

LIVESTOCK VALUE CHAIN DEVELOPMENT PROJECT

CONSULTING SERVICES FOR COMPLIANCE REVIEW OF ENVIRONMENT AND SOCIAL MANAGEMENT SYSTEM (ESMS) IMPLEMENTATION, AND THE TRAINING ON ENVIRONMENTAL AND SOCIAL SCREENING



Compliance Review of Environmental and Social Management System (ESMS)

Prepared by: **ECO-SPECTRI LTD (Georgia)**
& **EASTGATE LLC (Uzbekistan)**

February 2023

Table of Contents

LIST OF PARTICIPATING FINANCIAL INSTITUTES (PFIs)	4
I. INTRODUCTION	5
A. Scope of the Report	5
B. Project Background	5
C. Purpose and Objectives of the Technical Assistance	6
D. Scope of services and tasks of the consultant.....	7
E. Summary of Activities and Project Progress	8
II. TECHNICAL APPROACH AND METHODOLOGY	10
III. COMPLIANCE REVIEW OF ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEMS	12
A. Introduction.....	12
IV. VISITS TO THE PFIs AND THEIR BRANCHES	15
A. Introduction	15
B. Organization Capacity	17
C. Screening the Projects	18
D. Contracts	19
E. Monitoring of Subprojects.....	20
F. Site Visits	21
V. Analysis of annual environmental and social reports prepared by PFI	24
A. Ipoteka Bank.....	24
B. Qishloq Qurilish Bank.....	25
C. Microcreditbank	25
D. Uzpromstroy Bank.....	26
E. Turonbank.....	26
F. Xalq Bank	27
VI. CONCLUSIONS AND RECOMMENDATIONS	28
A. Conclusions	28
B. Recommendations	29
Appendix 1. Applicable Environmental and Social Requirements	30
Appendix 2. Environment Screening Checklist's	36
Appendix 3. Involuntary Resettlement Screening/Categorization Checklist	42

**Appendix 4. Suggested Site Inspection Monitoring Checklist for Category “B”
Subprojects During Implementation43**

ABBREVIATIONS

ADB	-	Asian Development Bank
ESMS	-	Environmental and Social Management Systems
FCL	-	Foreign Currency Loans
FI	-	Financial Intermediaries
PIAL	-	Prohibited Investment Activities List
PMO	-	Project Management Office
SEE	-	State Environmental Expertise
SCVLD	-	State Committee of Veterinary and Livestock Development
SPS	-	Safeguard Policy Statement
TA	-	Technical Assistance

LIST OF PARTICIPATING FINANCIAL INSTITUTES (PFIs)

IPB		Joint Stock Commercial Mortgage "Ipoteka Bank"
MB		Joint Stock Commercial "Microcredit Bank"
QQB		Joint Stock Commercial "Qishloq Qurilish Bank"
TRB		Joint Stock Commercial "Turon Bank"
UPSB		Joint Stock Commercial "Uzpromstroy Bank"
XB		Joint Stock Commercial "Xalq Bank"

I. INTRODUCTION

A. Scope of the Report

The “Compliance Review of Environmental and Social Management System” report was prepared for the project: TA-52110-001 UZB: Consulting Services for Compliance Review of Environmental Review of Environment and Social Management System (ESMS) Implementation, and the Training on Environmental and Social Screening for the “Livestock Value Chain Development Project” by Joint Venture (JV) LTD “Eco-Spectri” (Georgia) and “Eastgate” LLC (Uzbekistan). The report addresses the following topics (i) monitoring of the Environmental and Social Management Systems developed by the banks (PFIs) participating in the project: (ii) studied the following documents prepared under the project: screening reports, OVOS reports prepared under sub-projects as required by the national legislation, agreements signed under sub-projects, monitoring reports, and non-compliance reports. (iii) field visits to conduct environmental and social monitoring for high-risk subprojects or any other subprojects, (iv) review of PFIs' annual environmental and social performance reports prior to submission to ADB, and (iv) the SWOT analysis documents prepared by the banks participating in the project (PFIs) will also be studied.

B. Project Background

1. ADB approved a loan for \$150 million (COL) on 25 September 2019 to finance the Project¹. Loan and project agreements were signed on 13 November 2019 and made effective on 2 March 2020. The project executing agency is the State Committee of Veterinary and Livestock Development (SCVLD)²; while six PFIs – Microcredit Bank, Qishloq Qurilish Bank (QQB), Turon Bank, Ipoteka Bank, Uzpromstroy Bank, and Halq Bank are acting as implementing agencies. The project is being implemented in all regions of the Republic of Uzbekistan and in the Republic of Karakalpakstan in the period from 2020 to 2024. The project closing date is 31 December 2024.
2. The project impact will be increased contribution of agriculture to inclusive economic growth, incomes, and employment. The outcome will be increased production and marketing of livestock products. The project has two below outputs.
3. **Output 1: Access to finance in the livestock subsector increased.** The project will provide long-term funds to PFIs to extend sub-loans to eligible sub-borrowers for capital investment. To be eligible, a sub-borrower must be a commercial entity registered under and compliant with Uzbek laws and regulations; must not be a PFI-related party as defined by the Central Bank of Uzbekistan; and must have a maximum asset value of \$50 million equivalent at the time of the application for a sub-loan. Investment subprojects include livestock production, marketing, processing, input supply, and service delivery. The project will improve access to market-based bank finance for producers, processing enterprises,

¹ The loan term is 25 years, including grace period of 5 years, an interest rate of 2% per annum.

² The original EA was the Agency for implementation of projects in the field of agroindustry and food security (UZAIFSA), which was replaced to SCVLD in accordance with Presidential Resolution No. PP-5017 of 3 March 2021.

input suppliers, and service providers in the livestock value chain. As such, it will help increase livestock productivity and sustainability, processing capacity and utilization, and marketing of inputs and livestock products.

The project is supposed to finance about 725 sub-loans extended to livestock development through six PFIs in 2020-2024. PFIs issue sub-loans in local currency to eligible sub-borrowers (farmers and agricultural enterprisers). Sub-loans will have a tenor of up to 10 years and interest rate 17-18%. The maximum sub-loan size is \$5 million.

Output 2: Support services to the livestock subsector improved. The project will facilitate the development of private sector veterinary practices to improve access to clinical veterinary services and animal management and health advice, including the effective use of antimicrobial drugs. Specifically, the project will support the Institute of Veterinary Medicine in Samarkand province to (i) develop and deliver a continuing education program for veterinarians that provide public and private veterinary services, (ii) establish a veterinary association and upgrade a veterinary journal to further enhance professionalism and effective dissemination of veterinary best practices, (iii) establish a private veterinary practice under the auspices of the Institute of Veterinary Medicine as a model for the development of private veterinary service delivery in Uzbekistan, and (iv) replicate the model practice in at least six private veterinary practices in other areas of Uzbekistan. The project will also help develop the capacity of PFIs in developing livestock lending policy and procedures, and credit products; training staff in livestock subsector lending; and implementing an outreach strategy through increased client awareness of bank products and services, and application procedures.

The project was categorized as financial intermediaries (FI) for environment and FI (treated as C) for involuntary resettlement (IR), and indigenous peoples (IP) safeguards.

Project Management. Project Implementation Unit (PIU) was established in December 2019, which is responsible for (i) reviewing and monitoring subprojects implementation, (ii) overseeing project financial audits, and (iii) implementing veterinary services and the capacity development activities of PFIs, including compliance with social and environmental protection measures. PIU will recruit technical experts to support PFIs in developing livestock lending credit policies and procedures, credit products, and outreach strategy.

PFIs established ESMS to be maintained as part of its overall management system and assigned credit officers as an ESMS coordinators. The ESMS follows Uzbekistan's national laws and regulations and ADB's Safeguard Policy Statement 2009.

C. Purpose and Objectives of the Technical Assistance

The primary objective of this technical assistance (TA) is to conduct: (a) the compliance review of environmental and social management system (ESMS) through selection of likely high risk sub-projects; (b) the training for 6 PFIs on environmental and social screening and monitoring of sub-projects; and (c) assist PIU to improve monitoring checklists and the annual ESMS implementation reports to be submitted to ADB.

The target group includes PIU staff responsible for ESMS implementation and six PFIs: Microcredit Bank, Qishloq Qurilish Bank (QQB), Turon Bank, Ipoteka Bank, Uzpromstroy Bank, and Halq Bank.

To achieve this purpose the Joint Venture (JV) LTD “Eco-Spectri” (Georgia) and “Eastgate” LLC (Uzbekistan) (hereinafter “The Consultant”) will provide the services for the: i) Development of needs assessment questionnaires, which will allow identifying the environmental and social problems at PFI’s as part of the overall analysis of ESMS; (ii) Development of the database for the non-compliances and corrective actions identified in the project implementation phase in Uzbekistan and preparing templates of non-compliance reports and corrective action plans; (iii) Identification of training needs and development of a training plan based on the capacity gap assessment; (iv) Preparation of the training curriculum and conduct training sessions in 13 regions with a duration of two days each training session.

