

Environmental and Social Safeguards



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Contents

Report Summary	ii
SECTION 1	1
Introduction	1
1.1 Background.....	1
1.2 Scope of the Report.....	1
SECTION 2	3
Rapid Review of Safeguard Systems	3
2.1 Scope of Safeguard Systems	3
2.2 Review of Safeguard Systems.....	6
2.3 Coverage of Sectors/Sub-sectors	13
2.4 Technical Guidance on Environmental and Social Risks and Management Options.....	18
SECTION 3	22
Conclusions.....	22
3.1 Safeguard Systems.....	22
3.2 Relevance to DFID.....	22
References.....	24

List of Boxes

Box 1 IFC Performance Standards on Environmental and Social Sustainability	4
Box 2 African Development Bank. Categorisation System	5

List of Tables

Table 1 Scope of Development Agency Environmental and Social Safeguards Systems.....	9
Table 2 Application of development agency safeguards systems to sectors/sub-sectors	15
Table 3 Coverage of sectors/sub-sectors by safeguard systems' technical guidance on environmental/social risks and management options	20

List of Annexes

Annex 1 Examples of Technical Guidance	27
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Report Summary

DFID's new SMART rules commit DFID to apply a suite of operational standards to ensure technical quality and guide decisions at each point in the programme cycle. These include a commitment to ensuring sustainability and resilience and to avoid doing harm, such as creating or exacerbating resource scarcity, climate change and/or environmental damage.

In order to guide the application of the new SMART rules, DFID are examining the relevance of existing environmental, social and climate safeguards systems, developed and adopted by multilateral and bilateral development agencies. This report presents the results of a rapid review of existing safeguards systems to assess the potential for DFID to adopt or rely on these systems and to identify any gaps in their coverage in relation to DFID's portfolio.

Most development agencies have environmental and social safeguards systems that set out their procedures for screening the environmental and social risk of the interventions they support and deciding on the level of assessment and mitigation or management they should apply. These systems, especially among development banks, are harmonised to a high degree, having a similar structure, requiring systematic screening of environmental and social risks and covering a common set of environmental and social issues. Many systems have guidance to support their implementation – most of which covers procedural steps or key safeguards issues, and some of which addresses the environmental and social risks of different sector or sub-sectors.

In addition most agencies have set up independent mechanisms to enable individuals or groups who believe they have been or are likely to be harmed by projects as a result of inadequate compliance with the safeguards systems to bring a complaint against the organisation.

The first element of this review concerns the overall scope of the safeguards systems among the development agencies covered. The main conclusions are:

- All the agencies included in the survey have safeguards systems that screen planned interventions to determine their potential level of environmental and social risk leading to an appropriate level of assessment and management.
- The main development banks have harmonised their systems in recent years to a large degree, following the lead of the International Finance Corporation's (IFC) Performance Standards (PS).
- Most systems apply to all interventions (and therefore to all sectors), although application to policy lending, budget support, programme or sector-wide support has been more challenging than to investment projects, leading to the adoption of tools such as Strategic Environmental and Social Assessment (SESA).
- Implementation of the safeguards systems is widely believed to be more effective at the "front-end" with weaknesses in monitoring and supervision and in ensuring environmental and social management measures produce the intended outcomes.

The second element addresses the extent of the coverage by the safeguards systems of the sectors/sub-sectors of concern to DFID. The key findings are:

- The World Bank safeguards system, unlike most others, applies only to investment projects.




- The IFC and EBRD are not engaged in budget support and sector programmes owing to their focus on private sector investments.
- Budget support, policy reform, sector and programme financing have all become more important features of agencies' portfolios over recent years. In response, many agencies have adopted the use of SESA for these categories of intervention (compared with Environmental and Social Impact Assessment (ESIA) for investment projects).
- Health and education sector interventions, mainly in the form of sector-wide programmes, are usually screened to determine their level of risk, resulting in a decision to require a SESA or not. Risk might arise, for example, from a sector-wide programme to build more schools or hospitals.
- Trade interventions should be subject to screening like any other in principle, whether at the policy level or otherwise. However, trade may not be a sector that agencies typically associate with environmental and social risks and as a result may not always be tackled adequately at the screening stage.
- Agency support to humanitarian assistance and post disaster reconstruction is usually exempt from safeguards if it takes the form of emergency short-term assistance. Longer-term assistance should be screened in the normal manner to identify risks.
- Interventions, whether policy, programme or project, affecting resource use or livelihoods approaches could belong a wide range of sectors so their treatment within safeguards systems would depend on how effectively the screening process identified potential risks
- Some agencies have separate tools to screen interventions for their vulnerability to climate change or their potential impact on climate vulnerability on a wider scale; some require that climate issues be integrated into screening and assessing environmental and social risk; others only focus on a project's contribution to GHG emissions.

It is hard to determine if safeguards systems work better or worse for different sectors or sub-sectors, although one can generalise that high-risk projects tend to have better compliance but less successful implementation of management measures.

The third element concerns the scope of technical guidance adopted by agencies in support of their safeguards systems.

- Most development agencies have guidance to support the application of their safeguards systems, most of which addresses procedural steps and/or specific safeguard topics.
- The safeguards guidance on the environmental and social risks of different sectors/sub-sectors is mostly focused in industrial or infrastructure projects. Good examples are the World Bank Group Environmental, Health and Safety guidelines and the African Development Bank sector "keysheets".
- There is little technical guidance on a number of the sectors of interest to DFID such as budget support, health and education sector programmes and humanitarian assistance, and what there is (from EuropeAid or Danida or example) is very brief and cursory.

The main conclusions can be summed up as follows. DFID can look to the collective experience of the major development banks for proven systems to screen interventions for environmental and social risks and for issue related performance requirements and guidance on key safeguards issues. However they should bear in mind that these safeguards systems are generally easier to apply to traditional investment projects. They can also draw on lessons learned about the institutional weaknesses in ensuring monitoring and



supervision of environmental and social management measures during implementation. They can be confident that the technical guidance available on industrial and infrastructure projects reflects international best practice but that the guidance available on sectors such as budget support, sector-wide programmes and humanitarian assistance is not as strong. The guidance on integrating climate risk into safeguards systems is also limited although there is a very substantial array of literature available on many aspects of climate mitigation and adaptation.



