

Chair's Summary of the 21 May 2020 Meeting

1. The corporate evaluation report *Effectiveness of the 2009 Safeguard Policy Statement (SPS)*, produced by the Independent Evaluation Department (IED) and the *Management Response* to this, were discussed during the Development Effectiveness Committee (DEC) meeting held on 21 May 2020. The DEC discussion refers to mentioned documents (attached). The meeting was held virtually through MS Teams.
2. Both members of DEC and ADB management complimented IED for the report's high quality and usefulness, noting its timeliness and considering that the review of the SPS is about to commence. There was also agreement that the Management Response was of high quality and very constructive and was welcomed for its positive approach and commitments on several areas of action. Some DEC/Board members also highlighted the importance and priority of the report for their capitals.
3. Management agreed with all recommendations put forth by IED. Management deem the evaluation findings to be generally in line with their own understanding of key strengths and weaknesses of the policy and its delivery mechanisms. Notwithstanding, Management believes the core elements of the SPS remain sound and provide solid foundation for strengthening.
4. The report's five recommendations are divided into two groups: recommendations for revisions to the SPS and recommendations for business processes and safeguards implementation.

Revisions to the SPS

5. There was consensus from DEC and management on the need to revise the SPS, building on the evaluation findings. As a next step, management agreed to consider preparing a paper outlining its proposed way forward as per the requirement of para 82 of the SPS. The DEC discussion largely focused on the process and content of the revision of the SPS.
6. Management outlined its initial considerations for updating the SPS, which will involve early-stage consultation with the Board, client developing member countries (DMCs) and other stakeholders, including civil society. The final approach for the update is being developed and management has proposed a timeframe of completion within two years.
7. There was a difference of opinion amongst DEC members and observing Board members on whether the two-year timeframe is appropriate or too optimistic. Some argued that since other MDBs have already updated their safeguard policies, ADB can take advantage as a latecomer and learn from their experiences.

8. The need for close engagement, interaction and regular dialogue between the Board and management during the process of the safeguard policy update was emphasized by DEC members and Board observers. A member pointed out, when referring to the approach options mentioned in the report, that it would not be recommended to have an approach locked in until there has been a Board discussion of it, and that there should be careful consideration on how to go forward.

9. Committee members requested a deep dive on safeguard systems and management committed to making the process as inclusive as possible with close consultation with the Board and multiple intervention opportunities for the Board to be engaged. It was suggested that there be a very definite schedule and agenda for engagement with the Board during the process.

10. A committee member suggested (supported by others) that management divide up its actions into those that can be undertaken immediately and/or in parallel with the policy review in order not to lose the opportunity. It was mentioned that the current SPS is primarily focused on standalone projects and considering that Strategy 2030 (S2030) requires more complex projects and complicated modalities, it would not be productive having to wait for the new policy before making some changes. Management was positive in regard to this suggestion. Another DEC member also urged management to link the review of the SPS to an evaluation and review of the accountability mechanism policy.

11. In terms of content, several of the committee members agreed that the policy update should focus on modernization rather than an incremental update; and a strive to bring the institution back on par with other multilaterals, bearing in mind the gaps that ADB has with several peers.

12. Bringing ADB's SPS into consistency or harmony with the safeguard policies and practices of other MFIs would be something to strive for in order to give clarity to the implementing and executing agencies. Increasingly across the MDBs there has been some convergence towards the International Finance Corporation (IFC) performance standards as a base for safeguards. It was stressed that there are challenges for DMCs when working with several different co-financing partners with different safeguard frameworks, and that greater alignment between multilaterals in terms of policy and procedures would be important to reduce the difficulties.

13. Management assured that ADB's SPS is already aligned with other MDBs with respect to the core safeguard policy principles and requirements (especially for environmental and involuntary resettlement/compensation), while acknowledging gaps in areas such as stakeholder engagement, cultural heritage and supply chain risks. Management also noted that some issues are covered by other ADB policies such as the Social Protection Strategy, which need to be reviewed. Requirements for standalone sovereign projects were noted as generally consistent, while there are differences for non-sovereign lending, which can create challenges for co-financing with other MDBs. This includes arrangements for financial intermediaries and corporate finance. Differences with the application of the 120 days disclosure requirements for Category A Environment Impact Assessment (EIA) were also discussed, noting that this is not a consistent requirement for all MDBs. Overall, it was pointed out that while ADB works together with borrowers to align requirements, if there are opportunities then a further alignment in the review of the SPS would be beneficial for all parties.

14. In regards to integrating additional safeguard aspects such as climate change, gender, labor standards as well as sexual exploitation, abuse and harassment into the SPS, questions were raised to whether these would have additional cost implications and what this would mean for less developed DMCs, as well as how higher transaction costs currently lead to avoidance of some category A projects. Management noted this and stated that this will have to be evaluated and analyzed in the review. Potential efficiency gains and increased downstream development impacts were highlighted as a possible benefit from more integrated safeguard assessments. Such integrated front-end work could more effectively result in a strengthened social and environmental impact assessment that guides safeguard mitigation responses.

