

# Environmental and Social Management System Arrangement

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October 2016

KAZ: Supporting Resilience of Micro, Small, and  
Medium-Sized Enterprises Finance Project

## CURRENCY EQUIVALENTS

(as of 30 September 2016)

Currency Unit	—	tenge (T)
T 1.00	=	\$ 0.00296
\$1.00	=	T338.42

## ABBREVIATIONS

ADB	—	Asian Development Bank
BCC	—	Bank Center Credit
BKN	—	Bank Kassa Nova
BOA	—	Bank of Astana
EIA	—	Environmental Impact Assessment
EMP	—	Environmental Management Plan
ESMS	—	Environmental and Social Management System
IEE	—	Initial Environmental Examination
MFO	—	Microfinance Organization
MSME	—	Micro, Small and Medium Enterprise
NRB	—	Nurbank
PCB	—	Participating Commercial Bank
RoK	—	Republic of Kazakhstan
SPS	—	Safeguard Policy Statement of ADB

## NOTE

- (i) In this report, "\$" refers to US dollars.

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

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## I. INTRODUCTION

### A. Information about the Project

1. Damu Entrepreneurship Development Fund JSC (Damu) has requested a loan of \$200 million equivalent from ADB's ordinary capital resources to help finance the Supporting Financial Inclusion for Micro, Small, and Medium-Sized Enterprises Project (the Project). Overall, the Project is estimated to cost \$250 million. The impact will be to sustain the contribution of MSMEs to the non-oil GDP and employment under a challenging macro environment. The outcome will be sustainable provision of loans to MSMEs increased. The project comprises the following outputs:

(i) **Sustained financial inclusion.** The project will fund local currency loans through PFIs to support productive investments by MSMEs,<sup>1</sup> and incentivize lending to women entrepreneurs and regions outside Astana and Almaty.

(ii) **Improved efficiency of PFIs lending to MSMEs.** The project will provide technical assistance to improve credit risk management and efficiency of selected PFIs and expand financing opportunities for MSMEs.

2. There are two kinds of financial intermediaries in this project: commercial banks (PCBs) and Microfinance Organizations (MFOs). The PCBs include Bank Center Credit (BCC), Bank of Astana (BOA), Bank Kassa Nova (BKN) and Nurbank (NUB). The MFOs include: KazMicroFinance, AsiaCreditFund and Bereke. These institutions expressed their interest in participating in the project and meet the financial and integrity requirements for participation.<sup>2</sup>

3. The ADB Safeguard Policy Statement (SPS, 2009) and the Operations Manual Section F1/OP require that those PFIs that will fund subprojects with more than minimal environmental impacts, involuntary resettlement impacts, or impacts on indigenous people need to have an Environmental and Social Management System (ESMS) in place that covers the following: (i) environmental and social (ES) policies; (ii) screening, categorization and review procedures for subprojects; (iii) monitoring and reporting; (iv) organizational structure and staffing including capabilities in managing environmental and social safeguards; and (v) training. Due diligence conducted in the first quarter of 2016 found that it is a remote possibility that subprojects of MFOs will have more than minimal environmental impacts, involuntary resettlement impacts, or impacts on indigenous people. Therefore, they will only be allowed to finance category C subprojects. The PCBs will have an ESMS acceptable to ADB prior to receiving the first advance of funds from the project.

### B. Environmental and Social Management System

4. The ESMS arrangements proposed in this document define ADB safeguards requirements for the PCBs and Damu. In this project Damu is a first tier financial intermediary (FI), and the PCBs are second tier FIs. The arrangement includes (i) an assessment of the national legal framework and ADB's social and environmental requirements, (ii) anticipated environmental impacts of subprojects, environmental assessment of subprojects and components; (iii) public consultation, information disclosure, and grievance redress, (iv)

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<sup>1</sup> The cumulative amount of financing provided to MSMEs is likely to exceed the ADB loan amount as the PFIs will utilize repaid subloan amounts for funding additional eligible subloans until the final maturity date of the Damu loans extended to PFIs .

<sup>2</sup> Additional PFIs may be added during project implementation, subject to the compliance with ADB's financial, integrity and social safeguards requirements.

institutional responsibilities of various agencies, and (v) monitoring and reporting. ADB requires that the relevant ESMS arrangements are made to the satisfaction of ADB prior to the first project's disbursement.

### **C. Current Status of the PCBs' and Damu's ESMSs**

5. For FIs, subprojects of which can likely have environmental and social impacts, ADB's Safeguard Policy Statement (2009) and the Operations Manual Section F1/OP requires an in-depth assessment of their ESMSs with a focus on (i) environmental and social policies, (ii) safeguard screening, categorization and review procedure; (iii) current organization structure and staffing, (iv) performance monitoring and reporting procedures, and (v) track record in environmental and social management. Between February and May 2016, ADB conducted due diligence of Damu and the potential PCBs, the results of which are presented in Annex 1.

## **II. NATIONAL AND ADB'S LEGAL ENVIRONMENTAL AND SOCIAL FRAMEWORK**

### **A. ADB's requirements**

6. The ADB's SPS formulates general objectives of ADB's safeguards, lays down policy principles, and summarizes the delivery process for ADB's safeguard policy. The SPS covers policy objectives, scope and triggers, and principles for 3 core safeguard areas: (1) environmental safeguards, (2) involuntary resettlement safeguards, and (3) indigenous people safeguards.

7. ADB will not finance projects that do not comply with the SPS, or with national social and environmental laws and regulations, including those laws implementing host country obligations under international law. Additionally, ADB will not finance activities on the prohibited investment activities list (

ADB's Prohibited Investment Activities List). ADB will not finance subprojects that involve involuntary resettlement or any impacts on indigenous people.

8. ADB uses a categorization system to indicate the significance of project's potential impacts on the environment, involuntary resettlement, and indigenous peoples. Environmental categorization takes into account the nature, location, sensitivity, and scale of the project, nature and magnitude of the environmental impacts, and is based on the most environmentally sensitive component of the subproject. The relevant project's categories and their definitions are shown in Table 1.

**Table1: Definition of ADB safeguards categories**

<b>Project Category</b>	<b>Environment</b>	<b>Involuntary resettlement</b>	<b>Indigenous people</b>
A	The project is likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. Among those projects are waste-processing and disposal installations for the incineration, chemical treatment or landfill of hazardous, toxic or dangerous wastes, large-scale land reclamation, extraction of petroleum and natural gas for commercial purposes, municipal solid waste processing and disposal facilities, etc.	The project is likely to have significant involuntary resettlement impacts. The involuntary resettlement impacts of an ADB-supported project are considered significant if 200 or more persons will experience major impacts, which are defined as (i) being physically displaced from housing, or (ii) losing 10% or more of their productive assets (income generating).	The project is likely to have significant impacts on Indigenous Peoples. The significance of impacts of an ADB-supported project on Indigenous Peoples is determined by assessing (i) the magnitude of impact in terms of (a) customary rights of use and access to land and natural resources; (b) socioeconomic status; (c) cultural and communal integrity; (d) health, education, livelihood, and social security status; and (e) the recognition of indigenous knowledge; and (ii) the level of vulnerability of the affected Indigenous Peoples community.
B	Project's potential adverse environmental impacts are less adverse than those of category A projects. These impacts are site-specific, few if any of them are irreversible, and in most cases mitigation measures can be designed more readily than for category A projects. Examples of such subprojects include medium-scale road construction outside specially protected areas, medium-size manufacturing of machinery and equipment, small-scale logging, etc. An environmental management plan will be required for those projects.	The project includes involuntary resettlement impacts that are not deemed significant.	The project is likely to have limited impacts on Indigenous Peoples. The significance of impacts of an ADB-supported project on Indigenous Peoples is determined by assessing (i) the magnitude of impact in terms of (a) customary rights of use and access to land and natural resources; (b) socioeconomic status; (c) cultural and communal integrity; (d) health, education, livelihood, and social security status; and (e) the recognition of indigenous knowledge; and (ii) the level of vulnerability of the affected Indigenous Peoples community.
C	The project is likely to have minimal or no adverse environmental impacts. Examples of such projects include wholesale trade, small scale manufacture of bakery and	The project has no involuntary resettlement impacts	The project is not expected to have impacts on Indigenous Peoples

Project Category	Environment	Involuntary resettlement	Indigenous people
	farinaceous products, processing and preserving of fruit and vegetables, assembly of furniture, transportation services, accommodation and food service activities, rental and leasing activities, information services, etc.		
FI	The project involves the investment of ADB funds to, or through, a financial intermediary.		

9. The current project is classified as Financial Intermediary (FI) for environment and FI treated as C for IR and IP impacts. ADB's SPS specifies that if investments of the financial intermediary have no or minimal environmental risks, the FI project will be treated as Category C project and need not to apply any other specific requirements. All other categories of FIs are required to have in place or set up an Environmental Management and Social System (ESMS) to meet national laws and/or ADB requirements for FI projects. Similarly if subprojects are unlikely to generate involuntary resettlement impacts and Indigenous Peoples impacts, the project is treated as a category C and the financial intermediary need not apply any other specific safeguard requirements.

