

Asian Development Bank

Chair's Summary of the Development Effectiveness Committee

7 November 2014

Corporate Evaluation Study: Safeguards Operational Review – ADB Processes, Portfolio, Country Systems, and Financial Intermediaries (IN.389-14)

1. The Development Effectiveness Committee (DEC) discussed the Safeguards Operational Review, which Independent Evaluation Department (IED) conducted in compliance with provisions in the Safeguard Policy Statement (SPS) of 2009. The review reported overall progress on ADB's safeguards delivery, and paid special attention to two new aspects of SPS: (i) new procedures and conditions allowing the use of country safeguard systems (CSS) in ADB projects in certain circumstances, and (ii) new safeguard requirements for financial intermediary (FI) projects. A fuller evaluation of the safeguards' effectiveness, with more attention for results on the ground is envisaged to be completed in 2016.

2. The safeguard operational review observed, amongst other things: (i) a small decrease in the proportion of category A projects and a larger increase in the share of category B projects over the review period, (ii) improved support for safeguard planning and implementation with the recruitment and strategic deployment of an extra 48 additional environment and social development specialists since 2010, (iii) variable quality of the design of safeguard measures particularly in environmental category B projects, (iv) indications of possible insufficient field visits of environmental category A projects, (v) an impressive program of TAs strengthening safeguard systems and capacity in many countries, (vi) a very low uptake of the intention in the 2009 SPS Policy to introduce greater use of CSS in ADB projects, and (vii) improved implementation of safeguards by FIs. Given the limited scope of the review, the nature of IED's recommendations were directional rather than final, such as the need to: (i) improve design and quality control of safeguard measures for category B investment projects and category FI for FI projects, (ii) enhance ADB supervision over implementation of safeguard measures by executing agencies, (iii) improve reporting and disclosure of progress and results of safeguard measures, (iv) present a plan for the use of CSS in ADB-supported projects, and (v) explore the need for issuing guidance notes for staff and executing agencies on FI implementation.

3. DEC took note that there is adequate staff in ADB to undertake safeguards work, that systems are largely being followed, and that the TA on strengthening CSS was beginning to deliver tangible results. However, DEC members noted that the current approach of undertaking equivalency assessments has not worked well as many countries seem to find it easier to follow SPS in ADB projects than fulfill all the requirements to allow them to apply for the full use of CSS in the projects. Staff added that developing member countries (DMCs) may view the needed assessments as intrusive. While supportive of strengthening country systems, a DEC member was questioning the effectiveness of undertaking a comprehensive gap analysis across DMCs, since these systems evolve and change as new rules and policies are enacted. He felt that efforts should be intensified in: (i) building capacity in sectors and government agencies, including multitranches financing facility clients, and/or (ii) addressing safeguards systems and capacity building needs at the country partnership strategy stage. DEC members shared staff's view that the use of CSS should be selective and demand-driven, taking into account costs and country capacity. IED responded that if the SPS section on the use of CSS was to be entirely on standby demand basis then this might require ultimately a revision of SPS.

4. The DEC Chair welcomed the new requirements under the SPS (e.g., biodiversity conservation, occupational safety and community health and safety, greenhouse gas emissions) but urged staff to also consider whether DMCs can "afford" ADB standards. He cited the importance of striking a balance by not setting the bar too high so as to discourage DMCs to engage with ADB. Citing World Bank figures, a DEC member inquired whether IED had arrived at a cost-benefit estimate of safeguards implementation. IED estimated that safeguards implementation may comprise 5% of the project cost, while noting the difficulty in obtaining accurate data on time spent for dedicated safeguards work. Benefits were difficult to estimate in many cases but particularly environmental benefits could be considerable. A DEC member was of the view that while implementing safeguards constitutes additional staff costs, anticipating and mitigating externalities ultimately results in better projects that positively impact communities. He supported the strengthening of the implementation of SPS, particularly on carbon emissions and core labor standards.

5. DEC members acknowledged that safeguards work is labor intensive and noted the report's observation that half of staff's work on a project is spent reviewing documents and reports rather than devoting time in the field for monitoring and supervision. In this regard, a DEC member asked if the volume of safeguards documents could be rationalized. The DEC Chair was also of the view that more staff should be deployed in the field to help DMCs build capacity. IED underscored the need for additional staff training on biodiversity and occupational health and safety. Staff responded that safeguards work is an iterative process and agreed that the best way to address the quality issue is through staff training and capacity development among executing agencies and consultants. While staff acknowledged that the quality of category B safeguard plans varies, they did not see a need to establish another layer of peer review since plans are reviewed by operational departments and RSDD. Staff added that safeguard plans are prepared to a level of detail commensurate to the nature of the project and its likely impact and risks both on the environment and affected communities.

