

Mongolian Sustainable Finance Principles

Construction and Infrastructure Sector Guideline

DRAFT

Table of Contents

Glossary of Terms	3
1. Introduction	5
2. Objectives	5
3. Scope and Applicability	5
4. E&S Issues in the Mongolian Construction Sector	6
5. E&S Requirements for Construction Sector Transactions in Mongolia	7
6. On-going Monitoring	9
7. Reporting	10
Appendix 1: Mongolian Construction Sector Activity and Associated E&S Issues	11
Appendix 2: Relevant Mongolian Laws for the Construction Sector	17
Appendix 3: Relevant Mongolian and International Standards, Principles and other References for the Construction Sector	18
Appendix 4: Relevant Construction Sector Stakeholders in Mongolia	20

Glossary of Terms

Abbreviation or Term	Definition
Bank	A Mongolian Bank signatory to the Mongolian Sustainable Finance Principles Joint Commitment Statement
Building construction	Building construction (residential and commercial) is the process of adding structure to existing property or construction of buildings
Business Activities	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (structured lending and capital, trading), equity investments, project finance, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending
Business Operations	The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities
BoM	Bank of Mongolia (Mongol Bank)
DEIA	Detailed Environmental Impact Assessment
EPP	Environmental Protection Plan
E&S	Environmental and Social
E&S risks	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions
E&S impacts	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or activity to be financed. E &S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental impacts can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social impacts can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes such as resettlement, land acquisition or corruption, etc.)
E&S opportunities	New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client
GASI	General Agency of Specialized Inspection of Mongolia
IFC	International Finance Corporation
MCUD	Ministry of Construction and Urban Development of Mongolia
ME	Ministry of Energy of Mongolia
MEGD	Ministry of Environment and Green Development of Mongolia
MRA	Mongolian Railway Agency of Mongolia
MRT	Ministry of Road and Transportation of Mongolia
OHS	Occupational Health and Safety, i.e. protecting the safety, health and welfare of people engaged in work or employment
Principles	Mongolian Sustainable Finance Principles

Abbreviation or Term	Definition
Sustainable Finance	An approach that recognises the role of Banks in driving long term economic development in Mongolia that is not only economically viable, but also environmentally responsible and socially relevant
TOR	Terms of reference. The TOR details how the construction project will be defined, developed and verified. It should also provide a documented basis for making future decisions and for confirming or developing a common understanding of the scope among stakeholders

1. Introduction

This Guideline for banks providing debt or equity to the Construction sector or construction activities was developed as a companion document to the Mongolian Sustainable Finance Principles (the Principles):

- Principle 1 | Protect the natural environment
- Principle 2 | Protect people and communities
- Principle 3 | Protect cultural heritage
- Principle 4 | Promote "green economy" growth
- Principle 5 | Promote financial inclusion
- Principle 6 | Promote ethical finance and corporate governance
- Principle 7 | Promote transparency and accountability
- Principle 8 | Practice what we preach

All banks involved in financing construction sector clients, projects or transactions should apply the Mongolian Sustainable Finance Principles and this Sector Guideline when assessing new clients, projects or transactions. The Sector Guideline is designed to be consistent with, and support the furtherance of, the implementation of the Mongolian Sustainable Finance Principles. The main focus of this Sector Guideline is on E&S risk management, however banks should also consider opportunities for E&S performance improvement beyond risk management.

2. Objectives

The objective of the Construction Sector Guideline is to provide guidance to the Banks with regard to the assessment of potential environmental and social (E&S) risks and opportunities associated with providing debt or equity to clients' construction sector activities. The Guideline is designed to support Banks to:

- Identify the risks and opportunities associated with a construction sector client's activities as well as their ability to manage E&S issues (see **Appendix 1, Table 1**);
- Develop E&S risk rating criteria for assessing and categorising E&S risks associated with construction sector activities at the transaction and client level;
- Adopt relevant industry international standards and best practices in management of E&S risk exposure associated with providing finance to construction sector clients or transactions;
- Adopt an approach to promote transparency and accountability when providing finance to construction sector clients or transactions;
- Where appropriate identify and explore potential opportunities to improve a client or transaction's environmental and social performance.

3. Scope and Applicability

This Guideline will apply to all Banks adopting the Principles and will cover Business Activities relating to construction sector clients or investee companies. For the purposes of this Guideline, construction sector activities include, but are not limited to:

1. Construction (e.g. project finance, business financing and loans, tender bond and loans, and other services related to tendering process (financing from State funding and other international funding, associated with State programs); and
2. Infrastructure development.

See the table below for a list of more specific sub-sector activities that fall under these two main groups.

