The Integrated Safeguards System of the African Development Bank

The African Development Bank Group adopted an Integrated Safeguards System (ISS) in December 2013 with the aim of ensuring the social and environmental sustainability of the projects the Bank supports through the protection of the environment and people from the potentially adverse impacts of projects. Through the ISS, the Bank also helps borrowers/clients to strengthen their safeguards systems and develop their capacity to manage environmental and social risks.

ISS components

The ISS consists of four parts: (i) an overall Policy Statement; (ii) five Operational Safeguards (OSs); (iii) technical guidance in the form of Environmental and Social Assessment Procedures (ESAP); and (iv) a set of Integrated E&S Impact Assessment (IESIA) guidance notes.

More information publicly available at https://esa.afdb.org/pages/documents
With the approval of the Integrated Safeguards System (ISS), the Board of Directors of the AfDB mandated Independent Development Evaluation (IDEV) to conduct an Evaluation of the ISS's effectiveness in achieving the safeguards objectives four years after its adoption.


The Independent Evaluation of the ISS builds on that analysis with the aim of assessing the relevance and robustness of the ISS design; the efficiency of the systems, process, resourcing and incentives in place; and emerging effectiveness in achieving the safeguards objectives.

Disclaimer about this brief

This document builds on the key findings and recommendations of the independent evaluation and highlights some practices related to environmental and social management of development interventions to inspire project teams, both borrowers and clients and Bank's staff. It is based on information reported in Bank’s and borrowers/clients’ reports. Factual issues have been verified with the Bank Management, but not in all cases IDEV verified on the ground the actual results of the environmental and social mitigation measures.
How should a FI supported by the AfDB manage the E&S risks of the sub-projects they fund?

FIs are banks, insurance, reinsurance and leasing companies, microfinance providers, private equity funds and investment funds that use AfDB’s funds to lend or provide equity finance to their clients. FI operations are usually in the form of an equity fund or participation, a line of credit to a commercial bank, or a guarantee. FI can 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.

FI operations are classified as Category 4 at the AfDB: operations involving lending to a financial intermediary that lends to or invests in sub-projects which may produce adverse E&S impacts. Category 4 operations are further classified as FI-A (E&S high-risk portfolio of sub-projects); FI-B (medium risk) and FI-C (low risk).

The AfDB’s Integrated Safeguards System (ISS) requires FIs to develop and implement an Environmental and Social Management System (ESMS) along with the following (ISS Policy Statement, pages 25 & 29):

- Corporate E&S policy and institutional responsibilities to manage E&S due diligence;

- E&S screening procedures to be applied to potential sub-projects to determine the level of E&S assessment, including the consideration of the exclusion list, the host country’s E&S, health and safety laws and regulations, and any applicable industry sector guidance;

- Clear reporting requirements on sub-projects to ensure successful management of E&S risks.

https://bit.ly/3qsQDJ0
1. Description of the context of the intervention

The Bank approved an equity investment to facilitate regional expansion and integration of mid-size companies providing goods and services to the domestic economy.

The program was classified as Category FI-A by the AfDB, since it may include sub-projects that have potentially significant adverse environmental, climate change or social impacts.

The Fund developed a high-quality Environmental and Social Management System (ESMS), compliant with AfDB and IFC Performance Standards.

The Fund appointed an Environmental, Social and Governance (ESG) Coordinator who was supported by external E&S consultants during the early implementation phase of the ESMS.

The Fund screened and categorized every sub-project (investee company) according to their E&S risks and monitored the implementation of the ESMPs of sub-projects, including the implementation of Corrective Action Plans to ensure full compliance with the host country laws and regulations.
2. Reporting on the results of management of environmental and social risks for Financial Intermediaries and their sub-projects (investee companies)

The **Equity Fund** reports to the AfDB (and other Development Finance Institutions) on the E&S performance of the sub-projects in its portfolio.

The **Fund manager** (the financial intermediary in this case is the equity fund) should also notify the AfDB and provide an ESIA and ESMP for any high-risk sub-project before investing.

The Equity Fund requires its **investee companies (sub-projects)** to report on the management of E&S risks, according to their E&S Management Plan (ESMP). These reports include key information about pollution control, workers’ health and safety, how local communities are informed and involved in the project (consultation process) and the grievance mechanism in place, among others.
3. Overall learning from this experience

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<th>Strengths</th>
<th>Weaknesses &amp; Challenges</th>
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<td>• The Fund has a strong sustainability agenda, committed management and a competent E&amp;S manager to oversee ESMS implementation.</td>
<td>• Shareholders’ agreements do not include clear conditions on E&amp;S reporting (frequency and content), as well as the requirement to notify on high-risk sub-projects before investing.</td>
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<td>• The E&amp;S progress report by the Fund Manager includes adequate information about the E&amp;S screening, categorization, environmental assessment and monitoring of individual sub-projects.</td>
<td>• The E&amp;S progress reports sent by the Fund manager are not properly archived at the Bank, including the notification of high-risk sub-projects before investment, if any.</td>
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<td>• The Fund includes ESG indicators in the reporting to senior management, including the use of ESMP trackers of sub-projects (activity, timeline, responsible staff and budget allocated).</td>
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4. Related IDEV’s evaluation recommendation (2019)

- Enforcing the use by borrowers of the “safeguards results matrix” to report on progress of E&S mitigation measures, reviewing them, providing feedback to borrowers and summarizing this information in the Bank’s supervision reports to inform E&S ratings;
- Improving communication with borrowers regarding ISS reporting requirements for various types of lending instruments, and avoiding duplication by harmonizing them with other partners’ reporting requirements.