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# Environmental and social management system

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## **Summary**

In decision B.07/02, paragraph (n), the Board requested the Secretariat, in consultation with the Accreditation Committee and the Accreditation Panel as needed, to develop an environmental and social management system (ESMS) for the GCF, based on the outline contained in annex VI to the same decision. The ESMS is a broad operational framework that allows the GCF to incorporate environmental and social considerations into its decision-making and operations. The ESMS is underpinned by an overarching environmental and social policy that describes how the GCF will implement the ESMS and achieve improvements in environmental and social outcomes while addressing the adverse impacts in GCF-financed activities. This document presents the structure of the ESMS of the GCF and the draft GCF environmental and social policy, and proposes next steps for further developing various ESMS elements.

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## I. General mandate

1. The Board, in decision B.07/02, paragraph (n), requested the Secretariat to develop an environmental and social management system (ESMS) for the GCF. An ESMS is a set of management processes and procedures that allow the GCF to identify, analyse, avoid, control, and minimize the potential adverse environmental and social impacts of its activities, to maximize environmental and social benefits, and to improve the environmental and social performance of the GCF and its activities consistently over time. An outline of the ESMS is contained in annex VI to decision B.07/02, identifying key elements of the ESMS that include the environmental and social policy, the interim environmental and social safeguards (ESS) standards, and a suite of management processes and procedures including organizational capacity and functions.
2. This document summarizes the progress in developing the ESMS of the GCF, describes the structure of the envisaged ESMS, presents the draft environmental and social policy as a part of the ESMS, and proposes next steps for further developing the various ESMS elements.

## II. Linkages with decisions and other documents

3. This document has actual or potential linkages with the following items:
  - (a) “Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund’s fiduciary principles and standards and environmental and social safeguards” (decision B.07/02);
  - (b) “Guidelines for the operationalization of the fit-for-purpose accreditation approach” (decision B.08/02);
  - (c) “Gender policy and action plan” (decision B.09/11);
  - (d) “Comprehensive information disclosure policy of the Fund” (decision B.12/35);
  - (e) “Investment framework” (decision B.07/06);
  - (f) “Initial results management framework of the Fund” (decisions B.07/04 and B.08/07);
  - (g) “Initial monitoring and accountability framework for accredited entities” (decision B.11/10);
  - (h) “GCF risk management framework” (document GCF/B.17/12); and
  - (i) “GCF-wide Indigenous Peoples policy” (decision B.15/01).<sup>1</sup>

## III. Stakeholder inputs on the environmental and social management system of the GCF

4. The Secretariat has conducted two rounds of calls for public inputs related to the ESMS. The Secretariat also consulted with the Accreditation Committee (AC) and the Accreditation Panel (AP), in line with decision B.07/02, paragraph (n).
5. On 30 November 2015, the Secretariat, through a call for public inputs, invited organizations and entities involved and interested in climate change mitigation and adaptation, GCF interim ESS standards,<sup>2</sup> and related topics to provide inputs for the development of the

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<sup>1</sup> Currently being developed.

<sup>2</sup> Decision B.07/02, annex I.

ESMS in line with the ESMS outline adopted in decision B.07/02. The call requested inputs on the scope of the ESMS (such as the environmental and social policy, management processes and procedures, institutional capacities, and roles and responsibilities). By the close of submissions on 15 February 2016, the Secretariat had received 16 submissions from members of the AC, members of the AP, civil society and private sector organizations.

6. The inputs received have informed the formulation of the draft environmental and social policy contained in annex II to this document, as well as options for further developing various elements of the ESMS, particularly the management processes and procedures, the roles and responsibilities of the GCF and the accredited entities, and stakeholder engagement. Further inputs on the scope of the ESMS and the draft environmental and social policy were provided by the AC and AP in October 2016.

7. On 15 December 2016, the Secretariat, through a call for public input, invited further inputs to the draft ESMS structure and draft environmental and social policy from members and alternate members of the Board, active observers, accredited entities, national designated authorities, civil society and private sector organizations, indigenous peoples organizations and other stakeholders. By the close of submission on 24 February 2017, the Secretariat had received 22 submissions. The submissions were collated and published on the GCF website on 31 March 2017.<sup>3</sup> The submissions provided substantial inputs for improving the draft ESMS structure and content of the draft environmental and social policy. The inputs were varied; however, they also presented common views related to the principles articulated in the draft policy, and the roles and responsibilities of the GCF and accredited entities, including entities acting in an intermediary function.

#### **IV. Environmental and social management system**

8. An ESMS is an overarching framework for achieving improvements in environmental and social outcomes while addressing the unintended adverse impacts in all the GCF-financed activities. It provides an opportunity for the GCF to incorporate environmental and social considerations into its decision-making and operations in ways that not only include safeguard measures of ‘do no harm’, but also identify opportunities to ‘do good’ and improve environmental and social outcomes. An ESMS allows the GCF to integrate environmental and social considerations in a systematic, coherent and transparent manner, and at three entry points:

- (a) At the facilities and operations level, related to the environmental and social management practices of the GCF, its institutional capacity and stakeholder involvement, among other things;
- (b) At the activities level,<sup>4</sup> through environmental and social due diligence, and risk assessment, and through a management framework tailored to the nature and scale of the activities and the magnitude of environmental and social risks and impacts; and
- (c) At the policy level, by establishing the process for integrating sustainability considerations into the strategies and decisions.

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<sup>3</sup> The compilation of public inputs received from the call for inputs published on 15 December 2016 is available at <[http://www.greenclimate.fund/documents/20182/24913/DCP\\_31-03-2017\\_-\\_Compilation\\_of\\_Submissions\\_Draft\\_GCF\\_Environmental\\_and\\_Social\\_Management\\_System.pdf/15e8ecec-1664-465b-9a96-824fd1fbb684](http://www.greenclimate.fund/documents/20182/24913/DCP_31-03-2017_-_Compilation_of_Submissions_Draft_GCF_Environmental_and_Social_Management_System.pdf/15e8ecec-1664-465b-9a96-824fd1fbb684)>.

<sup>4</sup> For the purposes of this document and unless otherwise specified, “activities” refer to programmes, projects and subprojects.

9. The structure of the proposed ESMS reflects the mandate and business model of the GCF and how it will integrate environmental and social considerations in its decision-making and operations. The proposed ESMS is structured with the following elements:
- (a) An environmental and social policy that sets out the objectives, scope, principles, roles and responsibilities and general requirements to effectively manage environmental and social risks and impacts and improve outcomes. The policy presents the commitments of the GCF and articulates the principles to which the GCF will hold itself accountable;
  - (b) ESS standards which require that all potential environmental and social risks and impacts from GCF-financed activities are identified, assessed and addressed through appropriately scaled management measures that avoid, and where avoidance is not possible, minimize and mitigate residual impacts;<sup>5</sup>
  - (c) Related policies and practices that represent the existing rules and governance frameworks of the GCF. These typically include information disclosure, grievance redress mechanism, and supervision, monitoring and reporting policies. For the GCF, these would involve those cited in section VI of this document, as well as those that may still be developed which are relevant to the design and implementation of the ESMS;
  - (d) An ESMS manual consisting of management processes and procedures that assist in implementing the ESMS and the environmental and social policy and the application of the ESS standards. It also describes the institutional and governance arrangements (e.g. roles and functions) of the GCF and how the GCF will conduct its due diligence, screening, monitoring and reporting. The processes and procedures will be aligned with the contents of the ESMS as indicated in annex VI to decision B.07/02, paragraph (n);
  - (e) Stakeholder engagement that delivers the meaningful and active participation of GCF stakeholders, including national designated authorities and focal points and civil society organizations. Such participation requires that activities are implemented in a manner that recognizes and takes into account the views of the various stakeholders, including vulnerable groups and individuals (including women, children and people with disabilities, and people marginalized by virtue of their sexual orientation and gender identity), indigenous peoples, and other marginalized groups of people and individuals that are affected or potentially affected by GCF-financed activities. This engagement supports the independent Redress Mechanism (IRM) of the GCF and the grievance mechanisms of accredited entities that function as a forum for people affected or potentially affected by GCF-financed activities to seek redress; and
  - (f) Guidance and tools consisting of technical and administrative references for entities in implementing the environmental and social policy and ESS standards. This element will also include normative practices on stakeholder engagement including consultations, country coordination, obtaining necessary consent from indigenous peoples, and support and acceptability from local communities, vulnerable and socially excluded populations (including women, children, people with disabilities, people marginalized by virtue of their sexual orientation and gender identity, indigenous peoples, and other marginalized groups and individuals that are affected and potentially affected by GCF-financed activities). Best practice options for country coordination and multi-

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<sup>5</sup> The GCF adopted, in decision B.07/02, paragraph (c), the International Finance Corporation Performance Standards for Environmental and Social Sustainability as the GCF interim ESS standards until the GCF develops its own ESS standards, which will build on evolving best practices, completed within a period of three years after the GCF becomes operational, and with inclusive multi-stakeholder participation.

stakeholder engagement in developing national strategic frameworks and funding proposals are contained in annex XIV to decision B.08/10, paragraph (d).<sup>6</sup>

10. An important consideration for the proposed ESMS is the institutional capacity for implementation and continuous improvement. This includes the provision of staff, resources and organizational structure to support the effective implementation of the ESMS. Staff will need to have the necessary expertise to carry out their responsibilities in order to implement the ESMS effectively.
11. The envisaged ESMS for the GCF brings these elements together into a coherent system of managing the environmental and social outcomes, risks and impacts of GCF-financed activities. It also brings together three key interacting institutions and actors where:
  - (a) The GCF ensures that the proposed policy is implemented, and its objectives reached;
  - (b) Accredited entities apply their environmental and social safeguards consistent with the GCF interim ESS standards in GCF-financed activities; and
  - (c) Stakeholders and national designated authorities and focal points provide inputs and feedback on the ESMS and help shape outcomes and policy discourse.
12. The structure of the proposed ESMS takes note of the relationships among the various elements and institutions, and requires that the roles and responsibilities of the institutions are consistent with their mandates and the business model of the GCF. For the GCF, the proposed architecture of the ESMS is illustrated in the diagram below.