10. The ESMS shall incorporate the following elements:
- (i) environmental and social policies;
  - (ii) screening, categorization, and review procedure;
  - (iii) organizational structure and staffing including skills and competencies in environmental and social areas;
  - (iv) training requirements; and
  - (v) monitoring and reporting.

## B. National Environmental Legislation

11. The Environmental Code of the Republic of Kazakhstan, adopted in 2007, is the key document regulating relationships in the field of conservation, restoration and protection of the environment. Among other major laws, codes and environmental regulations are:

- Water Code (2003, last amended 29 Oct 2015)
- Land Code (2003, last amended 24 Nov 2015)
- Labor Code of Republic of Kazakhstan (amended on 16 Nov 2015)
- Law on Specially Protected Areas (2006, last amended on 4 Dec, 2015)

12. Other national environmental regulations and instructions include:

- Instruction on Conducting Environmental Impact Assessment of Intended Economic and other Activities during Development of pre-Plan, Plan, pre-Project and Project Documentation (the EIA Instruction)<sup>3</sup>
- Rules for State Environmental Review (2015)
- Sanitary Epidemiologic Requirements on Setting Sanitary Protection Zone of Facilities
- Rules for Public Hearings (2007)

<sup>3</sup> EIA instruction approved by Decree of Ministry of Environmental Protection, 27 June 2007.

## 1. Environmental Categorization

13. According to the Sanitary Epidemiologic Requirements on Setting Sanitary Protection Zone of Facilities (March 2015), facilities are categorized into 5 classes of hazard. Based on the class of hazard, 4 environmental assessment (EA) categories of economic activities are distinguished in relation to their significance and scale of environmental assessment they require:

- **EA Category I** include activities classified as 1 and 2 class of hazard as well as exploration and extraction of natural resources except the ones extractable under simplified mining permit.
- **EA Category II** includes activities classified as 3 class of hazard, as well as and extraction of mineral resources extractable under simplified mining permit, all types of forest management, and special water use
- **EA Category III** includes activities classified as 4 class of hazard;<sup>4</sup>
- **EA Category IV** includes activities classified as 5 class of hazard, as well as all types of wildlife use, excluding fishing and hunting for sport.

14. If an activity is not listed in the Sanitary Epidemiologic Requirements it is assigned to EA Category IV. Differentiated requirements on environmental assessment are established for the categories in the EIA Instruction.

## 2. Environmental Assessment and State Environmental Review

15. All economic activities that can have direct or indirect impacts on the environment are subjects of environmental assessment conducted by the project proponent. The Environmental Code distinguishes five studies of environmental assessment (Table 1). The Environmental Code and the EIA Instruction detail the procedures for environmental impact assessment.

**Table 1: Design/Implementation and environmental assessment stages**

	<b>Design/Implementation stage</b>	<b>Environmental assessment</b>
Stage 1	Assessment of the project's area	Assessment of the baseline environment
Stage 2	Pre-feasibility study	Preliminary environmental assessment
Stage 3	Feasibility study	Environmental assessment
Stage 4	Detailed design	Environmental assessment for the detailed design
Stage 5	Project implementation	Post-project analysis (1 year after commencement of the project)

16. The environmental review of the activities and the relevant environmental assessments is conducted by the experts of the State Environmental Review (SER). The Environmental Clearance is issued based on the conclusions of the SER. The Environment Code prohibits financing and implementation of economic activities by banks and financial organizations without environmental clearance from SER.

## 3. Emission limits

17. Emission limits include:

<sup>4</sup> Examples of such activities include car repair shops, printing shops, installations for production of concrete, garment factories and hosiery, shoe-making factories, confectionary, baked goods factories, etc.

- (i) Technical specific emission limits
- (ii) Maximum allowable emissions of pollutants
- (iii) Standards for disposal of waste of industry and consumption
- (iv) Standards for allowable physical impacts (noise, vibration, heat, etc.)

18. Emission limits are to be developed as part of project's environmental assessment, or as stand-alone documents and provide a basis for issuing Permits for Emissions.

#### **4. Permits for Emissions**

19. Permit for Emissions is a legally required authorization, which a user of nature resources must have to be allowed to operate. The permits for the EA Category I, II, and III sites are issued by the environmental authorities based on the clearance of the state environmental review for emission limits, and environmental management plan. The permits for the EA Category IV projects are issued based on calculated or experimental emission limits.

#### **5. Program of Industrial Environmental Control**

20. A user of nature resources is required to work out the Program of Industrial Environmental Control that includes organizational structure and responsibilities for environmental monitoring, parameters to be monitored, location of monitoring points, frequency of sampling, method used, and so on. Industrial Environmental Control includes operational monitoring, monitoring of emissions, and impact monitoring. Operational monitoring relates to observing of parameters of facilities within the designed range. Emission monitoring is associated with observation of quantities and composition of emissions at source. Impact monitoring is obligatory when activity of the user of nature resources affects health of population and/or environmentally sensitive areas, during commissioning of new facilities, and after accidental releases into the environment.

### **III. ENVIRONMENTAL AND SOCIAL MANAGEMENT AND APPLICABLE POLICY REQUIREMENTS FOR THIS PROJECT**

#### **A. Environmental and Social Policy**

21. The PCB will develop and enforce environmental and social policy that will meet the following requirements:

- (i) is appropriate to the nature, scale, and environmental impacts of its activities, products and services;
- (ii) includes a commitment to continual improvement and prevention of pollution;
- (iii) includes a commitment to comply with applicable legal requirements and with other environmental requirements;
- (iv) provide the framework for setting and reviewing environmental objectives and targets;
- (v) is documented, implemented, and maintained;
- (vi) is communicated to all personnel of the PCBs; and
- (vii) is available to the public.

## B. Subproject Selection Criteria

22. The environmental and social safeguard requirements<sup>5</sup> for the Project are summarized in Table 3.

**Table 2: Safeguard requirements for the Project**

		Participating Commercial Banks	Microfinance Organizations
Allowed category of subprojects	ENV	FI, excluding A	FI (treated as C)
	IR	FI (treated as C) Only subprojects with no involuntary resettlement impacts allowed for financing.	
	IP	FI (treated as C) Only subprojects with no indigenous peoples impacts allowed for financing.	
Compliance with ADB's PIAL		Required	Required
Compliance with national environmental and social legislation		Required	Required

PIAL = Prohibited Investment Activities List.

\* Note: Requirements applicable to the PCBs are shown in green.

23. The following environmental and social criteria will be adopted by the PCBs for selection of the subprojects:

- (i) All subprojects using ADB funds are screened against ADB's Prohibited Investment Activities List (PIAL)
- (ii) Only subprojects that are not expected to have significant environmental impacts (Category A), in accordance with ADB's SPS, will qualify for financing;
- (iii) Subprojects with involuntary resettlement or impacts on indigenous people will be excluded from financing; and,
- (iv) All subprojects are reviewed and evaluated against the national laws, regulations, and standards on environment, health, safety and labor standards. Any subproject, which does not meet the criteria listed above have to be rejected. A Subproject Screening Checklist (Appendix 1) can be used to define eligibility of the subproject for financing.

## IV. DESCRIPTION OF THE POTENTIAL SUBPROJECTS AND ANTICIPATED ENVIRONMENTAL IMPACTS

24. The Project will focus on women entrepreneurs and lending outside the larger cities. It is proposed that 60% of the project funds being lent to sub-borrowers outside of Astana and Almaty cities. It is anticipated that the future portfolio of the PCBs will include subprojects of SMEs in the field of retail and wholesale trade, small-scale manufacturing, civil construction, service industries, ancillary industries, etc. The subprojects are expected to involve construction, upgrade and expansion of existing facilities, acquisition of fixed assets, and/or working capital required to improve businesses' productivity. MFOs subprojects will include smaller loans, including to informal businesses, and will be largely focused on rural development. For PCBs, the maximum sub-loan size will be \$3 million equivalent, and for

<sup>5</sup> Safeguard requirements are detailed in the Section II.

MFOs, the maximum sub-loan size will be determined by the regulations of the National Bank of Kazakhstan for microloans.<sup>6</sup>

25. Three major types of subprojects' financing are expected: investments in new projects, investment in existing facilities and working capital loans.

26. It is expected that subprojects will have environmental impacts characteristic of small-scale manufacturing and construction, service industries etc. In most cases, it is expected that the scale and magnitude of environmental impacts will range from no/minimal to site-specific (national Categories II, III and IV). The potential environmental impacts can include:

- *Physical Environment.* Impacts to area landscape are likely to occur due to small-scale cut and fill operations. Earth-moving operations can cause soil erosion. Impacts on air quality of the subprojects during the construction phase are anticipated due to fugitive dust generation in and around construction activities, and emissions of dust and exhaust gases characteristic of small-scale manufacturing during operation phase. Fuel and lubricants can contaminate groundwater and surface water. Potential impacts are also related to wastewater. Noise and vibration impacts, generated by construction activities can affect noise-sensitive receptors such as hospitals and schools in settlements. Solid waste can be generated during construction and repair of buildings, operation of workshops, cafes, shops, etc.
- *Biological Resources.* Potential impacts related to biological resources include a risk of biodiversity loss, physical disturbance of wildlife, removal of trees, etc;
- *Socio-Economic Environment.* It is anticipated that potential impacts to the socio-economic environment will be mostly positive and on income and unemployment trends. Potential impacts on *archaeological*, historical and cultural assets can occur due to construction activities.

