

The Korean version of this Guidance shall always take precedence over a version in a different language, which is provided for information purposes only.

Environmental and Social Guidance for Project Finance

Enacted on September 5, 2016

Amended on October 4, 2016 (1)

Article 1 (Purpose) The purpose of this guidance is to set forth matters related to environmental and social (hereinafter E&S) impact assessment for project finance operations in accordance with Article 18 of the Project Finance and Syndication Guideline and Article 20 of the Guideline for Regional Development Projects.

Article 2 (Principle) This guidance shall abide by the Performance Standards of the International Finance Corporation. (1)

Article 3 (Scope of Application) This guidance shall be applied to project finance transactions with total project costs of U\$10 million or more.

Article 4 (Preliminary Appraisal)

① The performing department requests the Preliminary Appraisal Committee for an E&S classification of a planned project based on the Checklist for Environmental and Social Classification (Appendix 1) it has filled out from the E&S related information provided by borrowers. Classification shall be completed before the submission of the letter of commitment by the performing department.

- ② The Preliminary Appraisal Committee is operated pursuant to the following sub-paragraphs:
1. Composition: General Manager of the department responsible for E&S (Chairman), the Head of E&S Policy Team in the Business Planning Department, the Head of the team responsible for E&S matters in the Project Finance Center
 2. Meeting: to be convened on demand
 3. Agenda and minutes: The performing department shall submit the agenda to the Chairman and the members of the Preliminary Appraisal Committee two days prior to the proposed day of the meeting, and take minutes of the meeting
- ③ The Preliminary Appraisal Committee shall notify the performing department of the result of the E&S classification after reviewing the Checklist for Environmental and Social Classification (Appendix 1) and the illustrative list of projects which may have severe negative environmental, social, and climate change impacts (Appendix 2). Projects may be reclassified when the need arises.
1. Category A: Projects will be classified as category A, if they may have a severe negative impact on the environmental and/or the social conditions of those concerned.
 2. Category B: Projects will be classified as category B, if they may have a potentially negative impact on the environment and on the social conditions of those concerned, which, however, is less severe than that of category A planned projects and can usually be mitigated through state-of-the-art countermeasures or standard solution.
 3. Category C: Projects will be classified as category C, if they are expected to have no or only minor negative environmental and social consequences and if the implementation and operation of the project

does not require any particular protection, compensation or monitoring measures.

Article 5 (Assessment Standards) The assessment of E&S impacts of a planned project shall follow the Performance Standards of the International Financial Corporation. If a project country is deemed to have an appropriate level of E&S-related regulations (Appendix 3), such regulations may be applied instead. (1)

Article 6 (Due Diligence)

- ① The performing department shall carry out environmental and social due diligence in accordance with the following sub-paragraphs. If deemed necessary, the performing department may request a third party advice from professional consultants.
1. In case of a Category A project, the performing department shall review E&S impacts based on the E&S impact assessment reports and E&S management plan submitted by the borrower. If the mitigation measures provided by the borrower do not meet the standards described in Article 4 herein, the performing department shall request the borrower to supplement and resubmit the revised documents.
 2. In case of a Category B project, the performing department shall review E&S impacts based on E&S-related information provided by the borrower. If the assessment, planning and mitigation measures provided by the borrower do not meet standards described in Article 5 herein, the performing department shall request the borrower to supplement and resubmit the revised documents. (1)
 3. In case of a Category C project, E&S impacts review may be omitted.

- ② The performing department shall prepare and attach the Environmental and Social Impact Screening Form (Appendix 4) for Category A and B projects as part of the loan application to be approved by the applicable decision making committee or authorized personnel.

Article 7 (Monitoring)

- ① The performing department shall visit the project site or the borrower at least once a year to monitor the E&S impact assessment requirements and prepare monitoring reports for Category A and B projects; provided, however, that the foregoing may be applied differently for syndicated projects according to the facility agreement. In case of a project implemented in countries included in Appendix 3, monitoring may be implemented according to the regulations and procedures of the relevant countries.
- ② On an exceptional basis, if regular on-site monitoring is not possible in view of specific, short-term project circumstances (for example, temporary restricted access), it may be replaced with a monitoring of the relevant documents. (1)

Article 8 (Information Disclosure) For Category A or B projects, the performing department shall have the borrower fill out the Consent to Environmental and Social Information Disclosure (Appendix 5) and disclose project information including summary and E&S matters on KDB's website; provided, however, that the foregoing shall not apply if the borrower does not consent to the disclosure due to confidentiality reasons.

Addendum

Article 1 (Enforcement Date) This guidance shall be effective from September 5, 2016.

Addendum (1)

Article 1 (Enforcement Date) This guidance shall be effective from October 4, 2016.

[Appendix 1] Checklist for Environmental and Social Classification

- This checklist is to be prepared to support the environmental and social classification of a project, focusing on environmental and social issues and concerns.
- Answer the questions assuming the "with mitigation" case. The purpose is to identify potential impacts.
- Choose only one option below, 'Yes,' 'No,' 'N/K (not known),' and 'P (Possible).'
- Use the 'remarks' section to discuss any anticipated mitigation measures.

