Evaluation of the AfDB's Integrated Safeguards System

Executive Summary

September 2019
IDEV conducts different types of evaluations to achieve its strategic objectives.
Executive Summary

The African Development Bank Group (“the AfDB”, “the Bank Group” or “the Bank”) adopted an Integrated Safeguards System in December 2013 to promote growth that is socially inclusive and environmentally sustainable. The ISS objectives are to:

i) avoid adverse impact of projects on the environment and affected people, while maximizing potential development benefits to the extent possible;

ii) minimize, mitigate, and/or compensate for adverse impact on the environment and affected people when avoidance is not possible; and

iii) help borrowers/clients to strengthen their safeguards systems and develop their capacity to manage environmental and social risks.

With the approval of the ISS, the Bank’s Board of Directors mandated Independent Development Evaluation (IDEV) to conduct an evaluation of the effectiveness of the ISS in achieving its safeguards objectives. The aims of the evaluation were to assess the relevance and robustness of its design; the efficiency of the system, process, resourcing and incentives in place; and its emerging effectiveness in achieving the Bank’s safeguards objectives. The evaluation pays particular attention to operations having triggered Operational Safeguard 2 (on involuntary resettlement, land acquisition, population displacement and compensation) and financial intermediary (FI) operations. It also explores factors affecting safeguards policy implementation, and identifies good/best practices wherever possible. The evaluation serves both accountability and learning purposes. Although the ISS was approved in December 2013, the system became operational only in July 2014. Therefore, this evaluation covers the AfDB’s safeguards work for public and private sector operations from this date. The evaluation is formative and theory-based, uses multiple sources of data (including various samples of operations) and applies mixed methods.

The main findings from the evaluation are the following:

Is the AfDB’s ISS aligned with the practice of comparator organizations and identified best practice, and covering all the relevant emerging safeguards issues?

The Bank’s ISS architecture is on a par with international best practice. However, some areas for improvement were identified to better cover relevant emerging safeguards issues. There is no need for a full update of the safeguards system, but selected ISS components could be strengthened. For instance, Operational Safeguard (OS) 5 does not include community health and safety, while comparators’ systems do; the Environmental and Social Assessment Procedures (ESAP) present gaps in the guidance for private sector operations and medium-risk operations; and some emerging issues are not fully covered in the existing guidance, such as gender inclusion, gender-based violence and disability. Although other multilateral development banks (MDBs) have developed more “free standing” OSs, the thematic coverage in the AfDB’s ISS is adequate. For instance, safeguards associated with the rights of indigenous peoples are dealt as a special case of “vulnerable groups”, which seems relevant for the African region. The ISS requirement in relation to obtaining Broad Community Support (BCS) for all projects is more stringent than that of other organizations. However, the Bank does not require Stakeholder
Engagement Plans (SEPs), especially for high-risk projects, as is the case in the best practice of other MDBs. Greater harmonization and alignment with the practices of other development partners would also reduce the burden on clients.

**Is the ISS effectively supporting the Bank’s strategic priorities, and relevant to the current portfolio and institutional changes?**

The ISS is well aligned to the AfDB’s Ten-Year Strategy and it rightly identified its contribution to the corporate objectives to ensure the sustainability of Bank-funded operations. The new development priorities approved in 2015 (the High 5s) may pose additional challenges for the management of higher environmental and social dual role, namely mainstreaming E&S development considerations into Bank-financed projects and oversight of ISS compliance. The reforms instituted by the Bank’s Development and Business Delivery Model since 2016 have significantly affected the way in which the safeguards function is carried out. The impact of the restructuring of the E&S safeguards function to ensure this dual mandate cannot be evaluated until some years of practice have passed. Various MDBs have adopted similar institutional arrangements, but there is no evidence regarding which model yields the best results.