## V. ENVIRONMENTAL AND SOCIAL MANAGEMENT PROCEDURES

### A. Environmental and Social Screening and Categorization

27. All subprojects under the Project will be screened according to the PCBs' ESMSs procedures approved by ADB. The screening and categorization procedure includes the following steps:

- (i) **Step 1.** All subprojects are screened against the prohibited investment activities list (Appendix 2). Subprojects involving business activities included in the prohibited investment activities list do not qualify for financing under the project and applications involving such activities have to be rejected.
- (ii) **Step 2.** All the activities are screened against the national laws, regulations, and standards on environment, health, safety and labor standards. Only subprojects with no involuntary resettlement impacts and indigenous peoples are allowed for financing under the project. Subprojects involving business activities that do not comply with national environmental and social legislation are excluded from financing.
- (iii) **Step 3.** Category A subprojects for environment, and subprojects with any involuntary resettlement or indigenous people impacts needs to be screened out.

<sup>6</sup> At end 2015, this was 8,000 times the MCI, i.e. T17 million (equivalent to \$46,000).

The indicative lists of activities of Category A for environment are attached in Appendices 3 and 4. Appendix 3 is a list of activities belonging to national Category I economic activities in relation to their significance and scale of environmental assessment. Appendix 4 presents list of activities that are likely to cause significant adverse transboundary impact in accordance with the second amendment to the Convention on Environmental Impact Assessment in a Transboundary Context (Espoo, 1991). Final decision about the significance of project's impacts is taken based on a concrete project's likely magnitude of impacts and risks and its location.

## **B. Environmental and Social Due Diligence**

28. For all subprojects that successfully passed through screening and categorization stage the PCBs will undertake environmental and social due diligence. Requirements for the due diligence differentiate with the EA Category of the subproject:

- (i) **EA Category II.** For EA category II subprojects the PCB requests from the MSME, and reviews the following documentation:
  - a. New subprojects: Clearance from the State Environmental Review<sup>7</sup>, Permits for Emissions, Environmental Management Plan, Clearance from Sanitary and Epidemiological Station, and other necessary documents such as maps of sites.
  - b. Existing facilities. Environmental Management Plan, Program of Industrial Environmental Monitoring, environmental reports for the last 3 years, minutes of environmental audits by environmental authorities, emergency measures plans, ISO 14001 Certificates (if available), and other documents such as maps of sites, complaint log books.

The PCB should undertake a site visit, and consult with ADB about potential environmental risks of each EA Category II project. The MSME should provide all requested information to the PCBs, and should be able to demonstrate responsiveness with regard to the applicable environmental and social safeguard requirements.

- (ii) **EA Category III.** For the EA Category III subprojects the PCB request from the MSME and review environmental documentation listed under the EA Category II above. A site visit is required for any EA Category III project, however, a consultation with ADB can be organized based on case by case basis.
- (iii) **EA Category IV.** For the EA Category IV subprojects the PCB request from the MSME and review environmental documentation listed under the EA Category II above. No site visit or consultation with ADB is required for any EA Category IV subproject, however, those can be arranged on case by case basis.

## **C. Consultation, Information Disclosure, and Grievance Redress Mechanism**

### **1. Public Participation and Consultation**

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<sup>7</sup> Zaklyuchenie Ekologicheskoi Ekspertizy.

29. Public participation and consultation is required during preparation of subproject's environmental assessments in accordance with national legislation. The Environmental Code, EIA Instruction and Rules for Public Hearings (Section 2-B) are the national documents defining requirements to public participation in subprojects.

30. In addition to national requirements consultations have to follow the ADB's principles:
- (i) Early start in the subproject preparation stage and continuation throughout the project cycle;
  - (ii) Timely disclosure of relevant information in a comprehensible and readily accessible to affected people format;
  - (iii) Ensuring the absence of intimidation or coercion during public consultation;
  - (iv) Gender inclusive and responsive with focus on disadvantaged and vulnerable groups, and
  - (v) Enabling the integration of all relevant views of affected people and stakeholders into decision-making.

## **2. Information Disclosure**

31. In accordance with the national legislation of RoK<sup>8</sup> and ADB's SPS the following documents are subject of public disclosure:

- (i) PCB discloses subproject documentation including environmental assessment materials in accordance with the national legislation;
- (ii) ADB posts on its web-site environmental monitoring reports upon receipt by ADB from DAMU/PCBs.

## **3. Grievance Redress Mechanism**

Each PFI will work closely with Damu to establish, before any loan disbursements, a MSME grievance redress mechanism acceptable to ADB to enable people who are, or may in the future be, adversely affected by the project to submit complaints. Since only small scale activities are expected to be financed under this project, a basic mechanism will be sufficient to address the likely concerns. A summary of the complaints received and status of resolution will be compiled by the PIU and included in the semi-annual performance reports. Any complaints received by Damu or any PFI will be copied to Damu and resolved in close coordination between Damu and the appropriate PFI.

# **VI. ORGANIZATIONAL RESPONSIBILITIES, RESOURCES AND CAPACITY**

## **A. Environmental and Social Management System**

32. The PCBs are required to establish an ESMS commensurate with the nature and risks of its likely future portfolio to be maintained as part of the PCBs overall management system. The ESMS will incorporate the elements listed in Paragraph 10 above. The system will be documented and agreed upon by ADB and the PCBs prior to the first disbursement on the project.

33. An assessment of the current capacities of each PCB is reflected in Annex 1.

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<sup>8</sup> 2007 Rules on Public Hearings (amended 27 March 2013) and 2007 OVOS Instruction (amended 24 September 2013)

## B. Responsibilities

34. To prepare subprojects and to comply with ADB's SPS:

### 1. The Participating Commercial Banks

(i) Prior to receiving the first disbursement on the project:

a. Establish an ESMS satisfactory to ADB.

(ii) During Project implementation

a. Prepare environmental and social screening checklists, categorize subprojects in close coordination with MSMEs, screen out Category A subprojects and subprojects including PIAL activities ; Only subprojects with no involuntary resettlement impacts and indigenous peoples impacts are allowed for financing under the project.

b. Ensure that the MSME obtained all regulatory clearances required by national environmental and health legislation before starting the subproject;

c. Prepare and submit to Damu and ADB semi-annual Environmental Monitoring Reports reflecting implementation of EMPs on MSMEs subprojects;

d. In the case of unpredicted environmental impacts occurring during subproject implementation, immediately notify Damu and ADB, and prepare a corrective action plan in coordination with the MSME; and

### 2. MSMEs

(i) During project implementation

a. Ensure compliance with all requirements of Kazakhstan's environmental, health, safety, and labor standards. Only subprojects with no involuntary resettlement and indigenous peoples impacts are allowed for financing. Provide information to the PCBs to prepare environmental screening checklists and categorize subprojects;

b. Ensure that the environmental management plan, including all proposed mitigation measures and monitoring programs, are properly implemented.

c. In case of unpredicted environmental impacts occurring during subproject implementation, immediately inform the respective PCB, prepare and implement a corrective action plan in coordination with the PCB;

d. Provide awareness training in environmental management for all employees working on the subproject;

e. Ensure that meaningful public consultation be undertaken with affected groups and local NGOs as per requirement of the national legislation; and subproject for new projects;

### 3. DAMU

a. Oversee implementation of the ESMS by the PCBs;

b. In case of unpredicted environmental impacts occurring during subproject implementation, immediately notify ADB;

c. Review the PCBs' EMRs and send feedback to the PCBs.

d. Submit finalized EMRs to ADB for review and disclosure

#### 4. ADB

- (i) Prior first disbursement to each PCB
  - a. Ensure that PCBs' ESMSs are satisfactory to ADB.
- (ii) During project implementation
  - a. Ensure that operation of the PCBs' ESMSs are satisfactory during routine (annual) audits missions;
  - b. Review and disclose environmental monitoring reports on the ADB website; and
  - c. Provide assistance to the PCBs, if required, in carrying out their responsibilities and safeguard capacity building.

#### C. Staffing Requirements

35. The PCBs should appoint a suitably qualified officer to oversee environmental and social aspects of the project, and appoint one or more staff for day-to-day implementation of its ESMS.

