

MANAGEMENT RESPONSE TO IED REPORT: CORPORATE EVALUATION STUDY ON SAFEGUARDS OPERATIONAL REVIEW – ADB PROCESSES, PORTFOLIO, AND FINANCIAL INTERMEDIARIES

On 30 October 2014, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate the corporate evaluation study (CES) on ADB's Safeguards Policy Statement (SPS). The study shows that overall, ADB has done well in terms of SPS delivery, that "ADB's systems in place have considerable merit", and that "ADB's approach can be viewed as international good practice". The CES submits several recommendations moving forward.

2. We agree that continued professional development and training among ADB staff and clients, including in the resident missions and executing agencies is an important success factor. Timely disclosure of safeguard monitoring reports is also important. Similarly, we recognize the importance of building capacity among financial intermediaries (FIs), basically to increase their capabilities to manage environment and social risks. Lastly, we acknowledge the need to understand better country safeguard systems, and as needed, to provide the correct help to countries to strengthen these.

3. The CES faced time and budgetary constraints and most projects approved under the SPS have not yet progressed into the stage where meaningful assessments can be done. Given these limitations, we appreciate the CES treating its five recommendations as directional rather than final. More ideas can be shared during the full evaluation on the effectiveness of the SPS, of which work will begin in 2015. In this regard, we do urge the Independent Evaluation Department (IED) to set aside the right time and resources to do this work. We very much hope that IED will include in the evaluation team experienced safeguards specialists. It would also be extremely helpful to seek the views of ADB's clients, as well as other stakeholders.

II. Comments on Recommendations

4. **Recommendation (1):** *ADB's work on the design of safeguard measures and their quality control for category B investment projects and category FI for FI projects is adequate from a procedural compliance perspective but needs to (for higher risk projects) improve in quality, and become more efficient.* Recommendation 1 also proposes to pay more attention to projects with potentially more risks at approval stage, to tighten up peer review arrangements for category B projects, and to focus more on staff and consultant training, including FI staff, especially on environment and social management systems (ESMS). There is also a call to increase the supervision of FI projects classified as environment category C.

5. This is a directional recommendation in nature and we agree broadly with it. However, we would like to emphasize that we are already delivering on these fronts. All projects are subjected to a rigorous screening and classification

process, beginning at the earliest stages of the cycle. Higher risk projects (category A) are subjected to detailed, multi-stage technical reviews by project teams and RSDD. This due diligence is carried out before Board approval. For all projects, including category B projects, safeguard assessments and planning involves a detailed scoping of issues so that safeguard plans are prepared in proportion to the nature of risks. We must caution against suggesting changes to the current safeguard classification system, especially in the absence of evidence that this arrangement is not working.

6. Operations departments have put in place arrangements for the review of safeguard plans that are tailored to their operational needs, portfolio characteristics, and country circumstances. Nevertheless, we agree that the quality of safeguard documentation for category B projects has been variable. In this regard, RSDD will continue to work with all operational departments to ensure that appropriate reviews of category B projects are carried out in all cases. In addition, both teams will continue to execute regular training programs for safeguard specialists, mission leaders and other staff, including consultants. The Environment Community of Practice and the Social Safeguards Network are already active in this area and will continue to hold regular training sessions covering technical and quality issues. Either alone or through joint activities with other MFIs and bilateral agencies, more training and capacity development will be provided to executing agencies and their consultants in this area.

7. Training FI staff in the implementation of ESMSs is good practice. ADB due diligence in support of FI projects will continue to cover ESMS screening procedures for sub loans. While we agree on the need to build up the capacity of FI safeguards teams, we disagree that there should be closer supervision of FI sub-projects classified as category C. Once the due diligence process has established that the FI will be providing sub-loans only for activities with zero or minimal impacts, such projects can be treated in the same way as all category C projects.