The Bank’s E&S safeguards apply to all Bank operations. However, evidence suggests that they are still largely focused on investment project financing. The Strategic Environmental and Social Assessment (SESA) is well adapted and applied to the Bank’s portfolio of large regional integration infrastructure programs with wider E&S footprints. However, it has been applied in a very limited way to program-based operations (PBOs, a.k.a. budget support). The ISS is largely aligned with E&S best practice for financial intermediary (FI) lending (Category 4 operations), but some adjustments in the ISS content and its applications were identified. The current ESAP are not sufficiently clear regarding the “rules of engagement” during treatment of safeguards in co-financed operations.

**What is the level of overall compliance of the Bank’s operations with the ISS across the project cycle?**

_Challenges in the overall project identification and preparation process at the Bank hinder the quality of E&S support to clients during the early stages of the project cycle._ Currently, the maturity of the project E&S studies prepared by the borrower is not considered as a “readiness filter”. E&S issues are considered in the Readiness Review at the concept note and appraisal stages. Although the proportion of operations approved with satisfactory E&S mitigation measures at appraisal has increased over time, there are still some cases where projects are approved with unsatisfactory E&S ratings. The E&S due diligence during early project stages is poorly documented.

The quality of Bank E&S work between preparation and approval is strong, but various areas for improvement were identified. The evaluation revealed five areas where the E&S categorization did not fully comply with the ISS (for instance, not including the E&S sub-categorization of Category 4 operations or categorizing all sector PBOs as low risk). However, the overall categorization was relatively systematic for the 190 projects desk-reviewed by the evaluation. Interviews with E&S and operations staff suggest that the validation of E&S assessment studies, including their public disclosure, have been rushed on various occasions to fit predetermined Board approval dates, having consequences for quality. The E&S assessment studies analyzed (Environmental and Social Impact Assessments [ESIAs], Environmental and Social Management Plans [ESMPs], and Resettlement Action Plans [RAs]).
[RAPs]) show certain quality gaps and an inconsistent practice for Category 2 operations. Some improvements over time were noticed for certain variables of the RAPs. Finally, the inclusion of E&S loan conditions and covenants is not standardized for the operations reviewed. SNSC has recently been working with the Bank’s legal department to standardize the E&S clauses related to involuntary resettlement.

Although the Bank complies overall with its disclosure requirements before Board approval, additional efforts are needed to boost the use of project E&S documents, mainly via the Bank website. All Category 1 and 2 operations complied with the expected disclosure time before Board approval. However, the evaluation found that the documentation of the disclosure of Category 4 operations (FI operations) is not systematic. Given that full borrower E&S assessments are now published through the Bank’s disclosure site, the preparation of the E&S assessment summaries by SNSC staff appears to be redundant. Civil society organizations reported a low use of the Bank’s ISS documentation. For those who did, they mainly access this information through the Bank’s website. However, the Bank’s website lacks sufficient functionality to enable stakeholders to provide feedback on draft E&S assessments, as envisioned in the Disclosure and Access to Information Policy. This may partially explain why the Bank has received virtually no feedback on its disclosed E&S documents.

Quality of Bank E&S work during project implementation

The Bank’s reporting on E&S covenants and mitigation measures was found to be poor and inconsistent in supervision reports for public sector operations. Project reviews show that the section on E&S safeguards compliance in the Implementation Progress and Results Reports (IPRs) is usually completed with low candor. None of the reviewed documents provided detailed information about the implementation of E&S mitigation measures using the template proposed in the ESAP (“safeguards results matrix”). The other types of supervision reports (aide-memoires and back-to-office reports, or BTORs) included very limited and vague E&S information. The reporting on E&S of Category 2 projects shows a lower level of compliance for the sample of projects analyzed. The evaluation identified examples of best practice (see Section 3.1.2).

Information about the compliance with OS 2 is assessed as insufficient. Reports tend to cover procedural aspects of monetary compensation to project-affected persons (PAPs), without providing information about broader resettlement activities and their outcomes (adequate compensation, stakeholder engagement, level of functionality of the project-level grievance redress mechanism, addressing the needs of vulnerable groups, livelihood restoration, etc.).