SECTION 1

Introduction

1.1 Background

DFID's new SMART rules commit DFID to apply a suite of operational standards to ensure technical quality and guide decisions at each point in the programme cycle. These include a commitment to ensuring sustainability and resilience and to avoid doing harm, such as creating or exacerbating resource scarcity, climate change and/or environmental damage.

In order to guide the application of the new SMART rules, DFID are examining the relevance of existing environmental, social and climate safeguards systems, developed and adopted by multilateral and bilateral development agencies. This report presents the results of a rapid review of existing safeguards systems to assess the potential for DFID to adopt or rely on these systems and to identify any gaps in their coverage in relation to DFID's portfolio.

1.2 Scope of the Report

The rapid review covers the following agencies:


- The World Bank
- The International Finance Corporation (IFC)
- The Asian Development Bank (ADB)
- The African Development Bank (AfDB)
- The Inter-American Development Bank (IADB)
- The European Bank for Reconstruction and Development (EBRD)
- EuropeAid, the European Commission (EC)
- AusAid, Australia
- Danida, Denmark

The review has examined the safeguards systems of these agencies to determine:

- The architecture of the safeguards system and the overall scope of its application
- The application or relevance of the system to the key sectors/sub-sectors of interest to DFID
- The coverage (including gaps) of any technical sector/sub-sector guidance on environmental and social risks used by the agencies in relation to the DFID sectors/sub-sectors

The key sectors/sub-sectors that DFID have identified for this review are:

- general/sector budget support that is likely to result in significant infrastructure and resource use;
- health interventions including significant building, clinical waste and/or use of chemicals;
- education interventions that include significant building and/or materials purchases;
- large water supply systems, river development and waste management and disposal;

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- urban and coastal development, especially where resulting in large infrastructure investments;
 - power generation and distribution (fossil fuels, hydro-electricity schemes, geothermal heat);
 - industrial developments, especially those resulting in building facilities; industrial policy, tourism;
 - agricultural developments, especially those resulting in significant land conversion and building facilities but also agricultural (including forestry, livestock and fisheries) policy;
 - extractives (oil and minerals), especially those resulting in significant increases in exploration, mining infrastructure but also mineral policy and mining legislation;
 - trade, especially where likely to result in significant infrastructure and resource use change;
 - environmental protection, especially where likely to result in significant infrastructure and land conversion (eg: flood protection and control);
 - humanitarian assistance and post disaster recovery and reconstruction;
 - interventions which may result in significant changes in resource use or livelihoods approaches;
 - any project that could have a negative impact on society's vulnerability to weather/climate in the near or long term (e.g.: urban planning, agricultural policy, ...).



SECTION 2

Rapid Review of Safeguard Systems

2.1 Scope of Safeguard Systems

International development agencies, multilateral and bilateral, have adopted policies, procedures and guidelines to address the potential environmental and social risks of their operations since the late 1970's. During the 1980's and 1990's most development agencies adopted some form of formal environment policy and procedures, often supported by technical guidance.

Since then, these policies and procedures have become more comprehensive and systematic, with an increasing degree of harmonisation among the main development agencies. They are now generally known as “safeguards systems”. Essentially these systems are focused on ensuring that the agency, and its country partners, identify and assess the potential environmental and social risks of any operation they intend to support early in the project cycle, seeking to avoid, minimise or manage any significant impacts the operation may cause.

In recent years, the most significant step in the evolution of such safeguards systems has been the IFC's adoption in 2006 (updated in 2012) of its Sustainability Framework, including its Policy and Performance Standards on Environmental and Social Sustainability (IFC 2012). Most other multilateral development banks have since updated their systems – in part to align better with the IFC's Performance Standards. The World Bank is itself in the process of doing so¹. The Performance Standards have also been adopted by a number of private banks engaged in project finance in developing countries through signing up to the Equator Principles.

Many, though not all, bilateral agencies have adopted safeguards systems, in some cases to comply with national legislation. Most bilateral systems are somewhat simpler than those of the development banks but have the same overall objective – to screen interventions for potential environmental and social risks and, if there are significant risks, to assess and manage potential significant impacts.

The typical architecture of a safeguards system is as follows:

- A policy statement setting out the agency's commitment
- A set of standards or safeguards – clarifying the requirements of the agency and its country partners for identifying risk, conducting the appropriate level of environmental and social assessment, and meeting specific requirements or levels of performance in relation to specific environmental and social issues, such as involuntary resettlement, pollution control, biodiversity, labour standards, etc.
- A set of internal procedures (and process guidance) indicating the responsibilities of agency and country partner staff members to follow steps linked to the programme or project cycle

¹ This review considers the draft updated Environmental and Social Framework made available of the consultation process in July 2014

- A suite of technical guidance focusing on environmental and social assessment best practice, specific environmental and social issues and on the environmental and risk for different sectors or sub-sectors

Box 1 IFC Performance Standards on Environmental and Social Sustainability

IFC Performance Standards:

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

A key element of most safeguard systems is the use of a categorisation system for identifying environmental and social risk. This is applied at an early stage in an agency's project cycle – usually referred to as environmental and social screening. The agency itself or the country partner reviews the information available on the proposed programme or project to determine if it is Category 1 (or A) with a high risk of significant environmental and social impact; Category 2 (or B) with a medium or limited risk; Category 3 (or C) with no risk. Most development banks have an additional Category to cover lending through Financial Intermediaries (FIs). Box 2 below sets out the definitions of the categories used by the African Development Bank.

The allocation of a proposed programme or project to a category typically determines whether a full Strategic Environmental and Social Assessment (SESA)² or Environment and Social Impact Assessment (ESIA) should be conducted, in the case of Category 1 or a limited environmental and social assessment in the case of Category 2. No action is required for Category 3. For FI lending, the agency usually requires the FI to demonstrate that it has an appropriate Environmental and Social Management System in place to assess sub-projects.