8. **Recommendation (2):** *ADB supervision of the implementation of safeguard measures and/or plans by executing agencies should improve, in line with the intention of the SPS that ADB should move away from a front loaded approach.* Recommendation 2 also discusses the frequency of safeguard missions (as does Recommendation 3), the suggestion that PSOD should integrate reviews of the working of the ESMS during FI project administration missions, and to follow up on safeguards monitoring reports submitted by FIs to ensure timely submissions and better quality.

9. We agree that appropriate supervision of safeguards plans is essential. This work is often supported by supervision consultants, and where relevant by external experts or qualified NGOs. The frequency of ADB supervision missions is addressed in our response to Recommendation 3. With regard to the recommendations on FI projects, we agree it is appropriate to review the ESMS during FI project administration missions, as is already being done by PSOD, and that timely submission of implementation reports should be ensured.

10. **Recommendation (3):** *ADBs reporting and disclosure of progress and results of safeguard measures should improve.* Recommendation 3 covers the

frequency of safeguard monitoring and supervision missions (as does recommendation 2), clarity in safeguard reporting requirements and disclosure, coverage of safeguards in project completion reports (PCRs), improving the timely disclosure of monitoring reports and the summarization of due diligence of FIs in RRP.

11. We do not support specifying upfront a given number of project-specific supervision missions in RRP. Projects differ from one another and circumstances can change during the implementation phase. Project teams must undertake as many missions as necessary, first to support safeguard implementation, and secondly, and as required, to put projects back into compliance if they are not so. Being prescriptive with respect to the number of missions does not help. But taking safeguards compliance issues seriously does. OM J1 on loan administration and PAI 6 on project administration already state that review missions should take place at least twice a year and that these should review safeguards implementation.

12. On the other hand, we agree that safeguard reporting requirements should be clear and consistently included in project administration manuals and consultants' terms of reference. As noted by the CES, efforts have been made to improve the timely disclosure of monitoring reports since the SPS became effective, and further efforts will be made to ensure this.

13. For the recommendation on PCRs of category A projects, OM Section F1 and PAI 6.07, already state that PCRs of both category A and B projects should provide a general assessment of the project's safeguard related impacts, including number of affected persons, and a general evaluation of the effectiveness of safeguard measures, lessons learned for future projects, and other key information. The status of each covenant is also reported, and the inclusion of a supplementary appendix may complement the summary provided in the main text.

14. The summaries of FI due diligence presented in RRP are compiled to meet the requirements of OM F1. The summary in the RRP is necessarily succinct, but it is the linked documents that contain more detailed information on the ESMS and the due diligence process.

15. **Recommendation (4):** *ADB's program to strengthen CSS should continue but the program to promote use of CSS in ADB-supported projects should be made more systematic and phased as was intended by the SPS.* This recommendation also covers the mapping of CSS equivalence, and provides suggestions to advance CSS work. It suggests that CSS discussions are included in the CPS process. It also recognizes that it is desirable to continue to work closely with other development partners to strengthen CSS.

16. Further support to strengthen CSS will be subject to DMC demand and the availability of resources. We agree that the mapping of CSS equivalence across Asia and the Pacific could be useful. Regional workshops on CSS have also proven useful for exchanging lessons and experiences. ADB has established the Joint Safeguards Practitioners Community of Practice, with DFAT Australia, JICA, and the World Bank, which provides a platform for coordination

across development partners. With regard to the use of CSS in ADB projects, we are bound by the provisions of the SPS. Where SPS criteria are met, then the Board may approve the use of CSS for a particular project. Inclusion of discussions on strengthening and use of CSS in the CPS process would be helpful to ensure that these provisions are understood and acted upon where DMCs so wish.

17. **Recommendation (5):** *ADB needs to explore the adequacy of guidance notes to staff and executing agencies for its many requirements, and to make improvements where needed.* This recommendation focuses on guidance for monitoring reports, and guidance notes on FIs.

18. This is already being done. A large amount of guidance notes and training materials already exists for FI projects, both from ADB and other MFIs. Consultation on joint training of FIs and guidance material is being pursued through the MFI Working Group on Environment and Social Standards. Additional guidance on the contents of monitoring reports will be circulated, as will links to online material on ESMS.