Sector Activity	Sub-Sector Activities
Construction	<ul style="list-style-type: none"> • Residential and commercial building construction; • Industrial building construction.
Infrastructure	<ul style="list-style-type: none"> • Infrastructure development: <ul style="list-style-type: none"> • Roads; • Railroads; • Power generation infrastructure, e.g.: <ul style="list-style-type: none"> • Wind farm; • Solar power plant; • Coal fired thermal station; • Hydro – electrical power station. • Water facilities; • Waste facilities; and • Other utilities.

E&S risks, for the purposes of this Guideline, refer to potential impacts on and risks to the environment and local communities by a Bank’s client’s activities and its primary supply chain parties relating to construction activities. Refer to **Appendix 1: Construction sector activity and associated E&S risks**.

4. E&S Issues in the Mongolian Construction Sector

There are a number of considerations for assessing E&S risk when providing finance to a construction sector client, project or transaction, including but not limited to:

- The type and scale of construction activity (see **Appendix 1**);
- The geographical location of a construction project in relation to natural resources, protected areas, and communities and their economic activities; and
- Potential impacts on the environment (including pollution, loss of biodiversity, natural resource depletion, waste generation, pollution, emissions, etc.) or community (including hazards to human health, safety and security, economic displacement, etc.), and threats to a region's cultural heritage (see **Appendix 1**).

Some E&S issues have higher levels of risk associated with them. The table below provides examples of high and medium risk transactions:

Requirement	Additional Information
A high-risk transaction involves activities that carry potential significant adverse E&S risks and/or impacts that are diverse, irreversible or unprecedented.	<ul style="list-style-type: none"> • All construction projects located in the vicinity of natural and cultural heritage sites with national importance (protected areas); • All construction projects using unbounded asbestos fibres, which is on the exclusion list of some international financing organisations; construction projects with community grievances such as loss of land for the recreational facilities, land disputes; • Railway and road construction projects with high and uncontrolled building aggregate consumption across road routes, which leads to natural resource depletion; and • Railway and road construction projects with resettlement and economic or physical displacement issues. • Projects with the use of highly hazardous chemicals and potentially harmful to human health.

Requirement	Additional Information
<p>A medium-risk transaction involves activities with limited, few adverse E&S risks and/or impacts which are site specific, largely reversible and readily addressed through mitigation measures.</p>	<ul style="list-style-type: none"> • Construction projects with community grievances such as loss of land for the recreational facilities, land disputes, such as resettlement, land acquisition; and • Residential and commercial building construction with issues associated with not meeting construction specifications.

5. E&S Requirements for Construction Sector Transactions in Mongolia

To meet the commitments of the Mongolian Sustainable Finance Principles and successfully manage E&S issues associated with a construction sector client or transaction, each Bank shall develop and implement an E&S management system (ESMS) that assists banks in the identification, assessment, management and, where applicable, on-going monitoring of identified E&S risks including those E&S risks associated with the construction sector.

As part of its wider ESMS, a Bank will aim to apply relevant Principles to its assessment of construction sector activities. In particular, Principles 1 (Protect the natural environment), Principle 2 (Protect people and communities), Principle 3 (Protect Cultural Heritage), Principle 4 (Promote “green economy” growth), and Principle 6 (Promote ethical finance and corporate governance) are the most relevant for a Bank when considering construction sector clients, projects or transactions.

E&S requirements for construction sector clients, projects or transactions should be integrated into the Bank’s wider ESMS approach and include, but are not limited to:

[Table begins on next page]

Requirement	Additional Information
<p>1. Initial crosschecking of all the client's (and if appropriate, the contractor's) documents and approvals for construction activities.</p>	<ul style="list-style-type: none"> • Construction Company: a construction company is responsible for the contractor's documents including special licenses, issued from relevant state agencies (see Appendix 2 and 3); • Approval of construction drawings or road/rail alignments: <ul style="list-style-type: none"> • Approval for heating; • Approval for water and sewerage; • Approval from Fire department; • Approval from Sanitation department; • Approval from Chief Architect; • Approval from Ulaanbaatar Electricity Distribution Network; and • Approval from State technical and special committee. • Cadastre plan and land possession agreement and permission to build (Land Department of the Municipality); • Approval from GASI; Ulaanbaatar Governor office (building (construction) materials should comply with Mongolian construction standard and rule requirements); • TOR or project specification; • Agreement on Waste disposal: type of waste, including solid, hazardous and non-hazardous, wastewater; • Checking the company activity type in terms of the Principle 6's Exclusion list; • Checking building (construction) materials in terms of the List of prohibited and limited usage of chemicals and dangerous substances within Mongolia; • Check client or, if appropriate, Construction company's policy, procedure and records on OHS, Environmental, Social and Quality management (Construction companies are responsible for the Contractor's management system); • General EIA conclusion for construction projects from City Environmental office; • Feasibility study, EIA or DEIA (for Infrastructure development and Industrial building construction projects); • Company EPP, including the Rehabilitation plan; • Expert opinions about E&S high-risk construction projects in terms of: project scale (big, medium and small), activity type (for chemical plant there are requirements of Construction standards and rules are stricter), location (proximity to settled area and protected area or local community), and company capability and reputation (check Bank's or client's internal record on HSE performance).
<p>2. Develop a construction client or transaction E&S risk rating system to assess and categorise all risks. The assessment and categorisation outcomes are important for determining client's E&S risk level and informing credit approval, portfolio management and exit decisions.</p>	<ul style="list-style-type: none"> • See Section 4 of this document for more detail on high and medium risks associated with construction activities.