### VII. MONITORING AND REPORTING

36. The extent of monitoring activities, including their scope and periodicity, will commensurate with the project's risks and impacts. The PCBs are required to supervise implementation of safeguard measures and relevant safeguard plans by MSMEs, and to submit periodic monitoring reports on their implementation performance to DAMU and ADB. An Outline of the report is presented in Annex 2. ADB will require the PCBs to:

- (i) establish and maintain procedures to monitor the progress of implementation of EMPs by MSMEs;
  - (ii) verify the compliance with environmental measures and their progress toward intended outcomes;
  - (iii) document and disclose monitoring results and identify necessary corrective and preventive actions in the semi-annual environmental monitoring reports (EMRs);
  - (iv) follow up on these actions to ensure progress toward the desired outcomes, and
  - (v) submit EMRs to DAMU and ADB.
37. ADB will monitor and supervise implementation of the PCBs' ESMS as follows:
- (i) conduct annual audits of the PCBs ESMSs;
  - (ii) review environmental monitoring reports submitted by the PCBs to ensure that adverse environmental impacts and risks of subprojects are mitigated;
  - (iii) undertake periodic review missions to PCBs' subprojects;
  - (iv) work with the PCBs to rectify to the extent possible any failures to comply with its safeguard commitments, as covenanted in the legal agreements, and exercise remedies to reestablish compliance as appropriate; and
  - (v) prepare the project completion report that assesses whether the objective and desired outcomes of the EMPs have been achieved, taking into account the baseline conditions and the results of monitoring.

## STATUS OF ESMS (AS OF JUNE 2016)

### 1. Damu

#### a. Background information

1. Damu participated in ADB's Small and Medium Enterprises Investment Program Tranche 1, 2, and 3 as a FI of the first tier. For Tranche 1 categorized FI (treated as C) no ESMS was required. Under Tranches 2 and 3 Damu has established a basic ESMS system, and appointed a focal person to review Environmental Monitoring Reports from Participating Financial Institutions and submit them to ADB.

#### b. Environmental and social policy

2. In 2013, Damu adopted the Policy of Corporate Social Responsibility, which include provisions on environmental sustainability, specifically: supporting approaches to environmental aspects, based on precautionary principle, and avoidance on adverse environmental impacts; adopting initiatives aimed at strengthening responsibilities for the state of the environment; supporting environmentally safe technologies, and supporting initiatives on using renewable energy, decreasing energy consumption, and increasing energy efficiency.

#### c. Safeguard screening, categorization, and review procedures

3. Damu does not currently have screening, categorization, and review procedures.

#### d. Current organization structure and staffing

4. Under ADB's Small and Medium Enterprises Investment Program one focal person was appointed to review the Environmental Monitoring Reports.

#### e. Performance monitoring and reporting procedures

5. Damu does not currently have performance monitoring procedures. Environmental monitoring reports are prepared and submitted to ADB in the framework of SME Development Project Tranches 1-3.

#### f. Track record in environmental and social management

6. Damu does not currently have track record system for environmental and social management.

#### g. Bridging gaps in ESMS

7. ADB's Environmental Consultant (1.5 person-months) will be assisting Damu to establish its performance monitoring procedures on PFIs safeguards implementation and appropriate reporting procedures.

### 2. Bank Center Credit (BCC)

#### a. Background information

8. BCC took part in ADB's Small and Medium Enterprises Investment Program - Tranche 1 and currently is involved in Tranche 2 of the program.

**b. Environmental and social policy**

9. BCC adopted its Environmental and Social Policy in 2006 under the Code of Corporate Management.<sup>1</sup> According to Policy of Crediting and Managing Credit Risks, the projects that do harm to the environment or people's health cannot be financed. The Procedure on Environmental and Social Management for BCC was adopted in 2010 and updated in 2013.

**c. Safeguard screening, categorization, and review procedures**

10. In accordance with the Procedure, BCC screen each subproject against prohibited investment activities list. The Procedure distinguishes 3 environmental categories of projects A, B, and C for respectively high, medium, and low risk. A Credit Analyst/Credit Officer assigns the indicative category to the project in accordance with the Attachment C for the Procedure: "Categories of Environmental Risk by Types of Activity". Further, a rapid environmental assessment is conducted through a number of checklists presented in Appendices (D-G). Although the Procedure provides steps for processing Category A projects, the bank has a practical experience of handling Category B projects highest. For Category B, an environmental assessment needs to be conducted. Subprojects involving involuntary resettlement or having impacts on indigenous people are excluded from ADB financing.

**d. Current organization structure and staffing**

11. To supervise activities of ESMS on the whole, a responsible ESMS officer from one of the departments (Department of Corporate Finance, Department of Corporate Risks, or Department of Wholesale Business) is appointed by a Chairman of the Board of Directors. Being in his position since 2010 the current ESMS officer has substantial experience in managing ESMS. His duties include monitoring of ESMS functioning, supervision over ESMS application, ensuring sufficient resources to efficiently implement ESMS, and providing information on implementation of environmental and social requirements for a BCC annual report. The responsibilities of the Legal Counsel on environmental and social management matters include monitoring of environmental laws and regulations, submit proposals on improvement of the ESMS based on monitoring, and assist in preparation of environmental covenants in credit agreements. Each Credit Analyst/Credit Officer is responsible for screening and categorization and review of the subprojects, as well as day-to-day implementation of the ESMS.

**e. Performance monitoring and reporting procedures**

12. Monitoring of projects performance is conducted by a Credit Officer and Relationship Manager in accordance with a schedule approved by Credit Committee, at least once a year. The subject of monitoring is Category B and A projects.

**f. Track record in environmental and social management**

13. For each project a Credit Dossier includes the following documents prepared in the framework of ESMS: (i) Environmental and Social Assessment of the Project, (ii) Implementation Standards, (iii) Client's Report (to report about any unanticipated impacts,

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<sup>1</sup> <http://www.centercredit.kz/upload/about/kodeks.pdf>

emergency situations and non-complacencies), (iv) Report of Credit Officer and Relationship Manager on Results of Environmental and Social Assessment of a Project. Environmental Impact Assessment reports for Category B and A projects prepared in accordance with national legislation of Republic of Kazakhstan.

**g. Bridging gaps in ESMS**

14. No gaps in ESMS were identified.

**3. Bank Kassa Nova (BKN)**

**a. Background information**

15. The BKN has not been previously involved in ADB's projects.

**b. Environmental and social policy**

16. The BKN does not currently have environmental and social policies. It plans to adopt the policy in 2016.

**c. Safeguard screening, categorization, and review procedures**

17. The BKN does not currently have screening, categorization, and review procedures.

**d. Current organization structure and staffing**

18. There is no ESMS organizational structure in place so far.

**e. Performance monitoring and reporting procedures**

19. No performance monitoring and reporting procedures are available so far.

**f. Track record in environmental and social management**

20. No track record in the ESMS is available so far.

**g. Bridging gaps in ESMS**

21. The BKN needs to adopt the environmental and social policy, develop screening, categorization, review, performance monitoring, and reporting procedures, establish track record in ESMS, and appoint the ESMS focal person prior to first disbursement on the project.

**4. Bank of Astana (BOA)**

**a. Background information**

22. The BOA has not been previously involved in ADB's projects.

**b. Environmental and social policy**

23. The BOA adopted its Environmental and Social Policy on 21 October, 2015.

**c. Safeguard screening, categorization, and review procedures**

24. No screening, categorization, and review procedures were developed and adopted so far. The BOA is working on the development of those procedures.

**d. Current organization structure and staffing**

25. Focal persons responsible for the development of the ESMS were appointed.

**e. Performance monitoring and reporting procedures**

26. No performance monitoring and reporting procedures are available so far. The BOA is working on the development of the procedures.

**f. Track record in environmental and social management**

27. No track record in the ESMS is available so far.

**g. Bridging gaps in ESMS**

28. The BKN needs to adopt the environmental and social policy, develop screening, categorization, review, performance monitoring, and reporting procedures, establish track record in ESMS, and appoint the ESMS focal person prior to first disbursement on the project.

**5. Nurbank (NRB)**

**a. Background information**

29. The NRB has not been previously involved in ADB's projects.

**b. Environmental and social policy**

30. The NRB does not currently have environmental and social policies. It plans to adopt the policy in 2016.

**c. Safeguard screening, categorization, and review procedures**

31. The NRB does not currently have screening, categorization, and review procedures.

**d. Current organization structure and staffing**

32. Focal persons responsible for the development of the ESMS were appointed.

**e. Performance monitoring and reporting procedures**

33. No performance monitoring and reporting procedures are available so far. The BOA is working on the development of the procedures.

**f. Track record in environmental and social management**

34. No track record in the ESMS is available so far.

**g. Bridging gaps in ESMS**

35. The NRB should adopt the environmental and social policy, develop screening, categorization, review, performance monitoring, and reporting procedures, establish track record in ESMS, and appoint the ESMS focal person prior to first disbursement on the project.

## OUTLINE OF ENVIRONMENTAL AND SOCIAL PERFORMANCE REPORT FOR PARTICIPATING COMMERCIAL BANKS

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes. The Bank is required to submit the annual performance report to Damu and ADB.