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<sup>6</sup> Decision B.08/10, annex XIV.

## Elements of the environmental and social management system of the GCF

Environmental and social management system		
	Responsibility	Implementation guidance
GCF	<p><b>Environmental and social policy</b></p> <p>Commitments and principles in managing environmental and social risks and impacts and enhancing sustainability performance and outcomes</p>	<p><b>Environmental and social management system manual</b></p> <p>Procedures and work instructions guiding the GCF in the implementation of the policy and the application of the ESS standards</p>
	<p><b>Related policies and practices</b></p> <p>Policies and governance frameworks of the Fund complementing and supporting the ESMS (e.g. Information Disclosure policy, Gender policy and action plan, accreditation framework, independent Redress Mechanism, monitoring and accountability framework, initial risk management framework, results management framework)</p>	
Accredited entities	<p><b>Environmental and social safeguards</b></p> <p>Set of principles, rules, and guidelines to ensure that outcomes are enhanced and potential environmental and social risks and impacts are screened, assessed, avoided, and managed. The GCF has adopted the IFC Performance Standards for Environmental and Social Sustainability as its interim ESS standards in 2014</p>	<p><b>Guidance and tools</b></p> <p>References for entities in implementing the ESS standards and policy. This includes the IFC Guidance Notes and the WBG EHS Guidelines, stakeholder engagement guidelines, free prior informed consent, country coordination, and other best practices</p>
GCF, accredited entities, NDAs, civil society, stakeholders	<p><b>Stakeholder engagement</b></p> <p>Requirements for multi-stakeholder engagement including those specified in ESS standards and other policy and governance frameworks (e.g. independent Redress Mechanism, Information Disclosure policy, monitoring and accountability framework)</p>	

*Abbreviations:* EHS = environmental, health and safety; ESMS = environmental and social management system; ESS = environmental and social safeguards; IFC = International Finance Corporation; NDAs = national designated authorities; and WBG = the World Bank Group.

13. The elements of the ESMS are organized to reflect the best practices in safeguards and sustainability frameworks. Completing the GCF's ESMS will entail adopting an overarching environmental and social policy, formulating the ESMS manual of the GCF that describes the management processes and procedures that will guide the implementation of the ESMS, and developing the ESS standards pursuant to the Board decision B.07/02 paragraph (n). If needed, additional guidance and tools will be developed for implementing the ESMS and applying the ESS standards.

## V. Links with existing frameworks and policies

14. For an ESMS to be effective as a broad operational framework, it must be able to harness the resources and existing policies of an organization. For the GCF, the elements of an ESMS will be linked and implemented pursuant to the existing relevant governance framework and policies of the GCF, which are described below:

- (a) **Accreditation framework** – In line with the initial guiding framework for the GCF accreditation process (annex I to decision B.07/02) and through the fit-for-purpose approach to accreditation (annex II to decision B.08/03), the accreditation process considers the capacity, competency and track record of entities in applying their own environmental and social safeguards and consistency with the GCF ESS standards in a scaled risk-based approach;
- (b) **Results management framework**<sup>7</sup> – The results of the adaptation and mitigation actions are enhanced by the implementation of the ESMS and the application of the GCF ESS standards;
- (c) **Economic and financial feasibility analysis.** The project’s economic and financial feasibility analyses consider the expenses and savings from the environmental and social risk mitigation and management processes. It does so in a timely and integrated manner;
- (d) **Monitoring and accountability framework** – The framework provides the monitoring and reporting requirements at the accredited entities’ institutional level (accreditation) and GCF-financed activities<sup>8</sup> level and covers compliance performance and reporting processes pursuant to the ESS standards;
- (e) **Information disclosure policy** – The policy supports the commitments of the GCF to transparency and accountability in all aspects of its operations and to strengthen public trust.<sup>9</sup> The policy promotes effective and meaningful stakeholder engagement by making available the timely, understandable, relevant and accessible information on environmental and social risks and impacts of GCF-financed activities;
- (f) **Gender policy and action plan** – The GCF Gender policy details the commitment of the GCF to efficiently contribute to gender equality and ultimately bring about sustainable climate change results, outcomes and impacts.<sup>10</sup> The GCF Gender policy and action plan complement the requirements of the GCF interim ESS standards, particularly in enhancing social access to development benefits and addressing potential social risks and impacts related to gender responsiveness, equitable access to benefits and inclusiveness. The GCF Gender policy and action plan are applied in conjunction with the ESMS;
- (g) **Risk management framework, guidelines and register** – These include the risk management framework, risk and investment guidelines<sup>11</sup> for the public and private sectors, the detailed risk register<sup>12</sup> and the risk appetite statement<sup>13</sup> as these apply to the operations of the GCF. The risk register acknowledges the role of the GCF interim ESS standards in mitigating risks, particularly those related to the failure of entities to comply with applicable laws;
- (h) **Evaluation policy and the Independent Evaluation Unit** – Through the GCF evaluation policy and the Independent Evaluation Unit (IEU), evaluations may be undertaken on the effectiveness of implementing the GCF interim ESS standards; and

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<sup>7</sup> Decisions B.07/04 and B.08/08.

<sup>8</sup> Decision B.11/10.

<sup>9</sup> Decision B.12/35.

<sup>10</sup> Decision B.09/11, annexes XIII and XIV.

<sup>11</sup> Decision B.13/36, annexes VIII and IX.

<sup>12</sup> Decision B.12/34.

<sup>13</sup> Decision B.12/34.



- (i) **Independent Redress Mechanism** – The IRM was mandated under the Governing Instrument for the GCF to redress the grievances and complaints by communities and people on environmental and social impacts that result from an action or omission to follow the operational policies and procedures of the GCF, including the GCF ESS standards.<sup>14</sup>

## VI. Overview of the proposed environmental and social policy

15. An essential element of the ESMS is the environmental and social policy, which elaborates the commitment of the GCF to integrate environmental and social issues into its decision-making and outcomes, and establishes the principles, requirements and responsibilities to deliver on these commitments.

16. The proposed policy, presented in annex II to this document, reflects the broad consensus on the importance of clearly conveying to stakeholders and communities its commitments to achieve environmental and social benefits and avoid harm in all the activities undertaken and supported.

## VII. Next steps

17. Following decision B.07/02, paragraph (n), which gives a mandate to the Secretariat to develop an ESMS for the GCF, and recognizing the elements of the ESMS that need to be further established, the Secretariat will identify and formulate the management processes, procedures and guidance, and will compile these as a manual for operating the ESMS. In developing the ESMS manual, the Secretariat will consider the relevant ESMS content outlined in annex VI to decision B.07/02, the existing procedures and practices related to the ESMS implementation and the GCF ESS standards. The formulation of the management processes, procedures and guidance will entail the following activities:

- (a) Assess the gaps among the requirements of the environmental and social policy, the GCF interim ESS standards and existing GCF procedures and practices, and identify what other processes and procedures are needed to address these gaps. This may include the need for additional guidance on the identified processes and procedures, such as environmental and social risks and impacts screening and categorization;<sup>15</sup>
- (b) Incorporate and reflect into the ESMS processes and procedures the existing policies and processes, including those under development; and
- (c) Develop the identified procedures and guidelines related to the ESMS of the GCF.

18. The Secretariat will also identify applicable best practices, guidance and tools for implementing the ESMS, particularly on stakeholder engagement including consultation, communications and outreach, and grievance redress mechanisms.

19. The Secretariat will identify and develop opportunities and implement activities for awareness building and capacity development on the ESMS and ESS standards, with the focus on the needs of direct access entities and countries.

20. The Secretariat will assess its needs with a view to strengthening its capacity to implement the ESMS, including the Environment and Social policy and the application of the ESS standards through the allocation of staff and resources.