The safeguard systems do not have “hard and fast” technical criteria for determining which category any programme or project should be. The determination is based on professional judgement taking account of the type, scale and location of the programme or project and any environmentally or socially sensitive and/or high value receptors in the project's area of influence. The decision should also take account of the likelihood that specific safeguards would be triggered, e.g. involuntary resettlement, protection of sensitive or protected biodiversity, high value cultural heritage.

² Often referred to simply as Strategic Environmental Assessment (SEA)



Box 2 African Development Bank. Categorisation System


Description of African Development Bank's Safeguards System Categories

Category 1: Bank operations likely to cause significant environmental and social impacts – Category 1 projects are likely to induce significant and/or irreversible adverse environmental and/or social impacts, or to significantly affect environmental or social components that the Bank or the borrowing country considers sensitive. Some programme-based operations or other regional and sector programme loans that have significant adverse environmental or social risks and are deemed to be Category 1. In some cases, projects are included in Category 1 because of their potential cumulative impacts or the potential impacts of associated facilities. Any project requiring a Full Resettlement Action Plan (FRAP) under the provisions of the Bank's policy on involuntary resettlement is also deemed to be Category 1. Category 1 programme-based operations or regional and sector loans require a SESA, and Category 1 investment projects require an ESIA, both leading to the preparation of an ESMP. For a project requiring a FRAP, the ESIA includes, and—if there are no other issues requiring assessment—may be limited to, the social assessment needed to prepare the FRAP.

Category 2: Bank operations likely to cause less adverse environmental and social impacts than Category 1 – Category 2 projects are likely to have detrimental site-specific environmental and/or social impacts that are less adverse than those of Category 1 projects. Likely impacts are few in number, site-specific, largely reversible, and readily minimised by applying appropriate management and mitigation measures or incorporating internationally recognised design criteria and standards. An operation that involves resettlement activity for which an Abbreviated Resettlement Action Plan (ARAP) is required under the ESAPs is classified as Category 2. Most programme based operations and regional or sector programme loans designed to finance a set of subprojects approved and implemented by the borrower or client are included in this category unless the nature, scale or sensitivity of the intended pipeline of subprojects involves either a high level of environmental and social risk or no such risk. Category 2 projects require an appropriate level of environmental and social assessment (SESA for programme operations, investment plans, and some corporate loans, or ESIA for investment projects) tailored to the expected environmental and social risk so that the borrower can prepare and implement an adequate ESMP (for an investment project) or ESMF (for a programme operation), to manage the environmental and social risks of subprojects in compliance with the Bank's safeguards.

Category 3: Bank operations with negligible adverse environmental and social risks – Category 3 projects do not directly or indirectly affect the environment adversely and are unlikely to induce adverse social impacts. They do not require an environmental and social assessment. Beyond categorisation, no action is required. Nonetheless, to design a Category 3 project properly, it may be necessary to carry out gender analyses, institutional analyses, or other studies on specific, critical social considerations to anticipate and manage unintended impacts on the affected communities.

Category 4: Bank operations involving lending to financial intermediaries – Category 4 projects involve Bank lending to financial intermediaries that on-lend or invest in



subprojects that may produce adverse environmental and social impacts. Financial intermediaries include banks, insurance, reinsurance and leasing companies, microfinance providers, private equity funds and investment funds that use the Bank's funds to lend or provide equity finance to their clients. Financial intermediaries also include private or public sector companies that receive corporate loans or loans for investment plans from the Bank that are used to finance a set of subprojects. Financial intermediary subprojects equivalent to Category 1 and Category 2 are subject to the relevant OS requirements, as if they were directly financed Category 1 or Category 2 projects. However, if a client will use a Bank corporate loan to finance high-risk investment projects known at the time of loan approval, the loan can be considered Category 1. Each Category 4 financial intermediary is required to:

- Have adequate corporate environmental and social governance policies, apply the Bank's OSs to its Category 1- and Category 2-equivalent subprojects, and comply with local environmental and social requirements
- Develop and maintain an ESMS in line with the Bank's OSs that is appropriate for the scale and nature of its operations
- Demonstrate that it has management commitment, organisational capacity, resources and expertise to implement its ESMS for its subprojects


As mentioned above, thematic safeguards typically set out the standards – for assessment approach, for mitigation and management or for performance – that is required in each thematic area.

The major development banks have set up an independent complaints mechanism for people and communities who believe that they have been, or are likely to be, adversely affected by a project funded by their organisation, as a result of non-compliance with its policies, such as the safeguards system. In the case of the World Bank, it is called the Inspection Panel; in the case of the IFC, it is the Compliance Advisor Ombudsman; the African Development Bank has an Independent Review Mechanism. Typically, the Inspection Panel or equivalent will conduct a “compliance review” when a valid complaint is received to establish whether harm has been or is likely to be experienced as a result of inadequate compliance with the bank's policies and to determine if further action is required to ensure full compliance and remedial action to address the harm.

These mechanisms, combined with policies on disclosure of information, are an important tool to encourage full compliance by development bank staff to the safeguards and to provide those likely to be affected an opportunity to seek redress if the safeguards do not succeed in avoiding or managing the environmental and social risks. The World Bank Inspection Panel also provides a policy review function. It advises the bank on broader issues related to safeguard policies, standards, guidelines, procedures, resources, and systems – mainly focused on compliance. In most instances, the Inspection Panel or equivalent publishes details of the cases – what issues have been raised and how they have been responded to.

2.2 Review of Safeguard Systems

Table 1 at the end of this section sets out the scope and coverage of the safeguards systems of the agencies included in the review. This shows a high degree of harmonisation among the development banks. They have a consistent architecture, with a policy, overarching safeguard that defines the environmental and social assessment process,



including categorisation. In addition, they have a range of issue-focused safeguards that are very consistent, with minor differences between banks. EuropeAid and the two bilaterals included have an overall commitment to screening and assessing the environmental and social risks but do not have such a comprehensive set of issue-focused safeguards.