The quality of Bank E&S work during implementation for FI lending is inadequate. This echoes the findings of previous Bank reviews and other MDBs’ evaluations captured in the 2018 IDEV evaluation synthesis on lines of credit (LOCs). The evaluation identified some good practices in the AfDB’s supervision of equity funds. Information about the E&S risks of FI sub-projects is mostly lacking in Bank supervision reports, despite recent efforts to improve the templates for LOC operations. The ESAP do not provide specific guidance about E&S reporting of non-sovereign operations (NSOs), and FI operations in particular. The evaluation did not find any documented evidence that the AfDB’s team had verified that FI-A operations notified or submitted ESIAs/ESMPs on their high-risk sub-projects.

Whereas all loan agreements reviewed include the requirement for the borrowers to send to the Bank periodic reports on E&S progress, very few of these reports could be accessed. The evaluation found borrowers’ progress reports for five of the 30 operations that triggered
OS 2 and two of the 38 Category 4 operations that should have done so. It is unclear to what extent this reflects that these documents are not produced by the borrower, are not transmitted to the Bank, or are not adequately archived. The field missions confirmed that the FIs and sub-projects visited have many more E&S documents to assess ISS compliance than the ones found in the Bank’s databases. This is a major constraint for effective Bank implementation support and compliance verification.

What is the performance of Bank operations in relation to Operational Safeguard 2 (involuntary resettlement, land acquisition, population displacement and compensation)?

The information about RAP implementation and progress included in the Bank’s documents does not allow for an assessment of the implementation of RAP provisions and their results on people’s livelihoods. For instance, it is not possible to conclude whether the Bank’s ISS objective of ensuring that compensation at full replacement cost is applied or whether the compensation packages resulted in an improved standard of living. The coverage of OS 2 aspects in the reviewed borrowers’ reports is very diverse.

A lack of sufficient resources is the most often cited challenge with RAP implementation. The conditions under which borrowers can use loan proceeds to finance resettlement are not clear, according to interviews with Bank staff. Complex national institutional frameworks, and long procedures for land acquisition and compensation, are not sufficiently considered in the timeline and budget of the Bank’s operations. The Bank’s involuntary resettlement requirements are applied uniformly across the continent, but variations in regional member countries’ (RMCs) legal frameworks and policies on land management affect land acquisition for projects, and therefore the timeliness of project implementation.

What is the E&S performance of the FI lending (Category 4 operations) supported by the Bank?

The evaluation found mixed E&S performance for the FI operations funded by the Bank since July 2014. Six were rated satisfactory, six unsatisfactory, and the rest (44) could not be evaluated either due to deficiencies in the E&S information (26), their recent approval or their low level of E&S risks (FI-C operations not requiring further E&S management). Equity funds performed well for several of the E&S indicators, possibly due to the limited number of sub-projects where they invest, the involvement of professional international-level equity fund managers, including E&S experts, and previous exposure to MDBs’ E&S requirements.

E&S performance of FIs at appraisal was found to be strong for the 56 active FI operations reviewed, but their implementation was difficult to evaluate. This positive result at appraisal is encouraging in relation to the situation reported in 2011 by the AfDB’s Fund for African Private Sector Assistance (FAPA) training project, where only 38 percent of 31 FIs had an ESMS in place. However, the actual implementation of FIs’ ESMSs could not be evaluated in all cases due to missing reports or poor report quality. Half of the 10 evaluable FI operations implemented their ESMS successfully, including equity investments in four multinational funds and one LOC for a micro, small and medium-enterprises (MSME) bank in Nigeria.

The 11 FI sub-projects visited in Nigeria and Kenya met the AfDB’s E&S requirements better than the FIs visited. The lower performance of FIs compared with their sub-projects may be explained by the poor FI compliance with AfDB reporting requirements. This is consistent with the 2008 World Bank (WB) Independent Evaluation Group (IEG) findings when it evaluated FI operations and MSMEs. IDEV’s visits identified several factors for successful E&S performance and best practice to manage E&S risks (See Section 3.2.2).
What have been the Bank’s efforts to strengthen borrowers’ safeguards systems and to develop their capacity to manage E&S risks?