D. Scope of services and tasks of the consultant

TA Project implementation is supported by consulting services amounting to a total of 7.5 -person month requiring assignment 2,5 person-months of international consulting services and 2,5 person-months of national consulting services. The consultants will be supported by national project coordinator (2,5 person-months).

4. Detailed tasks of the Consultant include the following activities:

- (i) Develop a methodology to the assignment including an overview on the current ESMS implementation, monitoring, and reporting.
- (ii) Review randomly selected high-risk subprojects for compliance with ESMS.. The review shall comprise 10% of all subprojects from each of the following types of investments financed by PFIs: (i) stock breeding; (ii) small ruminants; dairy processing; (iv) fodder production; v) rabbit breeding; vi) poultry; vii) horse breeding; viii) bee keeping; ix) fish farming; x) agricultural machinery and other;
- (iii) Based on the finding of the above ESMS compliance review, identify capacity gaps (if any) in ESMS of sub-projects to ensure compliance with the national requirements. Additionally, different approaches (e.g. interview, questionnaire, SWOT analyses) can be used to identify the capacity gap of PFIs;
- (iv) Prepare pointers on how measures can be executed to address capacity gap in ESMS principles, procedures and staffing, including its material resource implications for each time-bound capacity building plan;
- (v) Support to PFIs on preparing their sample reports under the ESMS by reviewing all relevant documents and information related to the livestock to ensure compliance requirements on environmental safeguards;
- (vi) Prepare training manuals, infographics and related materials – based on each time-bound capacity-building plan that will fit the general and specific learning requirements of the PFIs;
- (vii) Prepare a template for environmental safeguards monitoring and auditing reports in accordance with an environmental management plan (EMP) that should include appropriate monitoring and reporting mechanism for environmental safeguards compliance for each sub-project in accordance with an environmental management plan (EMP);

- (viii) Conduct series of training workshops for the relevant staff of PFIs and PIU, and deliver trainings in all regions of the country. As part of the training delivery, facilitate interactive activities such as breakout sessions where relevant ESMS coordinators can participate in actual assessment of a project against an existing ESMS, and share knowledge, experiences, and good practices. This should include a trip to one of the subprojects to demonstrate to PFIs the environmental and social safeguards monitoring actions;
- (ix) Assist PIU to conduct 4 semiannual monitoring reviews at the project sites, and submit to ADB the annual ESMS implementation reports for 2022 and 2023. This includes: (i) on-the-job training and capacity building for PIUs environmental 4 specialist and other concerned monitoring and project management staff; and (ii) direct inputs to improve ESMS monitoring and reporting.

E. Summary of Activities and Project Progress

The LVCDP implementation has been started in 2020 March. During the implementation of the LVCDP, the sub- projects were divided into 12 lines. Namely³: (i) stock-breeding; (ii) agricultural machinery; (iii) small ruminants; (iv) meat processing; (v) fodder production; (vi) poultry; (vii) dairy processing; (viii) rabbit breeding; (ix) horse breeding; (x) bee keeping; (xi) fish farming; (xii) building of a farm.

As already mentioned, funding for subprojects under the Livestock Value Chain Development Project started in 2020. By January 1, 2023, most of the funds allocated under the project had already been utilized by PFIs. A total of 600 subprojects are to be funded under the project, with 372 (62%) subprojects funded in 2020, 116 (19.3%) subprojects funded under the project in 2021, and 112 (18.7%) subprojects funded in 2022.

From an environmental viewpoint, 186 (30.9%) of the 600 funded subprojects were Category B and 414 (69.1%) were Category C projects.

In terms of resettlement, none of the subprojects during either the construction or operation phases will have a direct or indirect impact on privately owned land. Accordingly, in terms of involuntary resettlement, all 602 subprojects were classified as category "C".

Table 1 shows the number of subprojects funded by each PFI in 2021-2023, in different years. It also indicates how many of the funded projects are category "B" and how many are category "C," both in terms of environmental protection and resettlement.

Table 1: Subprojects financed in 2020-2022

PIF	Year	sum	Number of sub-loans by	Number of sub-loans by
-----	------	-----	------------------------	------------------------

³ Environmental and Social Monitoring Report. Reporting period: March 2020 – December 2020

	2020	2021	2022		environmental categories		involuntary resettlement categories	
					B	C	B	C
JSCB Xalq Bank	184	12	10	206	55	151	-	206
JSCB Qishloq Qurilish bank	44	7	8	59	25	34	-	59
JSCB Turonbank	47	32	2	82	1	81	-	82
JSCB Uzpromstroybank	22	3	-	25	25	-	-	25
JSCMB Ipoteka bank	15	12	3	30	20	10	-	30
JSCB Microcreditbank	60	50	89	198	60	138	-	198
Sum	372	116	112	600	186	414		600

As the Table shows, more than half of the subprojects are financed by two PFIs each. JSCB Xalq Bank financed 207 subprojects over 3 years, making 34.4% of the projects financed under the project, while 199 (33.0%) subprojects were financed by JSCB Mikrocredit Bank.

II. TECHNICAL APPROACH AND METHODOLOGY

Within the monitoring of the Environmental and Social Management Systems developed by PFIs, the Consultant's responsibility is not only to determine the compliance of ESMS with the requirements of the national legal framework, instructions of the Asian Development Bank or other documents developed in the framework of the project. Rather, the Consultant shall also review and analyze all documents and action plans to be prepared under the subprojects by the various organizations involved in the implementation of the subprojects in line with the requirements of the ESMS. The Consultant is also required to conduct environmental and social audits of subprojects on a sample basis, identify non-compliances (if any), and develop corrective actions.

Following the above-mentioned, the monitoring of the Environmental and Social Management Systems was conducted in several stages:

- (i) At the first stage, a desk monitoring of the Environmental and Social Management Systems developed by the banks (PFIs) participating in the project. The purpose of the monitoring was to determine the degree of compliance of ESMS documents with the requirements of the national legal framework of Uzbekistan, the policies of the Asian Development Bank and other documents prepared under the project. If necessary, the Consultant will prepare reports on non-compliances and make recommendations to update the ESMS document. If the document needs to be updated, the updated document shall be approved by the Board of Directors of the Bank and agreed with the ADB;
- (ii) At the second stage, the consulting group (the Consultant) visited all the banks (PFIs) involved in the project, both at their head offices and branches. At this stage, the following documents prepared under the project were studied: (i) screening reports; (ii) OVOS reports prepared under sub-projects as required by the national legislation; (iii) agreements signed under sub-projects; (iv) monitoring reports; and (v) non-compliance reports. The purpose of the documents study was to determine the extent to which the documents generated at various stages of project development met the requirements of the ESMS. In case of non-compliances, corrective actions will be prepared by the Consultant.

At the second stage of the project implementation, as required by the bids, the consultant will also take action to identify potential gaps (if any) in the ESMS (Environmental and Social Management System) subprojects to ensure compliance with national requirements. Among the proposed methodologies (interview, questionnaire, SWOT analysis), the consultant will use the interview method due to the fact that none of the PFIs has developed a SWOT analysis of their organization.

- (iii) The third stage involved field visits to conduct environmental and social monitoring within the scope of the subprojects. The purpose of the third stage was to assess the extent to which the actions implemented within the scope of the subprojects meet the requirements of the ESMS prepared under the project.

(iv) At the fourth stage, the Consultant will study the Environmental and Social Annual Reports prepared by the PFIs and determine their compliance with the requirements of the ESMS.

Based on the results of the aforementioned research and analysis, the Consultant will prepare a training module and conduct trainings in 13 cities of Uzbekistan for environmental and social workers (ESMS Coordinators) from various organizations involved in the implementation of the project.

III. COMPLIANCE REVIEW OF ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEMS

A. Introduction

Within the scope of the Project, as required by the „Project Administration Manual“ (the document approved on August 6, 2019) „...Each PFI will have in place an ESMS to be maintained as part of its overall management system to meet Uzbekistan’s national laws and regulations and ADB’s SPS. Eligible subprojects will follow Uzbekistan national environmental regulations. Each PFI is required to (i) demonstrate to ADB that it has a satisfactory ESMS in place prior to the first disbursement by ADB“.

In addition, the „Environment and Social Management System Arrangements“ was prepared in June of 2019 by the Consultant hired within the Project and approved by the ADB. This document is available on the Asian Development Bank website. The document provides detailed instructions to the PFIs involved in the Project on the structure of the ESMS.