Requirement	Additional Information
<p>3. Assess whether the construction sector transaction (depending on size) meets the requirements of applicable international and national E&S laws and standards (see Appendix 2 and 3).</p>	<ul style="list-style-type: none"> • Depending on the construction activity, identify relevant compulsory national laws, standards and international voluntary standards; • Check the client performance according to these laws and standards in terms of: <ul style="list-style-type: none"> • Environment protection including but not limited to: <ul style="list-style-type: none"> • Environment pollution; • Biodiversity degradation; and • Waste management. • Social protection including but not limited to: <ul style="list-style-type: none"> • Impact on local community; and • Impacts on workers. • Identify gaps (most negative E&S risks) and address them in action plan.
<p>4. Identify construction sector clients associated with significant E&S risks and assess the client's ability to manage and/or mitigate such risks.</p>	<p>Management and mitigation on the part of the client:</p> <ul style="list-style-type: none"> • Develop and implement action plans for risks involved; • Put in place comprehensive and effective stakeholder engagement mechanism (see Appendix 4); • Seek risk mitigation measures, for example through a third party sharing of potential E&S risk.

The final categorization of high, medium or low risk will be determined by considering all of the above requirements.

For clients, projects or transactions involving high and/or medium E&S risks, a Bank should ensure that the client has adequately addressed, or developed an appropriate action plan to address, identified E&S issues. In other words, a Bank should ensure that clients have appropriate management plans and procedures with corrective actions to mitigate identified negative E&S impacts and reduce E&S risk levels.

Banks can request mining sector clients to develop a systematic work plan or action plan to improve identified areas of poor or inadequate E&S performance. The plan should be credible, time-bound and documented. Banks shall, where appropriate, include conditions and covenants in the transaction documentation to ensure identified E&S risks are adequately managed and that instances of non-compliance are addressed with the client or treated as events of default.

In support of the above, and as part of the Bank's wider ESMS, each Bank should seek to build its capacity across relevant business functions with regard to E&S risk management, including provision of E&S risk training, as well as recruiting and training specialised staff. If necessary, Banks can engage qualified and independent third parties for support on E&S risk management or the provision of training; however this third party support should not be in lieu of building capacity within the Bank.

6. On-going Monitoring

Where a construction sector transaction involving E&S risk issues has been approved, a Bank should monitor the client's implementation of any agreed E&S action plans, E&S risk management plans, or other requirements, that have been included in the transaction documentation to ensure effective E&S risk mitigation.

7. Reporting¹

Banks shall report at least annually about its E&S management implementation processes and experience, including information of construction sector clients and transactions to BoM and MBA (see **Appendix 4**). The reporting related to construction sector transactions should at a minimum include, but is not limited to, the following:

- Number of construction sector transactions screened;
- Number of construction sector transactions approved;
- E&S risk categorisation, breakdown by construction sector activity or region; and
- On-going monitoring requirements, i.e. the progress of the agreed E&S action plan.

¹ Will revise when Mongolian Banks have agreed on the reporting requirements

Appendix 1: Mongolian Construction Sector Activity and Associated E&S Issues

The nature and type of E&S issues associated with a construction sector client's activities depends on the type and scale of construction activities. A Bank should consider any E&S issues identified and detailed in a construction company's ESIA or DEIA as well as information and insights uncovered during the E&S risk assessment and categorisation process. The following construction sector activities and associated E&S issues should be considered when assessing E&S risk at the client or transaction level. Please note E&S issues are not limited to those presented in Table 1.