Name of Organization			
Completed by (name):			
Position in organization:		Date:	
Reporting period	From:	To:	

### A. Environmental and Social Management System (ESMS)

Policies & Processes	Yes/No	
Have there been any updates to the ESMS or policy and procedures adopted by your organization during the reporting period?		If yes, please provide a copy of the updates including dates and reasons for the same.
Has senior management signed off on the updated policy/procedure?		If yes, please provide the date and internal communication indicating the same.
Has your organization appointed staff tasked to implement the ESMS?		If yes, please provide information on number of staff and qualification (experience and education background) to implement the ESMS.
Please give details of any transactions rejected due to environmental and/or social concerns.		
Please state any difficulties and/or constraints related to the implementation of the ESMS.		
Please describe how you ensure that your subproject companies and their subprojects are operated in compliance with the national laws and regulations and applicable ADB's requirements.		
Please give details of any material social and environmental issues associated with clients during the reporting period in particular.		
In case the existing ESMS is not fully functional, what is the action plan being implemented by your organization?		Please provide information or cite recommendation made by ADB's review mission to improve the ESMS and its implementation.
Capacity	Yes/No	
Please provide the name and contact information of the Environmental/Social Officer or Coordinator who has the overall responsibility for the implementation of ESMS.		Please describe the training or learning activities the Environmental/Social Officer or Coordinator attended during the year.
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.		Please describe the training provided to the ESMS persons and other team members during the year.
What was the budget allocated to the ESMS and its implementation during the year?		Please provide budget details including staff costs and training as well as any actual costs.

<b>Monitoring</b>	<b>Yes/No</b>	
Do you receive environmental and social monitoring reports from subproject companies that you finance?		If yes, please describe and provide supporting documents including any social and environmental considerations if applicable.
Do you check for ongoing compliance of your subproject companies with national regulation and any other requirements?		If yes, please describe the process including any social and environmental considerations if applicable.
Please describe how you monitor the subproject company and their subproject's social and environmental performance.		Please describe and provide supporting documents such as environmental and social monitoring reports and please provide information on the number of subprojects where a field visit was conducted by staff to review aspects including social and environmental issues.
Please provide details of any accidents/litigation/complaints/regulatory notices and fines: Any incidents of non-compliance with the applicable Environmental and Social Requirements Covenants/conditionalities imposed by the Bank to the subproject company as a result of any non-compliance		
<b>Reporting</b>	<b>Yes/No</b>	
Is there an internal process to report on social and environmental issues to senior management?		If yes, please explain the process, reporting format and frequency and actions taken if any.
Do you prepare any social and environmental reports: For other multilateral agencies Other stakeholders E&S reporting in the Annual Report Sustainability reports		If yes, please provide copies of these reports.
<b>Activities on ADB's Prohibited Investment Activities List</b>		
If any, please indicate the dollar percentage of loans or investments out of your total outstanding exposure provided to clients who are substantially involved in ADB's Prohibited Investment Activities List.		_____ %
If the percentage is not zero, please explain these exposures and any steps having been taken to reduce such exposure.		

## B. Subprojects Using ADB Funds

Sector	Amount of projects	Total Loan Amount	Categories (C/B)
<b>Total for Category C</b>			
<b>Total for Category B</b>			
<b>Total</b>			

**C. Sustainable Finance (subprojects with environmental and social benefits)**

<b>Sustainable finance</b>		
Have you made any investments in subprojects that have social and environmental benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, carbon finance, pollution abatement and control, sustainable supply chain, corporate social responsibility, community development, etc.? Please list these in the format provided below:		
<b>Subproject Name</b>	<b>Value financed by the Financial Institution (US\$ million)</b>	<b>Type of social and environmental benefit</b>

**SUBPROJECT SCREENING CHECKLIST FOR PARTICIPATING COMMERCIAL BANKS:  
ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT CRITERIA**

SCREENING QUESTIONS	Yes	No	REMARKS
<b>A. Compliance with national laws and/or regulations (for existing SMEs)</b> Is the subproject in breach of any applicable government environmental, health, safety or social laws or regulations?	<input type="checkbox"/>	<input type="checkbox"/>	
<b>B. ADB's Prohibited Investment Activity List</b> Is any of the subproject activities included in ADB's list of prohibited investment activities in Appendix 2?	<input type="checkbox"/>	<input type="checkbox"/>	
<b>C. Subprojects with high adverse environmental impacts (Category A)</b> Is the subproject proposed for financing included in the lists (Appendix 3 and 4) of projects or activities which have high environmental and social risks?	<input type="checkbox"/>	<input type="checkbox"/>	
<b>D. Social safeguards screening lists</b> Is the subproject not in compliance with the social safeguards screening checklists below	<input type="checkbox"/>	<input type="checkbox"/>	

Notes: (i) The Remarks field can be used to comment on screening questions A, B, C, and D. Such comments can, for example, refer to the availability of clearance, permits, or licenses currently being requested from the concerned local government agency, or clarify that SME is not substantially involved in production of or trade in alcoholic beverages, or inform that project is located at xx km distance from a specially protected area. (ii) If the answer to questions A, B, C, and D is "no", the PCB may proceed with the subproject.

**SOCIAL SAFEGUARDS SCREENING CHECKLISTS**

**A. Involuntary Resettlement Impact Checklist**

Screening Questions	Yes	No	Not Known	Remarks
1. Will there be land acquisition using eminent domain law?				If yes, exclude from financing.
2. Will there be permanent or temporary loss of shelter and residential land due to land acquisition?				If yes, exclude from financing.
3. Will there be permanent or temporary loss of agricultural and other productive assets due to land acquisition?				If yes, exclude from financing.
4. Will there be losses of crops, trees, and fixed assets due to land acquisition?				If yes, exclude from financing.
5. Will there be permanent or temporary loss of businesses or enterprises due to land acquisition?				If yes, exclude from financing.
6. Will there be permanent or temporary loss of income sources and means of livelihoods due to land acquisition?				If yes, exclude from financing.
7. If land or private property is purchased through negotiated settlement or willing buyer-willing seller, will it result in the permanent or temporary removal or displacement of renters, or leaseholders?				If yes, exclude from financing.

Screening Questions	Yes	No	Not Known	Remarks
8. If land or private property is purchased through negotiated settlement or willing buyer-willing seller, will it result in the permanent or temporary removal or displacement of informal land-users (people without legal rights on the land) or squatters?				If yes exclude from financing.
9. Will the project involve any permanent or temporary restrictions in land use or access to legally designated parks or protected areas and cause people or any community to lose access to natural resources, <u>traditional habitats</u> , communal land, or communal facilities?				If yes, exclude from financing.
10. Will the project use government land or any public land or property, which will require the permanent or temporary removal of informal occupants or users (residential or economic)?				If yes, exclude from financing.

**INVOLUNTARY RESETTLEMENT  
IMPACT Category**

- Category A** Significant Impact <sup>1</sup> exclude from financing
- Category B** Limited Impact exclude from financing
- Category C** No involuntary resettlement impacts impact ( only these subprojects will be allowed for financing)

Prepared by:  
Name and Signature  
Designation:  
Date:  
Approved by:  
Name and Signature  
Designation:  
Date:

<sup>1</sup> Involuntary resettlement means physical or economic displacement as a result of land acquisition or involuntary restrictions on land use or on access to legally designated parks and protected areas. Involuntary resettlement is considered significant if 200 or more persons will experience major impacts, which are defined as (i) being physically displaced from housing, or (ii) losing 10% or more of their productive assets (income generating).

**B. Indigenous Peoples Impact Screening Checklist**

Screening Questions	Yes	No	Not known	Remarks
<b>A. Indigenous Peoples Identification</b>				
1. Will the project be in an area (land or territory) occupied, owned, or used by socio-cultural groups who may be considered as "tribes" (hill tribes, schedules tribes, tribal peoples), "minorities" (ethnic or national minorities), or "indigenous communities"?				If yes, exclude from financing.
2. Do such groups self-identify as being part of a distinct social and cultural group?				
3. Do such groups maintain collective attachments to distinct habitats or ancestral territories and/or to the natural resources in these habitats and territories?				
4. Do such groups maintain cultural, economic, social, and political institutions distinct from the dominant society and culture and/or speak a distinct language or dialect??				
<b>B. Identification of Potential Impacts</b>				
5. Will the project directly or indirectly affect vulnerable Indigenous Peoples' traditional socio-cultural and belief practices? (e.g. child-rearing, health, education, arts)				If yes exclude from financing
6. Will the project negatively affect the livelihood systems of vulnerable Indigenous Peoples community/ies? (e.g., food production system, natural resource management, crafts and trade, employment status)				If yes, exclude from financing.
7. Will the project involve commercial development of the cultural resources and knowledge of Indigenous Peoples that will affect cultural integrity, identity and community of Indigenous Peoples?				If yes, exclude from financing.
8. Will the project require acquisition of lands that are traditionally owned or customarily used, occupied or claimed by indigenous peoples and cause physical or economic displacement from traditional or customary lands?				If yes, exclude from financing.
9. Will the project involve commercial development of natural resources (such as minerals, hydrocarbons, forests, water, hunting or fishing grounds) within customary lands under use that would impact the livelihoods or the cultural, ceremonial, spiritual uses that define the identity and community of Indigenous Peoples?				If yes, exclude from financing.
10. Will the project be located in a cultural heritage site?				If yes, exclude from financing.

**a. Anticipated subproject impacts on Indigenous Peoples**

Subproject Component/ Activity/ Output	Anticipated Positive Effect	Anticipated Negative Effect
1.		
2.		
3.		
4.		
5.		

