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# Report on the activities of the Co-Chairs – Addendum II

## Approach to developing the environmental and social safeguards of GCF

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### **Summary**

This document presents the proposed approach towards the development of the ESS. It summarizes the preliminary review of the use of the ESS, compares the interim ESS with the trends and approaches in safeguard frameworks and policies of other international organizations, presents the options for developing the ESS, and describes the proposed process for ESS development.

The draft decision to provide direction to the Secretariat on the way forward is contained in document GCF/B.23/21/Add.01 titled “Report on the activities of the Co-Chairs – Addendum I: Updated workplan of the Board for 2019”

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## I. Introduction

1. At its seventh meeting, held in May 2014, the Board, in its decision B.07/02, paragraph (c), adopted the International Finance Corporation's Performance Standards for Environmental and Social Sustainability (IFC Performance Standards) as the interim environmental and social safeguards (ESS) of GCF. The interim ESS were to be used by the GCF until the GCF ESS were fully developed.<sup>1</sup>
2. The Board, in its decision B.07/02, paragraph (d), aimed to complete the process of developing the GCF ESS, building on evolving best practices, within a period of three years after the GCF became operational, and with inclusive multi-stakeholder participation.
3. The initial guiding framework for the GCF accreditation process provides that in relation to the development of the GCF ESS, once GCF has built up a track record of experience and lessons learned, an in-depth review will be conducted, including benchmarking against recently updated regional bank standards, the updated World Bank safeguards (anticipated), and experience in implementing the Adaptation Fund principles. This review will aim at completing the process of developing the GCF ESS, which will build on evolving best practices, within a period of three years after GCF becomes operational.
4. In addition, the initial guiding framework for the GCF accreditation process provides that observations from the Independent Evaluation Unit (IEU) and the Independent Redress Mechanism will be taken into account in the development of the GCF ESS. The Board, at its twenty-first meeting, approved the 2019 workplan of the IEU, which included the assessment of the GCF ESS, including the environmental and social management system (ESMS).
5. The Board, in affirming the GCF ESMS through its decision B.19/10, paragraph (c), requested the Secretariat, taking into account input from stakeholders, to present to the Board the proposed approach to developing the GCF ESS for consideration at its twenty-first meeting.
6. This document presents the proposed approach towards the development of the ESS. It summarizes the preliminary review of the use of the ESS, compares the interim ESS with the trends and approaches in safeguard frameworks and policies of other international organizations, presents the options for developing the ESS, and describes the proposed process for ESS development.

## II. Recommended action by the Board

7. It is recommended that the Board:
  - (a) Take note of the information presented in document GCF/ B.23/21/Add.02 titled "Report on the activities of the Co-Chairs – Addendum II: Approach to developing the environmental and social safeguards of GCF", contained in the annex to this document; and
  - (b) Approve the draft decision presented in annex I to document GCF/B.23/21/Add.01 titled Report on the activities of the Co-Chairs – Addendum I: Updated workplan of the Board for 2019".

## III. Linkages with decisions and other documents

8. This document has actual or potential linkages with the following items:

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<sup>1</sup> Annex I to decision B.07/02 (annex I to document GCF/B.07/11).

- (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) “Initial results management framework of the Fund” (decisions B.07/04 and B.08/07);
- (c) “Guidelines for the operationalization of the fit-for-purpose accreditation approach” (decision B.08/02);
- (d) “Gender policy and action plan” (decision B.09/11);
- (e) “Initial monitoring and accountability framework for accredited entities” (decision B.11/10);
- (f) “Comprehensive information disclosure policy of the Fund” (decision B.12/35);
- (g) “Country coordination and multi-stakeholder engagement” (decision B.17/22);
- (h) “REDD+ results-based payments” (decision B.17/18);
- (i) “GCF risk management framework” (document GCF/B.17/11);
- (j) “Environmental and social policy” (decision GCF/B.19/10);
- (k) “Indigenous Peoples Policy” (decision GCF/B.19/11); and
- (l) “Updated Terms of reference of the Independent Redress Mechanism” (Decision B.BM-2017/10).

#### **IV. Background and rationale for the development of GCF environmental and social safeguards**

9. The Board adopted the IFC Performance Standards on an interim basis and anticipated that once GCF had built a track record of experience, an in-depth review would be conducted, including benchmarking against recently updated safeguard standards.

10. Given that more than three years have passed since this decision was adopted, during which the GCF has accredited 84 entities and through them has supported 102 projects using the interim ESS as the basis for its environmental and social due diligence, the need to develop a track record has been met. In addition, recent updates of the safeguards of some institutions and accredited entities (AEs) can provide innovative approaches resulting from extensive expert and stakeholder consultations. This presents opportunities for the GCF to harness the knowledge and lessons from the updates and provide a deep set of options for developing its ESS. It also becomes necessary for GCF, having gained experience from working with a coherent set of environmental and social standards, to develop its ESS while potentially incorporating those aspects of the interim ESS that are both robust and relevant to the operations of GCF.

11. The upcoming evaluation of the GCF ESS, including the ESMS by the IEU, is expected to provide important input to the process of developing the ESS.

12. The development of GCF ESS will aim to establish a framework to support GCF in carrying out its mandate of promoting a paradigm shift towards low emission and climate-resilient development pathways in a sustainable manner that effectively and equitably manages environmental and social risks and impacts and improves the outcomes of all its activities. The ESS shall enable GCF to achieve the commitments set forth in its Environmental and Social Policy as well as other relevant policies such as the Indigenous Peoples Policy, Gender Policy, and Information Disclosure Policy, among others. The ESS shall guide the AEs, executing entities (EEs), countries, and other stakeholders in identifying, avoiding, mitigating, and managing

environmental and social risks and impacts following the fit-for-purpose approach, with due consideration to adequate and meaningful stakeholder engagement, grievance redress, and information disclosure.