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<sup>14</sup> Decision B.06/09, annex V.

<sup>15</sup> Decision B.07/02, paragraph (n).

21. In parallel, the Secretariat will complete the development of a draft GCF-wide Indigenous Peoples policy, as requested by the Board in decision B.15/01.
22. Recalling decision B.07/02, paragraph (d), the GCF aims to complete the process of developing the ESS standards within three years after the GCF becomes operational, with inclusive, multi-stakeholder participation. The development of the ESS standards may overlap with the development of the ESMS manual, providing opportunities for synergy. The ESMS manual, the environmental and social policy, and other relevant policies and practices may need to be updated when the ESS standards are finalized. In developing the ESS standards, the Secretariat will present to the Board for its consideration the overall approach and the process for developing the ESS standards, with inputs from the stakeholders.

## Annex I: Environmental and social policy

### I. Introduction

1. The GCF establishes this overarching Environmental and Social policy (“the policy”) that articulates how GCF integrates environmental and social considerations into its decision-making and operations to effectively manage environmental and social risks and impacts and improve outcomes.

### II. Objectives and scope

#### 2.1 Policy objectives

2. The GCF will ensure that, in carrying out its mandate of promoting a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development, it will effectively and equitably manage environmental and social risks and impacts, and improve outcomes. The policy presents the commitments of the GCF and articulates the principles and standards to which the GCF will hold itself accountable. Through this policy, the GCF will require that all GCF-supported activities<sup>1</sup> will commit to:

- (a) Avoid, and where avoidance is impossible, mitigate adverse impacts to people and the environment;
  - (b) Enhance equitable access to development benefits; and
  - (c) Give due consideration to vulnerable populations, groups and individuals (including women, children and people with disabilities, and people marginalized by virtue of their sexual orientation or gender identity), indigenous peoples, and other marginalized groups of people and individuals that are affected or potentially affected by GCF-financed activities.
3. The policy articulates the commitments of the GCF to sustainable development, elaborates its intention to integrate environmental and social issues into its processes and activities, and sets the roles and responsibilities including the requirements to deliver these commitments. To achieve these, the policy defines how the GCF will manage the environmental and social risks and impacts, and how the GCF will support the overall sustainability of its operations and investments in line with its obligations under national and international law and other relevant standards. Specifically, the policy aims to:
- (a) Provide the basis for a coherent, consistent and transparent management system founded on the principles of sustainable development for improving performance and outcomes, managing risks and impacts, and enhancing equitable access to benefits in all GCF-financed activities;
  - (b) Support the decision-making of the GCF, particularly regarding the accreditation of entities, the provision of support and the design, development, approval, implementation and review of GCF-financed activities;

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<sup>1</sup> For the purposes of this policy and unless otherwise specified, “activities” refers to programmes, projects and subprojects.

- (c) Underpin the development of an ESMS<sup>2</sup> that incorporates a systematic approach to integrating environmental and social performance and risk management into the operations of the GCF and those of the accredited entities and other development institutions with which the GCF is associated; and
- (d) Define the responsibilities and processes to deliver upon the commitments of the GCF.

## 2.2 Scope of application

4. The policy will apply to all prospective and approved GCF-financed activities and to both public and private sector entities. Activities supported by the GCF include programmes, projects and subprojects. The financial instruments may vary and may include grants, concessional loans, guarantees and equity investments. The Environment and Social policy applies to three engagement areas:

- (a) At the strategic and institutional level, the policy responds to the mandate expressed in the Governing Instrument for the GCF and links to other operational strategies and policies including internal structures and governance frameworks of the GCF;
- (b) At the entities level, the policy sets out the requirements for accredited entities working with the GCF to establish and maintain robust, systematic, accountable, inclusive, gender-responsive, participatory and transparent systems to manage risks and impacts from GCF-financed activities, pursuant to policy and the ESS standards<sup>3</sup> adopted by the GCF. This policy and the related policies relevant to the ESMS must be complied with at these levels including subprojects for which the accredited entities have full legal responsibilities. These requirements complement the accreditation framework and will also be considered in the accreditation and reaccreditation processes; and
- (c) At the activity level, the policy establishes the requirements for environmental and social risk assessment and management to be aligned to the GCF's ESS standards ensuring that due diligence is undertaken for all GCF-financed activities, including subprojects financed from GCF-funded programmes or through financial intermediaries, regardless of the financial instruments used or whether these are solely supported by the GCF or co-financed by other institutions.

5. Where activities are co-financed by other institutions, the GCF will encourage accredited entities and the other co-financing institutions to explore a common approach, regardless of the level of financing, for the assessment and management of the environmental and social risks and impacts. The GCF can agree to a common approach for GCF-financed activities, provided that the common approach is consistent with this policy, the ESS standards, and other related GCF policies and practices such as the Gender policy and action plan. The common approach intends to meet the principles and requirements that will provide the highest level of environmental and social protection, if not the same level provided by the ESS standards and this policy.

6. Additional country requirements on environmental and social safeguards and sustainability may be integrated with GCF requirements at the activity level, provided that the

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<sup>2</sup> For the purposes of this policy, "ESMS" refers to the environmental and social management system of the GCF. When used in the long form, "environmental and social management system", it refers to the entities' management system.

<sup>3</sup> For the purposes of this policy, "ESS standards" refer to the environmental and social safeguards standards, which is currently the interim ESS standards identified until the GCF develops its own standards. When used in the long form, "environmental and social safeguards standards", it refers to the accredited entities' own standards.

accredited entities establish the consistency of the additional requirements with the ESS standards of the GCF and this policy.

### III. Guiding principles

7. The guiding principles describe how the GCF will implement the ESMS and achieve the objectives of the policy. The GCF and the accredited entities will require that GCF-financed activities, such as programmes, projects and subprojects, will meet the following principles:

- (a) Integration of environmental and social sustainability. Sustainable development underpins the mandate and objectives of the GCF and hence is a key consideration in the policies and governance frameworks of the GCF. The ESMS and the policy provide an opportunity for GCF to incorporate environmental and social considerations in ways that not only include safeguard measures of ‘do no harm’, but also identify opportunities to improve environmental and social outcomes and generate co-benefits to the environment and the people that depend on it. Within the parameters of the ESMS, this is translated into the operations of the GCF, such as accreditation and reaccreditation, investment criteria, ESS application, monitoring and accountability, information disclosure, gender mainstreaming, and the redress mechanism;
- (b) Scaled risk-based approach.<sup>4</sup> The ESS standards will be implemented in a risk-based manner and not in a blunt, one-size-fits-all approach. This approach will require that environmental and social requirements and processes are commensurate with the level of risk and meeting the relevant ESS standards;
- (c) Fit-for-purpose approach.<sup>5</sup> In the context of the GCF accreditation process, the approach recognizes the roles of a wide range of entities, which can differ according to the scope and nature of the activities of the entities, and their capacity to manage environmental and social risks and impacts. The GCF enables entities to access various levels of support differentiated by their capacities in meeting fiduciary and environmental and social safeguards requirements;
- (d) Equality and non-discrimination. In meeting the ESS standards, all activities financed by the GCF will require that adverse risks do not fall disproportionately on disadvantaged, marginalized and vulnerable populations, groups and individuals (including women, children, people with disabilities, people marginalized by virtue of their sexual orientation and gender identity, indigenous peoples, and other marginalized groups and individuals that are affected or potentially affected by GCF-financed activities), and avoid prejudice and discrimination in providing access to development resources and benefits;
- (e) Mitigation hierarchy. The GCF adheres to the mitigation hierarchy as an overall principle to managing environmental risks and impacts suitable for all instances of GCF-financed activities. The mitigation hierarchy aims to:
  - (i) Anticipate and avoid adverse risks and impacts on people and the environment;
  - (ii) Where avoidance is not possible, adverse risks and impacts are minimized through abatement measures;
  - (iii) Mitigate any residual risks and impacts; and

<sup>4</sup> Decision B.07/02, annex I.

<sup>5</sup> Decision B.07/02, paragraph (j) and decision B.08/02, paragraph (c).