It should also be noted that the PFIs participating in the project have certain experience in working with international financial institutions on projects financed in terms of development of small and medium-sized businesses, namely:

- (i) **Uzpromstroy Bank** participates in the following IFIs projects: WB/IDA “Horticulture” (Phase I and II), ADB “Horticulture Development Project” (HDP), WB/IBDR “Horticulture Development Project” (HDP), WB/IDA “Livestock Development Project” (LDP). For ADB funded project a separate ESMS was developed and approved by Bank’s Council in 2017.
- (ii) The **Microcredit Bank** has experience in participating in IFI’s loans. During 2009-2014 the Bank worked with International Fund for Agricultural Development (IFAD) and International Development Agency (IDA).
- (iii) **Ipoteka Bank** developed and adopted Policy on Environmental and Social Risk Management in 2017. In addition to this, Bank has approved two ESMSs for two ADB funded projects: Horticulture Development Project (HDP) and Affordable Rural Housing Program (ARHP). Both ESMSs were adopted in 2017. For WB funded project LDP and HDP environmental performance is regulated by Environmental and Social Management Frameworks;
- (iv) **Xalq Bank** has experience in participating in the IFIs project such as WB, IDA, IBRD, IFAD. Currently two projects are on-going: WB (IBRD) funded project “Horticulture Development Project” and IFAD funded “Dairy Value Chains Development Program”. Xalq bank is responsible for implementation safeguards requirements, indicated in Environmental and Social Management Framework (ESMF) developed in accordance with WB Operational Policies (OP). For this project the Bank uses “Procedure of usage credit line from IBRD for Livestock Development Project” as a regulatory document for issuing loans for IBRD credit line.
- (v) **Turon Bank** developed and adopted Procedure on Environmental and Social Risk Management (PESRM) in May 2017. The document was approved by the Chairman of the Boards. In addition to this, Bank has developed and approved ESMS for ADB funded Horticulture Development Project (HDP). For WB (IBRD) funded project - Horticulture Development Project and WB (IDA) funded project - Livestock

- Development Project environmental performance is regulated by Environmental and Social Management Frameworks (ESMF)
- (vi) **Qishloq Qurilish Bank** adopted Environmental and Social Management System in 2017 under the ADB funded project “Affordable Rural Housing Program” (ARHP).

Prior to the implementation of the Livestock Value Chain Development Project, all PFIs involved in the Project implementation prepared an ESMS document. All documents were approved by both the governing body of the bank and the Asian Development Bank. The Table shows information about the dates of approval by the Asian Development Bank of the ESMS documents developed by the PFIs.

Table 2: ESMS approval date

PFIs	JSCB Xalq Bank	JSCB Qishloq Qurilish bank	JSCB Turonbank	JSCB Uzpromstroybank	JSCMB Ipoteka bank	JSCB Microcreditbank
ESMS approval date	23.10.2019	11.10.2019	07.10.2019	20.09.2019	08.11.2019	23.09.2019

The ESMS of LVCDP includes several steps in order to determine the suitability of the activities for financing from environmental and social aspects.

The main requirement both, in the Guidelines developed under the project, as well as in the ESMS documents developed by the PFIs, is that all sub-projects to be financed under the said project must meet the requirements of the Asian Development Bank Policy and national legislation (see Annex 1 for a brief description of the relevant legal and regulatory framework).

All ESMS documents developed by PFIs describe the project screening procedure in details. The first stage of the screening process outlines a list of activities that will not be eligible for project financing. According to the ESMS documents, all sub-projects at the first stage are reviewed for compliance with the following requirements: (i) „ADB Prohibited Investment Activities List“; (ii) Ineligible Loans as regulated by the Central Bank of Uzbekistan; also (iii) the list of additional activities developed within the project that cannot be financed under the project.

The stage following the screening procedure covers both environmental and resettlement issues. The questionnaires are in full compliance with the guidelines prepared under the project, and at this stage, the requirements necessary for the screening stage do not require further improvement (environmental and social screening questionnaires are attached as annexes to the ESMS documents developed by PFIs).

All checklists to be completed at the sub-project screening stage by both the borrower and the PFI representatives are provided in Annexes 2, 3, and 4.

It should also be noted that all ESMS documents developed by the PFIs basically follow the „Environment and Social Management System Arrangements“ guidelines prepared under the project. The presented ESMS documents also detail the necessary requirements for actions to be taken during the approval, implementation and operation

phases of subprojects, such as: (i) institutional structure of all organizations involved in the project; (ii) frequency of monitoring and reporting on Category "B" projects in an environmental respect; (iii) Structure and timelines of the grievance redress mechanism.

It can be said that all ESMS documents developed by the PFIs fully meet the requirements of the „Environment and Social Management System Arrangements“ guidelines and do not need improvement in this regard.

However, it should be noted that there is one issue which, if addressed more thoroughly both, in the documents developed for the purpose of project management and in the ESMS documents developed by the PFIs, would contribute a lot to the successful implementation of the project. In particular, as we have already mentioned, the project must comply not only with national legislation, but also with the requirements of the SPS 2009 of the Asian Development Bank. According to the requirements of SPS 2009 (paragraph 73): „To ensure that contractors appropriately implement the agreed measures, the borrower/client will include the safeguard requirements in bidding documents and civil works contracts“. According to the said requirement, the environmental documents and instructions developed within the framework of the project should be part of the bidding documents, as well as the contract concluded within the scope of subcontracts. Accordingly, the ESMS document developed by the PFI must be an integral part of the contract signed with the borrower. Due to the fact that this requirement is not fixed in any document developed under the project, it creates a number of inconveniences in the implementation phase of the project (see details in Chapter IV-D).

IV. VISITS TO THE PFIs AND THEIR BRANCHES

A. Introduction

From December 5 to December 13, 2022, the consulting group visited the banks and their branches involved in the implementation of the project. The main purpose of the visits was to determine the extent to which the actions taken by the PFIs under the project and the documents prepared comply with the requirements of the ESMS.

The meetings reviewed the following documents prepared under the project: (i) agreements signed between the PFI and the borrower; (ii) verification of reports prepared by PFI specialists and compliance of the categories assigned to subprojects with the requirements; (iii) conformity of the registration of the results of monitoring conducted by PFI specialists with the requirements; (iv) nonconformity reports and corrective actions (if any); (v) environmental and social monitoring reports prepared by PFIs.

Meetings were held with the environmental and social specialists of the PFIs, as well as the project managers. As the Consultant, all meetings were attended by: (i) Irakli Kaviladze - Team Leader / Environmental and Social Safeguards Specialist, and (ii) Jamshid Elboev - Project Coordinator / Assistant Lecturer.

On December 9, a meeting was held at the Headquarters of Xalq bank. As PFI, the meeting was attended by: (i) Sarvar Rasulov - Head of Investment Department; (ii) Sohibjamol Kulmuradova - Head specialist of Investment Department. Sohibjamol Kulmuradova, at the mentioned PFIs, in addition to her official duties, fulfills the duties of an environmental and social specialist (see Fig. VI-1).



The meeting of December 9 held at Turon Bank head office, was attended by: (i) Marjina Niyozova - Head specialist, credit manager – ecologist; (ii) Avaz Komilov - Head specialist, credit manager as the Bank representatives (Fig. IV-2).

The meeting held at Mikrocredit Bank head office, was attended by (i) Abdulaziz Nosirov - Head specialist of Corporate business department, (ii) Jahongir Omontoshev - Head of Corporate business department of PFI (Fig. VI-3).

Figure IV-2: Meeting with representatives of Mikrokredit Bank



Figure IV-4: Meeting with representatives of Sanoat Qurilish Bank



On December 10, a meeting was held at Sanoat Qurilish Bank head office and it was attended by Bank representatives: (i) Hasankhoja Aykhojaev - Head of Department of Credits (ii) Sardor Eshmurodov - Deputy Head of Department of Credits (iii) Alimardon Khidirov - Head of Antifraud Division, Department of management, Ecological and Social Risks (iv) Gayrat Abduganiev - Head specialist of Antifraud Division, Department of management, Ecological and Social Risks (Figure VI-4).

On December 11, a meeting was held at Ipoteka Bank head office and it was attended by Bank representatives: (i) Bakhtiyor Abdusalomov - Head of Environmental and Social Risk Management Division (ii) Anatoliy Kresov - Head Specialist of Environmental and Social Risk Management Division. (Figure VI-5).

Figure VI-5: Meeting with the representatives of Ipoteka Bank



Figure VI-6: Meeting with the representatives of Qishloq Qurilish Bank



The meeting of Qishloq Qurilish Bank environmental and social team held on December 12, 2022 was attended by Bank representatives: (i) Nikita Nikanorov - Head specialist, Department for financial project management in foreign currency; (ii) Saodat Niyazova - Head of Department for financial project management in foreign currency.

Meetings were also held on December 13, 2022 at Mikrokredit Bank Parkent Branch offices and Xalq Bank Parkent Branch office.

The meeting of the environmental and social team of Xalq Bank Parkent Branch, held on December 13, 2022, was attended by representatives of the Bank: (i) Elyor Yakubov - Head of the Small Business Department (ii) Bekzod Karaboev - Deputy Governor of the bank; and (iii) Mehriddin Solikhov - Head of Monitoring Department (Figure VI-7).

The meeting of the environmental and social team of Microkreditbank Parkent Branch, held on December 13, 2022, was attended by Vohidjon Zokirov, Deputy Manager of the bank (Figure VI-8).