## V. Preliminary review of the environmental and social safeguards

13. A preliminary review was undertaken by the Secretariat as a starting point for identifying approaches, options and the processes for developing the ESS. It is acknowledged however, that further detailed reviews, including the upcoming IEU evaluation of the ESS and ESMS, are expected to provide important inputs that will underpin the development of GCF ESS. The preliminary review focused on (1) the environmental and social due diligence of funding proposals by the Secretariat using the interim ESS; and (2) a comparison of the trends and approaches in ESS standards among institutions.

14. Initial recommendations for improving the practice of due diligence were identified, and these will also inform the scope for further detailed review. Among the aspects of due diligence that are recommended to be further examined include the following:

- (a) Recording and reporting of the screening results and decisions related to the environmental and social category of projects and the applicable ESS standards and requirements that will facilitate future project reviews, as well as the overall risk profile of the GCF portfolio;
- (b) The quality of AE environmental and social assessments;
- (c) Use of mitigation hierarchy as a tool to structure, assess and report on due diligence of funding proposals submitted by AEs;
- (d) Measures to ensure appropriate disclosure of ESS-related information including information related to timeframe, media and language through which such documents have been or are to be disclosed; and
- (e) Capacity of AEs and EEs as well as arrangements for environmental and social monitoring supervision and compliance.

15. A comparison was also undertaken between the interim ESS of GCF and the trends and approaches in the ESS of selected institutions that are considered to have climate change mandates embedded in their respective sustainability policies and reflected in their corresponding safeguard frameworks. To date, the Secretariat has undertaken comparisons of seven such institutions. Additional institutions will be identified for the comparison of specific safeguard themes and practices. The results of the comparative analysis of trends, approaches and best practices will be disclosed when the Secretariat has completed its analysis and has had the opportunity to synthesize its findings, as part of the first stage of stakeholder consultations.

16. Preliminary findings from the comparison of seven institutions are summarized in the appendix of the annex of this paper.

## VI. Overview of the proposed options

17. The proposed options for the development of GCF ESS is discussed in detail in the annex to this document. The options identified are guided by the principles of focus, continuity, harmonization, capability, and accountability. The analysis and recommendations recognize the range of operational and policy considerations related to the identified options, for example the GCF ESMS, the Environmental and Social Policy, the Information Disclosure Policy and

accreditation process as well as other relevant policies and practices. The options identified so far include:

- (a) Maintaining the interim ESS with revisions and enhancements that consider the innovative approaches in ESS standards and requirements of institutions as well as provide focus on the mandate of GCF;
- (b) Adopting a process-driven approach that emphasizes cross-cutting processes rather than the specific requirements of various environmental and social risks and impacts; and
- (c) A country-system approach that allows for the use of country and subnational systems that have established equivalency and acceptability in relation to the GCF ESS.

18. After initial consideration of the options, and in the light of its guiding principles, GCF considers the first option, the interim ESS with revisions and enhancements, as the preferred option for purposes of initiating dialogue with stakeholders. The first option, as the preferred option, would:

- (a) Retain the basic structure and thematic content of the GCF ESS;
- (b) Select those innovative elements of the ESS of other institutions that are most relevant to the GCF portfolio based on experience to date and within the GCF business model and capacity to implement while acknowledging that some AEs and third parties may have capabilities that go beyond GCF; and
- (c) Identify, include and set forth as priorities those environmental and social impacts and risks that are uniquely or frequently associated with projects designed to promote a paradigm shift toward low-emission and climate-resilient development.

## VII. Overview of the proposed process

19. The proposed process for the development of GCF ESS considers a timeline of 21 months inclusive of the preparatory activities, the completion of the evaluation of the ESS and ESMS by the IEU, and the finalization of the document for Board consideration. The process will involve three stages, with each stage supported by stakeholder consultations. The stages and indicative timelines are provided in the table below.

**Table 1: Indicative timeline**

Stage	Activities	Period
Preparatory	Proposed approach for Board consideration	June 2019
	Procurement process for professional services	July to September 2019
	Draft Independent Evaluation Unit environmental and social safeguards (ESS) evaluation report	July 2019: factual findings/zero draft August 2019: presentation of findings September 2019: final draft
Stage 1	Scoping and review stage	October 2019 to March 2020
	Stakeholder consultation (call for inputs)	January 2019 to March 2020
Stage 2	Initial draft ESS	March to August 2020
	Stakeholder consultation (call for inputs and expert consultation)	June to August 2020
Stage 3	Final draft ESS	September 2020 to February 2021
	Stakeholder consultation (call for inputs)	January 2020 to February 2021
Final	Preparation of Board document with final draft ESS for Board decision	February to March 2021

20. The Secretariat will take the lead in this process and shall report the progress to the Board on a regular basis.

21. With regard to resources, the process for developing the GCF ESS is a comprehensive undertaking that will entail the services of subject matter experts to support the Secretariat in establishing the analytical foundation of the ESS through detailed reviews of ESS standards and requirements, integrating the results of the ESS evaluation by the IEU, and drafting the ESS. The costs for developing the GCF ESS will include those associated with professional services; stakeholder consultations, such as travel costs; and communications and outreach. The proposed budget will cover the activities for the entire ESS development process of 21 months.

22. The Budget Committee reviewed the proposed budget and process. The budget and recommendations by the Budget Committee are incorporated in this proposed approach and include ensuring that the sequencing of activities avoids risks of duplicating other similar efforts, ensuring an evidence-based approach to scoping and consultations, and ensuring that considerations on cost and resources for implementing ESS are included in the review.

**Table 2: Proposed budget for developing environmental and social safeguards**

Stage	Indicative cost (in USD thousands)
Stage 1: scoping and review stage Detailed review of GCF interim environmental and social safeguards (ESS), other institutions, consultations, and preparation of the ESS scoping document	51.8
Stage 2: initial draft stage Initial drafting of ESS, stakeholder consultations (including experts consultation)	271.2
Stage 3: final draft stage Synthesis and final drafting and consultations	46.2
Communication and outreach Online contents, documentation and printed materials	30
<b>Total</b>	<b>399.2</b>

23. GCF will proactively engage with its Board and internal and external stakeholders to gather as many comments and suggestions in the process. This will bring about a continuing process of engagement with stakeholders even after the ESS development is complete.