15. The discussion considered whether ADB's safeguard functions should continue in a business-as-usual manner or whether the evaluation and policy update should be used as driver of change. A member indicated that the current practice favors upfront compliance checking and this can lead to missed opportunities. There needs to be more of a results and outcomes-based focus, looking at value addition and looking at more difficult issues as an opportunity to engage with policy and regulatory agencies and partners. Management agreed with this view.

16. Points were made that there is a preponderance of category B environment projects in certain sectors and from the borrower side there is a reluctance to undertake high-risk projects using MDB safeguard systems. The factors influencing DMCs and resulting in reduced adoption of the projects in category A were discussed, pointing out that if safeguards come with additional (cost) burden and they have other financing available, then from a cost perspective, it would make sense for them to give ADB the lower-risk projects. ADB needs to counter that by what it offers in addition, the value-adds and provide more than just financing.

17. There was a difference of opinion as to whether the 120-day requirement for disclosure of the EIAs for private sector operations should be shortened or not, with most opinions supporting a shortening by up to half, in order to increase project preparation and implementation time, noting however, that if ADB is striving for uptake of more risky category A projects, then this would have to be balanced with innovative ways to accommodate adequate front-end preparation time and more intensive monitoring and implementation.

18. Committee members noted that the Private Sector Operations Department (PSOD) has maintained the same safeguard standards as regional departments but also recognizes that smaller enterprises in emerging countries cannot be expected to bear the full cost of safeguards. They pointed out the importance of looking at this difficulty in the review together with possible issues in regards to financial intermediary cases and newer financial instruments such as general corporate finance, and the need for supporting a policy which enables PSOD to work in a continually evolving market, enabling work in a streamlined manner without reducing the safeguards performance.

19. The report's recommendation to strengthen country safeguard systems (CSS) was welcomed and it was emphasized that more must be done to enhance country systems at national and sector levels. Suggestions to provide more technical assistance (TA) for knowledge and capacity-building were put forth. Using other modalities was supported as a way forward in gradually using CSS, e.g. linking policy-based loans (PBL) to CSS

reforms or results-based loans (RBL) as a way to incrementally build further CSS capacity and thus broadening the approach.

Business processes and implementation

20. The ADB safeguard institutional structure is viewed as being too fragmented and needing revision. There was general support for restructuring amongst DEC members and management agreed to introduce a new safeguard implementation framework to promote more consistent outcomes bank wide.

21. Committee members brought up the issue reported in the evaluation of needing to rebalance the efforts between preparation and implementation, including frontloading of the procedural requirements. The incentive culture within the ADB currently encourages focus on frontloading e.g. compliance with safeguard due diligence procedures, which are easier to monitor than safeguard results. At the same time, staffing levels need to be further reviewed to strengthen implementation rather than processing. Increased staffing has taken place to a certain degree since the SPS approval; however, this has been mainly at headquarters as opposed to resident missions. DEC enquired about centralized versus non-centralized approaches. Management stated that there is no obvious evidence to suggest a centralized safeguards team is to be preferred, but there is a need for a balance between the two. Management agreed to review the balance of staff time and resource allocation between project preparation, supervision and monitoring and how best staff resources can be optimized instead of substantial increase in staffing.

22. Staff accountability was highlighted by DEC as being critical and the committee Chair mentioned wanting to see a strong linkage between staff's performance, especially in terms of safeguard policy compliance, with their promotion and salary increases.

23. It was commented that if ADB is to be more ambitious and raise the level of risk taking for projects with core development impact, it would need to build this into the corporate culture. There is a necessity for incentives for staff to encourage more risk taking and thus produce longer-term sustainable impact rather than short-term project delivery. More clarity on the job role of safeguard specialists and other staff responsible for safeguards and portfolio risk management, as well as their reporting lines was highlighted, as well as more experienced mission leaders taking on category A projects.

24. Several DEC members raised the request to further optimize the format of IED report, DEC chair suggested to further discuss this topic in detail at another chance.

25. A Board observer brought up two specific issues, which received support at the meeting; a total rule-out of all forms of asbestos and a deeper look into biodiversity issues, including offsets and how well it can be covered in the SPS.

Meeting Attendees:

DEC: ED Zhijun Cheng (Chair), ED Helmut Fischer, AED Scott Dawson, AED Shahid Mahmood, AED Kenzo Ohe, AED Bayrammuhammet Garayev

IED: M. Taylor-Dormond, DG; W. Kolkma, Director, IETC; A. Brubaker, IESP; L. Adams, IETC

Management: C. Locsin, Special Senior Advisor to the President, OPR; B. Dunn, Director, SDSS; M. Gupta, SDCC; N. Peters, PSOD; R. Barba, SARD

Secretariat: S. Arias, OSEC