**INDIGENOUS PEOPLES  
IMPACT CATEGORY**

- Category A** Significant Impact <sup>2</sup>
- Category B** Limited Impact
- Category C** No impact

Prepared by:  
Name and Signature  
Designation:  
Date:  
Approved by:  
Name and Signature  
Designation:  
Date:

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<sup>2</sup> The significance of impacts on Indigenous Peoples is determined by assessing (i) the magnitude of impact in terms of (a) customary rights of use and access to land and natural resources; (b) socioeconomic status; (c) cultural and communal integrity; (d) health, education, livelihood, and social security status; and (e) the recognition of indigenous knowledge; and (ii) the level of vulnerability of the affected Indigenous Peoples community.

**SUBPROJECT SCREENING CHECKLIST FOR MICROFINANCE ORGANIZATIONS:  
ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT CRITERIA**

SCREENING QUESTIONS	Yes	No	REMARKS
<b>A. Compliance with national laws and/or regulations (for existing SMEs)</b> Is the subproject in breach of any applicable government environmental, health, safety or social laws or regulations?	<input type="checkbox"/>	<input type="checkbox"/>	
<b>B. ADB's Prohibited Investment Activity List</b> Is any of the subproject activities included in ADB's list of prohibited investment activities in Appendix 2?	<input type="checkbox"/>	<input type="checkbox"/>	
<b>C. Subprojects with more than minimal environmental impacts.</b> Is the subproject proposed for financing have a potential for medium and high environmental impacts (all subprojects having EA Categories I, II, and III) ?	<input type="checkbox"/>	<input type="checkbox"/>	
<b>D. Social safeguards screening lists</b> Is the subproject not in compliance with the social safeguards screening checklists below	<input type="checkbox"/>	<input type="checkbox"/>	

Notes: (i) The Remarks field can be used to comment on screening questions. Such comments can, for example, refer to the availability of clearance, permits, or licenses currently being requested from the concerned local government agency, or clarify that MSME is not substantially involved in production of or trade in alcoholic beverages, or inform that project is located at xx km distance from a specially protected area. (ii) If the answer to questions A, B, C, and D is "no", the MFO may proceed with the subproject.

**SOCIAL SAFEGUARDS SCREENING CHECKLISTS**

**C. Involuntary Resettlement Impact Checklist**

Screening Questions	Yes	No	Not Known	Remarks
1. Will there be land acquisition using eminent domain law?				If yes, exclude from financing.
2. Will there be permanent or temporary loss of shelter and residential land due to land acquisition?				If yes, exclude from financing.
3. Will there be permanent or temporary loss of agricultural and other productive assets due to land acquisition?				If yes, exclude from financing.
4. Will there be losses of crops, trees, and fixed assets due to land acquisition?				If yes, exclude from financing.
5. Will there be permanent or temporary loss of businesses or enterprises due to land acquisition?				If yes, exclude from financing.
6. Will there be permanent or temporary loss of income sources and means of livelihoods due to land acquisition?				If yes, exclude from financing.
7. If land or private property is purchased through negotiated settlement or willing buyer-willing seller, will it result in the permanent or temporary removal or displacement of renters, or leaseholders?				If yes, exclude from financing.

Screening Questions	Yes	No	Not Known	Remarks
8. If land or private property is purchased through negotiated settlement or willing buyer-willing seller, will it result in the permanent or temporary removal or displacement of informal land-users (people without legal rights on the land) or squatters?				If yes exclude from financing.
9. Will the project involve any permanent or temporary restrictions in land use or access to legally designated parks or protected areas and cause people or any community to lose access to natural resources, <u>traditional habitats</u> , communal land, or communal facilities?				If yes, exclude from financing.
10. Will the project use government land or any public land or property, which will require the permanent or temporary removal of informal occupants or users (residential or economic)?				If yes, exclude from financing.

**INVOLUNTARY RESETTLEMENT IMPACT Category**

- Category A** Significant Impact <sup>3</sup> exclude from financing
- Category B** Limited Impact exclude from financing
- Category C** No involuntary resettlement impacts impact ( only these subprojects will be allowed for financing)

Prepared by:  
 Name and Signature  
 Designation:  
 Date:  
 Approved by:  
 Name and Signature  
 Designation:  
 Date:

<sup>3</sup> Involuntary resettlement means physical or economic displacement as a result of land acquisition or involuntary restrictions on land use or on access to legally designated parks and protected areas. Involuntary resettlement is considered significant if 200 or more persons will experience major impacts, which are defined as (i) being physically displaced from housing, or (ii) losing 10% or more of their productive assets (income generating).

## ADB'S PROHIBITED INVESTMENT ACTIVITIES LIST

The following do not qualify for Asian Development Bank financing:

- (i) production or activities involving harmful or exploitative forms of forced labor<sup>1</sup> or child labor;<sup>2</sup>
- (ii) production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phaseouts or bans, such as (a) pharmaceuticals,<sup>3</sup> pesticides, and herbicides,<sup>4</sup> (b) ozone-depleting substances,<sup>5</sup> (c) polychlorinated biphenyls<sup>6</sup> and other hazardous chemicals,<sup>7</sup> (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora,<sup>8</sup> and (e) transboundary trade in waste or waste products;<sup>9</sup>
- (iii) production of or trade in weapons and munitions, including paramilitary materials;
- (iv) production of or trade in alcoholic beverages, excluding beer and wine;<sup>10</sup>
- (v) production of or trade in tobacco;<sup>10</sup>
- (vi) gambling, casinos, and equivalent enterprises;<sup>11</sup>
- (vii) production of or trade in radioactive materials,<sup>12</sup> including nuclear reactors and components thereof;
- (viii) production of, trade in, or use of unbonded asbestos fibers;<sup>13</sup>
- (ix) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests; and
- (x) marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.

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<sup>1</sup> Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

<sup>2</sup> Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" ([www.ilo.org](http://www.ilo.org)).

<sup>3</sup> A list of pharmaceutical products subject to phaseouts or bans is available at <http://www.who.int>

<sup>4</sup> A list of pesticides and herbicides subject to phaseouts or bans is available at <http://www.pic.int>

<sup>5</sup> A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phaseout dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>

<sup>6</sup> A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

<sup>7</sup> A list of hazardous chemicals is available at <http://www.pic.int>

<sup>8</sup> A list is available at <http://www.cites.org>

<sup>9</sup> As defined by the Basel Convention; see <http://www.basel.int>

<sup>10</sup> This does not apply to qualified SME borrowers who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a qualified SME borrower's primary operations.

<sup>11</sup> This does not apply to qualified SME borrowers who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a qualified SME borrower's primary operations.

<sup>12</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and adequately shielded.

<sup>13</sup> This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

## SANITARY CLASSIFICATION OF INDUSTRIAL FACILITIES: CLASS 1 AND 2 OF HAZARD

(Based on Sanitary Rules “Sanitary and Epidemiologic Requirements on Establishing Sanitary Protection Zone of Industrial Facilities”)

<b>1. Chemical industry</b>			
	Class I of hazard		Class II of hazard
1	production of bound nitrogen (ammonia, nitric acid, nitrogen and other fertilizers)	1	production of bromine, semiproducts and products on its base (organic, inorganic)
2	production of products and semi-products dye making and dye-using industry of benzene and ester series — aniline, nitrobenzene, nitroaniline, alkylbenzene, nitrochlorobenzene, phenol, acetone, chlorobenzene and others	2	production of gases (coal gas, butane enriched water gas, producer gas, oil gas);
3	3) production of semiproducts naphthalene and anthracene series — beta-naphthol, H-acid, phenyl peri acid, anthraquinone, phthalic anhydride and others	3	sites of underground coal gasification
4	production of cellulose and semi-cellulose by sulfite and bisulfite, or monosulfite method based on combustion of sulfur or other sulfur-containing materials, as well as production of cellulose through kraft process (sulfate cellulose)	4	production of organic solvents and oils (benzene, toluene, xylene, naphthol, cresol, anthracene, phenanthrene, acridine, carbazole and others)
5	production of chlorine by electrolysis, semi-products and products based on chlorine;	5	processing facilities for coal and coal-based products (tar pitch, coal-tar and others)
6	production of rare metals by chlorination (titanium magnesium, magnesium, and others)	6	facilities for chemical processing of peat
7	production of artificial and synthetic fibers (viscose, Capron, Lavsan, Nitron и Cellophane)	7	production of sulfuric acid, oleum, sulfurous gas
8	production of dimethyl terephthalate	8	production of hydrochloric acid
9	production of caprolactam;	9	production of synthetic ethanol by sulfuric-acid process or direct hydration. Production of phosgene or phosgene based products pyrophores and others
10	production of carbon bisulfide	10	production of acids: aminoenanthic, aminoundecanoic, amino pelargonic, thiodipropionic, isophthalic
11	production of products and semiproducts for synthetic polymer materials	11	production of sodium nitrite, thionyl chloride, ammonia carbonates, ammonia carbonate
12	production of arsenic and its compounds;	12	production of dimethyl formamide
13	processing of oil, associated and natural gas	13	production of ethyl fluid
14	production of picric acid	14	production of catalysts
15	production of fluorine, hydrogen fluoride, semiproducts and products on their basis (organic, inorganic)	15	production of sulfide organic dyes
16	processing of oil shale	16	production of potassium salts
17	production of carbon black	17	production of artificial leather using volatile organic solvents
18	production of phosphorous (yellow, red) and phosphorous organic compounds (thiophos, karbophos, mercaptophos, and others)	18	production of vat dyes of all classes of azotols and azoamines
19	production of superphosphates	19	production of ethylene oxide, propylene

