-2 to submit E&S monitoring reports to ADB for its review and disclosure. For higher risk transactions, E&S monitoring reports will have details for each activity and transaction supported by ADB financing. ADB will require FI-3 to report to ADB the number and types of activities and transactions that are supported by ADB financing. If changes in an FI’s activities and transactions supported by ADB financing result in E&S risks that differ from those identified at the time of ADB’s support, ADB will assess the portfolio E&S risks and impacts affected by such change and an FI’s capacity to manage the E&S risks and impacts and, if needed, require improved E&S risk management and enhanced reporting to ADB.

59. ADB will also review the ESMS, results of FI ESDD and monitoring conducted by an FI. The extent and frequency of such a review will be proportionate to the E&S risks and impacts of the activities and transactions supported by ADB financing but will be at least annually.

FI Requirements

60. The following paras set out how certain requirements under ESS1 and ESS10 relevant to assessment, monitoring, information disclosure, stakeholder engagement, and grievance mechanisms ( paras 61-68) and under ESS2 and ESS4 relevant to labor and working conditions and occupational health and safety (para 69) will be applied to FIs.

a. FI Due Diligence (FI ESDD)

61. Where the activities and transactions supported by ADB financing present E&S risks and impacts, an FI-1 and FI-2 will develop an ESMS, following indicative requirements in Annex-2. The scope and complexity of the ESMS will take into account the use of ADB financing proceeds and will be proportionate to the nature and scale of the E&S risks and impacts associated with activities and transactions supported by ADB financing. The use of an existing ESMS will be acceptable for ADB financed activities and transactions upon completing a corporate audit and agreeing with ADB on the corrective action plan, if required, as described in para 53. These requirements apply to new financing by the FIs and are not required to apply retroactively to activities and transactions in the portfolio prior to ADB’s support.

62. For higher risk transactions, the relevant ESSs will be used as the underlying risk assessment and management standard in the ESMS to address risks and impacts associated with activities and transactions financed by ADB.

63. For FI-3, simple E&S screening procedures will be required. 2 The E&S screening procedure will confirm minimal or no adverse E&S risks or impact with activities and transactions supported by ADB financing, and compliance with ADB’s Prohibited Investment Activities List and the host country’s applicable laws.

2 Such screening will be considered to constitute an ESMS that is proportionate to the minimal level of E&S risks posed by the proposed activities and transactions supported by ADB financing. No other ESSs will be required for FI-3, except as set out in para 62.
64. An FI will undertake an FI ESDD, proportionate to the nature and scale of the E&S risks and impacts associated with the activities and transactions financed by ADB, and an FI's access to relevant information of its borrowers/clients, and influence on its borrowers'/clients' actions. In cases where ADB financing is earmarked for specific activities or transactions, such as financing for specific asset classes, the FI ESDD and the E&S risk assessment and management requirements will cover only such specified asset classes.

65. FI will refer all higher risk transactions to be supported by ADB financing to ADB for its review, clearance, and disclosure, including the screening, risk classification, and FI ESDD undertaken by FI, as well as the relevant assessment tools and management tools prepared by FI borrowers/investees in accordance with para 55.

b. Monitoring, Reporting and Information Disclosure

66. The FI will establish monitoring procedures to review progress with an ESAP and implementation of ESMS. FI-1 and FI-2 will be required to submit E&S monitoring reports to ADB for review and disclosure. The extent and frequency of monitoring report will be proportionate to the E&S risks and impacts of the activities and transactions supported by ADB financing but will be at least annually. For higher risk transactions, E&S monitoring reports will have details of each activity and transaction supported by ADB financing. FI-3 will report to ADB the number and types of activities and transactions that are supported by ADB financing.

67. If changes in an FI's activities and transactions supported by ADB financing result in E&S risks and impacts that differ from those identified at the time of ADB’s support, an FI will be required to update its ESMS, in consultation with ADB, in a manner consistent with the E&S risk profile resulting from the changes.

c. Stakeholder Engagement and Grievance Mechanism

68. FIs will develop and maintain stakeholder engagement procedures and a grievance mechanism, consistent with the relevant requirements of ESS10 and following indicative requirements in Annex-2.

d. Labor and Working Conditions, and Health Safety and Security

69. All FIs that receive ADB financing, regardless of being classified as FI-1, FI-2 or FI-3, will provide a safe and healthy working environment and also manage the working conditions of their employees in accordance with relevant aspects of ESS2 on Labor and Working Conditions and ESS4 on Health Safety and Security.