## VIII. Next steps

24. Following the consideration by the Board of the proposed approach for developing the GCF ESS, the Secretariat will undertake the following activities:

- (a) Develop a detailed stakeholder consultation and communication plan that takes into consideration the IEU evaluation and the proposed approach and options. The development of ESS will make use of the various opportunities to engage stakeholders including structured dialogues and other GCF-led events and fora as potential avenues to enhance consultations; and
- (b) Prepare the terms of reference for activities under stages 1 to 3 that would involve a detailed review and comparison of ESS, identification of innovations and good practices relevant to GCF, development of a scoping document, initial and final drafting of ESS, and a synthesis and collation of inputs from consultation processes.

## **Annex: Approach to developing the environmental and social safeguards of GCF**

### **I. Introduction**

1. According to chapter X of the Governing Instrument for the GCF, “the Board will agree on and adopt best practice environmental and social safeguards, which shall be applied to all programmes and projects financed using the resources of the Fund.” Subsequently, the Board, in decision B.07/02, paragraph (n), requested the Secretariat to develop an environmental and social management system (ESMS) for GCF.
2. At the seventh meeting of the Board, held in May 2014, and by decision B.07/02, paragraph (c), the Board adopted the International Finance Corporation’s (IFC) Performance Standards to serve as the GCF interim environmental and social safeguards (ESS) standards until GCF developed its own ESS. Also, the Board, in decision B.07/02 paragraph (d), decided to aim to complete the process of developing GCF ESS, which would build on evolving best practices, within a period of three years after GCF became operational, and with inclusive multi-stakeholder participation.
3. This document sets out the considerations and the proposed approach for developing GCF ESS. The aim of this document is to present the options that may be considered in developing the ESS, the implications related to the proposed options, and the processes that will be involved, including stakeholder consultations. In formulating the options, the Secretariat undertook a preliminary review of how the interim ESS are applied to projects, identified the recent trends and approaches in environmental and social standards and requirements of institutions, and compared the GCF ESS with the ESS of selected institutions.

### **II. Rationale for the development of GCF environmental and social safeguards**

4. The IFC Performance Standards have been used by GCF as its interim ESS in combination with the IFC Guidance Notes, which provide more details on each Performance Standard. It was anticipated that once the GCF had built up a track record of experience and lessons learned, an in-depth review would be conducted, including benchmarking against recently updated regional bank standards, the updated World Bank safeguards (anticipated), and experience in implementing the Adaptation Fund principles.
5. The value of selecting the IFC Performance Standards was that these had benefitted from nearly a decade of implementation, beginning in 2006 when the initial version of the Performance Standards were adopted and applied. Subsequently, the IFC Performance Standards were updated in 2012 based on lessons learned from then six years of implementation, including monitoring and evaluation, among others. Furthermore, many institutions and organizations are already familiar with the IFC Performance Standards and have adopted some of the key features of their content and format.
6. The IFC Performance Standards also address a number of cross-cutting thematic issues, such as climate change, gender, biodiversity, water and human rights. Another benefit of using the IFC Performance Standards as the interim ESS for GCF is that IFC has issued detailed Guidance Notes providing further details on interpretation and implementation of the IFC Performance Standards.



7. Given that more than three years have passed since the Board adopted decision B.07/02, during which the GCF has accredited 84 entities and through them has supported 102 projects using the ESS as the basis for its environmental and social due diligence, the need to develop a track record has been met. In addition, the World Bank has completed a three-year process of reviewing and updating its safeguards, including extensive stakeholder consultation at national and international levels. This resulted in the World Bank's board approving its Environmental and Social Framework, including ten Environmental and Social Standards (World Bank ESS), in 2016. Although the World Bank ESS is structured much like the IFC Performance Standards and incorporates many of its provisions, it is distinct from the Performance Standards in many respects due to the World Bank's public sector focus and includes extensive, innovative provisions resulting from expert and stakeholder consultations as well as internal World Bank deliberations.
8. In addition, it should be noted that the IFC exclusively supports projects designed and implemented by private sector entities. In this context, it should also be noted that the World Bank only recently adopted and has begun to implement its Environmental and Social Framework for application to its public sector projects as public sector lending remains at the core of the World Bank's mandate.
9. Although the IFC Performance Standards and Guidance Notes remain the international "reference standard" for private sector lending, the World Bank, in its review and update of its existing safeguard policies, recognized the need to introduce a different approach for its public sector activities, drawing on the lessons learned by IFC in the implementation of its Performance Standards.<sup>1</sup> This allowed the World Bank to better align the policies with the changing needs and aspirations of its borrowers, the external context, and the business of the Bank. Given that the GCF accredited entities (AEs) and executing entities (EEs) include both private and public sector entities, and that GCF has gained experience working with a coherent set of environmental and social standards, namely the IFC Performance Standards, it is necessary for GCF to examine its specific requirements in developing its own ESS and to consider that its ESS need to incorporate innovations and provide focus on the mandate of GCF while keeping those aspects of the interim ESS that remain robust and relevant to GCF operations.
10. An evaluation of the ESS and ESMS by the Independent Evaluation Unit (IEU) is scheduled to be conducted in 2019. The evaluation will seek to provide the Board, Secretariat and all other stakeholders with information on how well the current ESS function to prevent, mitigate and manage potential adverse environmental and social risks and impacts; improve the environmental and social performance of GCF and its portfolio over time; and identify the results in respect to the design and implementation of GCF projects. The result of the evaluation is expected to provide important inputs to the development of GCF ESS in relation to the structure of GCF, its processes and their operationalization, its funding proposal processes, the implementation of GCF-funded activities, and the likely results and impacts of GCF investments.
11. The development of GCF ESS will aim to establish a framework to support GCF in carrying out its mandate of promoting a paradigm shift towards low emission and climate-resilient development pathways in a sustainable manner that effectively and equitably manages environmental and social risks and impacts and improves outcomes of all its activities. The ESS shall enable GCF to achieve its commitments set forth in its Environmental and Social Policy as well other relevant policies such as the Indigenous Peoples Policy, Gender Policy, and

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<sup>1</sup> GCF recognizes that protection of the environment and of the fundamental rights of project-affected people apply equally to private and public-sector projects. However, as operational standards become more specific, differences will emerge with respect to the nature and extent of control of project inputs and outputs on the part of implementing entities, depending on whether they are from the private or public sector. These distinctions need to be taken account in an ESS that supports both types of entities.