Figure VI-7: Meeting with representatives of Xalq Bank Parkent Branch

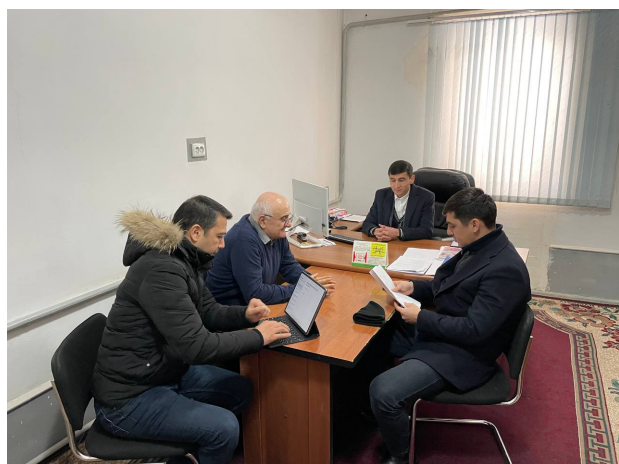


Figure VI-8: Meeting with representatives of Microkreditbank Parkent Branch



B. Organizational Capacity

As per the requirements of guidelines of the „Environment and Social Management System Arrangements“, “The PFI will have ESMS institutional set-up in place and assigns the ESMS manager for the bank. ESMS manager should be an authorized representative and dedicated for environmental and social performance within the PFI”.

All PFIs participating in the project have a dedicated team responsible for environmental and social issues within the project. However, it should be noted that different PFIs used different approaches to fulfill this requirement.

Two of the mentioned six PFIs (making 33.3% of PFIs involved in the project), Ipoteka Bank and Sanoat Qurilish Bank, had set up special departments with responsibilities only for managing environmental and social issues.

As we were told at the meetings, the management of Turon Bank (16.7%) also decided to open a new department, which will deal only with environmental and social issues. As we were explained during the meeting, the said department is planned to open in the next 3-4 months.

In two banks (33.3%), Microcredit Bank and Xalq Bank, the environmental and social issues are managed by employees of different departments, who, of course, are also responsible for the implementation of their main activities.

As for Qishloq Qurilish Bank (16.7%), they hired an outsourced consultant with years of experience - Kamol Bekturganov - to manage environmental and social issues.

As one can see, all PFIs have a dedicated group whose responsibilities included the management of environmental and social issues. However, it should be noted that the most progressive approach was used by Ipoteka Bank and Sanoat Qurilish Bank. These PFIs have already established departments of 2-3 people, whose responsibilities include only the management of environmental and social issues within the project.

Effective management of environmental and social issues requires quite good skills and a certain amount of time. As a recommendation we may say that in the future it is desirable that PFIs involved in similar projects create independent structural units whose authority and responsibility would consist only of the management of environmental and social issues during the implementation of similar subprojects.

It is desirable that the above recommendation be taken into account by the management of Xalq Bank and Microcreditbank. As already mentioned (chapter I-E), almost 70% of the projects are financed by these two PFIs within the project. About 200 subprojects are financed by these PFIs, of which about 1/3 are of Category B (55-60 subprojects).

According to the project guidelines, a PFI is required to conduct quarterly audits for category "B" projects, which requires considerable human resources.

C. Screening the Projects

According to the assignment given to the Consultant, the documentation prepared under 60 sub-projects was reviewed. Based on the sampling principle, the Consultant reviewed and evaluated the documentation prepared under the category "B" and "C" projects.

At the first stage of screening, all received proposals were verified by the relevant PFI specialists for compliance with both the „ADB Prohibited Investment Activities List“, developed by the Asian Development Bank, and „Ineligible Loans as regulated by the Central Bank of Uzbekistan List“ approved by the Central Bank of Uzbekistan

As previously mentioned, the project also developed a list of additional activities that were not eligible for funding under the project. The sub-projects related to the purchasing of animals were requested to reveal the scope of the sub-project as the limits for purchasing of animals and processing of animal products were provided in ESMS Arrangements report of the project. The sub-projects are not allowed to exceed the limits: for cattle purchase (500 heads); and for poultry purchase (100 thousand heads); and processing (slaughter - 10 thousand cattle and 10 million poultry per year).

None of the funded subprojects screened by the Consultant contained activities that were not eligible for funding under the project. It can be said that in the first stage of screening

of subprojects, the documents that were screened by the Consultant were evaluated according to the requirements.

In the second stage of screening, the relevant PFI specialists completed the environmental and social checklists already approved by the Asian Bank. As a result of the completion and analysis of these checklists, it is determined to which category a subproject belongs.

As already mentioned, the screening checklists are filled out by the relevant PFI specialists. According to the information received, Madina Khalmirzaeva, an external consultant hired under the project, was also involved in filling in the first three checklists by each independent PFI.

186 (31%) of the 600 subprojects financed under the project were categorized as "B" in an environmental view by PFIs. These statistics are consistent with the screening results of other projects.

However, it should be noted that the results obtained by different banks in the second stage of screening differ from the statistical average. For example, only 1 out of 26 subprojects financed by Uzpromstroybank (3.4%) was assigned category "C", the remaining subprojects were assigned category "B", while 81 out of 82 subprojects financed by Turonbank were categorized as "C", and 1 (1.2%) subproject was categorized as "B".

Following an examination of the checklists, it can be said that the approach used by different PFIs in completing the checklists differs from each other. From an environmental perspective, projects with the same environmental impact were assigned Category "B" by one bank and Category "C" by another bank.

Based on the foregoing, a special place in the training module to be prepared by the Consultant within the scope of the project should be given to the methodology of completing the environmental screening checklist. Also, the training module should include a practical example of how to fill in the environmental checklist.

It is also necessary to instruct the PFI representatives to review the checklists they have filled out and, if necessary, make the changes to the categorisation of the sub-projects.

As for the resettlement checklists, none of the 60 checklists reviewed by the Consultant were found to have non-compliances.

D. Contracts

After the subprojects are approved, a loan agreement is signed with the borrower. All PFIs use a standard contract form, in which only the specifics of the loan purpose and the loan amount are adjusted in accordance with the terms of the contract.

According to the SPS 2009 requirements, the contract signed within any ADB-funded project must include the requirements of the document developed in the environmental and social fields. In particular, according to the SPS 2009 requirements: „...to ensure that contractors appropriately implement the agreed measures, the borrower/client will include the safeguard requirements in bidding documents and civil works contracts“.

In order to comply with this requirement, the ADB requires that the environmental and social documentation prepared for the project be part of the bidding documents as well as the contract signed with the borrower as an annex. Accordingly, the ESMS document prepared by the PFIs within the scope of our project and approved by the Asian Development Bank should have been part of the contract and should have been included in the contract as an annex.

Unfortunately, none of the PFIs incorporated the ESMS document as an appendix to the contract.

As a result, we have got a situation in the project where the borrower at the stage of implementation and operation of subprojects has no obligation to perform the actions defined by the ESMS. There is no document showing that the ESMS document prepared within the scope of the project was provided to the subcontractor at least in any other form.

As a recommendation, we can say that in order to avoid such a situation in the future, in the training module to be developed by the Consultant, great attention should be paid to the drafting of the contract and forms to correctly describe the environmental and social requirements in it.

It is also desirable that the planned training sessions be attended by the representatives of the legal departments of the PFIs, whose responsibilities include the preparation of such contracts.

E. Monitoring of Subprojects

According to the project-specific management document „Environment and Social Management System Arrangements”: „...for category B subprojects, the PFI should carry out onsite inspection including checking the EMP compliance at least once per quarter during the contract period of sub-loan and record findings in similar but simplified manner“. For category “C” subproject, onsite supervision is usually not necessary.

The number of "B" category projects funded by each PFI is different. Xalq Bank and Microcredit bank have funded the most "B" category projects, 55 (29.6% of the total "B" category projects financed) and 60 (32.2%), respectively. Turon Bank has financed the least "B" category projects (1 subproject making 0.5% of the total "B" category projects financed).

As already mentioned, the documentation of 60 subprojects was reviewed within the framework of the project. As the documents reviewed by the Consultant evidence, the PFIs (headquarters or regional offices) conducted quarterly environmental and social audits as required by the guidelines and filled out relevant checklists within the scope of all subprojects.

Despite the requirement of the guidelines, most environmental and social monitoring reports were not accompanied by appropriate photographs.

Also, the Consultant reviewed the annual environmental and social reports submitted to the Asian Development Bank in 2020 and 2021. According to the results of the inspections conducted in these years, not a single non-compliance was identified by the relevant PFI specialists. Hence, no corrective actions were developed.

Neither was there any non-compliance identified in the environmental and social monitoring conducted by PFIs during 2022.

Given the fact that subprojects mostly involve farmers without appropriate environmental qualifications, it is unlikely that of more than 100 "B"-Category subprojects funded in 2020-2021, each of which was subject to environmental and social monitoring four times a year, no non-compliance was observed, whereas in the environmental and social monitoring phase conducted by the Consultant on a random basis, approximately 75% of the subproject owners did not have a complaints log in place despite the fact that it is one of the requirements of the ESMS prepared by PFIs.