The advancement on the third ISS objective has been limited due to budget and staff shortages at the Bank’s E&S function. It continues to be a relevant objective, as indicated by all types of interviewees for this evaluation. During the first two years since the ISS became operational, the Bank published various relevant studies that looked beyond the project-level safeguards work: (i) a 2015 assessment regarding the use of country systems for E&S safeguards; (ii) a 2016 review of implementation of the involuntary resettlement policy; and (iii) a 2016 study on indigenous people. In addition, the Bank provided comprehensive support to develop the E&S capacities of the FI sector at the beginning of the evaluation period (2012-15), but this was not maintained subsequently. At that time, the Bank was the only MDB to have such a comprehensive capacity-building program for the FI sector. Since the end of this training, the Bank has provided relatively little technical assistance to develop ESMSs for FIs. According to interviews with Bank officials, the FI portfolio has grown in low-income countries since 2014. It is becoming increasingly challenging for the Bank to ensure ISS compliance of smaller FIs in less developed sustainable-banking environments. Other MDBs, such as the AsDB, have undertaken considerable capacity building of “country safeguards systems”. However, there have not been systematic evaluations to draw conclusions on their success.

What are the factors that facilitate or constrain the implementation of the ISS?

The most significant constraint to the implementation of the ISS during the evaluation period is the low number of E&S specialists at the Bank. The number of E&S staff at the Bank has never been more than 20 people, supported by some long-term consultants. Both the analysis of the numbers of E&S specialists since 2014 and their comparison with sister organizations show that the E&S function at the AfDB has been (and is) severely understaffed. Most of the E&S safeguards emerging issues are focused on social or “human” concerns. However, the number of Bank social specialists has been especially low, being a constraint to both effectively supporting borrowers to implement OS 2 requirements and covering emerging issues. The evaluation identified some ad-hoc cases of fruitful collaboration between the teams dealing with climate change, gender and safeguards, and with positive improvements of E&S work quality.

Inadequate AfDB post-approval E&S support creates a significant reputational risk for the Bank. With the current level of E&S staffing, it is not possible to support supervision of 50 percent of the ongoing high-risk portfolio. Most (60 percent) of the time of E&S specialists is focused on pre-approval review, and validation and preparation of summaries of E&S assessments produced by borrowers. The high workload of SNSC staff restricts any meaningful and sustained engagement with borrowers across the project cycle. This was also confirmed by the interviews with Bank operational staff and the analysis of participation of E&S experts in project field supervisions. Their participation in supervision task teams was found to be especially low for the FI lending portfolio and Category 2 operations.

The evaluation found serious deficiencies in the Bank’s archiving system of E&S documents to verify the operations’ compliance with the requirements of the ISS over the project cycle. The Integrated Safeguards Tracking System (ISTS) has not been fully designed and operationalized as expected, and was not systematically used during the evaluation period. Databases of other Bank departments also have limited E&S documentation. Poor archiving affects both the ability of the Bank to ensure compliance and the dissemination of knowledge of E&S best practice.
The Bank discontinued conducting E&S safeguards compliance reviews in 2015, despite their significant potential to improve Bank due diligence and borrowers’ performance, and feed lessons into ongoing operations. This useful self-assessment tool has been hardly used due to budget and staff shortages at the E&S function. In parallel, the Bank’s Board extended the mandate of the Compliance Review and Mediation Unit to conduct “spot check advisory reviews of project compliance and advisory services” in 2015. Most of them have been focused on E&S safeguards issues. No other MDB has broadened the mandate of its Independent Accountability Mechanism in this way.