K. Corporate Finance

70. For purposes of corporate finance, the term “project” as used in E&S Policy and ESSs are interpreted synonymous with “activities and transactions” as used in this Section K.

ADB Responsibilities

a. ADB Due Diligence

71. Where ADB provides any financing to a corporate finance (CF) Client, ADB will undertake
ADB due diligence (DD) to review and evaluate the **E&S risks and impacts** related to the activities of a CF Client to be financed by ADB as well as a CF Client’s own capacity and commitment to manage those risks. The results of this ADB DD will inform ADB’s review of CF Client’s ESMS as described in paras 74.

72. For capital market transactions, E&S documentation prior to and after subscription may be subject to applicable capital markets rules and regulations and may not be available for review by ADB at the time of project processing. In such cases, ADB will assess a CF Client’s E&S performance, including its capacity and commitment to manage the **E&S risks and impacts** associated with its activities and transactions, against the applicable requirements of the ESSs, based on publicly available information.

**b. Environmental and Social Risk Classification**

73. ADB will undertake risk classification and classify all activities and transactions proposed for ADB financing in accordance with the E&S Policy.

**c. Environmental and Social Due Diligence Review**

74. ADB will review and provide guidance to the CF Client on the need and adequacy of an ESMS. If a CF Client has an existing ESMS, ADB will review a corporate audit of the ESMS prepared by a qualified and experienced specialist. For CF Clients that will support activities and transactions classified as High, Substantial or Moderate Risk, a corporate audit will evaluate the CF Client’s existing ESMS and its past and current performance against the applicable ESSs. If any gap is identified through ADB’s review, ADB will reach an agreement with the CF Client on a corrective action plan that sets out time-bound measures and associated budget needs to implement such a plan. ADB will require the CF Client to incorporate the corrective action plan into its corporate ESMS and reflect it in an ESAP, as necessary.

**d. Information Disclosure**

75. ADB will include a summary of the basis for risk classification for a CF Client’s activities and transactions and ADB DD, in the relevant project document, for disclosure on ADB’s website. For purposes of this disclosure, a summary of ADB’s review of the ESMS and/or corporate audit, E&S compliance audit report, land acquisition audit report and corresponding corrective action plan, and ESAP, if any, will also be included. For capital market transactions, disclosure of E&S documentation prior to and after subscription is subject to applicable capital markets rules and regulations.

76. ADB will disclose a summary of the ESMS, and documents and information submitted to ADB by a CF Client, including monitoring reports.

**e. Monitoring**

77. ADB will require a CF Client to submit E&S monitoring reports to ADB for its review and disclosure. ADB will also periodically review the ESMS and results of the CF Client’s E&S due diligence (CF Client ESDD).

**CF Client Requirements**

78. The following paras set out how certain requirements under ESS1 and ESS10 relevant to
assessment, monitoring, information disclosure, stakeholder engagement, and grievance mechanism requirements (paras 79-89) and under ESS2 and 4 relevant to labor and working conditions and occupational health and safety requirements (para 90) will be applied to CF Clients.

a. CF Client Due Diligence

79. Where the activities and transactions supported by ADB financing present high, substantial or moderate E&S risks and impacts, a CF Client will develop an ESMS based on applicable ESSs, following indicative requirements in Annex-2, to manage those E&S risks and impacts. The scope and complexity of an ESMS will take into account the use of ADB financing proceeds and will be proportionate to the nature and scope of the activities and transactions supported by ADB financing.

80. Where the activities and transactions supported by ADB financing present only low risks, simple E&S screening procedures will be required. The E&S screening procedure will confirm minimal or no adverse E&S risks or impacts with activities and transactions supported by ADB financing, and compliance with ADB’s Prohibited Investment Activities List and the host country’s applicable laws.

b. ADB Proceeds Earmarked for Specific Activities and Transaction

81. In cases where ADB financing is earmarked for specific activities or transactions, the ESMS developed following indicative requirements in Annex-2 will cover only such specified activities, transactions, or asset classes supported by ADB financing. If ADB financing also supports the same activities and transactions that a CF Client finances with its own funds or other funds, the ESMS requirements will apply to all such activities and transactions financed by ADB and a CF Client, as originated from the time of ADB support, and will not include such other activities and transactions prior to ADB’s investment.