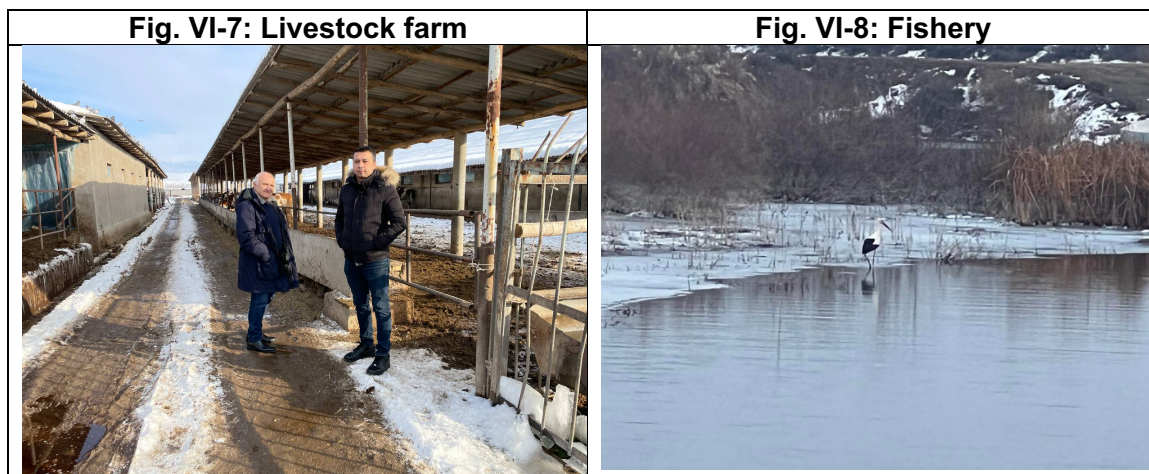
As longstanding practice shows, PFI representatives have the same approach for all such projects.: both the administration and the environmental and social coordinators believe that identifying non-compliances on their part during the implementation or operation of projects is bad for their reputation and/or can lead to the suspension of subprojects.

It is necessary to pay particular attention to this issue in the training module to be included in the project. Also, the training module should include practical exercises on how to complete the relevant forms and develop corrective actions in case of revealing of non-compliances.

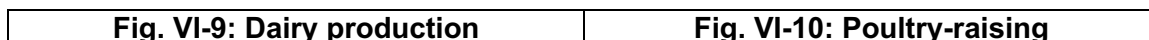
F. Field Visits

The Consultant conducted field visits for environmental and social monitoring within the scope of subprojects based on the random principle. The purpose of the said monitoring was to identify non-compliances (if any) in the implementation or operation phase of the project and to develop a training module to improve the technical capabilities of the environmental and social PFI team.

Within the framework of the project, the following projects were visited: (i) livestock farm, (ii) poultry-raising, (iii) fisheries, and (iv) refrigerating units (see Figures VI-7 to VI-10).



In the monitoring phase, both a documentation check and a visual inspection of the project site were carried out.





Of the companies that were inspected under the project, only 75% of the companies had a complaints log in place. As for the ESMS document, none of the companies had it on the project site.

As already mentioned, (see Chapter VI-D), the main reason for this can be assumed to be the fact that the contracts concluded with the borrower do not clearly specify the borrower's obligation to comply with the requirements of not only national legislation, but also of ADB environmental and social policies in the implementation and operation phases of the subprojects.

A number of non-compliances were also detected during visual inspection of the sites, mostly related to the issues of temporary improper waste disposal (see Fig. VI-11.). Figure VI-12 shows that hazardous waste is placed together with domestic waste.



Fig. VI-13 shows the fact of placing industrial waste and finished food products in the same area.

A rather unpleasant fact was noticed during a visit to the poultry farm. The disposal of dead birds on the farm is done by burning them in the open air, which is prohibited by both national legislation and the requirements of the Asian Development Bank (Fig. VI-14).

Fig. VI-13: Industrial waste and finished food products in the same area



Fig. VI-14: Fact of burning dead poultry



Minor violations were observed in terms of storage and placement of feed, as well as the management of organic waste (manure) in the livestock farm (see Figures VI-15 and VI-16).

Fig. VI-15: Some feed is uncontrollably dumped on the ground



Fig. VI-16: Animal excrement placed on the snow



As the figures show, a number of non-compliances are recorded in terms of environmental protection in the implementation and operation phases of the subprojects. This further reinforces our doubts that, during the planned environmental and social monitoring, non-compliances are not documented by the PFI representatives.

As already mentioned, it is necessary to focus on this issue at the stage of development of the training module, because the PFIs have obligations to carry out environmental and social monitoring for several more years (until the full repayment of the loan by the borrower).

It is necessary to explain to the relevant PFI specialists that identification of non-compliances by them will not have a negative impact either on their qualifications or on the reputation of the company. It will not lead to the suspension of the project and further will not hinder the process of financing of similar projects by other financial institutions. Just on the contrary, the identification of non-compliances and development and implementation of appropriate corrective actions will have a positive impact on the reputation of PFIs and will help attract similar projects in the future.

V. ANALYSIS OF ANNUAL ENVIRONMENTAL AND SOCIAL REPORTS PREPARED BY PFI

The PFI is required to prepare an annual environmental and social report and submit it to the State Committee of Veterinary and Livestock Development (SCVLD) until February, in accordance with the guidelines developed under the project.

All PFIs prepared and submitted the relevant reports in a timely manner.

The format and content of the development of the Social-Environmental Annual Report are given in document "Environment and Social Management System Arrangements" (Annex 6) prepared within the scope of the project. The PFI understood the information required in the report, and in general, the submitted reports meet the set requirements. Below we give a number of inaccuracies identified during the review of the annual reports with relevant notes and comments.

A. Ipoteka Bank

As the report shows, in the reporting period, the bank financed 3 projects, of which 1 subproject is of Category "B" from the environmental point of view, and 2 subprojects are of Category "C". The report contains most of the requested information. Minor clarifications and changes need to be made to the report, namely:

- (i) The abbreviation „KPC“ in the document should be spelled out at its first use;
- (ii) Chapter „**A. Subprojects processed under ADB fund during the reporting period**“ **indicates** that 3 subprojects were financed during the reporting period, of which one project is categorized as "B" from the environmental point of view, while section „**Category B Subprojects Using ADB Funds**“ of the same report where detailed information is requested on the projects that were classified as Category "B" projects in terms of environmental protection, gives the information on 4 subprojects. In particular, the following inaccuracies and non-compliances should be corrected: (i) „Category B Subprojects Using ADB Funds“ section of the report indicates that 4 subprojects have been financed and not 3 as in the chapter „**A. Subprojects processed under ADB fund during the reporting period**“; (ii) The same part of the report provides detailed information on all four subprojects, and 2 subprojects belong to Category "C" from the environmental point of view, while this part of the report requests information only for Category "B" projects.
- (iii) The first question of "Chapter E" is misunderstood. It does not ask how many environmental and social audits were conducted during the reporting period. rather, the question refers to how many sub-projects had to be visited on site during the reporting period to determine the project's impact on the ecological and social environment. You need to match the answer to the question.

- (iv) The second question of "Chapter E" consists of a series of sub-questions, so you need to read it carefully and, if at least one of the incidents on the list occurred, you need to describe the incident. After describing the incident, you should describe the corrective action that was designed and implemented to eliminate the cause of the reported non-compliance.
- (v) In the third part of Chapter "E. Additional information for the reporting period" that asks for the following information „Please state any difficulties related to the ESMS implementation“ the report describes only the issues related to the implementation and use of ESMS at Ipoteka Bank and its branches. The main requirement is information on how the ESMS requirements are applied by the borrower in the implementation and operation of subprojects. This information must be included in the bank's annual environmental and social monitoring report.

B. Qishloq Qurilish Bank

In the reporting period, "Qishloq Qurilish Bank" financed 8 sub-projects, including 4 subprojects of Category "B" and 4 subprojects of Category "C" in an environmental view. The annual report provides most of the requested information. The annual report needs minor clarifications and changes, namely:

- (i) The document contains the abbreviation KPC and MPC. They should be spelled out.
- (ii) Chapter „C. Sustainable Finance (Summary of subprojects with E&S Benefits)“ in the report is not completed. Relevant information should be added to the said chapter, i.e. a social issue such as additional jobs.
- (iii) The second question of "Chapter E" consists of a series of sub-questions, so you need to read it carefully and, if at least one of the incidents on the list occurred, you need to describe the incident. After describing the incident, you should describe the corrective action that was designed and implemented to eliminate the cause of the reported non-compliance.
- (iv) In the third part of Chapter "**E. Additional information for the reporting period**" that asks for the following information „Please state any difficulties related to the ESMS implementation“ the report describes only the issues related to the implementation and use of ESMS at the PFI (**Qishloq Qurilish Bank**) and its branches. The annual report should add information on how ESMS requirements are applied by the borrower in the implementation and operation phases of the subprojects.

C. Microcreditbank

During the reporting period, Microcredit Bank financed 89 subprojects, including 8 subprojects of Category "B" and 81 subprojects of Category "C" in an environmental view. The report contains most of the requested information. Minor clarifications and changes need to be made to the report, namely:

- (i) The document contains the abbreviation KPC and MPC. They should be spelled out at the first use:
- (ii) Chapter "C. Sustainable Finance (Summary of subprojects with E&S Benefits)" is not completed in the report. Relevant information should be added to this chapter, e.g. social issues such as creation of additional jobs, etc.