Table 1: Construction Sector activity & associated E&S issues

Sector Activity	Sub-Activity	Sub-Activity Breakdown	Key Environmental Issues	Control	Key Social Issues	Control
Residential, Commercial and Industrial building construction	Residential and commercial building construction	<ul style="list-style-type: none"> Approval and permission process Geotechnical survey Groundwork Concrete work Steel construction work Assemblage work: water, electricity, heating connection 	<ul style="list-style-type: none"> Construction site contamination Dust, noise, emission, vibration issues Energy and water overuse Soil pollution by petroleum, waste oil and other lubricants Waste generation, including sewage 	<ul style="list-style-type: none"> Avoid contamination by controlling the release of hazardous materials and wastes or oil to the environment² Implement dust, noise, emission, vibration prevention and mitigation controls Avoid or reduce energy and/or water usage and implement water efficiency measures such as water recycling; use renewable energy sources such as wind, solar, hydro Implement pollution controls such as a pollution prevention action plan (including regular water and soil quality monitoring) Avoid or minimize the generation of hazardous and non-hazardous waste materials and implement waste 	<ul style="list-style-type: none"> Community conflict related to foreign worker's employment Occupational health and safety Community health and safety Human rights (e.g. breaches associated with working conditions and long work hours; informal employment contract) Difference of building's square metres, leading to economic loss of the purchaser Land disputes, such as ownership, resettlement, illegal land acquisition Loss of land for recreational facilities 	<ul style="list-style-type: none"> State control over foreign workers; regular inspection of immigration status Comply with labour and occupational health and safety laws Avoid adverse impacts on the health and safety of affected community Comply with Mongolian Labour law, ILO Labour standard³, applicable collective agreements and international Human rights conventions Implement grievance mechanism for community to raise social concerns Comply with Mongolian Construction standard and rules Establish proper approval and permission processes Implement life and fire safety master plan identifying major fire risks, applicable codes, standards and

² IFC EHS Guidelines: Contaminated land <http://www.ifc.org/wps/wcm/connect/4f4ca40048865833b49ef66a6515bb18/1-8%2BContaminated%2BLand.pdf?MOD=AJPERES>

³ <http://ilo.org/global/standards/subjects-covered-by-international-labour-standards/lang-en/index.htm>

Sector Activity	Sub-Activity	Sub-Activity Breakdown	Key Environmental Issues	Control	Key Social Issues	Control
				management controls, including proper disposal methods and on-going monitoring	<ul style="list-style-type: none"> No water, power and heat permissions resulting in these services not being connected Risk of associated facilities 	regulations, and mitigation measures ⁴
	Industrial building construction	<ul style="list-style-type: none"> Approval and permission process Geotechnical survey Groundwork Concrete work Steel construction work Assemblage work: water, electricity, heating connection 	<ul style="list-style-type: none"> Construction site contamination Dust, noise, emission, vibration issues Ecosystem damage Habitat fragmentation Pastureland loss Water and soil pollution by petroleum, waste oil and other lubricants Waste generation, including sewage 	<ul style="list-style-type: none"> Avoid contamination by controlling the release of hazardous materials and wastes, or oil to the environment Implement dust, noise, emission, vibration prevention and mitigation controls Avoid or minimize negative impacts on ecosystem and habitat; implement mitigation measures that aim to maintain the value and functionality of priority services Implement land management plan including pastureland participatory monitoring Implement pollution controls such as a pollution prevention action plan (including regular water and soil quality monitoring) 	<ul style="list-style-type: none"> Community and occupational health and safety Human rights (e.g. breaches associated with working conditions and long work hours; informal employment contract) Community resettlement Land disputes such as resettlement, land acquisition Local community unrest Cultural heritage loss Risk of associated facilities 	<ul style="list-style-type: none"> Comply with labour and occupational health and safety laws Avoid adverse impacts on the health and safety of affected community Comply with Mongolian Labour laws, ILO Labour standards, applicable collective agreements and international Human rights conventions Avoid, or minimize adverse social and economic impacts from land restrictions on land use by providing compensation for loss of assets at replacement cost⁵ Establish proper approval and permission processes Avoid adverse impacts of projects on local communities or minimize and/or compensate for such impacts⁶ Protect cultural heritage from the adverse impacts of project activities; support its preservation; promote the

⁴ IFC EHS Guidelines: Community health, safety: <http://www.ifc.org/wps/wcm/connect/dd673400488559ae83c4d36a6515bb18/3%2BCommunity%2BHealth%2Band%2BSafety.pdf?MOD=AJPERES>

⁵ IFC Performance Standard 5: Land acquisition: http://www.ifc.org/wps/wcm/connect/3d82c70049a79073b82cfaa8c6a8312a/PS5_English_2012.pdf?MOD=AJPERES

⁶ IFC Performance Standard 7: Indigenous people: http://www.ifc.org/wps/wcm/connect/1ee7038049a79139b845faa8c6a8312a/PS7_English_2012.pdf?MOD=AJPERES

