

ENVIRONMENT AND SOCIAL MANAGEMENT SYSTEM: AUDIT FINDINGS AND DETAILS OF ARRANGEMENT

1. The project is a general corporate finance transaction involving implementation of phase 2 of the Electric Networks of Armenia Closed Joint-Stock Company (ENA) investment program.¹ Activities under phase 2 are similar to those under phase 1 and involve rehabilitating, improving the efficiency of, and augmenting ENA's electricity distribution network. However, whereas phase 1 focused on the capital city of Yerevan, phase 2 focuses on the provinces of Armenia. An external and qualified firm (Confidential information redacted.) was commissioned to conduct a corporate audit of ENA's environment and social management system (ESMS) and the company's past and current performance against the objectives, principles, and requirements of the Asian Development Bank (ADB) Safeguard Policy Statement (2009). The audit included a review and assessment of ENA's current ESMS implementation across the company through a combination of virtual interviews and representative site visits,² desk study, and data analysis. ADB engaged a local staff consultant to conduct safeguards due diligence on behalf of ADB.

2. The impacts under phase 2 will not be substantially different than the impacts under phase 1. The works involve relatively small-scale rehabilitation and upgrading works. ENA's existing ESMS is adequate to manage phase 2 impacts.

A. Audit Findings and Recommendations

1. Corporate Policies

3. ENA's existing ESMS was a condition for loan disbursement under phase 1. The ESMS includes (i) an integrated management (quality, environmental, occupational health and safety, information security, and energy) policy; (ii) risk assessment and management procedures that contain instructions with regards to environment and social (E&S) screening, the environmental impact assessment, and development of corrective action plans; (iii) environmental operational controls that cover various environmental, health, and safety (EHS) subplans; (iv) monitoring plans and procedures, including internal audit; (v) complaint and grievance mechanism, and (vi) appointment of ESMS staff at headquarters and branches.

2. Environmental Safeguards

4. ENA developed and used the 'Rapid Environmental and Social Assessment' form, which was established for the ESMS screening process. This form takes Armenia's regulatory requirements as well as ADB requirements into account in screening activities under its investment program. Since most subprojects under phase 1 are of a similar nature, screening is done at a high level and not thoroughly screened. Based on phase 1, it was established that certain activities can outright be classified as category C for environment (e.g., replacement of meters, purchase of computers and software). However, activities assessed to have potentially significant impacts (e.g., rehabilitation of distribution lines and substations) require a special screening form to identify potential impacts and risks (e.g., risk of specific hazardous waste exposure, community safety risks). In such cases, ENA must automatically undertake appropriate mitigation measures (e.g., ENA must follow an established procedure for cleaning up spills and leaks, disposing of contaminated waste, and incorporating safety measures in powerline design).

¹ A closed joint-stock company is a legal entity, commonly found in the former Soviet Union, whose shares are distributed among a limited number of shareholders with limited liability.

² As of April 2021, international travel to Armenia remains restricted, which means site visits must be done virtually.

Such measures must also be included in the contractor agreements. The screening forms should also include sections for screening against activities that could be classified as category A—e.g., works in protected areas—and sections that address biodiversity concerns.

5. The audit of existing facilities identified gaps in the implementation of ENA's existing EHS plans and procedures on hazardous waste management, occupational health and safety (OHS), community safety management, and contractor management. These gaps were also raised by the lenders' (E&S) advisor as part of its annual environmental and social monitoring for the lenders and shared with ENA, but remain only partially compliant to date. There is a need to enhance monitoring and evaluation of subproject impacts and ensure that the ESMS and all EHS subplans are followed systematically. ENA should ensure that its Integrated Management System Department as well as OHS staff at branch offices regularly monitor sites and conduct site visits to strengthen oversight of ENA's staff and contractor activities. ENA's OHS team should have properly investigated, tracked, prioritized for resolution, and documented all accidents and incidents.