- (iii) Chapter „D. Training“ of the report does not give the relevant information. If no such event took place during the reporting year, the annual report should indicate that no trainings were conducted.
- (iv) The second question of "Chapter E" consists of a series of sub-questions, so you need to read it carefully and, if at least one of the incidents on the list occurred, you need to describe the incident. After describing the incident, you should describe the corrective action that was designed and implemented to eliminate the cause of the reported non-compliance.
- (v) In addition, part of the report is left unanswered, in particular: „state any difficulties related to the ESMS implementation“. This paragraph should contain information about problems arising at the stage of introduction, implementation and maintenance of ESMS at the PFI and its branches, as well as the borrowing organizations in the project implementation and operation phases.

D. Uzpromstroy Bank

During the reporting period, Uzpromstroybank did not finance any subproject. Provided by the PFIs in this annual report is exhaustive and acceptable at this stage.

E. Turonbank

During the reporting period, Turonbank financed only two subprojects. Both subprojects, in view of environmental protection, belong to Category "C". The report contains most of the requested information. Minor clarifications and changes need to be made to the report, namely:

- (i) The document contains the abbreviation KPC and MPC. They should be spelled out at the first use;
- (ii) It is not recommended to make any changes to the existing annual report guidelines agreed with the Asian Development Bank. According to the guidelines, the PFI in the second part of Chapter A should submit "**The Category B Subprojects Using ADB Funds**". In case no category "B" subprojects were financed by PFI during the reporting period, the corresponding fact should simply be recorded in the above paragraph. In the report submitted by Turonbank, due to the fact that during the reporting period, none of the Category-B subprojects were financed, the guidelines were amended and information on both "C" category subprojects financed by Turon bank was expanded what was not needed. The following changes should be made to the annual report:
- (iii) Chapter "D" of the submitted report, which asks for a „**summary of sub-projects with environmental and social benefits**“, lists only the benefits that the project may have, but does not specify which project it is. It is necessary to fill in this box, too;
- (iv) In Chapter „**E. Training**“, where it is necessary to specify a list of trainings that were conducted during the reporting period, Turon Bank's response „Turon Bank conducts online trainings once a month via Zoom“ requires clarification, in particular, it should be specified who conducts the trainings, what the topic of the trainings is and for whom the specified trainings are conducted;

- (v) The abbreviation UZAIFSA should be replaced by "State Committee for Veterinary and Livestock Development (SCVLD).

F. Xalq Bank

During the reporting period, Xalq Bank financed 10 subprojects, with only one of them belonging to Category "C" in an environmental view and other 9 subprojects being of Category "B". The report provides half of the requested information, while the information required in the second half of the annual report is missing (sections B, C and D). In order to allow the Consultant to comment on the second part of the report, the report should provide all of the requested information.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

Based on the review of the documents developed under the project and the results of the environmental and social audit, the following information was collected and the Consultant drew the following conclusions:

- (i) Most of the 725⁴ subprojects (602, making 83%) planned under the project have been already funded by January 1, 2023. In terms of environmental protection, 186 (30.9%) of the funded projects are of Category "B" and 416 (69.1%) are of Category "C". All the sub-projects are classified as Category "C" in terms of both involuntary resettlement and impact on the indigenous population.
- (ii) Two of the mentioned six PFIs (which is 33.3% of the PFIs involved in the project) Ipoteka Bank and Sanoat Qurilish Bank, have special departments with responsibilities only for managing environmental and social issues. The management of Turon Bank (16.7%) has also decided to open a new department to deal only with environmental and social issues. At two banks (33,3%), Microcreditbank and Xalq Bank, the management of environmental and social issues is entrusted to employees of different departments. Qishloq Qurilish Bank (16,7%) hired an external consultant to manage environmental and social issues;
- (iii) In the environmental and social monitoring phase of the 60 subprojects conducted by the Consultant on a random basis, it was noted that the screening procedure for all the subprojects in question was conducted in full compliance with the requirements of the ESMS documents. However, it should be noted that in some particular cases different PFIs have different approaches at the stage of determining the environmental category of subprojects;
- (iv) Contracts signed with the borrower do not fully reflect the obligation of the borrower to comply not only with the national legal framework, but also with the environmental and social guidelines of the Asian Development Bank, and to comply with the requirements of the ESMS during the implementation and operation of subprojects. ESMS is not incorporated in any contract already concluded;
- (v) All PFIs participating in the project, according to the requirements of ESMS developed by them, carry out quarterly environmental and social monitoring of projects of Category "B" and fill out the relevant checklists. It should be noted that not all checklists include photo-documentation, which is an important part of the evidence of ongoing monitoring;
- (vi) Only 25% of the projects we monitored had complaints log on the site;
- (vii) All PFIs are required to submit Social-Environmental Quarterly and Annual Reports to SCVLD. The Social-Environmental Annual Reports of 2022 have been submitted to SCVLD in due time;
- (viii) According to the PFIs reports, in 2020-2022, not a single environmental and social non-compliance was revealed in the implementation and operation phases of any

⁴ Report and Recommendation of the President to the Board of Directors Annex 1: Design and monitoring framework

subproject. Accordingly, no corrective actions have been prepared. This fact raises the suspicion that the monitors are not documenting the existing non-compliances. This doubt is reinforced by the fact that in the environmental and social monitoring phases carried out by the Consultant under the project, a number of non-compliances were detected.

B. Recommendations

On the basis of these conclusions, the consulting team deems it appropriate to make the following recommendations:

- (i) The format of the contract signed with the borrowers should be refined: the contract should present in more details the obligation of the borrower to follow (i) the national legislation of Uzbekistan in the implementation and operation phases of the subprojects; (ii) the Asian Development Bank's Environmental and Social Policy Guidelines; and (ii) the requirements of the ESMS;
- (ii) Based on the above, it is desirable that representatives of the PFI legal department involved in the tender and contract preparation process under the project attend the trainings scheduled under the project.
- (iii) In the development phase of the training modules, the Consultant should develop a separate module for contract preparation and evaluation of bids.
- (iv) A separate module should be prepared in the screening phase in order to improve and consolidate the skills of the relevant PFI specialists to fill out the questionnaires. In addition, a case study should be prepared in relation to this issue and given to the participants as an independent assignment;
- (v) In the training phase, special attention should be paid to explaining to the trainees the goals and objectives of monitoring, the need to record non-compliances, and the methods to register/record them. It is also necessary to prepare a practical training module to improve the skills of recording the identified non-compliances.

APPENDICES

Appendix 1. Applicable Environmental and Social Requirements

To facilitate environmental screening and management of subprojects, relevant domestic legal framework and ADB policies are described to ensure subprojects compliance with both. Also, all sub-projects must meet all the special requirements that are additionally developed within the said project.

1 National Requirements

1.1 National Environmental Requirements

Uzbekistan has enacted several supporting laws and statutes for environmental management and is party to several international and regional environmental agreements and conventions. A brief description of this law and the other supporting laws related to environmental protection is presented below.

Law “On nature protection” (1992) states legal, economic, and organizational bases for the conservation of the environment and the rational use of natural resources. Article 25 of this law states that State Environmental Expertise (SEE) is a mandatory measure for environmental protection, preceded to decision-making process. In addition, article 25 says that the implementation of the project without a positive conclusion of SEE is prohibited.

Law “On Atmospheric Air Protection” (1996, amended on 10.10.2006) describes regulations on atmosphere protection and its objectives.

Law “On water and water use” (1993) regulates the water relations, rational use of water by the population and economy.

Land Code (1998). The Code aims to regulate land relations to ensure that present and future generations have science-based, sustainable use and conservation of land, breeding and improvement of soil fertility, conservation and improvement of the environment and creating conditions for equitable development of all forms of management, the protection of individuals and legal entities’ right for land, as well as strengthening the rule of law in this area.

Law “On Ecological Expertise” (2001) provides for conducting a mandatory expert assessment of impacts on the environment and human health, as well as a legal basis for conducting expert assessments;

Law “On Wastes” (2002, as amended on 2011). It addresses waste management, exclusive of emissions and air and water pollution, and confers authority to the SNPC concerning inspections, coordination, ecological expertise and establishing certain parameters regarding the locations where waste may be processed.

Law “On Protected Natural Reserves” (2004) regulates relations in term of organization, protection and use of protected natural territories.

Law “On environmental control” (2013) regulates relations in the field of environmental control. 126. The law "On Agricultural Plants Protection from Pests, Diseases and Weeds" (2000)

regulates relations related to the protection of agricultural plants from pests, diseases and weeds, prevention of harmful impacts of plant protection products on human health, and the natural environment.

The law "On Livestock Breeding" (1995) ensures the creation, conservation, reproduction and rational use of breeding resources in order to improve breeding and productive qualities of animals; assurance of reliability of reports of the origin, productivity, assessment by the type and other qualities of breeding resources used in the breeding process; testing of producers by the offspring quality; generation of animals with new useful genetic characteristics; effective use in the selection of the most valuable world gene pool; increase of breeding and productive qualities and accelerated reproduction of highly productive animals in commercial herd; increase of economic efficiency and competitiveness of the entire livestock industry.

The law "On Veterinary Medicine" (2015) regulates the state policy in the field of veterinary medicine; development and implementation of measures in the field of veterinary medicine; state regulation in the field of veterinary medicine; implementation of state veterinary supervision; development of international cooperation in the field of veterinary medicine.