- (iv) Where avoidance, minimization or mitigation measures are not available or sufficient, and where there is sufficient evidence to justify and support viability, design and implement measures that adequately and equitably compensate any residual risks and impacts or provide restoration;
- (f) Coherence and link with relevant policies and practices of the GCF.<sup>6</sup> The Environmental and Social policy is an overarching policy that will be consistent and linked with the relevant policies and practices of the GCF, such as those related to accreditation, monitoring and accountability, redress mechanism, information disclosure, the Gender policy and action plan, and others as appropriate including those relevant policies that are still to be developed, such as on indigenous peoples;
- (g) Continuous improvement and best practices.<sup>7</sup> The ESMS will be continuously reviewed and updated in a transparent and participatory manner to sustain its relevance and responsiveness to the prevailing organizational, social, economic and political conditions. The ESMS will also be consistently aligned with international best practices and applicable standards, reflecting the experiences and lessons learned by accredited entities and other relevant institutions, as well as including recommendations made by the GCF Independent Accountability Units. In updating the ESMS, the GCF will provide guidance to accredited entities on the implications of such updates on their environmental and social management systems and their application to ongoing GCF-financed activities;
- (h) Stakeholder engagement and disclosure. The ESMS requires that there is broad multi-stakeholder support and participation in the planning, development and implementation of GCF-financed activities, including measures to manage and monitor environmental and social risks and impacts. The process to build support will be inclusive, gender-responsive and culturally appropriate, and will be supported by the disclosure of relevant information pursuant to the GCF Information Disclosure policy;<sup>8</sup>
- (i) Gender-sensitive approach.<sup>9</sup> The GCF will contribute to gender equality and inclusiveness by ensuring that the methods and tools to promote gender equality and reduce gender disparities in climate actions are established and implemented. In designing activities for GCF-funding the accredited entities will ensure that gender risks and impacts are adequately assessed (as part of social risks and impacts assessments), and will ensure that the corresponding gender risk management measures are linked to the activity-level gender action plans;
- (j) Knowledge sharing. The GCF will lead and promote the sharing of lessons and experiences in applying ESS and in implementing the ESMS among entities and stakeholders, and will integrate these lessons with capacity development, communications and outreach activities of the GCF and the entities;
- (k) Harmonized application of environmental and social requirements. The GCF will promote the harmonized application of environmental and social safeguards to reduce multiple and overlapping requirements for activities through the development of common approach that considers the requirements of other co-financing institutions while providing the highest level of environmental and social protection required among the parties, with at least the level of protection by GCF being required;

<sup>6</sup> Decision B.07/02, paragraph (n), annex VI.

<sup>7</sup> Decision B.07/02, paragraph (n), annex VI, requiring the ESMS to be consistent with accepted evolving international systems for quality and environmental management systems central to these is the continual improvement process.

<sup>8</sup> Decision B.12/35, paragraph (a).

<sup>9</sup> Decision B.09/11, paragraphs (a-b).

- (l) Compliance with applicable laws. The GCF will not support activities that do not comply with applicable laws, including national laws and/or obligations of the country directly applicable to the activities under relevant international treaties and agreements, whichever is the higher standard;
- (m) Consistency with UNFCCC REDD+ safeguards. The environmental and social requirements of the GCF will be consistent with all relevant REDD-plus decisions under the United Nations Framework Convention on Climate Change (UNFCCC) and existing highest standards for the operationalization of these decisions;<sup>10</sup>
- (n) Labour and working conditions. All activities financed by the GCF will promote decent work, fair treatment, non-discrimination and equal opportunity for workers, and will meet the requirements of the core labour standards as set by the International Labour Organization;
- (o) Indigenous peoples. All GCF-financed activities will avoid adverse impacts on indigenous peoples, promote benefits and opportunities, respect and preserve indigenous culture including the indigenous peoples' rights to lands, territories, resources, knowledge systems, and traditional livelihoods and practices. All GCF-financed activities will support the full and effective participation of indigenous peoples and recognize their contribution to fulfilling the GCF mandate throughout the entire project cycle. The design and implementation of activities will be guided by the rights and responsibilities set forth in the United Nations Declaration on the Rights of Indigenous Peoples including, of particular importance, the right to free, prior and informed consent, which will be required by the GCF in applicable circumstances;
- (p) Human rights. All activities supported by the GCF will be designed and implemented in a manner that will promote, protect and fulfil universal respect for, and observance of, human rights for all. The GCF will require the application of robust environmental and social due diligence so that the supported activities do not cause, promote, contribute to, perpetuate, or exacerbate adverse human rights impacts; and
- (q) Biodiversity. All GCF-financed activities will be designed and implemented in a manner that will protect and conserve biodiversity, maintain the benefits of ecosystem services, and promote the sustainable use and management of living natural resources.

## IV. Overview of roles and responsibilities

### 4.1 Overview of roles and responsibilities of the GCF

8. Accreditation. In relation to the accreditation of entities, the GCF is responsible for determining the capacity of the entities to manage environmental and social risks and impacts of GCF-financed activities following the GCF accreditation framework. Where capacities exist, the GCF will assess the consistency of the system and approach used by the entities and intermediaries with the GCF ESS standards using the fit-for-purpose approach. As necessary, the GCF will collaborate with the entities on measures to improve their capacities including the deployment of necessary support and assistance through the GCF Readiness and Preparatory Support Programme.

9. Managing environmental and social risks throughout the project cycle. Within the parameters of GCF-financed activities, the GCF is responsible for:

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<sup>10</sup> Decision 1/CP.16.

- (a) Requiring the accredited entities to implement their environmental and social management system pursuant to the ESS standards and this policy, thereby providing for a systematic, consistent and transparent management of risks and impacts from GCF-financed activities. Where gaps or weaknesses exist, the GCF will require that these are addressed by the accredited entities in a manner and time amenable to the GCF and the accredited entities, so that an effective environmental and social management system is in place before GCF-financed activities are implemented;
  - (b) Requiring and ensuring that appropriate screening and categorization processes within the accredited entities' environmental and social management systems are conducted;
  - (c) Conducting environmental and social due diligence on activities proposed for funding consideration, and recommending to the Board for financing only those proposed activities with satisfactory approaches to managing environmental and social risks and impacts, pursuant to the ESS standards and this policy;
  - (d) Requiring that environmental and social risks and impacts assessments for activities are adequate and provide sufficient information to assess whether the GCF should consider funding the activities, taking into account the potential risks and impacts, and should determine suitable avoidance, mitigation or compensation measures in those cases where proceeding with funding consideration is appropriate. Where gaps or weaknesses exist in the assessment, the GCF will require that they are addressed. The assessments will also provide the basis for the GCF to confirm the risk categories of activities following the definition of the ESS standards and level of risks to which the entities were accredited;
  - (e) Confirming the accredited entities' assignment of risk categories to the proposed activities, ensuring that their environmental and social management plans address the identified risks and impacts, requiring any other safeguards instruments and tools that may be further needed, and reviewing their adequacy. Where there are gaps or weaknesses in the environmental and social management plans, the GCF will require that they are addressed. The GCF will also require that accredited entities implement (which may include the role of an executing entity), or monitor and supervise the activity's implementation and compliance with (as an intermediary) the environmental and social obligations and conditions, and require that any gaps or weaknesses be addressed;
  - (f) Carry out monitoring, reviewing and reporting functions related to the environmental and social performance of accredited entities and the supported activities, as may be required pursuant to the monitoring and accountability framework; and
  - (g) Reviewing proposed operational changes with respect to the GCF-financed activities or the accredited entities' environmental and social management systems and requiring additional measures to align with the ESS standards and this policy, if necessary.
10. Information disclosure, stakeholder engagement and grievance redress: the GCF is responsible for:
- (a) Confirming that all information related to the environmental and social risks and impacts of activities are appropriately disclosed to meet the requirements of the GCF Information Disclosure policy and section 6.1 of this policy, and working with accredited entities to address any gaps or weaknesses in the disclosure of relevant information;
  - (b) Confirming that persons and communities affected or potentially affected by the activities are consulted by the accredited entities or through its executing entities during



the design and implementation of the activities and that effective grievance redress mechanisms to receive complaints and feedback are established and function in a collaborative manner and in a way that is complementary to the independent Redress Mechanism (IRM) of the GCF, and requiring that any gaps or weaknesses be addressed; and

- (c) Ensuring that accredited entities establish activity-specific grievance redress mechanisms, cooperate with and provide access to the IRM as appropriate, and fully implement remedial actions stipulated by the Board on the recommendation of the IRM in response to complaints received by the IRM and in accordance with the terms of reference, guidelines and procedures of the IRM and consistent with the requirements described in section 6.3 of this policy.

11. The GCF will require accredited entities to comply with their environmental and social obligations specified in their accreditation, the activities' safeguards plans and frameworks, activity-specific gender action plans, applicable country laws and regulations, and obligations of the country directly applicable to the activities under relevant international treaties and agreements. Where the accredited entities fail to comply with the safeguards requirements, the GCF will work with the accredited entities to develop and implement corrective actions that will bring the activities back into compliance. Where the accredited entities fail to re-establish compliance within a time frame and manner that are mutually agreed upon, the GCF may exercise its remedies under its legal agreement with the accredited entities.