6. Hazardous waste management was a key issue identified during the phase 1 audit since the country has no licensed hazardous waste disposal facility. Lenders' phase 1 due diligence recommended that ENA construct and operate its own licensed hazardous waste storage facility (HSWF) to service all of its operations. ENA then developed a HSWF in line with national requirements, which was later supported under the phase 1 investment program. An external expert was commissioned to undertake an audit of the facility and identify corrective actions to ensure that the facility was aligned with good industry practices. The corrective actions were to be addressed before the HSWF became fully operational; however, the audit indicated that many corrective actions established during the 2018 and 2019 lenders' E&S advisor's monitoring reviews, remained outstanding and should be expedited as a condition for the first loan disbursement under phase 2. The audit also noted that the basic emergency plan available at the HSWF did not provide coordinated courses of action to be followed in case of fire, explosion, or release of hazardous waste. ENA will develop an emergency contingency plan for the HSWF that sets out planned actions.

7. An oil management plan was prepared under phase 1 as part of the ESMS to address risks from post-Soviet transformers, which the ESMS noted could potentially contain polychlorinated biphenyls (PCBs); however, there were no local facilities to conduct PCB testing, making implementation of the plan challenging. The Ministry of Ecology has now established a PCB testing facility. ENA signed a contract with the Ministry of Ecology in September 2019 to test 1,800 transformers, but testing progress remains slow, exacerbated by the coronavirus disease (COVID-19) crisis. ENA is also working to improve management of leaks and spills from transformers at 10-kilovolt and 6-kilovolt (kV) substations. According to ENA, all transformers in 35 to 110 kV substations are required by the technical regulator to have underground oil-spill containment tanks; ADB local staff consultant verified these to be present in representative sites visited.

8. Biodiversity risks were identified in sample subprojects under phase 2 where existing facilities were near important bird areas. Mitigation of biodiversity risks will be carried out in a stepwise manner and will be included in screening of future works near protected and/or ecologically sensitive areas. Appropriate mitigation measures (e.g., bird flight deflectors, bird safe power pole configurations, and safe spacing between earthed and live components) will be determined via risk assessment and consultation with specialists.

3. Organizational Structure and Staffing

9. ENA's Environmental Department comprises one employee (an environmental coordinator) and falls under the direction of ENA's Health and Safety Department. ENA's Health and Safety Department is composed of nine employees that work in fire protection, environmental protection, maintenance, and safety. Although these employees undertake environmental, social, health, and safety tasks in the company, from headquarters to branches, there is a disconnect on how some works are undertaken—a major weakness in an organization of this scale. The capacity of the environment expert should be strengthened to apply a more systematic approach to implementing the ESMS. ENA should also review environmental, social, and OHS capacity at all branches and provide additional EHS training and staffing. One Board member should also be assigned to oversee E&S issues and ensure that E&S mandates are integrated into the company's strategy and provide clear E&S leadership and direction.

4. Social Safeguards and Other Social Dimensions

10. The audit confirmed that phase 1 project activities did not require any land acquisition and did not cause any involuntary resettlement impacts. Project activities under phase 2 are anticipated to be similar to those under phase 1. They involve numerous relatively small-scale rehabilitation and upgrading works. According to ENA, the planned works will not require acquisition of private property and will not cause any involuntary resettlement impacts. All planned works (particularly replacement of aerial lines) will be carried out within the existing right-of-way, or on government lands after obtaining the necessary clearances and permits. Although no involuntary resettlement impacts are foreseen, the audit undertaken for the project indicated the presence of some structures, constructed in early 1990s, that are informally located within the ENA safety zones and/or right-of-way.³ ENA will prepare a registry and carry out a risk assessment of these informal structures. Screening of project investments will flag potential involuntary resettlement impacts in view of safety risks. The existing Involuntary Resettlement Management Procedure of ENA will be enhanced to ensure compliance with ADB requirements in addressing potential involuntary resettlement impacts. Indigenous peoples as defined by the Safeguard Policy Statement (2009) are not present within the footprints of ENA's facilities and distribution networks. Physical or economic displacement of indigenous peoples is not envisioned.

11. The existing ENA Stakeholder Engagement Plan (SEP) was developed for phase 1. It is focused on disclosure and consultation for environmental assessment purposes—for example, informing stakeholders and the public about project activities that may impact them, or providing a mechanism for stakeholders and the public to raise concerns over environmental and social impacts. The SEP has been updated for phase 2 to align with the requirements of ADB and other lenders. Enhancements include routine community engagement related to site safety during operations; and development of a community awareness campaign related to electrical safety, to be rolled out through a range of media. One of the recommendations of the audit team and part of the Environmental and Social Action Plan for discussion with ENA management is to engage a social specialist to manage SEP implementation and other social-related aspects of the project.