6. Despite recent improvements, DEC members noted that the disclosure of safeguard monitoring reports remains inadequate. One DEC member expressed disappointment that disclosure has not reached 100%, and another DEC member inquired why PSOD hasn't uploaded FI monitoring reports in the website. Staff responded that they are working with operations departments to fulfill disclosure requirements. In regard to FI reports, staff shared that FIs submit an annual report on environment and social management systems (ESMS) implementation to ADB, but that the SPS and the Public Communications Policy do not prescribe disclosure of ESMS implementation reports for individual projects, whether private or public sector. Staff added that category A sub loans should be disclosed, but since PSOD has not had any such cases, the provision has yet to be applied. Staff also cited that the SPS is clear on which documents need to be disclosed and that FIs are unlikely to provide information about how they operate internally, further adding that this is not industry practice. The Managing Director General assured DEC that management will do its best to overcome structural issues affecting timely disclosure, if any. IED maintained that by excluding ESMS implementation reports from disclosure there is little information available to the public on safeguard issues related to private sector FI projects. IED asked for clarification of the disclosure rules surrounding ESMS implementation reports¹.

7. DEC noted the report's recommendations to improve supervision and monitoring of safeguards implementation, but was of the view that IED's findings were not conclusive. A DEC member cited the comparison between a similar report on the World Bank and asked IED why its report used more stringent criteria focusing on ADB-led supervision, when some review missions are also undertaken by consultants or third party auditors. Staff disagreed with IED's recommendation to include the frequency of project specific supervision missions in RRP, stating that there is sufficient guidance in the operations manual, and as part of regular implementation review missions are mandated to look at safeguard issues. Staff asserted that the number of loan review missions is within the range of the target and they prefer to maintain flexibility on the number of missions needed to either support safeguards implementation or implement corrective action if projects are non-compliant. A DEC member shared the same view, stating that the frequency of missions should be determined by management and that the imperatives of zero budget growth may impact the frequency of business trips.

8. Responding to the report's recommendation to improve quality control and efficiency for category B investment projects and category FI for FI projects, staff assured DEC that such projects are prepared in accordance with the SPS policy and subjected to quality at entry assessments (validated by subject matter specialists). While classification may change over time during implementation, the Managing Director General assured DEC that staff gives close attention to safeguards, because non-compliance may cause further project delays. Staff cautioned against changing the classification system in the absence of evidence suggesting that it is inadequate or lacking.

¹ ADB's Safeguard Policy Statement (SPS) specifies which safeguard documents and reports should be disclosed on ADB website and when such disclosure should take place. As relate to environment safeguards, these documents are the following: draft full EIA [120-day], final EIA/IEE, a new or updated EIA/IEE, corrective action plan, and the environmental monitoring reports. For social safeguards, it is mandatory to disclose draft RP/RF/IPP/IPPF, final RP/IPP, new or updated RP/IPP, and corrective action plan and monitoring reports. As such, the SPS requires neither the ESMS nor the subsequent report on implementation of ESMS to be disclosed on ADB website.

ADB's Public Communication Policy (PCP) has provisions for disclosure of Project Safeguard Documents in Chapter 6, paragraphs 49-55, which disclosure details follow consistently the disclosure provisions prescribed in the SPS. Such provisions only reveal and confirm that neither SPS nor PCP requires the disclosure of the ESMS or the subsequent report on the implementation of ESMS.

9. Regarding FI due diligence, a DEC member inquired if the IFC's model is better suited to private sector operations and if so, would ADB likely adopt a similar model. Staff shared that requirements across multilateral development banks are harmonized and differ only on the delivery schedule. IFC is perceived as more flexible in the sense that they implement a corrective action plan to bring clients in compliance over time. In ADB's case, requirements are front loaded and should be complied with prior to approval. Staff also maintained that adequate resources have been allocated for due diligence, including staff training, and reported improvements in the linked documents in recently prepared RRP's. Staff underscored that category C classified projects have benign safeguard implications, and should not require extraordinary supervision arrangements.

10. There was discussion regarding the timing of the full review of the SPS. Staff representatives posited that the SPS may have prescribed a minimum of five years before a full review takes place, but that the actual review itself need not take place on the fifth year of the policy's effectivity. The DEC Chair agreed with the staff's view that IED should consider whether the sample of operations approved after SPS' adoption is sufficiently mature and allows observation of project outcomes on the ground. The DEC Chair mentioned that IED's work program could be adjusted accordingly if needed. DEC would conduct some further consultation on this.