## 4.2 Overview of roles and responsibilities of the accredited entities

12. The accredited entities are responsible for:

- (a) In the case of activities proposed for GCF financing:
  - (i) Implementing an environmental and social management system to manage the environmental and social risks and impacts associated with the activities, including meaningful and inclusive multi-stakeholder consultation and engagement throughout the project cycle taking into account the particular situations of vulnerable groups and populations (including women, children, people with disabilities, people marginalized by virtue of their sexual orientation and gender identity, indigenous peoples, and other marginalized groups of people and individuals that are affected or potentially affected by GCF-financed activities), appropriate to its role as an implementing entity (which may include a project execution role), an intermediary entity, or both, maintaining or improving on the environmental and social management system on which its accreditation was approved;
  - (ii) Ensuring that activities proposed for GCF financing are properly screened, assigned appropriate environmental and social risk categories, and that the environmental and social risks and impacts are properly and sufficiently assessed;
  - (iii) Cooperating with the GCF in its due diligence of the activities proposed for GCF financing;
  - (iv) Ensuring that measures to avoid, minimize or mitigate adverse impacts, to compensate for residual impacts and to provide for restoration are planned and adequately supported in the activities proposed for GCF financing;

- (v) Disclosing information on the GCF-financed activities and component subprojects pursuant to the GCF Information Disclosure policy, and developing and implementing ongoing stakeholder engagement, including entity-level and activity-level grievance mechanisms; and
  - (vi) Ensuring access to the IRM's grievance and complaints process and that any remedial actions stipulated by the Board of the GCF on the recommendation of the IRM in response to a complaint from people affected by the activities are respected and promptly implemented.
- (b) In the case of GCF-financed activities:
- (i) Ensuring that environmental and social management plans (ESMPs) are implemented, monitored and continuously improved as needed; and
  - (ii) Monitoring and reporting the progress and performance to the GCF and its stakeholders throughout the implementation of the GCF-financed activities, in accordance with the monitoring and accountability framework and allowing GCF or GCF-authorized third party verification of such reports.
13. The accredited entities will confirm that the measures to manage environmental and social risks and impacts, including, as relevant, information disclosure, stakeholder engagement and grievance redress, are incorporated in the agreements with executing entities including tendering documents and contracts.
14. The accredited entities are responsible for compliance with all applicable laws, including the laws, regulations and standards of the country in which the activities are located, and/or obligations of the country or countries directly applicable to the activities under relevant international treaties and agreements.
15. Entities that are functioning as financial intermediaries are exposed to environmental and social risk through the activities of their borrowers, grantees and investees. Intermediaries are responsible for managing the environmental and social risks associated with the supported activities. The intermediaries will review all subprojects and delegated activities to identify where the entities and the GCF could be exposed to potential risks and take necessary actions, including the development and operation of an environmental and social management system to oversee and manage these risks. The accredited entities acting in intermediary functions will require and ensure that all component subprojects and activities meet the requirements of the ESS standards of the GCF and this policy. The accredited entities will also require and guarantee that the borrowers, grantees and investees have the adequate management systems, processes and capacity to manage environmental and social risks and impacts, and will require that the individual subprojects and delegated activities are properly screened, assessed, assigned an appropriate risk category, subjected to due diligence and oversight, and that the implementation and outcomes monitored and reported.
16. The accredited entities will be responsible for ensuring that the communities affected or potentially affected by the activities (including vulnerable populations, groups and individuals including women, children, people with disabilities, people marginalized by virtue of their sexual orientation and gender identity, indigenous peoples and other marginalized groups of people and individuals that are affected or potentially affected by GCF-financed activities) are properly consulted in a manner that provides them with opportunities to express their views on risks, impacts and mitigation measures related to the activities, and allows the accredited entities to consider and respond to their concerns. In ensuring the meaningful and effective consultation and participation of the affected communities and vulnerable populations, the accredited entities will align their processes to best practices and standards, and will make

publicly available the relevant information on the activities according to the requirements of the Information Disclosure policy of the GCF and section 6.1 of this policy.

## V. General requirements for environmental and social risk management

### 5.1 Accreditation

17. The GCF operates through accredited entities, including those functioning as financial intermediaries. These entities are tasked to deliver upon the objectives of the GCF through the supported activities while ensuring that the GCF environmental and social commitments of the GCF are met. Accredited entities will have in place environmental and social management systems that specify their capacities and processes for screening, identifying, assessing, managing, and monitoring the potential environmental and social risks and impacts pursuant to the ESS standards of the GCF and this policy.<sup>11</sup>

18. The accreditation of entities will be conducted pursuant to the accreditation framework.<sup>12</sup> Under the accreditation framework, the GCF examines, in line with the ESS standards, the adequacy of the applicant's environmental and social management system and the track record of implementing such a system. The accreditation process will also ensure that entities access GCF support at a level commensurate to their institutional capacity to undertake the assessment and management of environmental and social risks and impacts.

### 5.2 Environmental and social management system

19. The accredited entities will ensure that an effective environmental and social management system is in place to allow a better understanding of the environmental and social risks and impacts associated with the activities and the means to subsequently manage these effectively and equitably. The environmental and social management system will be appropriate to its role as an implementing entity (which may include a project execution role), an intermediary entity, or both. The accredited entities will maintain or improve on the environmental and social management system on which their accreditation was approved. The level of detail and complexity of the management system, and the staff and financial resources allocated to it, will be adequate to manage the expected level of risks and impacts of the activities to be financed. The staff of the accredited entities, including those who may be part-time or externally acquired (e.g. consultants) will have the necessary expertise in all areas covered by the ESS standards of the GCF to carry out their responsibilities. The environmental and social management system forms one of the important considerations in the accreditation of the entities and is also the basis of the due diligence of activities proposed for financing that confirms how the environmental and social management system is translated to specific risk avoidance and mitigation measures.

20. If the entities have been accredited to have an intermediary function, their environmental and social management system will include the policies, procedures and resources to conduct due diligence and oversight over executing entities and ensuring that the executing entities fulfil the activity-level requirements discussed in sections IV, V and VI of this policy and in line with the ESS standards of the GCF.

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<sup>11</sup> Decision B.07/02, Annex I.

<sup>12</sup> Decision B.07/02.

### 5.3 Screening and risk categories

21. The GCF, pursuant to the ESS standards, requires accredited entities – whether their role is as an implementing entity or an intermediary entity – to screen activities that include programmes, projects and subprojects, and to assign risk categories appropriately.

22. The GCF will review the activities proposed for GCF financing, including the environmental and social safeguards assessments and management plans, to confirm the environmental and social risk category assigned by the accredited entity during screening. If it is inconsistent, the GCF will require the accredited entity to reflect the necessary classification. In reviewing, the GCF will confirm that the risk category of the proposed activity is appropriate to the risk level at which the entity has been accredited. Only activities within the accredited entity's accreditation level will be considered for GCF financing.

23. In screening activities, accredited entities will determine the nature and depth of environmental and social assessment, appropriate stakeholder engagement, and the type of information to be disclosed. The risk category, aligned with the fit-for-purpose approach,<sup>13</sup> will be proportional to the nature, scale and location of the activity, its environmental and social risks and impacts, and the vulnerability of the receiving environments and communities. Accredited entities will assign risk categories to all activities paying attention to specific environmental and social risks, as specified in the ESS standards of the GCF. The risks and impacts will be assessed at the pre-mitigation stage and the accredited entities should consider the most serious potential impacts of all activities including associated facilities.<sup>14</sup>

24. In screening activities, accredited entities will consider risks and impacts that include direct and indirect, induced, long-term and cumulative impacts, and will take into account the activities' areas of influence including associated facilities and third-party impacts.<sup>15</sup> In assigning the risk categories of activities, accredited entities will undertake an integrated assessment that will take into consideration the combined environmental and social risks and impacts, as well as the nature, magnitude and complexity of these impacts and specific characteristics of the influence area.

25. In screening activities, accredited entities will determine the applicability of specific environmental and social safeguards standards and identify actions sufficient to meet the requirements of each applicable environmental and social safeguards standard pursuant to the GCF ESS standard and this policy. The screening of the activities will benefit from an integrated assessment that brings together the perspectives of environmental and social risks and the impacts of the activities on the communities and the receiving environment.

26. Accredited entities will ensure that all GCF-financed activities meet applicable laws related to managing environmental and social risks and impacts, including national laws, regulations and standards, and/or obligations of the country or countries directly applicable to the activities under relevant international treaties and agreements. The compliance with

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<sup>13</sup> Decision B.08/03.

<sup>14</sup> Associated facilities are those that are not funded as part of the project, and that would not have been constructed or expanded if the project did not exist and without which the project would not be viable (refer to the International Finance Corporation's Performance Standard 1, paragraph 8 accessed at [http://www.ifc.org/wps/wcm/connect/3be1a68049a78dc8b7e4f7a8c6a8312a/PS1\\_English\\_2012.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/3be1a68049a78dc8b7e4f7a8c6a8312a/PS1_English_2012.pdf?MOD=AJPERES))

<sup>15</sup> Cumulative impacts result from the incremental impact, on areas or resources used or directly affected by the project, from other existing, planned or reasonably defined developments at the time the risks and impacts are identified (IFC Performance Standard 1, paragraph 8) accessed at [http://www.ifc.org/wps/wcm/connect/3be1a68049a78dc8b7e4f7a8c6a8312a/PS1\\_English\\_2012.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/3be1a68049a78dc8b7e4f7a8c6a8312a/PS1_English_2012.pdf?MOD=AJPERES)

applicable laws and relevant international obligations and standards will be reflected in the screening and assessment process indicating these national and international requirements and how these will be met through the management programmes and plans.