82. A CF Client will undertake a CF Client ESDD proportionate to the nature and scale of the E&S risks and impacts associated with the activities and transactions supported by ADB financing.

83. Based on CF Client ESDD, a CF Client will identify mitigation and/or corrective measures to manage E&S risks and impacts for its activities and transactions financed by ADB. A CF Client will document the findings of the CF Client ESDD in a report or internal records, including recommendations on whether to proceed with financing and any conditions of investment, including any mitigation and/or corrective measures.

84. In cases where ADB financing will support a CF Client’s activities and transactions that include existing facilities or existing activities and transactions, such as operating assets and assets under construction, a CF Client will apply the relevant requirements for existing facilities under ESS1. Where land acquisition is ongoing or has been completed and site clearing and construction activities have yet to start, a land acquisition audit will also be required in accordance with ESS5. These requirements will be reflected in the ESMS and/or ESAP.

3 Such screening will be considered to constitute an ESMS that is proportionate to the minimal level of E&S risks posed by such activities and transactions. No other ESSs will be required for such CF Clients, except as set out in para 79.
c. ADB Proceeds Not Earmarked for Specific Activities and Transactions

85. In cases where ADB financing is not earmarked for specific activities, transactions or asset classes, such as general corporate finance and working capital support, a corporate audit will be undertaken by a qualified and experienced specialist of its existing ESMS and the company’s past and current performance against the applicable ESSs.

d. Monitoring and Reporting

86. A CF Client will establish monitoring procedures to review progress with an ESAP and implementation of ESMS. Depending on the monitoring outcome, the mitigation measures in the ESAP will be supplemented by additional assessment and management planning.

87. All CF Clients receiving ADB financing will be required to submit E&S monitoring reports to ADB for disclosure. The extent and frequency of monitoring reports will be proportionate to the E&S risks and impacts of the portfolio supported by ADB but will be submitted at least annually.

88. If changes in a CF Client's activities and transactions supported by ADB financing result in E&S risks and impacts that differ from those identified at the time of ADB’s support, a CF Client will be required to adjust its ESMS, in consultation with ADB, in a manner consistent with the E&S risk profile resulting from the new activities and transactions.

e. Stakeholder Engagement and Grievance Mechanism

89. CF Clients will develop and maintain stakeholder engagement procedures and a grievance mechanism, consistent with the relevant requirements of ESS10 and following indicative requirements in Annex-2.

f. Labor and Working Conditions, and Health Safety and Security

90. All CF Clients that receive ADB financing will provide a safe and healthy working environment and also manage the working conditions of their employees in accordance with relevant aspects of ESS2 on Labor and Working Conditions and ESS4 on Health Safety and Security.
Annex-1: Indicative Contents of the Environmental and Social Management Framework (ESMF)

1. The use of an ESMF will be considered for sector lending, emergency assistance loans, and MFF. ESMF may also be considered for projects in fragile and conflict-affected situations, as set out in ESS1. Para 2 sets out the content of an ESMF that will need to be prepared by a borrower/client.

2. An ESMF will: (i) describe the project and its subprojects and/or components; (ii) explain the general anticipated environmental and/or social impacts of the components or subprojects to be or proposed to be financed under the project; (iii) specify the requirements for subproject screening and risk classification, assessment, and planning, including arrangements for meaningful consultation with project-affected persons and other stakeholders and information disclosure requirements and, where applicable, safeguard criteria that are to be used in selecting subprojects and/or components; (iv) identify needs for capacity development of the agency responsible for implementing the requirements under the ESSs and ESAP; (v) specify implementation procedures, including the budget, institutional arrangements, and capacity development requirements; (vi) specify monitoring and reporting requirements; and (vii) describe the responsibilities of the borrower/client and of ADB in relation to the preparation, implementation, and progress review of safeguard documents of subprojects. The level of effort, the amount of analysis, the comprehensiveness, and the level and scope of detail required for the framework will depend on the nature and scale of the potential E&S risks and impacts of a project.