			oxide, polyethylene, polypropylene; copolymers of ethylene with propylene, polymers of higher polyolefins on base of associated gases
20	production of calcium carbide, acetylene from calcium carbide, and acetylene derivatives	20	production of 3,3-di(chlorine methyl) oxacyclobutane, polycarbonate,
21	production of artificial and synthetic elastic gum	21	production of plasticizers
22	production of prussic acid, organic semi-products and products on its base (acetone cyanohydrin, ethylene cyanohydrin, ethers of meta-acrylic and acrylic acids, diisocyanates, and others); production of cyanides (potassium, sodium, copper, and others), Black cyanide, dicyanamide, calcium cyanimide;	22	production of vinyl chloride plastics
23	production of acetylene from hydrocarbon gases and products on its basis	23	sites for tank car cleaning, washing, and steaming (while transporting oil and oil products)
24	production of synthetic pharmaceutical chemicals and medicines	24	production of syndets
25	production of synthetic fatty acids, higher fatty alcohols by direct oxidation	25	production of household chemicals in case of availability of production of raw products
26	production of mercaptans, centralized installation for stanching, odorant warehouses	26	production of boron and its compounds
27	production of chromium, chromic anhydride and salts on their bases	27	production of paraben
28	production of esters	28	production of tar, liquid and volatile distillates from wood, methyl alcohol, acetic acid, turpentine, turpentine oils, acetone, creosote
29	production of phenol-formaldehyde, polyester, epoxy and others artificial resins	29	production of acetic acid
30	production of methionine	30	production of acetyl cellulose including raw materials production, acetic acid and acetic anhydride
31	production of metal carbonyls	31	hydrolysis production based on processing of vegetable raw materials by pentosan compounds
32	production of bitumen and other products from still residue of coal tar, oil, needle (tar, flux oil and others)	32	production of iso-octyle alcohol, butyl aldehyde, butyl acid, vinyl toluene, foam plastic, polyvinyltoluene, polyformaldehyde, regeneration of organic acids (acetic, butyric and others), methylpyrrolidone, polyvinyl pyrrolidone, pentaerythritol, methenamine, formaldehyde
33	production of beryllium	33	production of Caprone and Lavsane fabric
34	production of synthetic alcohols (butyl, propyl, iso-propyl, amyl)		
35	production on hydrometallurgy of tungsten, molybdenum, cobalt		
36	production of feed amino acids (feed lysine, premixes)		
37	production of pesticides		
38	production of ammunition, explosives,		

	warehouses and polygons		
39	production of aliphatic amines (mono-di-three-methyl amines, diethyl-three ethyl amines and others) and products of their basis (Simazine, and others);		
40	dumps, tailings ponds, and sludge reservoirs of chemical plants		
<b>2. Metallurgical, Machine-building, and Metalworking facilities</b>			
	<b>Class I of hazard</b>		<b>Class II of hazard</b>
1	integrated iron and steel works with an annual production of more than 1000000 tons of cast iron and iron	1	cast iron production with total blast furnace volumes from 500 m <sup>3</sup> to 1500 m <sup>3</sup>
2	non-ferrous metal recycling works (copper, lead, zinc) with annual capacity of more than 3000 tons year.	2	integrated iron and steel works with an annual production of up to 1000000 tons of cast iron and iron
3	cast iron production from ores and concentrates with total blast furnace volumes up to 1500 m <sup>3</sup>	3	open-hearth steelmaking, electric smelting, and oxygen steelmaking with workshops on waste processing (milling of Thomas slag and other) with annual production of up to 1,000,000 tons year
4	open-hearth and basic oxygen steelmaking with workshops on waste processing (milling of Thomas slag and other)	4	production of magnesium (by all technologies except chloride)
5	smelting of non-ferrous metals from ore and concentrate (led, tin, copper, nickel)	5	production of iron shaped casting in the amount of not more than 100,000 tons/year
6	production of aluminum by electrolysis of melted aluminum salts (alum earth)	6	coke burnoff production
7	production of cast-iron alloy	7	manufacturing of lead batteries
8	production of ferrous-based alloys	8	production and maintenance of aircrafts
9	facilities for ferrous and non-ferrous ore agglomeration and pyritic slag	9	facilities of automobile industry
10	production of alum earth (aluminum oxide)	10	production of steelwork
11	production of mercury and mercury-containing devices (mercury arch rectifier, thermometers, lamps);	11	production of railroad cars with casting and painting shops
12	coke and by-product process	12	reworking of non-ferrous metals (copper, led, zinc and others) in the amount of from 2000 to 3000 per year
<b>3. Ore mining, mining and quarrying of non-ore minerals, and natural gas</b>			
	<b>Class I of hazard</b>		<b>Class II of hazard</b>
1	quarries of non-metallic construction materials	1	hydraulic mines and ore-processing plants with wet separation
2	mining and concentration plants	2	waste dumps and sludge reservoirs in the process of mining of iron ore coal
3	production of oil with hydrogen sulfide emission from 0.5 to 1 ton per day and high content of volatile organic compounds	3	production of oil with hydrogen sulfide emission of up to 0.5 tons per day and low content of volatile organic compounds
4	natural gas production	4	facilities for mining phosphate rocks, apatite, pyrites (without chemical treatment), iron ore
5	facilities for mining complex ore (led, mercury, arsenic, beryllium, and manganese) and rocks of VIII-XI categories by open mining	5	facilities for mining metals and metalloids by shaft method, with exception of led ore, mercury, arsenic, and manganese

6	asbestos mining	6	facilities for mining of rocks of VI - VII categories: dolomites, magnesites, tar, and asphalt by open mining
7	facilities for mining of iron ore and rocks by open mining	7	facilities for mining of oil shale
8	gypsum mining	8	peat extraction
9	facilities for mining of metalloids by open mining	9	production of moulded peat and coal
10	waste dumps, tailings ponds and sludge reservoirs in the process of extraction of non-ferrous metal ores	10	facilities for extraction of rock salt
11	open-pit coal mines, coal, brown coal and other coals mining	11	spoil tips without measures against spontaneous subterranean combustion
		12	facilities (quarries) for extraction of marble, gravel, sand, clay by open mining using explosives
<b>4. Construction industry</b>			
	Class I of hazard		Class II of hazard
1	cement production (Portland cement – iron Portland cement – pozzolan cement and others), as well as local cements (brick-cement, Roman cement, gypsum slag cement, phosphorous slag and others);		lime production (plants with blast and rotary furnaces)
2	production of magnesite, dolomite, and shamotte with roasting in blast, rotary and other furnaces		production of art glass, casting, and lead crystal
3	production of asbestos and its products	3	production of glass and basalt wool, and slag wool
4	production of asphalt concrete on stationary plants	4	production of broken stone, gravel, and sand; beneficiation of quartz sand
		5	production of pitched paper and tar paper
		6	production of ferrites
		7	production of construction polymer materials
		8	manufacturing of bricks (red, and lime and sand bricks, ceramic and refractory products)
		9	transfer of bulky goods (coal, ore) by crane
		11	integrated house-building factory
		12	production of reinforced concrete structures
<b>5. Wood processing</b>			
	Class I of hazard		Class II of hazard
1	wood chemical industry (chemical processing of wood, and charcoal)	1	wood preservation treatment
		2	manufacturing and impregnation plants for railway sleepers
		3	production of goods from wood fiber: pressed wood, wood fiberboard using synthetic resins as a binder
		4	woodworking industry
<b>6. Textile manufacture and consumer goods manufacture</b>			
	Class I of hazard		Class II of hazard
1	facilities for initial processing of cotton with workshops for seed treatment by organic mercurials	1	facilities for continuous proofing of textile and paper by oil, oil-asphalt, Bakelite and other lacquers