Information Disclosure Policy, among others. GCF will also incorporate the most current approaches and views from AE oversight of financially intermediated investments. The ESS shall guide the AEs, EEs, countries, and other stakeholders in identifying, avoiding, mitigating, and managing environmental and social risks and impacts following the fit-for-purpose approach with due consideration to adequate and meaningful stakeholder engagement, grievance redress, and information disclosure.

### **III. Preliminary review of the environmental and social safeguards**

12. A preliminary review was undertaken by the Secretariat as a starting point for identifying approaches, options and the processes for developing the ESS. It is acknowledged however, that further detailed reviews, including the upcoming IEU evaluation of the ESS and ESMS, are expected to provide important inputs that will underpin the development of GCF ESS.

13. The preliminary review focused on (1) the quality of environmental and social due diligence of funding proposals by the Secretariat using the interim ESS; and (2) a comparison of the trends and approaches in ESS standards among institutions. Initial recommendations were identified for improving the practice of due diligence based on the identified aspects of reporting of due diligence, review of the quality of environmental and social assessments, use of mitigation hierarchy, appropriate disclosure of ESS-related information, and assessment of AE and EE capacities in environmental and social monitoring, supervision and compliance.

14. A comparison was undertaken between the interim ESS of GCF and the ESS of selected multilateral development institutions that are considered to have climate change mandates embedded in their respective sustainability policies and reflected in their corresponding safeguard frameworks. Based on these comparisons, the following conclusions were drawn with respect to how the GCF ESS compare to trends and approaches to safeguard standards and requirements of selected institutions, in terms of both structure and content.

15. With respect to structure, the GCF ESS occupy the mainstream among selected institutions. Although the IFC Performance Standards were issued in 2006, the structure has withstood the test of time and become the norm among similar organizations since then. Although IFC revised the substance of its Performance Standards in 2012, it retained the original structure, which has been successively adopted by the European Bank for Reconstruction and Development (2008 and 2014), the African Development Bank (2013) and most recently the World Bank (2016) as well as other organizations reviewed in this report.

16. With respect to the substance of the ESS requirements, notwithstanding many common provisions which place the GCF ESS more or less in the mainstream of similar institutions, the GCF ESS stand apart in two general respects, both of which serve to explain many of the specific differences identified in the comparison. Moreover, since 2012, other similar organizations have adopted new requirements not included in the 2012 IFC Performance Standards. Accordingly, it may be observed that the ESS are several years out of date relative to the most recent ESS requirements of other institutions, such as the World Bank, which issued its ESS as part of its new Environmental and Social Framework in 2016.

17. Also, it should be noted that the IFC Performance Standards were intended to be and are in practice applied exclusively to projects supported by the for-profit private sector rather than by the broad range of public and private sector entities accredited by GCF. This private sector orientation is articulated explicitly in the IFC Performance Standards (in particular with respect to involuntary resettlement and indigenous peoples) and implicitly with respect to other performance standards, where certain presumptions are made relative to the roles, responsibilities and capacities of clients. These two general differences may be kept in mind while considering the following observed differences between the GCF ESS and the ESS

requirements of similar institutions with respect to the eight component standards of the GCF ESS.

18. The comparison of ESS indicate that there are requirements of selected institutions that correspond thematically to the requirements of the GCF ESS. However, the comparison also identified requirements instituted by some institutions that are not present in the GCF ESS and provide opportunities that can be harnessed by GCF to improve alignment and coherence of the ESS. A more detailed comparison of the ESS requirements will be undertaken in the further review by the Secretariat.<sup>2</sup>

#### IV. Options for developing the environmental and social safeguards

19. As noted above, in general, the GCF ESS occupy the mainstream among similar institutions with respect to their structure, standards and requirements. As a matter of principle, the development of GCF ESS could adopt any combination of structures, standards and requirements observed among similar institutions. However, some guiding principles are useful in suggesting alternative options for GCF:

- (a) **Focus.** Although many institutions have provisions dealing with climate change, none, save GCF, have a mandate of promoting paradigm shift towards low-emission and climate-resilient development. Accordingly, the ESS should support the unique mandate of GCF, including its business model and the roles and responsibilities of GCF, AEs and EEs;
- (b) **Continuity.** Given that GCF has accredited 84 entities based on the GCF ESS, there is a case to be made for maintaining some continuity with the ESS in consideration of the implementation of projects and accreditation;
- (c) **Harmonization.** Given that GCF channels support to developing countries through the AEs and that the AEs use their own safeguards and standards to meet the GCF ESS, adopting some of the more commonly applied ESS standards and requirements would facilitate mandates and arrangements. In pursuing harmonization, GCF should embody the cumulative best practices of its AEs for the dual purpose of disseminating best practices and coordinating harmoniously with its AEs;
- (d) **Capability.** Given that GCF is a young institution with limited resources and capacity relative to other institutions (including many of its AEs), the effective implementation of the ESS should consider the capacity of GCF. On the other hand, the Secretariat should consider the implementation of ESS when strengthening the capacity of GCF; and
- (e) **Accountability.** The ESS must be formulated such that they can promote accountability to their stakeholders, particularly in meeting the requirements of GCF ESS, ESMS and the Environmental and Social Policy.