Country:

Project Title:

Questions	Yes	No	N/K	P	Remarks
A. Project Siting					
Is the Project area adjacent to or within any of the following environmentally sensitive areas?					
• Cultural heritage site	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Protected Area	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Wetland	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Mangrove* * irregular forest growing in river mouth, salt march, coastal areas	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Estuarine	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Buffer zone of protected area	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Special area for protecting biodiversity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Other important potential impacts (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B. Environmental Impacts					
Will the Project cause the following?					
• Loss of precious ecological values due to flooding of agricultural/forest areas, and wild lands and wildlife habitat; destruction of fish	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

spawning/breeding and nursery grounds, and disruption of fish migration routes?					
• Environmental degradation from increased pressure on land?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Increased incidence of waterborne or water-related diseases	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Depletion of dissolved oxygen by large quantities of decaying plant material, fish mortality due to reduced dissolved oxygen content in water?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Environmental problems arising from uncontrolled human migration into the area, made possible by access roads and transmission lines?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Encroachment into precious ecosystem (e.g. sensitive habitats like protected forest areas or terrestrial wildlife habitats)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Noise and dust from construction activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Risk of oil spills, which could pollute surface and groundwater and soil?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Pollution of water bodies and aquatic ecosystem from wastewater treatment plant for boiler feed, bleed-off from cooling towers, boiler blowdown and wash-water, and effluent from ash pond?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Air pollution from fuel gas discharged into the atmosphere?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Public health and safety and hazards due to solid waste disposal in sanitary landfills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Other important potential impacts (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
C. Social Impacts Will the Project cause the following?					

• Dislocation or involuntary resettlement of people?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Disruption / destruction of tribal groups / indigenous peoples?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Conflicts on water supply rights, and related social conflicts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Impairment of historical / cultural monuments and other areas, and loss / damage to these sites?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Aesthetic degradation and property value loss due to establishment of plant and ancillary facilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Social conflicts between construction workers from other areas and community workers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Hazardous driving conditions where construction interferes with pre-existing roads?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Accident risks associated with maintenance of lines and related facilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
• Other important potential impacts (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

[Appendix 2] Illustrative list of projects which may have severe negative environmental, social, and climate change impacts

The following is an illustrative list of project types and measures that have the potential to cause severe negative environmental and/or social impacts and can therefore be assigned to category A or B.*

* The project potential adverse environmental and social impacts are less adverse than those of Category A projects

1. Extensive and significant changes to the use of natural resources (e.g. changes in the use of land - as farm-land, as forest or pasture land, for rural development, commercial timber production, etc.) as well as extensive land reclamation
2. Extensive and significant changes to management methods in agriculture and fishery (e.g. introduction of new plant species, large-scale mechanization, introduction of new fish species) and extensive logging
3. Intensive poultry or pig farming operations
4. Use of water resources (e.g. large dams and other impoundments, irrigation and drainage projects, deep wells, water management and management of catchment areas, water supply)
5. Infrastructures (e.g. roads, bridges, airports, seaports, transmission lines, pipelines, railroad networks, tourism)
6. Industrial activities (e.g. metallurgic works, timber processing plants, chemical factories, power plants, cement factories, refineries and petrochemical plants, agro-industries)
7. Use of geological resources, mining etc. (e.g. mines, quarries, peat exploitation, oil and natural gas production)
8. Municipal wastewater treatment plants with a capacity of more than 150,000 population equivalents
9. Waste management and removal (e.g. sewerage systems, landfills, treatment plants for domestic and hazardous waste)
10. Projects in which a significant number of affected persons have to be resettled involuntarily

[Appendix 3] The list of Designated Countries (based on the Equator Principles)

○ Designated countries

Designated countries are those countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the national environment.

No.	Countries	No.	Countries
1	Australia	17	Italy
2	Austria	18	Japan
3	Belgium	19	Republic of Korea
4	Canada	20	Luxembourg
5	Chile	21	Netherlands
6	Czech Republic	22	New Zealand
7	Denmark	23	Norway
8	Estonia	24	Poland
9	Finland	25	Portugal
10	France	26	Slovak Republic
11	Germany	27	Slovenia
12	Greece	28	Spain
13	Hungary	29	Sweden
14	Iceland	30	Switzerland
15	Ireland	31	United Kingdom
16	Israel	32	United States

[Appendix 4] Environmental and Social Impact Screening Form

Standards	Results
1. Assessment and Management of Environmental and Social Risks and Impacts	
2. Labor and Working Conditions	
3. Resource Efficiency and Pollution Prevention	
4. Community Health, Safety, and Security	
5. Land Acquisition and Involuntary Resettlement	
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources	
7. Indigenous Peoples	
8. Cultural Heritage	

※ The form above can be modified according to environmental and social standards applied to a planned project.

[Appendix 5] Consent to Environmental and Social Information disclosure

To: The Korea Development Bank

Project Name:

In connection with the project above, we agree to disclose the information listed below to the public through the Korea Development Bank's website. We pledge not to hold the Korea Development Bank accountable should there arise any issues due to this disclosure.

- Project name
- Project description
- Host country and project location
- Sponsors (Contact information and/or website)
- Date of approval
- Project environmental and social category
- Information on environmental and social impact assessment
- Other environmental and social information(e.g. Environmental and Social monitoring reports, stakeholder engagement plan)

Name of Company: _____

Name: _____ Signature: _____

Title: _____ Date: _____