The quality of E&S work during implementation is not part of the Bank’s key performance indicators (KPIs), despite ongoing Bank-wide efforts to emphasize quality and results more strongly. Timetables for project approval do not always consider the maturity of resettlement planning and environmental assessments, which affects the quality of the E&S studies cleared by the Bank. Corporate reporting is still focused on Bank E&S safeguards work before Board approval, with little attention to actual safeguards results. The articulation between Bank operations and E&S staff seems to be improving in terms of task-team mission planning. The ongoing review of the Delegation of Authority Matrix (DAM) and the Operations Manual will be key to ensuring that E&S due diligence is performed as expected, to achieve the ISS policy objectives.

The low level of knowledge of borrowers about the ISS is a key factor affecting the E&S performance of operations. Borrowers are responsible for developing the project E&S assessments and reporting on the implementation of the agreed E&S mitigation measures. However, borrowers’ awareness of the ISS requirements is a key challenge for project E&S performance, along with the gaps between the ISS requirements and national legislation. The Bank has not provided sufficient training and sensitization to project teams regarding the ISS. Low numbers of E&S specialists have hindered the possibility of systematically engaging with staff from Project Implementation Units to ensure adequate understanding of the ISS requirements.

Bank operations staff have varied levels of knowledge regarding the ISS requirements. Staff from public infrastructure sectors exhibited good knowledge of E&S risk management, while staff dealing with PBOs and FI operations had only a limited understanding of E&S safeguards. The available ISS training only covers a generic introduction to the ISS, which is not sufficiently targeted to the specific ISS requirements for various types of lending products. SNSC has not developed an induction training for new E&S staff and consultants, or ensured regular access for the team to (external) training on E&S emerging issues.

The guidance volumes prepared as part of the ISS rollout are comprehensive. However, some additions are needed to assist Bank staff and borrowers to systematically apply the ISS requirements. After a thorough document review of the E&S systems of the AfDB and other sister MDBs, together with interviews and focus group discussions, the evaluation identified gaps in: (i) addressing the increasing complexity of involuntary resettlement; (ii) how to integrate gender and disability issues in safeguards work, when applicable; (iii) the use of third-party monitoring to improve safeguards implementation and reporting, as well as compliance monitoring; (iv) engaging with stakeholders throughout the project cycle; and (v) how to conduct E&S due diligence of associated facilities.

Recommendations

Recommendation 1: THE BANK’s E&S RESOURCES – Increase the Bank’s E&S resources to better support borrowers and clients to manage E&S impact and risks across the project cycle, by:
enhancing the AfDB E&S team’s capacities, numbers and skillsets to ensure that E&S implementation support covers all lending products, including FI operations, as well as medium-risk (Category 2) operations; and

establishing systematic cross-support linkages between the teams dealing with E&S safeguards, climate change and gender.

**Recommendation 2: INFORMATION SYSTEM AND ACCOUNTABILITY** – Develop an integrated and automated management information system across the project cycle and enhance SNSC’s oversight function to inform strategic decisions and foster accountability, by:

- revamping the Integrated Safeguards Tracking System (ISTS) to ensure proper archiving of key ISS-compliant documents and linking it to other Bank-wide operations databases, maintained both by public and private sector operations departments; and

- resuming the Management-led safeguards compliance reviews/E&S audits.

**Recommendation 3: ISS COVERAGE** – Strengthen the content and guidance of certain selected safeguards components to ensure full alignment with international best practice, by:

- extending the coverage of Operational Safeguard 5 to community health and safety issues;

- making Stakeholder Engagement Plans mandatory for Category 1 operations;

- clarifying the relationship between the 2003 Involuntary Resettlement Policy and Operational Safeguard 2; providing clarity on the conditions for using loan proceeds to fund involuntary resettlement and compensation; and further developing the existing guidance to encompass the increasing complexity of involuntary resettlement processes;

- ensuring that the revised ESAP: (i) clarify co-financing scenarios and their implications for E&S safeguards; (ii) provide additional templates for implementation support and borrower reporting for private sector operations, including FI lending; and (iii) further detail the requirements for Category 2 operations; and

- developing additional guidance to: (i) better address the specific needs of project-affected vulnerable groups (gender aspects, gender-based violence and disability, among others); (ii) provide clarity about the use of third-party monitors; (iii) improve stakeholder engagement; and (iv) conduct E&S due diligence of operations’ associated facilities.