The Nature Protection Normative Documents. Most important nature protection normative documents relative to livestock sector are provided below:

- I. Decree of the Cabinet of Ministers "On approval of Provision on the State Environment Monitoring" (No 49, 3.04.2002;
- II. SanR&N RUz No.0179-04 Hygienic norms. List of Maximum Allowable Concentrations (MACs) of pollutants in ambient air of communities in the Republic of Uzbekistan including Annex 1;
- III. SanR&N RUz No. 0267-09 Admissible noise level into the living area, both inside and outside the buildings;
- IV. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated September 7, 2020 No. 541: "On Further Improvement of the Environmental Impact Assessment Mechanism"
- V. SanR&N RUz No 0088-99 Sanitarian requirements for development and approval of maximum allowed discharges (MAD) of pollutants discharged into the water bodies with waste waters;
- VI. SanR&N RUz No. 0321-15 Hygienic toxicity and hazard classification;
- VII. SanR&N RUz No. 0133-02 Sanitary Rules and Regulations for enterprises of sericulture and silk-processing industry of the Republic of Uzbekistan;
- VIII. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated 24.03.1995. No. 96 "On the measures for further privatization and support of private entrepreneurship in livestock breeding";
- IX. Resolution of the President of the Republic of Uzbekistan dated 16.03.2017. No. PP-2841 "On additional measures for deepening of economic reforms in livestock breeding";
- X. Rules of reception of industrial waste water and the procedure for compensation payments calculation for excess discharges of pollutants into municipal sewer networks of cities and other settlements of the Republic of Uzbekistan (Annex 1 to the RCM No.11 dated 2010);

1.2 Legal Framework on IR

The national legal and policy framework of land acquisitions and involuntary resettlement activities are reflected in the following documents:

The Constitution of the Republic of Uzbekistan dated on 8 of December 1992 provides that:

- I. Everyone shall have the right to own property (Article 36). The economy of Uzbekistan, evolving towards market relations, is based on various forms of ownership. The state shall guarantee freedom of economic activity, entrepreneurship and labor with due regard for the priority of consumers' rights, equality and legal protection of all forms of ownership (Article 53);
- II. An owner, at his discretion, shall possess, use and dispose of his property. The use of any property must not be harmful to the ecological environment nor shall it infringe on the rights and legally protected interests of citizens, juridical entities and the state (Article 54);
- III. The land, its minerals, waters, fauna and flora, other natural resources shall constitute the national wealth and shall be rationally used and protected by the state (Article 55).

The Civil Code (CC) (1996) defines the legal status of participants of civil relations, the grounds and procedure of implementation of property rights and other proprietary rights, rights on intellectual property, regulates the contractual and other obligations, as well as other property and related personal non-property relations. The CC defines general rules of property seizure, determination of property cost and rights for compensation, terms of rights termination.

- I. expenses that the person whose right is violated, made or must make to restore the violated right;
- II. the loss of or damage to property (real damage);
- III. the revenues that this person would have received under normal conditions of civil turnover if his right had not been violated (lost profits).

The Land Code (LC) (1998) is the main regulatory framework for land related matters in Uzbekistan. The LC regulates allocation, transfer and sale of land plots, defines ownership and rights on land.

The Resolution of Cabinet Ministries (RCM) #97 "On Approval of the procedure of damages to citizens and legal persons in connection with the withdrawal of land plots for state and public needs" (2006) regulates compensation for losses to individuals and legal entities due to seizure of land plots for state and public needs. This regulation is mainly dealing with land plots, houses, building and structures of individuals and legal entities.

The RCM # 146 "On measures to improve the procedure for granting land plots for urban development activities and other non-agricultural purposes" (2011). This Resolution is aimed to improve the procedure of granting land plots, protect the rights of legal entities and individuals on land and improve the architecture of settlements and the efficient use of their land for construction in accordance with the Land Code and the Town Planning Code.

Labor Code and Employment law. These two documents are main legislations regulating labor relations of individuals employed by labor contract by enterprises, institutions, organizations of all

type ownership form, including contracted by individuals. These legislations are considering the interests of employees and employers provide the efficient function of labor market, just and secure labor conditions, protection of labor rights and employees' health, promote growth of labor productivity, increase of work quality, raising on this matter welfare and social livelihood level of the population.

2. Requirements of the ADB

2.1 Environmental Requirements of the ADB

According to Safeguard Requirements 1 of the ADB Safeguard Policy Statement (2009):

Environment categorization of the ADB. A proposed subproject is assigned one of the following categories depending on the significance of potential environmental impacts and risks:

- I. Category A. A proposed subproject is classified as category A, if it is likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. These impacts may affect an area larger than the sites or facilities subject to physical works. An environmental impact assessment (EIA), including an environmental management plan (EMP), is required.
- II. Category B. A proposed subproject is classified as category B if its 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. An initial environmental examination (IEE), including an EMP, is required.
- III. Category C. A proposed subproject is classified as category C if it is likely to have minimal or no adverse environmental impacts. An EIA or IEE is not required, although environmental implications are reviewed and subproject specific environment management plan is framed, as necessary.

A subproject's environment category is determined by the category of its most environmentally sensitive component, including direct, indirect, induced, and cumulative impacts. Each proposed subproject is scrutinized as to its type, location, scale, sensitivity and the magnitude of its potential environmental impacts.

2.2 Social Requirements of the ADB

According to Safeguard Requirements 2-3 of the ADB Safeguard Policy Statement (2009):

Involuntary resettlement categorization. A subproject is assigned one of the following categories depending on the significance of the probable involuntary resettlement impacts:

- I. Category A. A proposed subproject is classified as category A, if it is likely to have significant involuntary resettlement impacts. A resettlement plan, including assessment of social impacts, is required. The involuntary resettlement impacts are considered significant, if 200 or more persons will experience major impacts, which are defined as (a) being physically displaced from housing or (b) losing 10% or more of their productive assets (income generating).

- II. Category B. A proposed subproject is classified as category B, if it includes involuntary resettlement impacts that are not deemed significant. A resettlement plan, including assessment of social impacts, is required.
- III. Category C. A proposed subproject is classified as category C, if it has no involuntary resettlement impacts. No further action is required.

2.3 Additional Requirements Developed within the Project

In addition to the requirements of the above-mentioned national legislation of Uzbekistan and the Safeguard Policy Statement (SPS 2009) of the Asian Development Bank, a number of additional procedures and requirements have also been developed within the project. The mentioned procedures and requirements are applied in the project screening, monitoring and reporting stages.

Screening

To ensure selection of subprojects meets both national and ADB's environmental requirements, an environmental screening procedure with selection criteria are developed as follows:

- I. Subprojects belonging to the ADB's Prohibited Investment Activities List according to SPS (2009) will not be eligible;
- II. Subprojects belonging to GOU exclusion list for banks will not be eligible;
- III. Subprojects with potential environmental category A level as defined by ADB's safeguard policy will not be eligible. This means subproject classifying as category 1 in accordance with national classification will not be eligible;
- IV. Subprojects exceeding maximum amount of purchased cattle (500 animals) and poultry (100,000 birds), and for processing like slaughter houses with capacity more than 10000 cattle and 10 mln poultry per year¹⁰ will not be eligible for the project in general;
- V. All subprojects that have pass the above criteria (i)-(iii) will need to fill the environmental screening checklists for further screening of their nature, scale and siting to determine possible environmental impacts and thus the category;
- VI. All subprojects that have pass the above criteria (i)-(iii) will need to fill out social safeguard screening checklists for further screening of their impacts on involuntary resettlement (IR).

Supervision and Monitoring

For category B subprojects, the PFI should carry out onsite inspection including checking the EMP compliance at least once per quarter during the contract period of sub-loan and record findings in similar but simplified manner as described above. If the issues are found unresolved, the frequency of onsite supervision should be increased.

For category C subproject, onsite supervision is usually not necessary. Instead, the PFI needs to indicate the actual environmental impacts or benefits of the subproject in its completion and acceptance report. Such completion report should be endorsed by the subproject owner.

Reporting

For Category B subproject, the ESMS Manager (or other designated staff from credit department) will visit the site to monitor the compliance with national regulations through checking compliance with EMP. All reports prepared by credit/monitoring officers are required to be kept by the ESMS Manager in a track record system; PFI will promptly report to ADB any actual or potential breach of the compliance requirements after becoming aware of it.

The PFI will prepare annual environmental and social (E&S) management report to ADB, based on data it gathered, its review and onsite supervision of all subprojects' implementation of their safeguard requirements IEE/EMP and applicable national environmental-social requirements.

PFI will promptly report to ADB any actual or potential material environmental or social non-compliance. If the periodic reports or ADB's reviews conclude that the ESMS is not functioning properly, the PFI will be required to develop a time-bound and budgeted corrective action plan agreed with and submit to the ADB.

Appendix 2. Environment Screening Checklist's

Instruction: The purpose of this series of checklists is to collect basic information necessary to determine the potential environmental impacts and risks of a subproject and thus aid the decision making in whether the FI provide financial support for it. Part 1-2 are about the nature and scale of subproject while REA is about its siting. These are the key factors that determine the environmental impacts thus categorization of a subproject. Information gathered will also form basis for tracking, monitoring and reporting on environmental performance of the FI's portfolio.