Sector Activity	Sub-Activity	Sub-Activity Breakdown	Key Environmental Issues	Control	Key Social Issues	Control
				<ul style="list-style-type: none"> Avoid or minimize the generation of hazardous and non-hazardous waste materials and implement waste management controls, including proper disposal methods and on-going monitoring 		<ul style="list-style-type: none"> equitable sharing of benefits from the use of cultural heritage⁷ Implement life and fire safety master plan identifying major fire risks, applicable codes, standards and regulations, and mitigation measures
Infrastructure development	Road	<ul style="list-style-type: none"> Approval and permission process Geotechnical survey DEIA Groundwork 	<ul style="list-style-type: none"> Dust, noise, emission and vibration issues, led to biodiversity degradation and pollution Land disturbance Loss of biodiversity and habitat disturbance and fragmentation Natural resource and water depletion Waste generation 	<ul style="list-style-type: none"> Implement dust, noise, emission, vibration prevention and mitigation controls Rehabilitate land Avoid or minimize negative impacts on ecosystem and habitat; implement mitigation measures that aim to maintain the value and functionality of priority services Avoid or reduce energy and/or water usage and implement water efficiency measures such as water recycling; use renewable energy sources such as wind, solar, hydro Avoid or minimize the generation of hazardous and non-hazardous waste materials and implement waste 	<ul style="list-style-type: none"> Community and occupational health and safety Human rights (e.g. breaches associated with working conditions and long work hours; informal employment contract) Local community unrest Cultural heritage loss Pastureland fragmentation Risk of associated facilities 	<ul style="list-style-type: none"> Comply with labour and occupational health and safety laws Avoid adverse impacts on the health and safety of affected community Comply with Mongolian Labour laws, ILO Labour standards, applicable collective agreements and international Human rights conventions Avoid, or minimize adverse social and economic impacts from land restrictions on land use by providing compensation for loss of assets at replacement cost⁸ Avoid adverse impacts of projects on local communities or minimize and/or compensate for such impacts⁹ Protect cultural heritage from the adverse impacts of project activities; support its preservation; promote the

⁷ IFC Performance Standard 8: Cultural heritage: http://www.ifc.org/wps/wcm/connect/dd8d3d0049a791a6b855faa8c6a8312a/PS8_English_2012.pdf?MOD=AJPERES

⁸ IFC Performance Standard 5: Land acquisition: http://www.ifc.org/wps/wcm/connect/3d82c70049a79073b82cfaa8c6a8312a/PS5_English_2012.pdf?MOD=AJPERES

⁹ IFC Performance Standard 7: Indigenous people: http://www.ifc.org/wps/wcm/connect/1ee7038049a79139b845faa8c6a8312a/PS7_English_2012.pdf?MOD=AJPERES

Sector Activity	Sub-Activity	Sub-Activity Breakdown	Key Environmental Issues	Control	Key Social Issues	Control
				management controls, including proper disposal methods and on-going monitoring		equitable sharing of benefits from the use of cultural heritage ¹⁰ <ul style="list-style-type: none"> Implement life and fire safety master plan identifying major fire risks, applicable codes, standards and regulations, and mitigation measures
	Railroad	<ul style="list-style-type: none"> Approval and permission process Geotechnical survey DEIA Groundwork Steel construction work 	<ul style="list-style-type: none"> Dust, noise, emission and vibration issues, led to biodiversity degradation and pollution Land disturbance Loss of biodiversity and habitat disturbance Natural resource and water depletion Waste generation 	<ul style="list-style-type: none"> Implement dust, noise, emission, vibration prevention and mitigation controls Rehabilitate land Avoid or minimize negative impacts on ecosystem and habitat; implement mitigation measures that aim to maintain the value and functionality of priority services Avoid or reduce energy and/or water usage and implement water efficiency measures such as water recycling; use renewable energy sources such as wind, solar, hydro Avoid or minimize the generation of hazardous and non-hazardous waste materials and implement waste management controls, including proper disposal methods and on-going monitoring 	<ul style="list-style-type: none"> Human rights (e.g. breaches associated with working conditions and long work hours; informal employment contract) Local community unrest Loss of pastureland and water access Natural and cultural heritage loss Employee and community health and safety issues Risk of associated facilities 	<ul style="list-style-type: none"> Comply with Mongolian Labour laws, ILO Labour standards, applicable collective agreements and international Human rights conventions Avoid adverse impacts of projects on local communities or minimize and/or compensate for such impacts Avoid, or minimize adverse social and economic impacts from land restrictions on land or water use by providing compensation for loss of assets at replacement cost Protect cultural heritage from the adverse impacts of project activities; support its preservation; promote the equitable sharing of benefits from the use of cultural heritage Comply with labour and occupational health and safety laws Avoid adverse impacts on the health and safety of affected community Implement life and fire safety master plan identifying major fire risks, applicable codes, standards and regulations, and mitigation measures

¹⁰ IFC Performance Standard 8: Cultural heritage: http://www.ifc.org/wps/wcm/connect/dd8d3d0049a791a6b855faa8c6a8312a/PS8_English_2012.pdf?MOD=AJPERES