**Recommendation 4: QUALITY OF BANK E&S WORK BEFORE APPROVAL** – Strengthen the quality by:

- reviewing the Readiness Review process to ensure that project E&S assessment studies are completed and disclosed before the end of the preparation phase;

- ensuring compliance with the E&S sub-categorization of FI operations and standardizing the loan covenants regarding E&S reporting for FIs (Category 4 operations);

- reviewing the Environmental and Social Management Systems (ESMSs) of companies receiving AfDB corporate loans to ensure that the proposed E&S assessment framework fits their needs to manage E&S risks, and categorize them accordingly;

- piloting Strategic Environmental and Social Assessments (SESAs) for medium- and high-risk sector program-based operations (PBOs). Provide additional guidance on the E&S screening and categorization of PBOs, and further develop how to conduct SESAs; and

- formalizing the Bank’s full disclosure of borrowers’ E&S assessment documents;
eliminating the ESAP requirement for Bank E&S staff to summarize them; and developing the functionality for stakeholders to provide feedback on E&S assessment reports on the Bank’s website.

**Recommendation 5: QUALITY OF BANK E&S WORK DURING IMPLEMENTATION –** Strengthen safeguards reporting to sharpen the focus on delivery and results, by:

- tracking and reporting on the E&S implementation support provided to borrowers;
- ensuring candid reporting on the fulfilment of E&S covenants in Bank’s supervision reports;
- 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 the reporting on resettlement measures, including information regarding all RAP provisions and their effects on people’s livelihoods, beyond procedural aspects and monetary compensation of PAPs; and
- 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.

**Recommendation 6: ISS TRAINING –** Reinforce the knowledge and awareness of internal and external stakeholders on the ISS requirements, by:

- developing additional tailored training on the ISS requirements for specific lending products, prioritizing those for FI operations, and deepening the training on managing involuntary resettlement processes;
- developing induction training for new E&S staff and consultants, and expanding their access to training on emerging safeguards issues;
- systematically associating an E&S specialist in project launching missions to reinforce the knowledge of Project Implementation Units regarding the specific ISS requirements and identify capacity gaps; and
- launching discussions with other development partners on opportunities to jointly organize capacity building in E&S performance for staff of executing agencies of Bank-funded projects, the international and local E&S consulting sector, national environment and land management regulatory agencies, and civil society organizations.
About this Evaluation

This report presents a summary of the findings, lessons and recommendations from IDEV's evaluation of the African Development Bank’s (AfDB’s) Integrated Safeguards System (ISS), and the actions the AfDB is undertaking to ensure its effectiveness. The evaluation assesses the relevance and robustness of the ISS’s design; the efficiency of the system, process, resourcing and incentives in place; and the emerging effectiveness of the ISS in achieving the AfDB’s safeguards objectives. It also explores success factors and good practices for implementation of the safeguards policy, with examples from the Bank and its peer development organizations.

The methodological approach to this evaluation was theory-based, using mixed methods and a formative approach focused on design and early implementation, and on process and efficiency. Multiple sources of information were used to mitigate methodological challenges and increase the credibility of the results. An Evaluation Reference Group was established to ensure the relevance, accuracy and quality of the evaluation approach, findings and recommendations to the Bank’s operational context.

The evaluation found that the ISS approved by the AfDB at the end of 2013 is well aligned with international best practice, while identifying some areas for improvement to better cover relevant emerging safeguards issues. The most significant constraint to the implementation of the ISS during the evaluation period was found to be the insufficient level of human and financial resources allocated to safeguards issues.

The evaluation made six major recommendations to the AfDB that would strengthen and improve the functioning of its ISS.