PART 1 – to be filled by sub-borrower applying for financial support for new or extended facilities

<i>Basic Information</i>				
1	Name of the registered business or company:			
2	Which year started/registered			
3	Location/full address:			
4	Nature and scope of business: (which sub/sector, mainly breeding, processing or others? If a combination, rough %?)	Type	Y/N	%
		Livestock		
		Poultry		
		Beekeeping		
		Fish		
		Sericulture		
		Rabbits		
		Others		
		Breeding		
		Processing		
		Slaughter		
Others				
5	Designed (production) capacity: (per year and/or per day; if not applicable, need to explain here)			
6	Actual capacity or scale: (per year and/or per day; Briefly explain the difference with the designed capacity or scale)			
7	Main production process(es): (Provide simple flowchart to show main input of materials, water, energy (heat, steam or fuels etc), output of intermediate and final products, and wastes (gaseous, liquid or solid) etc			
8	Main product(s): Describe briefly the name, main usage, chemical or biochemical composition etc			

	Profile of Employers	Male	
		Female	
		Total	
9	Other information		
Subproject basics			
10	Amount of loan requested: In local currency and USD		
11	Intended use of the loan: Briefly describe if it is for new line of business/production, expansion or upgrade/rehab existing business /production		
12	Designed (production) capacity: per year and/or per day; if not applicable, need to explain here		
13	Tech. process(es): If applicable, provide simple flowchart to show main input of materials, water, energy (heat, steam or fuels etc), output of intermediate and final products.		
14	Main product(s) of sale or R&D: Describe briefly the name, main usage, chemical or biochemical composition etc.		
15	List wastes the subproject will be generate (<i>where relevant</i>): Provide estimate their amount if you can per year or per day etc.	Gaseous emissions	
		Wastewater	
		Solid waste	
		Hazardous waste	
16	Planned method of waste disposal/management	Gaseous emissions	
		Wastewater	
		Solid waste	
		Hazardous waste	
	Other relevant information		

Part 2 – To be filled by the FI(s)

Existing business and facilities (if applicable)						
1	Is it in prohibited, phased out or discouraged sub/sector by national, provincial or local policy?					
2	Is it in prohibited, phased out or discouraged sub/sector according to FI's internal guidelines/checklist?					
3	What kind of environmental permit it has? And obtained when?	Type	Y/N	Issuing date	Validity date	Issuing authority
		For operating farms				
		Statement on Environmental Consequences (SEC) for: -final number animals/birds - new processing				
		Positive Conclusion of Environmental Expertise (EE) on SEC				
Subproject requesting loan						
4	What environmental clearance and permits required received? Specify	Type	Y/N	Issuing date	Validity date	Issuing authority
		For New farms				
		ZVOS				
		EMP				
		Positive Conclusion of EE on ZVOS				
		For operating farms				
		If type of production not be changed and existing capacity of production <i>not be increased</i> SEC for:				
		- final number animals/birds				
		- new processing				
		If type of production be changed and capacity <i>be increased</i> :				
		ZVOS report				
		EMP				
		Positive Conclusion of EE on ZVOS SEC report				
Positive Conclusion of EE on SEC						
5	FI received a copy of received environmental clearance and permits?					
6	Other relevant information					
7	Has its siting been screened using the REA (see below)? what is the conclusion on environmental risks posed by its siting?					

8	Conclusion of the screening	
IF's Branch name, province		
Name	Signature	Date

Rapid Environmental Assessment (REA) Checklist

Instructions:

(i) The purpose of this REA is to help screening a subproject’s siting, as locating in sensitive areas can have more potential environmental impacts. This in turn affects the categorization of a subproject.

(ii) Answer the questions assuming the “without mitigation” case. The purpose is to identify potential impacts. Use the “remarks” section to discuss any anticipated mitigation measures.

Country/Project Title:	
-------------------------------	--

Sector Division:	
-------------------------	--

Screening Questions	Yes	No	Remarks
A. Project Siting			
Is the Project area adjacent to or within any of the following environmentally sensitive areas?			
- Cultural heritage site			
- Legally protected Area (core zone or buffer zone)			
- Wetland			
- Mangrove			
- Estuarine			
- Special area for protecting biodiversity			
B. Potential Environmental Impacts			
Will the Project cause			
- impairment of historical/cultural areas; disfiguration of landscape or potential loss/damage to physical cultural resources?			
- disturbance to precious ecology (e.g. sensitive or protected areas)?			
- alteration of surface water hydrology of waterways resulting in increased sediment in streams affected by increased soil erosion at construction site?			
- deterioration of surface water quality due to silt runoff and sanitary wastes from worker-based camps and chemicals used in construction?			
- increased air pollution due to project construction and operation?			
- noise and vibration due to project construction or operation?			
- involuntary resettlement of people? (physical displacement and/or economic displacement)			
- disproportionate impacts on the poor, women and children, Indigenous Peoples or other vulnerable groups?			

- poor sanitation and solid waste disposal in construction camps and work sites, and possible transmission of communicable diseases (such as STI's and HIV/AIDS) from workers to local populations?			
- creation of temporary breeding habitats for diseases such as those transmitted by mosquitoes and rodents?			
- social conflicts if workers from other regions or countries are hired?			
- large population influx during project construction and operation that causes increased burden on social infrastructure and services (such as water supply and sanitation systems)?			
- risks and vulnerabilities related to occupational health and safety due to physical, chemical, biological, and radiological hazards during project construction and operation?			
- risks to community health and safety due to the transport, storage, and use and/or disposal of materials such as explosives, fuel and other chemicals during construction and operation?			
- community safety risks due to both accidental and natural causes, especially where the structural elements or components of the project are accessible to members of the affected community or where their failure could result in injury to the community throughout project construction, operation and decommissioning?			
- generation of solid waste and/or hazardous waste?			
- use of chemicals?			
- generation of wastewater during construction or operation?			

Appendix 3. Involuntary Resettlement Screening/Categorization Checklist

Name of Subborrower: _____
Subproject Title: _____
Location: _____

Probable Involuntary Resettlement Effects	Yes	No	Not Know	Remarks
Involuntary Acquisition of Land				
1. Will there be land acquisition?				
2. Is the site for land acquisition known?				
3. Is the ownership status and current usage of land to be acquired known?				
4. Will easement be utilized within an existing Right of Way (ROW)?				
5. Will there be loss of shelter and residential land due to land acquisition?				
6. Will there be loss of agricultural and other productive assets due to land acquisition?				
7. Will there be losses of crops, trees, and fixed assets due to land acquisition?				
8. Will there be loss of businesses or enterprises due to land acquisition?				
9. Will there be loss of income sources and means of livelihoods due to land acquisition?				
Involuntary restrictions on land use or on access to legally designated parks and protected areas				
10. Will people lose access to natural resources, communal facilities and services?				
11. If land use is changed, will it have an adverse impact on social and economic activities?				
12. Will access to land and resources owned communally or by the state be restricted?				
Any estimate of the likely number of persons that will be displaced by the Project? <input type="checkbox"/> No <input type="checkbox"/> Yes				
If yes, approximately how many? _____				
Are any of them poor, female-heads of households, or vulnerable to poverty risks? <input type="checkbox"/> No <input type="checkbox"/> Yes				
Are any displaced persons from indigenous or ethnic minority groups? <input type="checkbox"/> No <input type="checkbox"/> Yes				

Note: The project team may attach additional information on the project, as necessary.

IR Categorization: <ul style="list-style-type: none"> o A - significant IR impacts (200 or more); RP required o B – insignificant IR impacts; RP required o C – no impact; no requirement 	Prepared by: (Sub-borrower)
	Name and Signature: Designation: Date:
	Reviewed by: (FIB designated officer)
	Name and Signature: Designation: Date:

Appendix 4. Suggested Site Inspection Monitoring Checklist for Category “B” Subprojects During Implementation

Visual Inception Procedure

Obtain site map or make a sketch to mark details

Take photos, if permitted

Walk over as much of the site as possible, including boundaries, to note adjacent activities Note any odors, smoke or dust emissions, standing water, etc.

A. Location of project visited (Provide information on the name of the enterprise, district, province) _____

B. Date of field monitoring/visit _____

1. Location

Locate site on local map or indicate area

2. Current activity

Construction (specify) _____

Breeding (cattle, poultry, fish beekeeping ...) _____

Processing/installation of equipment (specify) _____

[Examine progress of construction/operation activities and identify issues in terms of environmental and social impacts, mitigation measures to address these issues (or corrective action plan for existing facilities) and compliance status with applicable national environmental safeguard requirements, laws, regulations, and standards and complete the following table.]

Mitigation Measures	Status of implementation Y/N	Notes	Corrective actions (if needed)
Timely disposal of wastes from construction site			
Usage of PPE by workers			
Waste water collected and treated in waste water treatment facilities			
.....			

C. Complaints from affected people and redress actions taken (if applicable)

D. Conclusion and Recommendations (based on the inspection presented in the table)

Inspection carried out by _____ (Name and Signature, with Date of Report preparation)