Sector Activity	Sub-Activity	Sub-Activity Breakdown	Key Environmental Issues	Control	Key Social Issues	Control
	Water, Waste facility & Public utilities	<ul style="list-style-type: none"> • Approval and permission process • Geotechnical survey • Groundwork 	<ul style="list-style-type: none"> • Construction site pollution • Dust, noise, emission and vibration issues • Land disturbance • Loss of biodiversity and habitat disturbance • Waste generation 	<ul style="list-style-type: none"> • Avoid contamination by controlling the release of hazardous materials and wastes, or oil to the environment • Implement dust, noise, emission, vibration prevention and mitigation controls • Rehabilitate land • Avoid or minimize negative impacts on ecosystem and habitat; implement mitigation measures that aim to maintain the value and functionality of priority services • Avoid or minimize the generation of hazardous and non-hazardous waste materials and implement waste management controls, including proper disposal methods and on-going monitoring 	<ul style="list-style-type: none"> • Employee and community health and safety issues • Human rights – breaches associated with working conditions and long work hours; informal employment contract • Loss of pastureland and water access • Risk of associated facilities 	<ul style="list-style-type: none"> • Comply with labour and occupational health and safety laws • Avoid adverse impacts on the health and safety of affected community • Comply with Mongolian Labour laws, ILO Labour standards, applicable collective agreements and international Human rights conventions • Avoid, or minimize adverse social and economic impacts from land restrictions on land or water use by providing compensation for loss of assets at replacement cost • Implement life and fire safety master plan identifying major fire risks, applicable codes, standards and regulations, and mitigation measures
Construction of power generation facilities	Power generation: Wind farm; Solar power plant; Coal fired thermal plant; Hydro-electrical	<ul style="list-style-type: none"> • Approval and permission process • Geotechnical survey • DEIA • Groundwork • Concrete work 	<ul style="list-style-type: none"> • Construction site contamination • Dust, noise, emission and vibration issues • Ecosystem damage • Methane, flue gas and carbon 	<ul style="list-style-type: none"> • Avoid contamination by controlling the release of hazardous materials and wastes, or oil to the environment • Implement dust, noise, emission, vibration prevention and mitigation controls • Avoid or minimize negative impacts on ecosystem and 	<ul style="list-style-type: none"> • Community and occupational health and safety • Community resettlement • Human rights – breaches associated with working conditions and long work hours; informal employment contract • Land disputes such as 	<ul style="list-style-type: none"> • Comply with labour and occupational health and safety laws • Avoid adverse impacts on the health and safety of affected community • Avoid or minimize physical and/or economic displacement, while balancing environmental, social, and financial costs and benefits, paying particular attention to impacts on the poor and vulnerable¹²

¹² IFC Performance Standard 5: Land acquisition and Involuntary resettlement: http://www.ifc.org/wps/wcm/connect/3d82c70049a79073b82cfaa8c6a8312a/PS5_English_2012.pdf?MOD=AJPERES

Sector Activity	Sub-Activity	Sub-Activity Breakdown	Key Environmental Issues	Control	Key Social Issues	Control
	power station	<ul style="list-style-type: none"> • Steel construction work • Assemblage work: water, electricity, heating connection 	<ul style="list-style-type: none"> • dioxide, greenhouse gas emissions • Power station facility failure • Soil pollution by petroleum, waste oil and other lubricants • Waste generation • Climate change issues due to GHG emission 	<ul style="list-style-type: none"> • habitat; implement mitigation measures that aim to maintain the value and functionality of priority services • Avoid, minimize, and control adverse impacts to human health, safety, and the environment from emissions to air¹¹ • Use cost-effective technology for power generation • Implement pollution controls such as a pollution prevention action plan (including regular water and soil quality monitoring) • Avoid or minimize the generation of hazardous and non-hazardous waste materials and implement waste management controls, including proper disposal methods and on-going monitoring • Implement cost-effective options to reduce project-related GHG 	<ul style="list-style-type: none"> • resettlement, land acquisition • Loss of pastureland and water access • Risk of associated facilities 	<ul style="list-style-type: none"> • Comply with Mongolian Labour laws, ILO Labour standards, applicable collective agreements and international Human rights conventions • Establish proper approval processes • Avoid, or minimize adverse social and economic impacts from land restrictions on land or water use by providing compensation for loss of assets at replacement cost • Implement life and fire safety master plan identifying major fire risks, applicable codes, standards and regulations, and mitigation measures

¹¹ IFC EHS Guidelines: Air emissions and ambient Air quality: <http://www.ifc.org/wps/wcm/connect/532ff4804886583ab4d6f66a6515bb18/1-1%2BAir%2BEmissions%2Band%2BAmbient%2BAir%2BQuality.pdf?MOD=AJPERES>

Appendix 2: Relevant Mongolian Laws for the Construction Sector

The following laws and regulations are applicable when assessing construction sector client activities:

Laws:

Mongolian Law¹³ (mandatory):