12. ENA's existing grievance redress procedure was developed to provide a transparent and credible method to receive, assess, and address integrated management system-related grievances raised by workers, contractors, affected communities, and other stakeholders in a timely manner. However, the procedure needs to be revised to include provisions on responding to and acting on anonymous grievances, including a mechanism for responding to harassment

³ Most of these structures are not within the area where ENA investment activities are located.

and gender-based violence. ENA's contractor management procedure will also be updated align it with ENA's updated Human Resources Management Policy and grievance redress procedure. An awareness raising campaign will be implemented and employees shall be informed on harassment and gender-based violence, including opportunities to lodge anonymous grievances. The quarterly reports submitted by ENA to the Public Services Regulatory Commission will include summary information on grievances.

13. The audit also noted that grievances and complaints from the community related to temporary impacts of the project during implementation are not being well managed through the grievance redress mechanism (GRM). The GRM needs to be enhanced to establish a process that records grievances and complaints filed by community members through ENA's online system, as well as those made at the local level and managed through municipalities. The GRM should include information on the status of complaints, track resolution of issues such as payments for temporary damages or losses caused by ENA or its contractors, and properly document every grievance made.

14. ENA had 6,825 staff, including Board members, as of the end of December 2020. A total of 841 staff (12%) were female and 5,984 (88%) were male. On top of its permanent staff, the company in 2020 also engaged 37 contracted workers (32 men and five women) and 62 seasonal/temporary workers (50 men and 12 women). Although 447 new employees (403 men and 44 women) were hired in 2020, 494 employees were terminated (462 men and 32 women). ENA projections indicate that it will not employ more than 6,426 staff during for 2025–2027, with its workforce declining to 6,146 staff by 2028. The projected decline is mostly related to modernization of ENA's infrastructure and improved operations efficiency. Despite these projections, the environment and social compliance audit undertaken by an external qualified firm indicated that the ENA Human Resources Management Policy contains no specific provisions on dismissal of employees. In this regard, ENA will develop a Retrenchment Policy and Retrenchment Management Plan compliant with national labor laws and ADB requirements. The policy and plan will outline the commitment of the company in terms of processes and worker entitlements in the event of retrenchment.

B. Corrective Actions

15. The findings of the corporate audit undertaken by an external qualified firm of ENA's ESMS and corresponding corrective actions were compiled into an Environmental and Social Action Plan. The majority of the findings are related to environmental and social commitments from phase 1, including some additional corrective actions. ENA has agreed to implement the Environmental and Social Action Plan as a condition for disbursement of the phase 2 loan. A summary of the action items for ENA follows:

- (i) Enhance fit-for-purpose E&S screening forms and procedures to include screening for biodiversity risks and potential involuntary resettlement impacts because of safety risks;
- (ii) Strengthen Board-level oversight of E&S risk management and build staff capacity at headquarters and among branch managers through EHS training;
- (iii) Improve tracking and management of hazardous wastes and improve and expand PCB testing program;
- (iv) Complete corrective actions specified for the HSWF and develop an emergency contingency plan;
- (v) Update the contractor management procedure to improve contractor's compliance with ESMS and EHS plans and procedures;

- (vi) Update the OHS management and monitoring arrangements to align with good industry practices and manage the nature and scale of OHS hazards and risks, particularly electrical safety;
- (vii) Improve work-site safety for nearby local communities, provide detailed analysis of incidents, and increase community engagement;
- (viii) Update and enhance the grievance redress procedure;
- (ix) Enhance the existing Involuntary Resettlement Management Procedure;
- (x) Develop a Retrenchment Policy and Retrenchment Management Plan;
- (xi) Engage a social specialist to manage SEP implementation and other social-related aspects of the project; and
- (xii) Improve the ESMS implementation monitoring reports that ENA submits to ADB for disclosure on ADB's website.

16. Environmental and Social Action Plan progress will be tracked by the lender's E&S advisor and ENA will also update ADB on progress through periodic ESMS monitoring reports.