One relevant difference is that the World Bank, unlike the others, only applies its safeguards to “investment projects”. Development Policy Lending and Program for Results Financing, which cover policy reform, budget support, and programmes implemented by country partners follow an approach of relying on country systems to ensure environmental and social safeguards are met.

It is beyond the scope of this review to undertake an evidence-based assessment of how effective the safeguards of different agencies are. But in considering how effective the safeguards systems are, there are a number of relevant questions. Are they fully complied with by the agency? Do they do a good job in identifying and assessing likely risks? Do the organisations responsible for project implementation have adequate environmental and social safeguards capacity? Are the management measures implemented well? Do the agencies monitor and supervise adequately?³

One can say that an informal consensus exists among the development banks about safeguards implementation challenges including the following points:

- The typical safeguards approach works best for investment projects, especially in those sectors where the potential environmental and social risks are well understood, such as power, transport, water resources, extractives.
- Budget support, policy level interventions and programme lending are harder to cover effectively both procedurally and technically, largely because the activities they generate or cause to happen that may affect the environment are harder to identify and assess.
- Innovations such as SESA and the use of Environmental and Social Management Frameworks (ESMFs) for programme lending have often been hard to implement.
- Ensuring compliance with safeguards in lending to FIs has proven to be challenging.
- Development banks have not been very successful at ensuring effective supervision and compliance during project implementation.
- It is widely accepted that successful implementation of social issues such as resettlement programmes and measures to protect vulnerable social groups are hard to implement.

The World Bank’s Independent Evaluation Group conducted a substantial evaluation of the World Bank Group’s environmental and social safeguards in 2010 (World Bank 2010). Below are some of the key findings relevant to the overall quality and performance of the safeguards system.

- The safeguards overall have helped to avoid or mitigate large-scale social and environmental risks in projects financed by the World Bank Group in the previous decade.
- Social safeguards are more problematic than environmental, in part owing to narrow focus on resettlement and indigenous peoples.
- The quality of environmental and social monitoring and supervision has been deficient.

³ Possible sources of evidence would be the case histories of the Inspection Panel and equivalent, internal evaluations, cases investigated by organisations such as the Bank Information Center, and the proceedings of the Multilateral Funding Institutions – Working Group on the Environment


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- There has been insufficient effort to monitor environmental and social outcomes, making it hard to determine if the safeguards have succeeded in avoiding and mitigating risks.
 - Safeguards have not been effectively deployed to address the sustainability of policy and sector-wide programme lending

Table 1 Scope of Development Agency Environmental and Social Safeguards Systems

	Policy	ESA requirement for policy reform and budget support	ESA Requirement for investment projects	Performance Standards or equivalent	Inspection Panel or equivalent	Public disclosure requirement	Comment
World Bank (draft Environmental and Social Framework July 2014)	Yes. Environment and Social Policy	No. Development Policy Lending and Program for Results lending relies on assessment of “country systems” of borrower	Yes, including programmes resulting in sub-projects (such as Community Driven Development)	<ul style="list-style-type: none"> • Assessment and Management of Environmental and Social Risks and Impacts • Labour and Working Conditions • Resource Efficiency and Pollution Prevention • Community Health and Safety • Land Acquisition, Restriction on Land Use and Involuntary Resettlement • Biodiversity Conservation and Sustainable Management of Living Natural Resources • Indigenous Peoples • Cultural Heritage • Financial intermediaries • Disclosure and Stakeholder Engagement 	Inspection Panel	Yes. WB Policy on Access to Information	Safeguards system in the process of being updated in part to align better with IFC PS's and other major MDBs. (The information here is from the draft updated safeguards document)
IFC	Yes. Sustainability Framework – Policy on Environmental and Social Sustainability	N/A	Yes	<ul style="list-style-type: none"> • Assessment and Management of Environmental and Social Risk and Impacts • Labor and Working Conditions • Resource Efficiency and Pollution Prevention • Community Health, Safety and security • Land Acquisition and Involuntary Resettlement • Biodiversity Conservation and Sys 	Compliance Advisor Ombudsman	Access to Information Policy	System adopted in 2006 and revised version in 2012. Performance Standards have been adopted within the Equator Principles by public and private financial institutions



	Policy	ESA requirement for policy reform and budget support	ESA Requirement for investment projects	Performance Standards or equivalent	Inspection Panel or equivalent	Public disclosure requirement	Comment
				Management of Living Natural Resources <ul style="list-style-type: none"> • Indigenous Peoples • Cultural heritage 			
ADB	Yes. Safeguard Policy Statement. Three policies: Environment, Indigenous Peoples and Involuntary Resettlement	ESA applies to all interventions	Yes	<ul style="list-style-type: none"> • Environment • Involuntary resettlement • Indigenous Peoples • Special requirements for different finance modalities 	Compliance Review Panel	Public Communication s Policy	Adopted in 2009. Issues covered in self-standing “standards” in other MDBs incorporated into four safeguards.
AfDB	Yes. Integrated Safeguards Policy Statement	SESA required if high risk	Yes	<ul style="list-style-type: none"> • Environmental and Social Assessment • Involuntary Resettlement • Biodiversity, Renewable Resources and Ecosystem Services • Pollution Prevention and Control, Hazardous material and Resource Efficiency • Labour Conditions, Health and Safety 	Independent Review Mechanism	Disclosure and Access to Information Policy	New system, adopted in 2014, in the process of being rolled out
EBRD	Yes. Environmental and Social Policy	N/A	Yes	<ul style="list-style-type: none"> • Assessment and Management of Environmental and Social Impacts and Issues • Labour and Working Conditions • Resource Efficiency, Pollution Prevention and Control • Health and Safety • Land Acquisition, Involuntary 	Project Complaint Mechanism	Public Information Policy	Revised safeguards system adopted in 2014