27. The GCF will require accredited entities to ensure that associated facilities meet the requirements of the environmental and social safeguards pursuant to the ESS standards of the GCF. Where the associated facilities are financed by other funding agencies, the GCF, and the accredited entities, may rely on the environmental and social requirements of these funding agencies provided that these are more stringent or equivalent to the ESS standards of the GCF.

28. If a programme, composed of several component subprojects, is being submitted for consideration of GCF funding, accredited entities will assign the highest risk category of the component subproject as the overall risk category of the programme.

29. Accredited entities will apply the environmental and social risk categories to activities in a manner consistent with the accreditation framework of the GCF, as follows:

- (a) Category A. Activities with potential significant adverse environmental and/or social risks and impacts that, individually or cumulatively, are diverse, irreversible, or unprecedented;
- (b) Category B. Activities with potential limited adverse environmental and/or social risks and impacts that individually or cumulatively, are few, generally site-specific, largely reversible, and readily addressed through mitigation measures; and
- (c) Category C. Activities with minimal or no adverse environmental and/or social risks and/or impacts.

30. In assessing risks and impacts associated with investments through financial intermediation, the assessment will be based on the risks associated with the intended end use. Categories of activities involving investments through financial intermediation functions or delivery mechanisms involving financial intermediation are divided into the following three levels of risk:

- (a) High level of intermediation, I1. When an intermediary's existing or proposed portfolio includes, or is expected to include, financial exposure to activities with potential significant adverse environmental and social risks and impacts that, individually or cumulatively, are diverse, irreversible, or unprecedented;
- (b) Medium level of intermediation, I2. When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and impacts that are few, generally site-specific, largely reversible, and readily addressed through mitigation measures; and includes no activities with potential significant adverse environmental and social risks and impacts that, individually or cumulatively, are diverse, irreversible, or unprecedented; and
- (c) Low level of intermediation, I3. When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and social impacts.

31. The accreditation of the entities is based on the definitions of risk categories of Category A, Category B and Category C for activities and I1, I2 and I3 for intermediaries. Entities and intermediaries accredited to Category A or I1 can propose for funding those activities with assessed environmental and social risk categories of up to Category A or I1. Entities and intermediaries accredited to Category B or I2 can propose activities with assessed risk

categories of up to Category B or I2 only. Entities accredited to Category C or I3, however, can only propose for funding Category C or I3 activities.

## 5.4 Environmental and social due diligence

32. The GCF will conduct its environmental and social due diligence as part of its assessment of activities proposed for funding consideration. The purpose of the GCF due diligence is to understand and evaluate how the environmental and social risks and impacts are screened, assessed and planned to be mitigated and managed by the accredited entities. The due diligence of the GCF will verify consistency of the assessments and proposed management measures by the accredited entities with the ESS standards and recommend to the Board for GCF financing only those proposed activities with satisfactory approaches to managing environmental and social risks and impacts, pursuant to the ESS standards and this policy.

33. When accredited entities bring investment activities to the GCF for consideration, the GCF will review the environmental and social assessment of the activities to determine the consistency of the risk categories with the accreditation of the entities and the requirements of the ESS standards and this policy. With the review, a set of actions will be agreed upon with the accredited entities in order to fill any gaps related to the requirements of the ESS standards and this policy.

34. The environmental and social due diligence of the GCF includes:

- (a) Supporting decision-making related to accreditation as well as to the consideration of funding proposals;
- (b) Assessing the environmental and social management systems of the entities and how these are applied to the activities including assessments, management plans and frameworks, the effectiveness and independence of the grievance redress mechanism of the accredited entities and implementing entities, disclosure of information, and the capacity to conduct meaningful and timely consultations with all stakeholders; and
- (c) Providing guidance to accredited entities in developing and implementing measures to manage the risks and impacts. The responsibilities of the accredited entities include ensuring that all the necessary assessments of risks and impacts are conducted, management plans developed and implemented, information provided, and necessary stakeholder engagement and communications conducted.

35. The GCF will undertake due diligence based on the most recent available information at the time the due diligence process is undertaken. Where information on the activities is limited, the GCF will request additional information from the accredited entities and will also take into consideration the risks and impacts inherent in the types of activities, sector, or industry, the specific context with which the activities will be developed and implemented, and the capacity of the executing entities to implement the activities in a manner consistent with the requirements of the ESS standards. Where assessments have already been done and permits obtained, the due diligence for the activities will consist of gap analysis to understand whether there is a need for any additional studies or measures to meet the requirements of the ESS standards and a requirement that the gaps be filled. If there are compelling reasons that the gaps cannot be filled, the significance of the gaps, the extent of information provided and the potential risks these present will be reflected in the review with a request for waiver.

36. The accredited entities are required to undertake environmental and social due diligence on all the activities proposed for GCF financing. The purpose of the due diligence of the accredited entities is to ensure that all the activities proposed for GCF financing comply with

their environmental and social safeguards standards pursuant to the ESS standards of the GCF and this policy. If the accredited entities are acting in an intermediary function, they will require and ensure that the executing entities undertake the same level of due diligence on component subprojects to fulfil the requirements described in this section.

## 5.5 Environmental and social assessment

37. The accredited entities are required to undertake assessment and management of environmental and social risks and impacts to ensure that each of the activities proposed for GCF financing meets their environmental and social safeguards pursuant to the ESS standards of the GCF and this policy. If the accredited entities are acting in an intermediary function, they will require the executing entities to fulfil the activity-level assessment requirements described in this section for each component subproject, and will conduct the necessary due diligence and oversight to ensure that these requirements are fulfilled.

38. The environmental and social assessment of the activities will be in a manner that: follows internationally accepted and best industry practices: identifies best alternatives and allows for an integrated and balanced view of the environmental and social risks and impacts taking into account the risks and impacts related to human rights, gender, indigenous peoples, involuntary resettlement and acquisition of land and land rights, health and safety, labour, cultural heritage and the environment.

39. The scope and depth of the environmental and social assessment will be proportional to the level of risks and impacts and determined by the specific requirements of the applicable environmental and social safeguards pursuant to the ESS standards of the GCF and this policy. For Category A activities that are anticipated to have significant environmental and social impacts, a full and comprehensive environmental and social impacts assessment (ESIA) and ESMP will be required. For Category B activities with limited impacts, a fit-for-purpose ESIA and an ESMP, with a more limited focus as may be appropriate, that describes the potential impacts, as well as appropriate mitigation, monitoring and reporting measures will be required. Category C activities having no expected significant environmental and social impacts may not require any assessments, although a pre-assessment or screening should confirm that the activities are indeed in Category C.

40. The accredited entities may use a variety of tools and studies to complement and strengthen further the assessment of activities. These form part of commonly accepted assessment tools such as strategic environmental and social assessments, regional impacts assessments, cumulative impacts, and other specialized studies as may be required under specific environmental and social safeguards pursuant to the ESS standards of the GCF and this policy. The GCF may recommend additional tools and planning instruments as may be necessary to meet the national requirements and international commitments of countries.

## 5.6 Environmental and social management plan

41. The GCF requires the accredited entities to develop ESMPs that contain the measures to manage and mitigate the identified risks and impacts, pursuant to the ESS standards of the GCF and this policy. If an accredited entity is acting in an intermediary function, it will require the executing entities to fulfil the activity-level ESMP requirements discussed in this section, and the accredited entity will conduct the necessary due diligence and oversight to ensure that these requirements are fulfilled.

42. Based on the results of the environmental and social assessment, the ESMP for an activity will be designed such that the measures to address the environmental and social risks and impacts including health and safety are adequately described, roles defined, and the corresponding timelines and resources identified. Where activities involve existing facilities, environmental and social audits may be required with an ESMP which may include remediation, recompense, or management of any residual environmental and social issues.

43. The ESMP will be integrated into the overall planning, design, resourcing and execution of the GCF-financed activities and reflected in the accredited entities' environmental and social management system. Where gaps exist in the capacity of accredited entities to implement the mitigation measures exist, the GCF will work with the accredited entities to explore how the institutional capacity can be built or enhanced, and how any gap-filling measures will be incorporated into the activities.