20. With these guiding principles in mind, some options to consider are described in the following section.

##### 4.1 Environmental and social safeguards with revisions and enhancements

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<sup>2</sup> In identifying best practices, GCF will consider institutions other than multilateral development banks, including bilateral development finance institutions.

21. Per the initial guiding framework for the GCF accreditation process, it was anticipated that the IFC Performance Standards and Guidance Notes would also serve as the basis for the development of the GCF ESS. With respect to the principles of continuity and harmonization, a case can be made that the structure and content of the ESS, including a statement of objectives, scope and requirements applicable to AEs and EEs, should be maintained as much as possible, that is through an update designed to bring the ESS into full conformity with the mandate and focus of GCF as well as the 2012 IFC Performance Standards. The revision can also include eliminating those provisions that explicitly or implicitly presume that the client is a private sector entity.
22. One observation that lends credence to this approach is that the IFC Performance Standards, which provide both the structure and content of the GCF ESS, have stood the test of time despite a wave of revisions and updates to other donor institutions' ESS since its adoption. Other advantages are that such an approach would provide continuity for existing AEs in terms of their accreditation, re-accreditation and the implementation of GCF-financed projects, as well as a "level playing field" for potential entities seeking accreditation for the first time.
23. One consideration under this option is to limit the revisions to be made to the GCF ESS to promote continuity with respect to the accreditation of entities. However, the main potential disadvantage of limiting the revisions and updates is that it could limit the opportunity for GCF to selectively adopt innovative provisions based on the experiences of similar institutions that were subsequently added to by the institutions since 2012.
24. **Adoption of relevant, innovative provisions in the ESS standards and requirements of other institutions.** At the time the ESS were adopted, the initial guiding framework for the GCF accreditation process anticipated that "once the Fund has built up a track record of experience and lessons learned, an in-depth review will be conducted, including benchmarking against recently updated regional bank standards, the updated World Bank Safeguards (anticipated), and experience in implementing the Adaptation Fund principles." Given the results of this benchmarking, it is important to incorporate the innovative provisions of the various ESS of institutions, particularly in areas that can further strengthen the delivery by GCF on the expectations and commitments set in its Environmental and Social Policy and ESMS. For example, the World Bank's safeguards framework update could present opportunities and options for GCF to incorporate provisions and standards with a public sector focus. It might be worth considering the approach by the World Bank to add a standalone standard on the stakeholder engagement and consultation (World Bank ESS10: Stakeholder Engagement and Information Disclosure) to address the cross-cutting issues involved in consultations rather than addressing the issues within the context of separate standards (Environmental Assessment, Involuntary Resettlement and Indigenous Peoples) as it had under its previous Operational Safeguards System.
25. A main consideration in incorporating any provisions of the safeguard frameworks of other institutions is the extent to which GCF will be able to implement such adopted provisions, given the resources needed to implement them, the distinct roles and responsibilities of GCF, AEs and EEs, and the public and private sector activities supported by GCF. In this respect, reports from independent evaluation units or independent accountability mechanisms can be useful in identifying the strengths and weaknesses inherent in implementing various standards per the experience of various existing and potential AEs.
26. **Climate change mandate-driven focus.** The singular mandate of the GCF on climate change distinguishes it from the broader mandates of the multilateral and bilateral development institutions and agencies, such as the World Bank, regional development banks, as well as from other development institutions such as the United Nations Development Programme. The projects supporting climate change mitigation and adaptation may have

potential environmental and social risks and impacts that may be more specific than the risks and impacts associated with the broader mandates of the development banks and institutions. A case could be made for providing more focus on the standards and requirements of the ESS on those potential risks and impacts that are more specific and frequently associated with projects designed to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects.

27. By including this focus, this option fulfils not only the mandate-driven principles, but it is consistent with the capability principle and could be implemented without compromising the structural continuity and harmonization principles. GCF will ensure that the ESS are fully consistent with the GCF Environmental and Social Policy, Indigenous Peoples Policy, Gender Policy and Information Disclosure Policy.

## 4.2 Process-driven approach

28. Given the inherent uncertainty about the impacts and risks of an innovative portfolio of projects, a process-driven approach could present an alternative to an overly broad or overly narrow approach to ESS. As was noted in the comparison, there has been a movement among some similar institutions toward a more cross-cutting process-driven approach to ESS standards rather than a continued proliferation of material impacts to be assessed and managed. The Equator Principles, given its complete delegation of substantive policy and project support to the Equator Financial Institutions, has opted to focus its due diligence on procedural matters with a default to IFC Performance Standards for substantive environmental and social impacts and risks.

29. The advantage of this approach is that, given the inherent uncertainty about the impacts and risks of an innovative portfolio of projects, a process-driven approach could present a flexible approach to ESS by emphasizing the due diligence processes rather than specific requirements. The disadvantages of this approach, however, are that it would tend to generate generic requirements that may not reflect the unique climate change mandate of GCF and that it would present challenges related to the environmental and social due diligence responsibilities given the diversity of AEs and EEs.

## 4.3 Country-system approach

30. Per decision B.04/05, the Board, “reaffirmed that country ownership and a country-driven approach are core principles of the Fund.” Per the High-Level Fora on Development Effectiveness held in Paris in 2005, Accra in 2008 and Busan in 2011, donors and developing countries agreed on the imperative of using country safeguard and fiduciary systems for the purpose, among others, of encouraging country ownership of ESS. In the case of the Asian Development Bank (ADB), the ADB Safeguards Policy Statement 2009 (SPS), through its objective statement, requires that ADB help borrowers strengthen their safeguards systems and develop the capacity to manage social and environmental risks. In this regard, ADB has carried out robust studies of the country safeguards system (CSS) of selected countries across the region that have requested that their systems be used. The analysis of the CSS is carried out through a detailed methodology contained in the SPS. Country systems are only adopted after undertaking two very rigorous assessments: (i) an equivalence assessment that is a robust legal analysis which establishes that the CSS is legally equivalent to SPS; and (ii) an acceptability assessment that studies the capacity of a government to implement its CSS. Any gaps identified are filled through implementing an action plan that is agreed with the government.