2	production of leather substitute and sheeting, oilcloth using volatile solvents	2	facilities for proofing and processing textile (faux leather, nitrocellulose-treated cloth) by chemical substances excluding carbon sulfur
3	facilities for chemical proofing and processing textile by carbon sulfur	3	production of reinforced single-sided polyvinylchloride film, films of blended polymers, rubber for shoe sole, and regenerator using solvents
		4	spinning and weaving production
<b>7. Processing of animal products</b>			
	Class I of hazard		Class II of hazard
1	glue boiling factories producing glue from skin residues, полевой и свалочной кости and others animal waste и refuse	1	rendering works
2	production of technical gelatin from bones, membranes, remains of skin, and other animal waste and refuse with their storage in warehouses	2	central warehouses for salvage operations
3	conservation plants for disposal of fallen stock and fish, their parts and other animal fats and refuse (rendering, production of animal feed, fertilizer);		
4	bone burning and crushing plants		
<b>8. Processing of food and flavoring substances</b>			
	Class I of hazard		Class II of hazard
1	facilities for fat rendering from marine animals		beat sugar factories
2	facilities for flushing of natural casing		fisheries
3	cheese dairies		mills more than 2 tons per hour, peeling mill, scouring mills and feed milling plants
4	meat smoking plant		brewing and yeast manufacture
5	fish smoking plant		production of albumen, dextrin, glucose, molasses.
<b>9. Microbiological industry</b>			
	Class I of hazard		Class II of hazard
1	production of protein-vitamin concentrate from hydrocarbons (oil paraffines, ethanol, methanol, natural gas).	1	production of fodder yeast, furfural, and alcohol from woods and agricultural waste by hydrolysis
2	facilities using microorganisms of 1-2 classes of pathogenicity	2	production of nutritional yeast
3	manufacturing of in-feed bacitracin	3	manufacturing of amino acids by microbiological synthesis
4	manufacturing of pectines from herbal raw materials	4	manufacturing of biopharmaceuticals (Trichogramma and others) for protection of agricultural plants
		5	manufacturing of crop protection agents by microbiological synthesis
		6	manufacturing of antibiotics
		7	production of enzymes of various purposes by surface culture methods
<b>10. Agricultural facilities</b>			
	Class I of hazard		Class II of hazard
1	pig farm with a capacity of from 100 to 5000 or more places	1	livestock raising farm with from 1200 to 5000 cows and 6000 places for rearers
2	poultry farm with more than 400000 layers, or more than 3000000 broilers per year	2	fur farm (mink, fox and others) with more than 100 places

3	livestock raising farm with more than 5000 places	3	poultry farm with from 100000 to 400000 layers and from 1000000 to 3000000 broilers per year
4	outdoor manure and dung banks	4	outdoor storages of biologically treated liquid fraction of dung
5	warehouses for agricultural chemicals with a capacity of more than 500 tons	5	indoor manure and dung banks
6	meat processing facilities (cattle, sheep and goats), meat-packing plants, including pre-slaughter handling sites with a capacity of up to 3 days livestock	6	facilities for seed treatment and dressing
		7	warehouses for liquid ammonia
<b>11. Sanitary-Engineering Facilities, transport Infrastructure, communal facilities</b>			
	Class I of hazard		Class II of hazard
1	clearing fields	1	central warehouses for collection of disposable waste
2	animal burial sites with burial in pits	2	areas for greenhouse using garbage
3	plants for disposal of fallen stock	3	composting garbage without dung and fecal
4	car cleaning and washing areas and stations after transportation of cattle (deodoration and washing stations)	4	incinerator, waste sorting and waste processing plants up to 40 tons per year
5	sewage disposal areas	5	facilities for disposal of medical waste from 120 kilogram per hour and higher, disposal sites for dumping, neutralization, and burial of toxic industrial and household waste of 3 and 4 Class of hazard
6	sites for composting solid waste and sewage of a settlement (central)		
7	earlier anthrax burial sites, animal disposal sites with burial in ditches with biological chambers		
8	sanitary dump station		
9	clearing fields		
10	disposal sites for dumping, neutralization, and burial of toxic industrial and household waste of 1 and 2 Class of hazard		
11	disposal plants for animal carcasses		
12	incinerator, waste sorting and waste processing plants from 40 tons per year		
<b>12. Warehouses, terminals and transshipment and bulk areas, fumigation of cargo, ships, railway transport, gas disinfection, rat control and disinfection</b>			
	Class I of hazard		Class II of hazard
1	open warehouses and dump area for apatite concentrate, phosphorite meal, cement, and other dust generating cargo with cargo turn-over more than 150000 t/year	1	open warehouses and dump area for apatite concentrate, phosphorite meal, cement, and other dust generating cargo with cargo turn-over less than 150000 t/year
2	transshipment and storage points for liquid chemical goods and liquefied gases (methane, propane, ammonia and others), industrial halogen compounds, sulfur, nitrogen, hydrogen carbons (methanol, benzene, toluene and others), alcohols, aldehydes and other compounds	2	open warehouses and transshipment points for coal
3	washing and steaming stations, pest control and washing facilities, vessel and tank	3	open warehouses and transshipment points for mineral fertilizers, asbestos, lime, ores

	cleaning facilities, treatment plants for collection of ballast and flushing oil containing water from specialized vessels;		(except radioactive) and other minerals (sulfur, iron pyrites, gypsum and others)
4	terminals and areas for fumigation of goods and ships, gas disinfection, rat control and pest control	4	transshipment and storage points for crude oil, bitumen, residual oil and others viscous oil products and chemical goods
		5	open and closed warehouses and transshipment areas of pitch and pitch containing goods. Storage and transshipment area for wood sleepers impregnated by preservatives
<b>13. Production of electric and thermal energy from combustion of mineral fuels</b>			
	Class I of hazard		Class II of hazard
1	thermal power plants with equivalent electric output of 600 megawatt and higher using coal and oil residual as a fuel	1	thermal power plants with equivalent electric output of 600 megawatt and higher using gas and gas-oil residual fuel
		2	thermal power plants with equivalent electric output of up to 600 megawatt and also combined heat and power stations, and district boiler stations with heat capacity of 200 gigacalories and higher using coal and oil residual as a fuel

**LIST OF ACTIVITIES THAT ARE LIKELY TO CAUSE SIGNIFICANT ADVERSE  
TRANSBOUNDARY IMPACT (CONVENTION ON ENVIRONMENTAL IMPACT  
ASSESSMENT IN A TRANSBOUNDARY CONTEXT [ESPOO, 1991])**

1. Crude oil refineries (excluding undertakings manufacturing only lubricants from crude oil) and installations for the gasification and liquefaction of 500 metric tons or more of coal or bituminous shale per day.
2. (a) Thermal power stations and other combustion installations with a heat output of 300 megawatts or more, and  
(b) Nuclear power stations and other nuclear reactors, including the dismantling or decommissioning of such power stations or reactors 1/ (except research installations for the production and conversion of fissionable and fertile materials, whose maximum power does not exceed 1 kilowatt continuous thermal load).
3. (a) Installations for the reprocessing of irradiated nuclear fuel;  
(b) Installations designed:
  - For the production or enrichment of nuclear fuel;
  - For the processing of irradiated nuclear fuel or high-level radioactive waste;
  - For the final disposal of irradiated nuclear fuel;
  - Solely for the final disposal of radioactive waste; or
  - Solely for the storage (planned for more than 10 years) of irradiated nuclear fuels or radioactive waste in a different site than the production site.
4. Major installations for the initial smelting of cast iron and steel and for the production of non-ferrous metals.
5. Installations for the extraction of asbestos and for the processing and transformation of asbestos and products containing asbestos: for asbestos-cement products, with an annual production of more than 20,000 metric tons finished product; for friction material, with an annual production of more than 50 metric tons finished product; and for other asbestos utilization of more than 200 metric tons per year.
6. Integrated chemical installations.
7. (a) Construction of motorways, express roads 2/ and lines for long-distance railway traffic and of airports 3/ with a basic runway length of 2,100 meters or more;  
(b) Construction of a new road of four or more lanes, or realignment and/or widening of an existing road of two lanes or less so as to provide four or more lanes, where such new road, or realigned and/or widened section of road, would be 10 km or more in a continuous length.
8. Large-diameter pipelines for the transport of oil, gas or chemicals.
9. Trading ports and also inland waterways and ports for inland-waterway traffic which permit the passage of vessels of over 1,350 metric tons.
10. (a) Waste-disposal installations for the incineration, chemical treatment or landfill of toxic and dangerous wastes;

- (b) Waste-disposal installations for the incineration or chemical treatment of non-hazardous waste with a capacity exceeding 100 metric tons per day.
11. Large dams and reservoirs.
  12. Groundwater abstraction activities or artificial groundwater recharge schemes where the annual volume of water to be abstracted or recharged amounts to 10 million cubic meters or more.
  13. Pulp, paper and board manufacturing of 200 air-dried metric tons or more per day.
  14. Major quarries, mining, on-site extraction and processing of metal ores or coal.
  15. Offshore hydrocarbon production. Extraction of petroleum and natural gas for commercial purposes where the amount extracted exceeds 500 metric tons/day in the case of petroleum and 500 000 cubic meters/day in the case of gas.
  16. Major storage facilities for petroleum, petrochemical and chemical products.
  17. Deforestation of large areas.
  18. (a) Works for the transfer of water resources between river basins where this transfer aims at preventing possible shortages of water and where the amount of water transferred exceeds 100 million cubic meters/year; and  
(b) In all other cases, works for the transfer of water resources between river basins where the multi-annual average flow of the basin of abstraction exceeds 2 000 million cubic meters/year and where the amount of water transferred exceeds 5 per cent of this flow.
- In both cases transfers of piped drinking water are excluded.
19. Waste-water treatment plants with a capacity exceeding 150,000 population equivalent.
  20. Installations for the intensive rearing of poultry or pigs with more than:
    - 85,000 places for broilers;
    - 60,000 places for hens;
    - 3,000 places for production pigs (over 30 kg); or
    - 900 places for sows.
  21. Construction of overhead electrical power lines with a voltage of 220 kV or more and a length of more than 15 km.
  22. Major installations for the harnessing of wind power for energy production (wind farms).