	Policy	ESA requirement for policy reform and budget support	ESA Requirement for investment projects	Performance Standards or equivalent	Inspection Panel or equivalent	Public disclosure requirement	Comment
				Resettlement and Economic Displacement <ul style="list-style-type: none"> • Biodiversity Conservation and Sustainable Management of Living Natural Resources • Indigenous Peoples • Cultural Heritage • Financial Intermediaries • Information Disclosure and Stakeholder Engagement 			
IADB	Yes. Environment and Safeguards Compliance Policy	Yes. Applies to all interventions	Yes	<ul style="list-style-type: none"> • Implementation Guidelines for the Environmental and Safeguards Compliance Policy • Operating Guidelines for the Indigenous Peoples Policy • Involuntary Resettlement in IDB Projects: Principles and Guidelines 	Independent Consultation and Investigation Mechanism	Information Disclosure Policy	Policy commitment for environmental and social assessment but no equivalent of Performance Standards
EC	EU Sustainable Development Strategy. EuropeAid commitment to integrate environment.	Yes. Use of SEA advised	Yes. Environmental integration in project cycle required	No	No	No	Extensive guidance on integration of environment into EC development cooperation
AusAid	Commitment to Environmental Protection and biodiversity Conservation Act stated in Environmental	Yes. SEA for high risk.	Yes. EIA for high risk	No	No	No	Environment Guide covers environment screening and application of SEA or EIA to high risk interventions.



	Policy	ESA requirement for policy reform and budget support	ESA Requirement for investment projects	Performance Standards or equivalent	Inspection Panel or equivalent	Public disclosure requirement	Comment
	Management Guide						
Danida	Strategic Framework for Natural Resources, Energy and Climate Change	Yes. Climate change and green growth screening note requires mandatory screening for all interventions	Yes. Climate change and green growth screening note requires mandatory screening for all interventions	No	No	No	Main emphasis is on Danida's commitment to climate and green growth




2.3 Coverage of Sectors/Sub-sectors

The next element of this review considers how the safeguards systems address the range of relevant sectors/sub-sectors. As is shown in Table 1, most safeguards systems apply to the full range of an agency's interventions. So the environmental and social screening process applies to all sectors – determining the level of risk, the required level of assessment and the need to prepare and implement an Environmental and Social Management Plan (ESMP). That said, systems have adopted slightly different mechanisms to cope with policy lending, budget support and programme lending, including lending via FIs. Whether systems are more effective at addressing the environmental and social risk of different sectors or sub-sectors within these general categories of financial support is hard to answer based upon readily available evidence.

Table 2 shows the manner in which the safeguards system of each agency covers the sectors/sub-sectors included in the review. The main conclusions to be drawn from this table are as follows:

- As noted in the previous section, the World Bank safeguards system applies only to investment projects.
- The IFC and EBRD are not engaged in budget support and sector programmes owing to their focus on private sector investments. However a significant element of their portfolios are delivered through FIs that need a safeguards approach relying on the FIs Environmental and Social Management System.
- Budget support, policy reform, sector and programme financing have all become more important features of agencies' portfolios over recent years. In response, many agencies have adopted the use of SESA for these categories of intervention (compared with ESIA for investment projects).
- So health and education sector interventions, mainly in the form of sector-wide programmes, are usually screened to determine their level of risk, resulting in a decision to require a SESA or not. Risk might arise, for example, from a sector-wide programme to build more schools or hospitals.
- In all cases, investment projects are screened to determine their level of risk, resulting in a decision to require and ESIA or not. Water development, urban and coastal, power, industry, agricultural, extractives are all treated in the same manner.
- Trade interventions should be subject to screening like any other in principle, whether at the policy level or otherwise. However, trade may not be a sector that agencies typically associate with environmental and social risks and as a result may not always be tackled fully at the screening stage.
- Agency support to humanitarian assistance and post disaster reconstruction is usually exempt from safeguards if it takes the form of emergency short-term assistance. Longer-term assistance should be screened in the normal manner to identify risks.
- Interventions, whether policy, programme or project, affecting resource use or livelihoods approaches could belong a wide range of sectors so their treatment within safeguards systems would depend on how effectively the screening process identified potential risks
- Some agencies have separate tools to screen interventions for their vulnerability to climate change or their potential impact on climate vulnerability on a wider scale; some require that climate issues be integrated into screening and assessing environmental and social risk; others only focus on a project's contribution to GHG emissions.

It is hard to identify reliable evidence on whether, at a procedural level, different safeguards systems are more or less effective in dealing with the specific sectors included in the review.



As noted above, it generally acknowledged that safeguards systems are easier to implement for investment projects, that the risks associated with most investment projects are well understood and that the environmental and social assessment process is well suited to such sectors. However it does not always follow that the environmental and social risks are managed better. For example, the environmental and social risks of major hydropower projects or oil/gas production may be well understood on the whole but are well known to be hard to manage successfully.

A rapid scan of the recent complaints submitted to the Inspection Panel and its equivalents revealed that the sectors that were the subject of complaints tended to be traditional investment projects: hydropower, roads, water infrastructure, fossil fuel power, mining. However, the “strategic” longer-term environmental and social risks of policy or programme based financing may be greater but not likely to trigger the complaints to the Inspection Panel.

The issues that recur in these cases are, as one would expect, those that are the subject of specific safeguards – involuntary resettlement, indigenous peoples, biodiversity, consultation and disclosure. These are the areas where safeguards have been adopted because of high-risk levels. It is also clear that some implementation issues recur – such as poor supervision.

It is hard to reach any reliable conclusions on whether safeguards system work better or worse for certain sectors. For example, it can be argued that they work better at the screening stage for high-risk sectors such as extractives or power generation because the risks are better understood and routinely subject to a thorough assessment. Sector-wide programmes or budget support are likely to be less well understood and harder to assess. However, it is widely acknowledged that high risk investment projects, even if subject to high-quality assessment, may fall down at the implementation stage because of the difficulties of ensuring successful outcomes in the case of involuntary resettlement or biodiversity protection for example.