31. One clear advantage of requiring AEs to use country or borrower systems in lieu of the GCF ESS is that such an approach would enhance country or other beneficiary ownership of the ESS implemented at the project or activity level. In addition, such an approach would further empower the national designated authorities (NDAs), which could be tasked with ensuring that AEs and EEs carry out their responsibilities consistent with applicable legal requirements. Although it is understood that per the GCF ESS and the Environmental and Social Policy, AEs and EEs are already responsible for implementing such activities consistent with national law and applicable international agreements; in practice, this principle is often limited to a “presumption of legality” rather than a focus of due diligence.

32. One disadvantage of using country or borrower systems is the continuing gap between the legal requirements of such systems and the governments’ will and capacity to implement them, particularly at the local levels where technical capacity is challenged (although there is no reason to believe that such capacity limitations are any more challenging with respect to implementing the requirements of the GCF ESS). Nonetheless, use of country or subnational ESS may place a heavier burden on AEs and GCF to conduct their own due diligence on these legal requirements and their implementation given the diversity of country systems and the challenges related to lack of familiarity with country systems relative to their ESS requirements. Accordingly, were GCF to pursue this option, a country systems approach would not substitute for ESS that are informed by the best practice among development institutions.

## V. Recommendations and implications for related policies of GCF

33. The effective implementation of GCF ESS relies on a supportive infrastructure consisting of related policies, frameworks and practices. Among others, these include: (1) the GCF Environmental and Social Management System; (2) the Environmental and Social Policy; (3) other relevant policies, including the Gender Policy and the Indigenous Peoples Policy; (4) the Information Disclosure Policy and practices; (5) the accreditation framework, by which GCF partially delegates its project selection, due diligence, monitoring and supervision to the entities sponsoring and implementing the projects supported by GCF; (6) the GCF project approval process; and (7) monitoring of and accountability for environmental and social impacts and risks. Further information on potential implications with these items is provided below:

- (a) **Environmental and social management system.** The ESMS is an overarching framework for achieving improvements in environmental and social outcomes while addressing any unintended adverse impacts of all the GCF-financed activities. The implementation of the ESS will be supported by the ESMS for example in terms of the policies and the guidance and tools. The extent by which the guidance and tools are able to support the application of ESS will be informed by any revision of the ESS.
- (b) **Environmental and Social Policy.** The Environmental and Social Policy has the most comprehensive link with GCF ESS and any future revised version of the ESS. Under any scenario, there would need for substantial adjustments to be made to bring the Environmental and Social Policy and the ESS into conformity. Considering that the GCF ESS were adopted by GCF in May 2014 and that the Environmental and Social Policy was adopted February 2018, it can be expected that the Environmental and Social Policy includes a number of provisions and expectations reflecting best practices among similar institutions but is not included, at least explicitly, in the interim ESS. These gaps, as they apply to the GCF mandate and project activities, will need to be addressed in any revised version of the interim GCF ESS. Once the ESS are developed, elements (iii) and (iv) of the ESMS dealing with rules, procedures and best practices for implementation of the revised ESS will need to be updated to conform to the ESS requirements;

- (c) **Gender Policy and Indigenous Peoples Policy.** As part of the process of finalizing the revised ESS, the provisions in the Gender Policy and Indigenous Peoples Policy should be referenced in the GCF ESS or added as annexes to the ESS such that the relevant requirements of the policies are contained in a single comprehensive document to which AEs and EEs can refer and to which they can be held accountable;
- (d) **Information Disclosure Policy and practices.** Should the documentation requirements of the revised ESS be revised from the requirements of the GCF ESS, these revisions would need reflect the GCF Information Disclosure Policy and the Environmental and Social Policy. However, the more difficult challenge would be coordinating these revised disclosure requirements with the institutional requirements of the AEs;
- (e) **Accreditation.** The entities have been accredited based on the interim ESS of the GCF. Thus, according to the ESMS (e.g. Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts), the capacity and commitments of an entity to manage the execution of the GCF ESS at the institutional level are assessed during the accreditation process, whereas the initial proposal approval process verifies that the specific project or activity is consistent with the ESS (e.g. Performance Standards 2 to 8). It becomes imperative that the update of the GCF ESS takes full consideration of the current business model of GCF; the diversity of entities accredited and seeking accreditation; the different roles and responsibilities of the AEs, executing entities and GCF; the nature of activities supported; and the differentiation of the institutional-level and project-level assessments. Given these considerations, for the purpose of implementing accreditation and re-accreditation, the first option – the GCF ESS with revisions and enhancements – would be the most practical approach.
- (f) **Project approval process.** The process for assessing compliance with the environmental and social safeguards are outlined in the project approval process and will be informed by the project level requirements that may be contained in the revised ESS.
- (g) **Monitoring and accountability framework.** The framework provides the monitoring and reporting requirements at the accredited entities’ institutional level and GCF-financed activities level and covers compliance performance and reporting processes pursuant to the requirements of the revised ESS.

34. After initial consideration of the options, and in light of the guiding principles, GCF considers the first option, the interim ESS with revisions and enhancements, as the preferred option for purposes of initiating its dialogue with stakeholders. As noted, the first option would provide a level of continuity that also considers the innovative provisions introduced into other institutions’ safeguards systems since 2012. While a wholesale adoption of the ESS of other institutions, for example, the World Bank ESS, could align GCF with current best practices, the implementation of these ESS may also strain the capacity of the Secretariat given the substantial differences in scale between the World Bank and GCF. The first option should consider incorporating a climate change mandate-driven focus that would best reflect the singular mandate of GCF relative to other institutions with ESS requirements, although it might overlook impacts and risks not directly associated with climate change mitigation and adaptation. The first option, as the preferred option, would:

- (a) Retain the basic structure and thematic content of the GCF ESS;
- (b) Select those innovative elements of the ESS of other institutions that are most relevant to the GCF portfolio based on experience to date and within the GCF business model and

its capacity to implement while acknowledging that some AEs and third parties may have capabilities that go beyond GCF; and

- (c) Identify, include and set forth as priorities those environmental and social impacts and risks that are uniquely or frequently associated with projects designed to promote a paradigm shift toward low emission and climate-resilient development.