44. The accredited entities will screen activities, including component subprojects of programmes and activities requiring financial intermediation, for potential involuntary resettlement impacts, pursuant to the objectives and requirements of the ESS standard of the GCF, particularly regarding land acquisition and involuntary resettlement. GCF-financed activities will be designed and implemented in a way that avoids or minimizes the need for involuntary resettlement. When limited involuntary resettlement cannot be avoided, the GCF will require the accredited entities, and through informed consultations and participation of the people or communities affected by the activities, to prepare a resettlement action plan or, if specific activities or locations have not yet been determined, a resettlement policy framework proportional to the extent of physical and economic displacement and the vulnerability of the people and communities. A resettlement policy framework will include provisions for the development and implementation of site-specific resettlement action plans that comply with national and international laws. In cases of economic displacement or restrictions of access to livelihoods as a result of land acquisition and resettlement, the GCF will require accredited entities to develop livelihood restoration and compensation plans or frameworks. These plans or frameworks will complement the social assessments of the activities and provide guidance on specific issues and due process related to involuntary resettlement including land acquisition, consultations with the affected people on their rights and options, compensation for assets, free, prior and informed consent in cases of indigenous lands and territories, livelihood loss and restoration, transition allowances, facilities and resettlement sites, and grievance redress.

45. The accredited entities will screen activities, including component subprojects of programmes and activities requiring financial intermediation, for any potential impacts on indigenous peoples, pursuant to the objectives and requirements of the GCF ESS standards and other relevant policies. The contributions and inputs of indigenous peoples in the risk screening and assessment processes will be facilitated. Where there are potential impacts to indigenous peoples, the GCF will require the accredited entities to prepare indigenous peoples development plan or if specific activities or locations have not yet been determined, indigenous peoples planning framework. The plans or frameworks will be developed with the close collaboration of indigenous peoples affected by the activities through a process of meaningful consultation tailored to the indigenous peoples; in certain circumstances the process will require the free, prior and informed consent of the affected peoples. The scope and extent of such plans will be proportional to the vulnerability of the indigenous peoples and the extent of impacts on the customary rights of use and access to land and natural resources, socioeconomic status, cultural integrity, indigenous knowledge and skills, and overall welfare. An indigenous peoples planning framework will include provisions for the development and implementation of site-specific indigenous peoples plans. These plans and frameworks will complement the social assessment



of the activities and provide guidance on specific issues related to addressing the needs of the affected indigenous peoples.

46. The accredited entities will screen activities, including component subprojects of programmes and activities requiring financial intermediation, for any potential adverse impacts on the promotion, protection, respect for, and fulfilment of human rights. This may be done through the required social and environmental impacts assessment (complemented by specific human rights due diligence deemed relevant by the accredited entity). For activities that have potential adverse impacts on human rights, the GCF will require accredited entities to prepare an action plan that identifies national laws and/or obligations of the country directly applicable to the activities under relevant international treaties and agreements, and describes the mitigation measures that will be taken to ensure compliance with those obligations and national laws. The GCF will not finance activities where planned mitigation is inadequate.

47. The accredited entities will screen activities, including component subprojects of programmes and activities requiring financial intermediation, for any potential adverse impacts on the promotion, protection and respect for gender equality in accordance with the GCF Gender policy and in compliance with national laws and/or obligations of the country directly applicable to the activities under relevant international treaties and agreements through a gender risk and impact assessment. Supporting and mitigating actions are to be described in the activity-specific gender action plans, as part of the considerations for GCF funding.

48. The accredited entities will screen activities, including component subprojects of programmes and activities requiring financial intermediation, for any potential impacts on biodiversity, pursuant to the objectives and requirements of the ESS standards of the GCF, particularly on Biodiversity Conservation and Sustainable Management of Living Natural Resources. The accredited entities will strive to avoid impacts on biodiversity and ecosystem services, and if avoidance of impacts is not possible, measures to minimize impacts and compensate and restore biodiversity and ecosystem services will be implemented. For activities that have potential adverse impacts on natural habitats, the GCF will require the accredited entities to prepare a biodiversity action plan that describes the long-term mitigation, conservation outcomes, monitoring and evaluation programme. Where avoidance, minimization or mitigation measures are not available or sufficient, and where there is sufficient evidence to justify and support viability, the accredited entity, in coordination with relevant experts and the GCF, will design and implement measures that adequately and equitably compensate any residual risks and impacts or provide restoration. Compensation, or offsets, will be used to mitigate adverse impacts on biodiversity and ecosystems in rare cases, only as a last resort, and only in specific instances where: all other technically feasible avoidance, minimization or restoration measures have been considered; supported by rigorous, sound science; developed in consultation with independent experts; and long-term management, support and financing have been secured.

49. For activities requiring financial intermediation, the GCF will require and ensure that the accredited entities in an intermediary function develop an operational programme- or project-level environmental and social management system or framework<sup>16</sup> to identify and manage the risks associated with their portfolio and delegated activities on an ongoing basis. The complexity of the programme- or project-level environmental and social management system or framework will vary according to the risk exposure that the intermediary is expected to manage. The environmental and social management system or framework will be designed

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<sup>16</sup> Environmental and social management frameworks (ESMF) describe the roles and responsibilities and the processes to manage environmental and social risks and impacts including screening, preparation, implementation and monitoring of subprojects.

and implemented to meet the environmental and social safeguards of the accredited entities, pursuant to the ESS standards of the GCF and this policy.

## 5.7 Operational changes

50. The accredited entities will notify the GCF when there are material changes in the activity design and execution, policy and regulatory setting, receiving environment and community, unanticipated environmental risks and impacts, or other circumstances that elevate or potentially elevate the risk level and the required mitigation measures of GCF-financed activities. The GCF will require that the accredited entities undertake due diligence processes appropriate to the new risk level of the activities and revise the ESMP to meet the requirements of their environmental and social safeguards, in a manner consistent with the ESS standards of the GCF.

51. The accredited entities will also notify the GCF when changes to the ESMP or other management plans are required. In the context of adaptive risk management, accredited entities will require that the implementation of the ESMPs will be responsive to changing conditions and the results of monitoring throughout the project's life cycle. The GCF requires the accredited entities to maintain effective due diligence processes to address unanticipated developments in the activities or to reflect improved techniques and technologies for addressing environmental and social risks and impacts and meeting the environmental and social safeguards requirements pursuant to the ESS standards of the GCF.

52. The accredited entities will also notify the GCF of any changes in their environmental and social management systems that may adversely affect the planning, design, implementation and monitoring of GCF-financed activities. Where the changes render the ESMPs or the programme- or project-level environmental and social management system inconsistent with the ESS standards of the GCF, the GCF will require that the accredited entities make appropriate revisions in the ESMP or undertake other necessary actions to meet the requirements of the ESS standards of the GCF.

53. If the accredited entities are acting in an intermediary function, the accredited entities will require and ensure that the executing entities inform it of the operational changes discussed in this section and, in turn, inform the GCF. The GCF will collaborate with the accredited entities and executing entities and provide oversight to ensure that any further required measures are implemented.

## 5.8 Monitoring and reporting

54. The GCF through its Secretariat will carry out monitoring and reporting functions related to the environmental and social performance of the accredited entities and the supported activities as required in the GCF's monitoring and accountability framework.<sup>17</sup> The monitoring will be a continuous process, and the extent of monitoring will be based on the type and level of risks identified, including environmental and social risks.

55. The GCF will monitor the compliance of accredited entities with the applicable environmental and social safeguards requirements, pursuant to the ESS standards and the monitoring and accountability framework of the GCF. On an annual basis, the accredited entities will provide the GCF with a self-assessment of their compliance with the applicable environmental and social safeguards, pursuant to the ESS standards of the GCF. Half way

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<sup>17</sup> Decision B.11/10.

through the five-year accreditation, the Secretariat will undertake a mid-term review of compliance performance of the accredited entities. Annually, the Secretariat will report to the Board the consolidated results of the annual self-assessments, mid-term reviews, and any ad hoc reviews that were conducted.

56. The reporting requirements for GCF-financed activities will include: annual performance reports and interim evaluation and final evaluation reports. These reports will specify the activities' consistency with the ESS standards and the ESMS and provide information from the GCF Independent Accountability Units and any other applicable environmental and social provisions in the legal agreement. If needed, the GCF may require more frequent or ad hoc monitoring and reporting or audits on specific environmental and social issues, which may also include site visits and consultations with beneficiaries, communities and national designated authorities. The Secretariat will then report to the Board the performance of the accredited entities in relation to their GCF-financed activities providing information related to implementation progress, issues, risks and lessons, including those affecting environmental and social safeguards.

57. The accredited entities are responsible for monitoring and reporting to the GCF on the GCF-financed activities. If the accredited entities are acting in an intermediary function, the accredited entities will require and ensure that the executing entities fulfil the activity-level monitoring and reporting requirements discussed in this section and will, in turn, provide the requisite monitoring and reporting information to the GCF. This may include both activity-specific and aggregated monitoring and reporting.

58. In monitoring environmental and social performance of activities, the accredited entities will require and guarantee participatory monitoring through the involvement of communities, local stakeholders, indigenous peoples and civil society organizations in all the stages of the project cycle. This participatory monitoring approach will also encourage the national designated authorities or focal points to organize country portfolio reviews involving people affected by the activities and other local stakeholders.