Table 2 Application of development agency safeguards systems to sectors/sub-sectors

	World Bank	IFC	ADB	AfDB	EBRD	IADB	EC	AusAid	Danida	Effectiveness
Budget support	Focus on country systems if not intervention is not an Investment Project	N/A	Screening to determine risk level for SESA	Screening to determine risk level for SESA	N/A	Screening to determine risk level for SESA	Guidance on applying SESA	No specific coverage	Screening to determine risk level for SESA	Most systems apply to all interventions, including budget support, with option of requiring SESA if high risk. However, relatively little experience of SESA in practice.
Health sector intervention	Focus on country systems if not intervention is not an Investment Project	N/A	Screening to determine risk level for SESA	Screening to determine risk level for SESA	N/A	Screening to determine risk level for SESA	Guidance on applying SESA	Screening to determine risk level for SESA	Screening to determine risk level for SESA	Most systems apply to all intervention including sector support and programmes with option of requiring SESA and ESMF for sub-projects
Education sector intervention	Focus on country systems if not intervention is not an Investment Project	N/A	Screening to determine risk level for SESA	Screening to determine risk level for SESA	N/A	Screening to determine risk level for SESA	Guidance on applying SESA	Screening to determine risk level for SESA	Screening to determine risk level for SESA	Most systems apply to all intervention including sector support and programmes with option of requiring SESA and ESMF for sub-projects
Water supply, river, waste	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Guidance on screening for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	All systems apply screening to investment projects to determine need for ESIA. Risks generally well understood.
Urban/coastal development	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Guidance on screening for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	All systems apply screening to investment projects to determine need for ESIA. Risks generally well understood
Power	Screening to determine risk	Screening to	Screening to determine	Screening to determine	Screening to determine	Screening to determine	Guidance on screening for	Screening to determine	Screening to determine	All systems apply screening to investment





	World Bank	IFC	ADB	AfDB	EBRD	IADB	EC	AusAid	Danida	Effectiveness
	level for ESIA	determine risk level for ESIA	risk level for ESIA	risk level for ESIA	risk level for ESIA	risk level for ESIA	ESIA	risk level for ESIA	risk level for ESIA	projects to determine need for ESIA. Risks generally well understood
Industrial development	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Guidance on screening for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	All systems apply screening to investment projects to determine need for ESIA. Risks generally well understood
Agricultural development	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Guidance on screening for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	All systems apply screening to investment projects to determine need for ESIA. Risks generally well understood
Extractives	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Guidance on screening for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	All systems apply screening to investment projects to determine need for ESIA. Risks generally well understood.
Trade	Focus on country systems if not Investment Project	N/A	Screening to determine risk level for SESA or ESIA	Screening to determine risk level for SESA or ESIA	N/A	Screening to determine risk level for SESA or ESIA	Guidance on screening for ESIA	Screening to determine risk level for SESA or ESIA	Screening to determine risk level for SESA or ESIA	Most systems require screening of all interventions but environmental and social risks of trade less well understood
Environmental protection	Focus on country systems if not Investment Project	N/A	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	N/A	Screening to determine risk level for ESIA	Guidance on screening for ESIA	Screening to determine risk level for ESIA	Screening to determine risk level for ESIA	Most systems require screening of all interventions but environmental and social risks of environmental protection often overlooked
Humanitarian	Focus on country systems if not Investment	N/A	Not specifically covered. APDRF not	Short-term emergency relief exempt	N/A	Short-term emergency relief exempt	Not covered specifically	Specific coverage – emergency response	Not covered specifically	Most systems exempt emergency response. Longer-term interventions subject to



	World Bank	IFC	ADB	AfDB	EBRD	IADB	EC	AusAid	Danida	Effectiveness
	Project		covered by safeguards?					exempt		screening in most systems but risks less well understood.
Resource use changes	Focus on country systems if not Investment Project	N/A	Should be identified during scoping for ESIA	Should be identified during scoping for ESIA	Should be identified during scoping for ESIA	Should be identified during scoping for ESIA	Should be identified during scoping for ESIA	Should be identified during scoping for ESIA	Should be identified during scoping for ESIA	Systems not well suited to identifying risks of changes to resource use except through good practice SESA or scoping of ESIA
Climate vulnerability	Not covered by safeguards. Climate screening required separately	Not covered by safeguards	Not covered by safeguards. Climate proofing to be adopted.	Climate Screening required for some sectors	Not covered by safeguards	Not covered by safeguards	Screening for Climate Risk Assessment	Climate issues covered within safeguards	Climate fully integrated in screening procedure	Focus varies – some agencies adopting parallel climate screening process, others integrating climate risk into safeguards.



2.4 Technical Guidance on Environmental and Social Risks and Management Options

The final element of this review concerns the scope of the technical guidance deployed by development agencies in support of their safeguard systems. Table 3 shows the specific guidance materials relevant to the different sectors/sub-sectors.

Most development agencies have some form of guidance to support their safeguards systems. The majority of this guidance addresses the procedural steps in the environmental and social assessment process and on how to apply the specific safeguards. For example, the IFC has prepared a set of guidance notes corresponding to their Performance Standards – focused on explaining the requirements and good practice in assessing and managing the issues. Relatively few agencies currently use guidance on environmental and social risks of sectors/sub-sectors, although a couple of decades ago a good deal of sector guidance was produced and adopted by these agencies.


As can be seen from the table, the World Bank and IFC jointly issue the World Bank Group Environmental, Health and Safety (EHS) Guidelines (IFC 2007), which is the prime internationally recognised source of comprehensive guidance (both general and industry-specific) on the pollution control and health and safety standards that should be met by industrial projects, referred to as Good International Industry Practice. The general guidance is focused on pollution issues such as air and water quality, occupational and community health and safety issues and issues specific to construction and decommissioning. The industry-specific guidance covers 62 different industries. These guidelines state that they contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable cost. See Annex 1 for the industry-specific EHS guidance on mining.

The EBRD also has a suite of industry specific sub-sectoral guidelines designed to help in identifying major environmental and social risks and to set out important management actions – designed principally to be used during the early stages of environmental and social due diligence.

The new African Development Bank's Integrated Safeguards System includes a compendium of safeguards related guidance, including a set of detailed "keysheets" on a wide range of sub-sectors, not restricted to industrial projects, including transport, energy, agriculture, water supply and sanitation and social infrastructure. These are designed to assist in screening and scoping of the environmental and social risks typically associated with the sector and to provide information on suggested mitigation and management options. This information can best be used to support the screening stage, development or review of terms of reference for assessments or the review of management plans. See Annex 1 for an example.