3. An ESMF will also include an outline for land acquisition and land use restriction and Indigenous Peoples related assessments, as set out in ESS 5 and ESS 7, respectively.
Annex-2: Indicative Contents of Environment and Social Management System (ESMS)

1. An ESMS will consist of the following elements: (i) an E&S policy; (ii) internal organizational capacity and competency; (iii) due diligence processes/procedures to identify E&S risks and impacts of an FI’s borrowers’/investees’ activities and transactions or a CF Client’s activities and transactions financed by ADB; (iv) monitoring, reviewing, and reporting of activities, transactions, and/or portfolio; and (v) stakeholder engagement and grievance mechanism. The following section describes indicative content of each of the components of an ESMS, which will be detailed proportionate to the E&S risks and impacts of the activities, transactions, and/or portfolio supported by ADB financing:

(i) **E&S Policy**
Describes the overarching E&S policy, to be endorsed by senior management, defining the E&S objectives, principles, and E&S requirements and standards that will apply to manage the E&S risks and impacts associated with the [borrower’s/client’s] [client’s] activities and transactions.

(ii) **Internal Organizational Capacity and Competency**
Describe an organizational structure that defines roles, responsibilities, and authority to implement the ESMS. This requires designating qualified personnel and communicating well-defined E&S responsibilities to relevant personnel.

(iii) **E&S risk identification, assessment and management planning – Due Diligence Processes**
- Establish processes to identify, assess, and manage E&S risks and impacts associated with an FI’s or a CF Client’s activities and transactions financed by ADB, and where appropriate, will require an ESAP.
- FI ESDD will: (i) review relevant documents and information provided by an FI’s borrowers/investees; (ii) review E&S risks and impacts of the activities against pre-determined criteria such as ADB’s Prohibited Investment Activities List, applicable ESSs (for higher risk transactions) and the host country’s applicable E&S laws; (iii) conduct site visits, as appropriate; and (iv) review the track record of an FI’s borrowers/investees on E&S issues.
- CF Client ESDD will identify and assess the E&S risks and impacts against applicable ESSs and the host country’s applicable laws (for activities and transactions financed by ADB classified as High, Substantial, or Moderate Risk), and review against pre-determined criteria such as ADB’s Prohibited Investment Activities List.
- Require documentation of the findings of the FI or CF Client ESDD in a report or internal records, including recommendations on whether to proceed with financing and any conditions of investment, which will be reflected in an ESAP.

(iv) **Monitoring, Reviewing, and Reporting**
Establish monitoring procedures to review progress with the ESAP and implementation of the ESMS. The extent and frequency of monitoring will be proportionate to the E&S risks and impacts of the activities and transactions as identified through FI or CF Client ESDD but will be done at least annually.
Stakeholder Engagement and Grievance Mechanism

- Describe procedure for **stakeholder** engagement that includes methods to receive, register, screen, analyze, and assess, track, and if necessary, respond to and act upon, external inquiries, views, opinions, concerns (real or perceived), requests for information and complaints from the public regarding the operations, investment activities or in the case of an FI, an FI’s borrowers/investees in its portfolio. Such a procedure will also take into consideration confidentiality of information. The complexity of such a procedure will be proportionate to the nature and scale of **E&S risks and impacts** associated with an FI’s CF Clients’ activities and transactions.

- Provide publicly available and easily accessible channels to receive communications and requests from the public for information regarding E&S issues.

- Assess the relevance of the external communication received and determine the level of response and actions required, if any.

- Require a grievance mechanism if an FI’s or a CF Client’s activities and transactions are likely to generate adverse E&S risks and impacts on **project-affected persons** or the environment.

2. For those FI that support **higher risk transactions** and CF Clients that support activities and transactions with High, Substantial, and Moderate Risks, if any gaps are identified through ADB’s review, between the existing ESMS of an FI or CF Client and the applicable ESSs, ADB and the FI or CF Client will reach an agreement on a corrective action plan that sets out time-bound measures and associated budget needs to implement such a plan. Such a corrective action plan will be reflected in the corporate ESMS and in an ESAP, as necessary. Where ADB DD has determined that an FI or a CF Client does not have adequate in-house capacity, an ESAP will describe how an FI or a CF Client will strengthen its in-house capacity or if that is not possible, retain qualified specialists to develop and implement an ESMS.