- Law on Construction (2008)
- Law on Road (1998)
- Law on Railway Transportation (2007)
- Law on Urban Development (2008)
- Law on Energy (2007)
- Law on Renewable Energy (2007)
- Law on Cadastre and Land Cadastre (2007)
- Law on Company activities' special licence (2001)
- Law on Procurement of products, works, services by state and local government funds (2005)
- Labour Law (1999)
- Law on Social Security (1994)
- Law on Occupational Health and Safety (2008)
- Law on Hygiene (1998)
- Law on Environmental Protection (1995)
- Law on Environmental Impact Assessment (2012)
- Law on Air (2012)
- Law on Air pollution Fee (2010)
- Law on Water (2012)
- Law on Gender equality (2012)
- Law on Land (2002)
- Law on Land Fee (1997)
- Law on Toxic and Hazardous Chemicals (2006)
- Law on Waste (2012)
- Law on Fire Safety (1999)

¹³ <http://www.legalinfo.mn/>

Appendix 3: Relevant Mongolian and International Standards, Principles and other References for the Construction Sector

Mongolian Standards¹⁴ (mandatory):

- MNS Standards related to Environmental protection;
- MNS Standards related to Land disturbance and reclamation;
- MNS Standards related to Construction and construction materials;
- MNS Standards related to Civil buildings;
- MNS Standards related to Road equipment;
- MNS Standards related to Railroad infrastructure;
- MNS Standards related to Power;
- MNS Standards related to Air quality;
- MNS Standards related to Occupational Health and Safety;
- MNS Standards related to Water quality and safety;
- MNS Standards related to Soil quality.
- Mongolian Construction Standards and Rules¹⁵

International Standards (voluntary):

ISO 14001¹⁶: Standard specifies the requirements for an E&S management system.

ISO 9000¹⁷: Quality management.

OHS18001¹⁸: Occupational Health and Safety.

Leading Industry E&S Standards and Best Practice References

IFC Performance Standards¹⁹ (recommended)

PS 1: Assessment and management of E&S and social risks and impacts

PS 2: Labour and Working Conditions

PS 3: Resource efficiency and Pollution Prevention

PS 4: Community Health, Safety, and Security

PS 5: Land acquisition and involuntary resettlement

PS 6: Biodiversity Conservation and Sustainable management of living natural resources

PS 7: Indigenous Peoples

PS 8: Cultural Heritage

Interpretation Note on Financial Intermediaries²⁰

EBRD Performance Requirements²¹ (voluntary): Required where EBRD is an investor (similar to IFC standards)

IFC/WB²² Environmental, Health and Safety Guidelines (recommended)

General EHS Guidelines (The General EHS Guidelines contain information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. It should be used together with the relevant industry sector guideline(s), for example:

- Construction Materials Extraction
- Railways or Toll Roads
- Waste Management Facilities
- Water and Sanitation
- Wind Energy

References: ¹⁴ <http://estandard.mn/>

¹⁵ <http://www.legalinfo.mn/law?cat=34&subcat=158>

¹⁶ (www.iso.org)

¹⁷ http://www.iso.org/iso/home/standards/management-standards/iso_9000.htm

¹⁸ <http://www.ohsas-18001-occupational-health-and-safety.com/>

¹⁹ www.ifc.org/performancestandards

²⁰ http://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/InterpretationNote_FIs_2012.pdf?MOD=AJPERES

²¹ ²¹ <http://www.ebrd.com/environment/e-manual/e31ebrd-performance-requirements.html>

²²

http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/ifc+sustainability/sustainability+framework/Sustainability+Framework+2006/Environmental,+Health,+and+Safety+Guidelines/ehsguidelines

- Electric Power Transmission and Distribution
- Thermal Power

Other Voluntary Principles:

- Principles for Managing Radiation, Health and Safety, Waste and the Environment²³
- The Voluntary Principles on Security and Human Rights²⁴

International Conventions (mandatory):

- Climate change convention²⁵.

²³ www.world-nuclear.org

²⁴ <http://www.voluntaryprinciples.org/>

²⁵ <https://unfccc.int/2860.php>

Appendix 4: Relevant Construction Sector Stakeholders in Mongolia

The following construction sector stakeholders are relevant to the Mongolian Sustainable Finance Initiative and this Sector Guideline:

Representation	Organisation	Relevance
Government	City Environmental office ²⁶	Promote green economy of the Ulaanbaatar city by providing an environment balance, an effective usage of natural resources; by completing rehabilitation; creating healthy and safe environments for community
	Construction Development Centre ²⁷	CDC is responsible for Construction Sector training; Technical monitoring of construction activities
	Construction, Urban development and planning agency ²⁸	Agency is responsible for approving general construction plan and route for road construction
	General Agency of Specialized Inspection (GASI) ²⁹	GASI ensures the law implementation, creates the sustainable human, social development and favourable business environment and creates public health, safety condition and quality products and service within Mongolia.
	General Planning Agency of Ulaanbaatar city ³⁰	Implementation agency of land, space planning, re – planning, providing by necessary information and construction work licenses of Ulaanbaatar urban development
	Ministry of Energy ³¹	The ME has responsibility for issuing special licenses and permissions for power (electrical and thermal) plant design and construction
	Ministry of Environment and Green Development (MEGD) ³²	The MEGD has responsibility for E&S conservation and appropriate use; water resources; biodiversity and E&S oversight and protection.
	Ministry of Construction and Urban Development ³³	MCUD is responsible for issuing special licenses and permissions for construction companies; for creating legal environment of Construction Sector; for tendering construction bids; monitoring the progress of tenders
	Ministry of Road and Transportation ³⁴	MRT is responsible for issuing special licenses and permissions for road design and construction; for creating legal environment of Construction Sector, related to road and railway; for tendering road construction bids; monitoring the progress of tenders
	Mongolian Railway Agency ³⁵	Issuing the special licenses for the construction companies on Railway construction

²⁶ <http://baigal.ub.gov.mn/>

²⁷ <http://barilga.gov.mn/?page=custom&module=news&id=ef4a53d6-fcc0-4fd2-8a21-d88b45a44974#>

²⁸ <http://cud.barilga.mn/>

²⁹ <http://inspection.gov.mn/>

³⁰ <http://www.mpa.ub.gov.mn/>

³¹ <http://energy.gov.mn/>

³² <http://www.mne.mn/>

³³ <http://www.mcud.gov.mn/>

³⁴ <http://mrt.gov.mn/>

³⁵ [http:// railway.gov.mn/](http://railway.gov.mn/)

Representation	Organisation	Relevance
	Road science and research centre ³⁶	Consulting and monitoring services for road and related facility construction and renovation work; Updating the databases of constructed and renovated national roads and related facilities; Monitoring of road construction and renovation work's financing process; Building material testing
	Ulaanbaatar Electricity Distribution Network ³⁷	Electricity distribution; drawings for electricity distribution; trainings
	Water use authority ³⁸	Supply Ulaanbaatar city by clean water, discharge wastewater
Companies	Construction company	Construction companies are responsible for developing different projects of Construction Sector in environmental friendly and socially responsible manner and have a commitment to follow E&S related national and international law, standards and good practices
	Specialised Consulting company	Providing construction sector consulting services such as Checking of buildings' square metre differences construction site inspection.
Non-governmental organisations (NGOs) and civil society organisations (CSO)	NGOs and CSOs	NGOs and CSOs may play a role in pushing for sustainable development at the national level as well as bringing pressure against individual institutions or companies. They also may serve as advocates or implementation partners to reduce risk and promote good social and environmental practice.
	Local community	Local communities may be impacted by a Bank's client's activity. They may make grievances and/or seek protection against any negative impacts.
	Mongolian Association of Civil Engineers ³⁹	Protecting the rights of Civil, Thermal, Road and Railway Engineers and companies
	Mongolian Road Association ⁴⁰	
	Mongolian Railway Association	
	Mongolian Association of Thermal Engineers	
Financial Institution	International Finance Corporation ⁴¹	IFC seeks to provide equity and debt financing to private enterprises across all sectors in Mongolia and offers integrated products that combine financing with expert advice – maximising returns and social benefits, minimising E&S footprints, and contributing to Mongolia's long-term economic development.

³⁶ <http://www.rsrc.gov.mn/>

³⁷ <http://ubedn.mn/>

³⁸ <http://www.usug.ub.gov.mn/>

³⁹ <http://mace.barilqa.mn/>

⁴⁰ <http://www.mra.mn/>

⁴¹ http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/home

Representation	Organisation	Relevance
	Mongolian Banker Association ⁴²	Main objectives of the Association: represent the common legal interests and rights of all Members in regards to Mongolian Sustainable Finance Principles; coordinate the joint activities of Members with regard to the issues and challenges facing the banking sector during the implementation of this initiative; facilitate the contribution of all Members in support of development of Banks' effective and sound E&S management system and other procedures.
	Bank of Mongolia ⁴³	BoM can potentially play a role in this initiative including seeking to: strengthen coordination with other regulators, establish and improve a long-term information sharing mechanism, improve information services, and provide banks with timely updates on relevant E&S risks. BoM may assess banks' performance on E&S through annually self-evaluation and its own monitoring system and use such results as important basis for regulatory rating, licensing, and incentive mechanisms.
	Mongolian Banks	Banks must develop and implement an overarching sustainability policy framework and an ESMS that includes E&S risk assessment procedures, monitoring, reporting and capacity building mechanisms.

⁴² <http://mba.mn/>

⁴³ <http://www.mongolbank.mn/>