Both EuropeAid and Danida have very brief guidance on a range of non-industrial sectors, which is designed to help to identify environmental and social risks and management options. This material does cover a number of sectors of interest to DFID that are not covered by the industry-focused material from the development banks – such as budget support, education and health sectors and environmental protection. For example, EuropeAid has brief guidance on a number of non-industrial sectors, broken down into typical impacts, environmental issues affecting interventions, entry points for integrating environmental considerations in the sector and examples of indicators. See Annex 1 for examples. .

The principal conclusion from looking at the range of current sector-focused guidance is that there is very little material relevant to the non-industrial sectors of interest to DFID such as



budget or sector support or humanitarian assistance, and what there is lacks detail in comparison to the material focused on industrial and infrastructure projects. There is no guidance on environmental and social risks of humanitarian assistance. Nor is there any on resource use changes specifically – possibly because this is seen to be a type of impact rather than a specific sector. However, some of the development banks’ safeguards, such as the IFC Performance Standards, do cover resource efficiency.

The table shows relatively little guidance material on climate change vulnerability. This reflects the scarcity of relevant guidance on screening projects for climate risk as part of the agencies’ safeguard systems, such as the ADB’s Climate Risk Management Framework. However, most development agencies have produced a wide array of literature on various aspects of climate change – ranging from methods of estimating GHG emissions to approaches for adaptation to analysing the risk to investment from climate variability.

Table 3 Coverage of sectors/sub-sectors by safeguard systems' technical guidance on environmental/social risks and management options

	World Bank	IFC	ADB	AfDB	EBRD	IADB	EC	AusAid	Danida
Budget support	No	No	No	No	No	No	Guidance on integration of environment and climate change – Annex 1	Environment Management Guide	Green Growth Guidance Note - Annex 3
Health intervention	No	No	No	Keysheet (KS) on Social Infrastructure	No	No	Guidance on integration of environment and climate change – Annex 1	No	Green Growth Guidance Note - Annex 3
Education intervention	No	No	No	KS on Social Infrastructure	No	No	Guidance on integration of environment and climate change – Annex 1	No	Green Growth Guidance Note - Annex 3
Water supply, river, waste	EHS Guidelines	EHS Guidelines	No	KSs on Urban WSS, Rural WSS, Agricultural WS and Irrigation; IWRM, Solid Waste	No	No	Guidance on integration of environment and climate change – Annex 1	No	Green Growth Guidance Note - Annex 3
Urban/coastal development	EHS Guidelines	EHS Guidelines	No	KS on Urban Drainage	No	No	No	No	No
Power	EHS Guidelines	EHS Guidelines	No	KSs on 5 power generation sub-sectors; transmission lines	Sub-sectoral Environmental and Social Guidelines	No	Guidance on integration of environment and climate change – Annex 1	No	Green Growth Guidance Note - Annex 3
Industrial development	EHS Guidelines	EHS Guidelines	No	No	Sub-sectoral Environmental and Social	No	No	No	No



	World Bank	IFC	ADB	AfDB	EBRD	IADB	EC	AusAid	Danida
					Guidelines				
Agricultural development	EHS Guidelines	EHS Guidelines	No	KSs on livestock, forestry, aquaculture, sustainable land management	Sub-sectoral Environmental and Social Guidelines	No	Guidance on integration of environment and climate change – Annex 1	No	Green Growth Guidance Note - Annex 3
Extractives	EHS Guidelines	EHS Guidelines	No	KSs on oil/gas, mining	Sub-sectoral Environmental and Social Guidelines	No	No	No	No
Trade	No	No	No	No	No	No	Guidance on integration of environment and climate change – Annex 1	No	No
Environmental protection	No	No	No	KSs on biofuels	No	No	Guidance on integration of environment and climate change – Annex 1	No	Green Growth Guidance Note - Annex 3
Humanitarian	No	No	No	No	No	No	No	No	No
Resource use changes	No	No	No	No	No	No	No	No	No
Climate vulnerability	No	No	Climate Risk Management Framework	Climate screening tool and guidance	No	No	No	No	Green Growth Guidance Note - Annex 3





SECTION 3

Conclusions

3.1 Safeguard Systems


This rapid review of the safeguards systems of development agencies provides the following conclusions:

- All the agencies included in the survey have safeguards systems that screen planned interventions to determine their potential level of environmental and social risk leading to an appropriate level of assessment and management.
- The main development banks have harmonised their systems in recent years to a large degree, following the lead of the IFC's Performance Standards.
- Most systems apply to all interventions (and therefore to all sectors), although application to policy lending, budget support, programme or sector-wide support has been more challenging than to investment projects, leading to the adoption of tools such as SESA.
- Implementation of the safeguards systems is widely believed to be more effective at the "front-end" with weaknesses in monitoring and supervision and in ensuring environmental and social management measures produce the intended outcomes.
- It is hard to determine if safeguards systems work better or worse for different sectors or sub-sectors, with perhaps better compliance but less successful implementation in the case of high risk projects
- Most development agencies have guidance to support the application of their safeguards systems, most of which addresses procedural steps or specific safeguard topics
- The guidance on the environmental and social risks of different sectors/sub-sectors is mostly focused in industrial or infrastructure projects
- There is little technical guidance on a number of the sectors of interest to DFID, and what there is (from EuropeAid or Danida or example) is very brief and cursory.

3.2 Relevance to DFID

This review is relevant to DFID's need to understand what is potentially of value for its Smart Rules approach in the following areas:

- There is a consistent approach among development agencies to screening interventions for environmental and social risk and to clarifying performance requirements in the key safeguards topic areas.
- The challenge of applying safeguards systems to policy and programme interventions including budget support is well recognised.
- It is also well known that strong safeguards systems cannot ensure the success of implementing environmental and social management measures.
- The technical guidance available on environmental and social risks and management for industrial and infrastructure investments is well established as good international practice.