## VI. Overall process and stakeholder consultations

### 6.1 Process overview

35. The Secretariat anticipates that the process for developing the ESS will take 21 months, including the preparatory activities, the completion of the evaluation of the ESS and ESMS by the IEU, and the finalization of the document for Board consideration. The process will involve three stages, with each stage supported by stakeholder consultations. The description of the phases and indicative timelines are described below:

- (a) Stage 1: scoping and review stage. This initial stage will involve thematic reviews, including further detailed comparisons of ESS standards and requirements of institutions and assessments of the implication of direct costs and opportunity costs of the ESS. These reviews will engage selected subject matter experts on the themes corresponding to the standards of the GCF ESS as well as identified emerging areas. It is also during this stage that inputs from internal and external stakeholders on the overall scope of the GCF ESS will be gathered. Consultations at this stage will involve calls for inputs through electronic submissions as well as through more in-depth and focused discussions with stakeholders through video and audio conferencing and during GCF-events and other relevant events attended by GCF representatives. The results of the reviews, the inputs received from stakeholders and the findings and recommendations from the independent evaluation by the IEU will feed into the preparation of the initial draft ESS in stage 2. The result of the stage 1 activities will be reported to the Board;
- (b) Stage 2: initial draft ESS. This stage will be a follow up to stage 1 wherein the initial draft ESS will be subjected to stakeholder consultations, the mode of which would be similar to stage 1. The preparation of the second draft of the ESS will take into account the feedback received from stakeholder consultations. Complementing the public consultation at stage 2, consultations with experts will be organized to gather regional insights on the draft ESS and its application to projects. As in stage 1, the result of stage 2 activities will be reported to the Board; and
- (c) Stage 3: final draft ESS. The final stage will involve consultations on the second draft of the ESS and will be done mostly through electronic submission of inputs and feedback. The inputs and feedback received from the stakeholder consultations will be considered in the preparation of the final ESS. The result of the overall process as well as the final ESS will be presented to the Board for its consideration.

36. **Time frame.** The development of the ESS will commence upon the approval of the approach chosen by the Board. The time frame considers the total period for developing the ESS as 21 months, including the preparatory activities, the evaluation period by IEU, and the finalization of the ESS. The expected timetable is shown in table 1 below.



**Table 1: Expected timetable for development of the GCF environmental and social safeguards**

Stage	Activities	Period
Preparatory	Proposed approach for Board consideration	June 2019
	Procurement process for professional services	July to September 2019
	Draft IEU ESS evaluation report	July 2019: factual findings/zero draft August 2019: presentation of findings September 2019: final draft
Stage 1	Scoping and review stage	October 2019 to March 2020
	Stakeholder consultation (call for inputs)	January 2019 to March 2020
Stage 2	Initial draft ESS	March to August 2020
	Stakeholder consultation (call for inputs and expert consultation)	June to August 2020
Stage 3	Final draft ESS	September 2020 to February 2021
	Stakeholder consultation (Call for inputs)	January 2020 to February 2021
Final	Preparation of Board document with final draft ESS for Board decision	February to March 2021

*Abbreviations:* ESS = environmental and social safeguards, IEU = Independent Evaluation Unit.

37. The process for developing the GCF ESS will be coordinated by the ESS unit of the Secretariat and supported by the other divisions of the Secretariat. The Secretariat will also tap into the knowledge and support from GCF advisory panels, communities of practice, the roster of experts and other networks. The Secretariat will work with the Board and provide regular updates so that the process can benefit from the views of the Board.

38. **Resources.** The process for developing the ESS will require resources to support the engagement of necessary expertise external to the Secretariat as well as the stakeholder consultation and communication processes.

## 6.2 Stakeholder consultations

39. The active and consultative engagement with a wide range of stakeholders is fundamental to developing the ESS. Thus, GCF will ensure that inputs and feedback from the participation of multiple stakeholders will feed into the process for developing the GCF ESS. To achieve this, GCF will proactively engage with its Board, countries through NDAs, AEs, observer organizations, as well as internal and external stakeholders to gather as many comments and suggestions in the process as possible.

40. **Consultations with the Board and internal stakeholders.** While the depth of GCF experiences in implementing its ESS span only a few years, GCF has collected valuable experiences and emerging lessons learned in other ways. The process for developing the GCF ESS is expected to benefit from this greatly. The process for developing the GCF ESS will ensure that the review and update process will consider the knowledge, diversity, experiences, perspectives and expectations of its Board. The internal consultation will include discussions with the Board and its expert panels, the independent units of GCF, and the divisions at the Secretariat, particularly those involved in the processing of funding proposals and management of the portfolio of projects and programmes under implementation, as well as those divisions that provide various support to the AEs and EEs. These consultations will give the Secretariat opportunities to discuss and share their experiences and opinions on how to improve the design and better implement the current interim safeguard policies and move towards developing its own standards appropriately suited to the GCF business model and mandate. The consultations may take various channels such as fora, focus group discussions, select group meetings, interviews and audio and video conferences, as appropriate.

41. **Consultations with the external stakeholders.** The review and update process will also solicit feedback and views from the various external stakeholders of GCF. This means that inputs will be solicited from representatives that will include, but not be limited to: (a) countries through the NDAs; (b) AEs; (c) observer organizations of the GCF; (d) civil society organizations; (e) indigenous peoples organizations and representatives; (f) private sector organizations; (g) development-oriented organizations; (h) academic and relevant research institutions; (i) professional organizations and sector-based councils; (j) labour and workers groups; and, as may be feasible (k) representatives of communities affected by GCF-supported programmes/projects. The consultations will be held through calls for inputs, purposive regional discussions, and, when there are opportunities for more in-depth discussions, structured dialogues and other GCF-led events and fora to cover a wide range of views and inputs.