## **VI. Information disclosure, stakeholder engagement and grievance redress**

### **6.1 Information disclosure**

59. The Governing Instrument affirms that the GCF will operate in a transparent and accountable manner guided by the principles of efficiency and effectiveness. The GCF Information Disclosure policy<sup>18</sup> operationalizes this commitment by ensuring transparency, public access to information and stakeholder participation in all its activities. The Information Disclosure policy requires that relevant information, including with respect to environmental and social issues, is made available to the affected and potentially affected communities and external stakeholders.

60. The information will be made available in accordance with the provisions of the Information Disclosure policy, allowing the stakeholders time to review, seek further information and provide inputs on a proposed activity, including ways to improve design and implementation of its environmental and social safeguards. The information in the form of environmental and social reports will be provided through electronic links to the websites of the accredited entities and of the GCF (in the case of the GCF website, upon submission of the

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<sup>18</sup> Decision B.12/35.

funding proposal to the Secretariat), as well as in locations convenient to affected and potentially affected peoples. The information will be available in both English and the local language (if not English) to foster adequate understanding by the affected and potentially affected communities, stakeholders and the general public.

61. The Information Disclosure policy of the GCF requires the accredited entities to disclose to the public and, via the Secretariat, to the Board and active observers, the necessary documentation relevant to the environmental and social safeguards of the activities, and meeting the required disclosure period. The required disclosure periods will also apply to Category A and Category B subprojects of GCF-funded programmes.

62. The GCF will require that all additional environmental and social safeguards documents be disclosed. These documents will include a suite of assessment and management instruments, such as resettlement action plans and policy frameworks, indigenous peoples plans and planning frameworks, and environmental and social due diligence and audit reports. These documents will complement the core safeguards instruments required in all cases – ESIA, ESMP and/or operational environmental and social management system or frameworks – and will be disclosed in the same manner and time frame as the core instruments.

63. The accredited entities will also disclose a summary of the activities, alongside the environmental/social information, including the following at a minimum:

- (a) The purpose, nature and scale of the activities;
- (b) The duration of proposed activities;
- (c) A summary of stakeholder consultations and the planned stakeholder engagement process; and
- (d) The available grievance mechanism(s).

64. If the accredited entities are acting in an intermediary function, the accredited entities will require the executing entities to fulfil the activity-level information disclosure requirements discussed in this section and the accredited entities will conduct the necessary due diligence and oversight to ensure that these requirements are fulfilled.

## 6.2 Stakeholder engagement

65. The GCF will require accredited entities, including intermediaries, to ensure the effective engagement of communities, vulnerable populations, groups and individuals (including women, children, people with disabilities, and people marginalized by virtue of their sexual orientation and gender identity), indigenous peoples, and other marginalized groups of people and individuals that affected or potentially affected by the activities proposed for GCF financing, through the development and implementation of a stakeholder engagement plan that describes the disclosure of information, meaningful consultation and informed participation, and, in certain circumstances, free prior informed consent (FPIC), as required pursuant to the ESS standards of the GCF. The engagement will be designed and undertaken in a manner that takes into consideration the risks and impacts as well as opportunities to enhance environmental and social outcomes of the proposed activities, and will continue throughout the project cycle with a view to improving outcomes.

66. The GCF, working with the national designated authorities and focal points of countries, will describe the process and set guidance to assist the accredited entities to put in place a process for meaningful consultation with people affected or potentially affected by the activities, guided by the principles of transparency, inclusiveness, non-discrimination and accountability

and consistent with the best practice options for country coordination and multi-stakeholder engagement.<sup>19</sup>

67. This meaningful consultation will be culturally appropriate, undertaken throughout the project cycle, with information provided and disclosed in a timely manner and in an understandable format, gender inclusive and responsive, free from coercion, and will incorporate the views of stakeholders in the decision-making process. The processes will pay particular attention to vulnerable groups and to conducting consultations in a manner that does not put vulnerable individuals and groups at risk. For activities impacting indigenous peoples, this engagement will be supported by the objectives and requirements of the performance standard on indigenous peoples, including with respect to FPIC. Where free, prior and informed consent is required by the GCF, the GCF will seek coherence with international best practice guided by the United Nations Declaration on the Rights of the Indigenous Peoples (UNDRIP).

68. The GCF reserves the right to observe and participate in the consultation process or request for the documentation of the process in order to gain a better understanding of the issues and concerns of the affected and potentially affected communities, groups and individuals, as well as how such concerns will be addressed by the accredited entities.

69. The GCF undertakes direct stakeholder engagement in processes related to the management of environmental and social risks and impacts, including the development of policies, procedures and guidance, and ESMS of the GCF. In such processes, key documents are subject to a minimum 30-day public disclosure period pursuant to the Information Disclosure policy of the GCF.

70. If the accredited entities are acting in an intermediary function, the accredited entities will require the executing entities to fulfil the activity-level stakeholder engagement requirements discussed in this section and the accredited entities will conduct the necessary due diligence and oversight to ensure that these requirements are fulfilled.

### 6.3 Grievance redress mechanisms

71. The approach of the GCF is to provide for grievance and redress at the GCF, accredited entity and activity levels. The accredited entities will inform the communities affected, or likely to be affected, by the GCF-financed activities about the grievance and redress mechanisms at all three levels, and at the earliest opportunity of the stakeholder engagement process. The details for sending complaints containing the contact information and the appropriate modes by which these will be received will be provided by the accredited entities to the communities.

72. The ESS standards of the GCF establish the principles and requirements for setting up of a grievance redress mechanism at the activity level to receive and facilitate the resolution of concerns and grievances about the environmental and social performance of GCF-financed activities. The accredited entities will require that all environmental and social issues arising, or which may potentially arise, from GCF-financed activities are reported and addressed in a manner that is satisfactory to the affected peoples and communities, the GCF, the accredited entities, executing entities, and the host countries. To this end, the GCF will require accredited entities to identify, where this already exists at the activity-level grievance redress mechanism, or establish and maintain appropriate and effective mechanisms to receive complaints and facilitate the resolution of such in connection with the GCF-financed activities.

73. At the GCF level, the IRM will address the grievances and complaints made by people and communities who may or have been affected by the adverse impacts through the failure of

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<sup>19</sup> Decision B.08/10, annex XIV.

the GCF-financed activities to implement measures pursuant to the operational policies and procedures of the GCF, including its ESS standards. In the event of a complaint being filed with the IRM, the accredited entities will cooperate with and will be accessible to the IRM, will provide all required information and explanations requested by the mechanism, and will promptly implement remedial measures stipulated by the Board on the recommendation of the mechanism in keeping with its guidelines and procedures.

74. The accredited entities' own grievance redress mechanisms and/or those at the activity level, if separate, should be accessed before the IRM of the GCF by people affected by the activities that do not comply with the accredited entities' own policies and procedures, and it is the responsibility of the accredited entities to require and ensure that their grievance mechanisms and the activities' grievance mechanisms are functioning effectively, efficiently and independently.

75. If the accredited entities are acting in an intermediary function, the accredited entities will require the executing entities to fulfil the activity-level grievance mechanism requirements discussed in this section while maintaining responsibility for its own GRM and will conduct the necessary due diligence and oversight to ensure that these requirements are fulfilled.

76. The accredited entities' mechanism should be scaled to the risks and impacts of the activities. The mechanism will facilitate the resolution of grievances promptly through an accessible, fair, transparent and constructive process. It will also be culturally appropriate and readily accessible, at no cost to the public, and without retribution to the individuals, groups, or communities that raised the issue or concern. The mechanism will not impede the access to the independent Redress Mechanism of the GCF or to judicial or administrative remedies that may be available through the country systems acknowledging that these localized systems may provide more robust information and reflect better the context of the issues on the ground. The mechanism will take into account the "effectiveness criteria" for non-judicial grievance mechanisms outlined in the United Nations Guiding Principles on Business and Human Rights in order to maximize effectiveness.

## **VII. Implementation arrangements and resource provision**

77. The policy is an essential component of the overall management framework described as the ESMS of the GCF. The implementation of this policy will be through the processes and procedures developed as part of the ESMS, taking into account other relevant policies, the ESS standards of the GCF, and the capacity of the GCF to implement this framework. The GCF will have staff with appropriate expertise and will allocate responsibilities and adequate resources to support the effective implementation of this policy.

## **VIII. Effective date and review**

78. The policy will become effective upon its approval by the Board. Applicable provisions of the policy will apply to ongoing activities and those that will be initiated after the effective date.

79. The GCF will review and evaluate the overall environmental and social performance based on the objectives of this policy and the ESS standards as discussed in the next paragraph. Appropriate amendments to this policy will be considered, based on the results of such review and evaluation, changes to the ESMS including updates on and development of the ESS standards. In amending this policy, the GCF will provide guidance to accredited entities on the

implications of such amendments on the accredited entities' environmental and social management systems and their application to ongoing GCF-financed activities.

80. A review of the policy will be undertaken five years after the effective date in order to assess the effectiveness of the GCF in achieving the objectives of the policy. This review will be supplemented by annual and mid-term operational reviews and reporting, which may lead to improvements in the ESMS, as required.

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