- 
- There is a scarcity of well-established technical guidance on other sectors or types of interventions of interest to DFID where typical safeguard approaches are acknowledged to be harder to apply.
 - The value of existing technical guidance is dependent on the institutional capacity to ensure compliance and good practice of the safeguards system.
 - It is also the case that technical guidance is rarely of great value unless it is clearly understood how the agency intends to use it within the decision making process of the safeguards system and unless the guidance is well tailored in structure and detail to the relevant decisions.

In conclusion, DFID can look to the collective experience of the major development banks for proven systems to screen interventions for environmental and social risks and for issue related performance requirements and guidance on key safeguards issues. However it should bear in mind that these safeguards systems are generally easier to apply to traditional investment projects. It can also draw on lessons learned about the institutional weaknesses in ensuring monitoring and supervision of environmental and social management measures during implementation. It can be confident that the technical guidance available on industrial and infrastructure projects reflects international best practice but that the guidance available on sectors such as budget support, sector-wide programmes and humanitarian assistance is not as strong. The guidance on integrating climate risk into safeguards systems is also limited although there is a very substantial array of literature available on many aspects of climate mitigation and adaptation.



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Annex 1 Examples of Technical Guidance

Insert examples (in an Annex)

IFC EHS on mining

AfDB KS on Hydroelectric

Danida Guidance on Education (below)

EuropeAid Guidance on Trade (below)

Examples

Danida: Green Growth Guidance Note

Education:

Greening primary and secondary schools. Are there opportunities to create green schools (e.g., by making school environments healthier, reducing their ecological foot print, teaching environmental sustainability and community engagement)?

Strengthening education and training policies and institutions to support green economy transition. How can the share of skilled workers in green growth (e.g., managing natural assets, becoming more resource-efficient, transitioning to a low-carbon economy) be increased and the transition out of brown economy jobs be supported? How can the participation of small and medium sized enterprises be encouraged?

Building the capacity in the vocational education and training. Are there opportunities to establish a national standard to deliver green skills in the work place?

Creating a supportive environment to advance green growth innovation. Are there opportunities to establish dialogue (e.g., educators, trainers, employers, trade unions) to reform the system of higher education to promote entrepreneurial capacity, more integrated learning, and green growth skills? Can government provide more certainty on green growth commitments to create incentives for business to invest in long-term skills development? Can innovation centres be established that provide training-of-trainers and other support to first movers in a greener economy?

EuropeAid. Guidelines on the Integration of Environment and Climate Change in Development Cooperation – Revised Version

2. Trade and regional integration

2.1. Environmental pressures and impacts from the area (to be mitigate or enhanced)

Pressures on shared or exported resources (e.g. timber, species, minerals, water, fish), risk of exhaustion.

Pollution from imported commodities (e.g. cars, agricultural inputs) and wastes.

Indirect impacts due to economic changes (e.g. crop substitution, agricultural intensification, changes in land use patterns, deforestation, changes in industrial and mining sectors, human migrations, urbanisation, waste production, employment rate, export diversification).

Impacts from processing and transport.

Risk of environmental dumping; impacts from harmonisation of the regulatory framework.

Improved management of shared resources.

2.2. Environmental factors affecting the area

Transboundary pollution or impacts resulting in regional disputes (e.g. impacts of dams or water



2. Trade and regional integration

extraction on downstream flows).

Illegal transboundary exploitation of natural resources and illegal trade.

Distributional pattern of natural resources (affecting trade or migrations).

State of shared resources (e.g. fisheries, water).

Environmental damage caused to transport and communication systems (e.g. by storms, floods).

State of natural resources producing export goods (e.g. state of fish stocks and forests).

2.3. Entry points for the area

Carrying out Sustainability Impact Assessments of economic partnership and trade agreements⁴ and implementing their recommendations.

Harmonisation of environmental legislation and quality standards (e.g. sanitary and phytosanitary standards).

Support for eco-labelling and certification (e.g. organic farming, forest certification⁵, marine certification⁶).

Consideration of environmental aspects in Economic Partnership Agreements, in relation with the product coverage and calendar/rhythm of liberalisation (for instance an agreement in fisheries can be linked to a regional policy for the sustainable use of the resource).

Using EFR principles while developing new budgetary resources where export taxes and import duties must be reduced.

Exchanges of clean technologies, know-how and experience in common environmental issues.

Promoting import of clean technologies.

Regulating the trade of environmentally sensitive commodities (e.g. timber, wildlife).

Promoting local transformation of raw materials.

Promoting local patents on biodiversity resources.

Regulating the private sector and supporting environmental management capacities of the private sector.

Co-management of shared resources, transboundary protected areas or watershed management.

Regional or transboundary cooperation in environmental law enforcement.

SEA of regional programmes and EIA of regional infrastructure.

Regulating the transport or export of hazardous wastes or materials.

Management of transboundary impacts.

Regional environmental agreements and fishing agreements.

Support for the implementation of international environmental agreements, e.g. CITES, ITTA, Bamako, Basel, and Rotterdam Conventions.

2.4. Examples of environmental indicators

Trends in shared resources (e.g. fish stocks).

Exports of environmentally sensitive commodities (e.g. timber): physical flows.

Transboundary protected areas (total area, proportion of the border line, quality of the management).

⁴ See: http://ec.europa.eu/trade/wider-agenda/development/sustainability-impact-assessments/index_en.htm.

⁵ See: Forest Stewardship Council (FSC): <http://www.fsc.org/>.

⁶ See: Marine Stewardship Council (MSC): <http://www.msc.org/>.



2. Trade and regional integration

Rate of local transformation of raw materials (e.g. timber).

Proportion of enterprises certified ISO 14001:2004.

Proportion of organic agricultural products.

Proportion of certified forest or marine products.

Indicators of transboundary pollution.

2.5. Additional guidance

SIDA (2002) *Sustainable Development? Guidelines for the Review of Environmental Impact Assessments*. Available via on-line SIDA publications: <http://www.sida.se/English/About-us/Sidas-Publications/>. Provides a checklist for trade and commerce (pp. 83-85).

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