Draft for Consultation

Summary of the Analytical Study for the Safeguard Policy Review and Update: Safeguards and Climate Change

May 2022
I. INTRODUCTION

1. The Asian Development Bank (ADB) is undertaking a comprehensive review and update of its Safeguard Policy Statement, 2009 (SPS). The update process has been initiated by ADB Management following a Corporate Evaluation of the SPS by ADB’s Independent Evaluation Department, completed in May 2020. The update will build on the findings and recommendations of the report, which ADB Management endorsed. The update will seek to modernize the policy, considering the changing development context and evolving developing member country (DMC) and client needs and capacities; as well as opportunities for greater harmonization with the policy principles and standards of other multilateral financial institutions (MFI). The update will consider the diversity of ADB lending modalities and operations, including the private sector, as well as requirements for different contexts such as fragile and conflict-affected situations, small island developing states, and emergency assistance. Overall, the policy update will seek to strengthen safeguard implementation effectiveness and efficiency in ways that will enhance beneficial safeguards outcomes for the environment and affected people.

2. The revised safeguard policy is expected to be submitted for ADB Board consideration in March 2023, following a process of further review, policy development, and meaningful stakeholder engagement. To inform this process, ADB is undertaking a series of analytical studies. The studies will benchmark ADB’s current SPS against the policies of selected MFIs and briefly consider ADB’s implementation experience. The studies will inform the development of the new safeguard policy and will be provided for stakeholder review and consultations. Initial summaries will be disclosed first to gather initial stakeholder views. The analytical studies themselves will then be updated and disclosed in full. Stakeholder engagement and consultation will have three main phases: (i) preliminary information and outreach on the overall approach for the policy update and stakeholder engagement plan; (ii) consultation on the analytical studies; and (iii) consultation on the draft policy paper. There will be multiple opportunities for stakeholder engagement, including: regional consultations; “deep dive” sessions with ADB DMCs and civil society organizations; focus groups on specific topics; and consultations with people affected by ADB projects. This document provides consultation draft of the analytical study on safeguards and climate change.


3 The studies are intended to complement the evaluation completed by IED in May 2020 and will not duplicate IED’s work on the overall effectiveness of the SPS.

4 Please refer to the ADB website and Stakeholder Engagement Plan for further details. [https://www.adb.org/who-we-are/safeguards/safeguard-policy-review]
II. METHODOLOGY

3. **Objective.** This consultation draft has four objectives: (i) review ADB’s current safeguard policy framework and document practices in the area of safeguards and climate change; (ii) undertake a broad comparison of the requirements from a climate change perspective in the safeguard frameworks of other MFIs; (iii) look at other related climate change and emerging issues not currently covered in existing MFI safeguard policies; and (iv) present initial findings for further development and discussion with various stakeholders as an input into the revised safeguard framework.

4. **Methodology.** A desk review was undertaken to compare how the SPS and associated ADB documents compare with selected MFI safeguard policies and related documents on climate change, covering climate change mitigation and adaptation, among other issues. In addition, current ADB practices and implementation experience are briefly reviewed. This focuses on climate change and safeguards, as well as related aspects of the broader climate change agenda. This was based on internal review with ADB safeguard staff and will be further supplemented by additional review and inputs by other stakeholders.

5. The study considered eight MFIs in addition to ADB, namely: African Development Bank (AfDB); Asian Infrastructure Investment Bank (AIIB); European Bank for Reconstruction and Development (EBRD); European Investment Bank (EIB); International Finance Corporation (IFC); Inter-American Development Bank (IDB); New Development Bank (NDB); and the World Bank (WB). These were selected as major comparator MFIs which have similar or related business models to ADB and have also more recently updated their safeguard policies or associated guidance. The study also considered the Millennium Challenge Corporation, an independent U.S. bilateral foreign assistance agency. The Green Climate Fund, as one of the main financing mechanisms for the United Nations Framework Convention on Climate Change (UNFCCC) was also briefly examined.

III. ADB’S POLICY CONTEXT FOR CLIMATE CHANGE AND SAFEGUARDS

A. Background

6. ADB has been providing integrated solutions to address climate change since the late 1980s with significant advances made in the 1990s. However, since 2010, ADB support has grown substantially, when a Board paper on Addressing Climate Change in Asia and the Pacific: Priorities for Action was prepared. The commitments were reiterated in 2014 in the midterm review of ADB’s Strategy 2020, recognizing that enhanced efforts were needed. In 2015, ADB committed to double climate financing from its own resources from $3 billion in 2014 to $6 billion in 2020. In 2017 ADB issued the Climate Change Operational Framework 2017–2030, which provides a broad direction and guidance for enhancing resilience and strengthening climate actions across ADB operations. This serves as the framework for ADB’s support to DMCs in meeting their climate commitments and development objectives under the Paris Agreement on climate change, including nationally determined contributions (NDCs).

7. ADB’s Strategy 2030, approved in 2018, identified “tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability” as one of seven operational priorities; and set climate financing targets – (i) 75% of the number of its committed operations (on a three-year rolling average, including sovereign and
non-sovereign operations) will be supporting climate change mitigation and adaptation by 2030; and (ii) $80 billion climate finance cumulatively from 2019-2030 from ADB’s own resources. The operational plan for priority 3 of Strategy 2030 identifies key responses that include scaling up support to address climate change; accelerating low greenhouse gas (GHG) emission development; and building climate and disaster resilience.