42. **Communications.** The development of GCF ESS will entail communicating the results of consultations and updates to the stakeholders of GCF. The process will be supported by the Secretariat's Communication team and will utilize the GCF safeguards webpage and other information portals available to GCF. Once the final ESS are developed and adopted by the Board, the Secretariat will launch an outreach and dissemination plan that will target the AEs, countries and the wider stakeholders of GCF.

## Appendix I: Trends and approaches among selected institutions

1. The standards and requirements of the environmental and social safeguards (ESS) of GCF and those of the selected institutions were compared. Based on these comparisons, the following conclusions were drawn with respect to how the GCF ESS compare to trends and approaches to safeguard standards and requirements of selected institutions, in term of both structure and content.

### I. Structure

2. Environmental and social standards among multilateral and bilateral development agencies began to emerge and evolve since about 2000 when the World Bank began issuing its first comprehensive set of “Operational Safeguards.” It should be noted at the outset that the emergence and evolution of such standards has largely been a stakeholder-driven process with the institutions playing an intermediation role between various stakeholders, non-governmental organizations (NGOs), member countries (with donors and beneficiaries often taking different positions) and the institutions’ own management and staff. This process has been cumulative and iterative, informed by knowledge and experience in the application of safeguards to projects in diverse environmental, social, economic and political settings. The cumulative aspect of the process is evident in the proliferation of standards and requirements with few if any examples of elimination or substitution. The iterative aspect is evident in the sequential process of revising an institution’s ESS where each institution’s revision tends to adopt the most innovative aspects of the institution that most recently revised its ESS, a trend that is largely a consequence of the stakeholder-driven process wherein international stakeholders generate expectations, precedents and momentum for the reforms they seek.

3. At the level of standards within safeguards, a noticeable trend has been observed in terms of increase in standards focused on crosscutting procedures relative to material environmental and social impacts. The World Bank’s ESS have evolved from a single procedural standard on environmental assessments to include standards on financial intermediaries, stakeholder engagement and information disclosure. The Equator Principles (Version III) has adopted an ESS that is entirely procedural in focus while referencing the IFC Performance Standards for managing environmental and social impacts. Another clear trend has been an increase in social safeguards, most recently with the addition of safeguards related to labour and working conditions, community, health and safety, relative to environmental standards (e.g. biodiversity/natural habitats, pollution abatement and control). There has also been a deliberate effort to integrate environmental and social assessment by considering the social impacts of environmental change as well as the environmental impacts of social change. This is evident in the universal adoption of environmental and social impact assessments (ESIA) in place of the traditional environmental impact assessment (EIA) as well as integrated environmental and social management and monitoring plans (ESMPs) in place of environmental management plans (EMPs).

### II. Content

4. At the level of requirements within safeguards, there are both procedural and substantive trends to consider. In terms of procedures, there is a recognition that the traditional instruments of ESIA presume the availability of a new but mature project proposal containing sufficient information to conduct an assessment that addresses all the issues that a state-of-the-art ESIA would be expected to address. However, some project proposals are submitted in an earlier stage of development while others are submitted at a later stage after certain

commitments (such as siting) have already been made. Accordingly, new instruments – such as Environmental and Social Frameworks (ESMF) – have been developed to accommodate the need to proceed in the absence of the full suite of data necessary to conduct an ESIA with provisions for additional due diligence as more information becomes available. Likewise, provisions – such as environmental and social audits – have been made for the support of existing projects or projects already under-development where alternatives assessment is of limited value with respect to decisions involving siting or choice of technology.

5. Substantive trends in ESS requirements have in common a broadening of the scope of potential impacts to be assessed, from direct to indirect impacts, from site- and time-specific impacts to a project to impacts “associated” with the project but within a different spatial and temporal context, whether “upstream” or “downstream” in time. Likewise, projects are no longer viewed in isolation from the effects of similar projects, but rather viewed in a cumulative manner with respect to their impacts such as a large number of small biofuels facilities that, taken independently, generate negligible amounts of greenhouse gases (GHG), but collectively need to be considered in a nation’s GHG inventory.

6. With respect to social impacts in ESS requirements, there are two contrasting trends in evidence. On the one hand, there is a broadening of scope to include a greater range of stakeholders other than those directly affected by a project, as well as the relationships among diverse groups of affected people. An emphasis on categories of people deemed most vulnerable to project impacts are expanded to include indigenous people, ethnic minorities, women, the elderly, children, and the disabled. The category of workers affected by changes in working conditions has been expanded from direct employees of an enterprise to include contract workers, workers employed by suppliers and other third parties, and migrant workers. Social assessment involving projects requiring involuntary resettlement are increasingly considering the impact of physical resettlement on host populations. In addition, social standards have moved from a reactive, protective approach towards a more proactive, rights-based approach to issues involving occupation, access and tenure to land, as well as management of natural and cultural resources.

7. On the other hand, some regional development institutions are moving away from a global approach to social norms in favor of an approach that is deemed more relevant to the region in which they operate. The African Development Bank does not include a standard or requirement for indigenous peoples given that most African governments take the principled position that all Africans are indigenous and see no benefit in singling out any particular group as “vulnerable” based on their ethnicity. Accordingly, the World Bank applies ESS7 to Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities. Although not reviewed in this report, the Inter-American Development Bank provides in its standard for Indigenous Peoples provisions to protect “uncontacted communities” from exposure to impacts of development projects, such as diseases for which they have no immunity.

8. The comparison of ESS indicates that there are requirements of selected institutions that correspond thematically to the requirements of the GCF ESS. However, the comparison also identified requirements established by some institutions that are not present in the GCF ESS and provide opportunities that can be harnessed by GCF to improve alignment and coherence of the ESS. A more detailed comparison of the ESS requirements will be undertaken in the further review by the Secretariat.