8. In July 2021, ADB committed to full alignment of its new sovereign operations with the goals of the Paris Agreement by 1 July 2023, and its new non-sovereign operations to 85% by 1 July 2023 and fully by 1 July 2025. ADB also announced plans to scale up investments in adaptation and resilience, resulting in cumulative financing of $9 billion in 2019–2024. In October 2021, ADB announced an ambition of providing a cumulative $100 billion in climate finance between 2019 and 2030.

9. In addition to these, policy and operational guidance is provided by the 2021 Disaster and Emergency Assistance Policy, which calls for “synchronization of agendas addressing disaster and climate resilience and integrated actions to enhance climate and disaster resilience”. Furthermore, the 2021 Energy Policy: Supporting Low-Carbon Transition in Asia and the Pacific stresses the importance of addressing climate change in a holistic manner aimed at a just and equitable transition to a low-carbon future in the region. The policy supports DMCs to tackle climate change, enhance environmental sustainability, and build climate and disaster resilience. Phasing out coal and limited support for natural gas projects, combined with support for renewable energy and energy efficiency, are central pillars of the policy. The policy “encourages urgent action to combat climate change and its impacts”. ADB will support DMCs to increase the ambition of their energy plans, NDCs, and long-term strategies for decarbonization, as called for under the Paris Agreement, and mobilize increased concessional climate finance.

10. Broadly speaking, the above-mentioned ADB climate change agenda is implemented through: (i) portfolio-level alignment with the goals of the Paris Agreement; (ii) project-level GHG emissions assessment and management; (iii) and project-level climate risk screening and climate risk and adaptation assessment. Upstream work to support such implementation includes support to DMCs on enhancing implementation of NDCs, low carbon emissions planning, long-term strategy development, development and implementation of National Adaptation Plans, undertaking multi-hazard disaster and climate risk assessments to inform adaptation pathways and to guide identification of adaptation pipeline investments, design of low-carbon investments, support to just transition, and a range of support to accessing climate and carbon finance.

B. Climate Change Requirements in the Context of the Safeguard Policy Statement

11. Project level GHG emissions assessment and management have been required for projects (with GHG emissions above a certain threshold) since 2009 through the SPS under the environmental safeguards. The environmental assessment, in addition to assessing a project’s potential direct, indirect, cumulative, and induced impacts and risks to the environment, must also assess potential transboundary and global impacts, including climate change. The SPS requires the borrower/client to promote the

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5 Specifically, ADB will not support: coal mining, processing, storage, and transportation; new coal-fired power and heating plants; natural gas exploration or drilling activities; and any oil exploration, drilling, or extraction activities. ADB will be selective in support for natural gas as a transitional fuel following a set of specific conditions provided in paragraph 76 of the Energy Policy.
reduction of project-related GHG emissions in a manner appropriate to the nature and scale of project operations and impacts. During the development or operation of projects that are expected to or currently produce significant quantities of greenhouse gases, the borrower/client will quantify direct emissions from the facilities within the physical project boundary and indirect emissions associated with the off-site production of power used by the project. The significance threshold to be considered for these requirements is generally 100,000 tons of carbon dioxide equivalent per year (tCO₂eq/yr) for the aggregate emissions of direct sources and indirect sources associated with electricity purchased for own consumption. The borrower/client should not only calculate GHG emissions but also evaluate options to reduce or offset project-related GHG emissions during project design and operation.

12. In addition, GHG emission reductions of the project are calculated ex-post and aggregated GHG emission reductions for completed projects are reported as one of the Level 2 Results Framework Indicators under ADB’s Corporate Results Framework (2019-2024)⁶. GHG emissions are also used in the project economic analysis to apply a shadow price of carbon. Furthermore, ADB’s project classification system requires that CO₂ emission reduction be estimated ex-ante and listed in the project summary, as an integral part of the concept papers, and in the Report and Recommendations of the President (RRP), the document which is sent to the Board of Directors for approval.

13. The SPS, through provisions relating to community health and safety, also requires avoiding or minimizing the exacerbation of natural hazards. In this requirement, climate change can be implied because it is driving increased frequency and severity of some natural hazards, which means that a project must ensure that it does not exacerbate such climate change-related impacts.

C. Operations-level Climate Change Programs

14. ADB’s Climate Change and Disaster Risk Management Division (SDCD) is working closely with ADB operations departments and sector and thematic groups to achieve bank-wide climate change targets and align with the operational priority areas of strategy 2030.

a. Portfolio-level Alignment with the Paris Agreement

15. SDCD is working closely with ADB operations departments and sector and thematic groups upstream at the portfolio level to screen projects for alignment with the Paris Agreement and supporting just transitions away from fossil fuel-dependent industries. Projects under ADB operations will be screened using a framework of methodologies developed jointly with other MFIs to help ensure that all new ADB-financed projects are aligned with low-carbon and climate-resilient pathways consistent with the goals of the Paris Agreement. ADB will align all new operations with the mitigation and resilience goals of the Paris Agreement and report on aligned and not-aligned flows. A guidance note for staff is currently under preparation and will be ready in the next few months. In addition, SDCD is undertaking a regional Technical Assistance on supporting DMCs in NDC implementation. SDCD has also recently started the preparation of a climate change action plan for ADB that is expected to be completed in early 2023.

⁶ Level 2 Indicator in ADB’s Corporate Results Framework (2019-2024)
b. Project-level Climate Risk Screening and Assessment

16. ADB’s current approach to addressing climate change in practice at the project level can be characterized as double materiality: (i) assessment of the impacts of climate change on projects and wider systems; and (ii) assessment of the impacts of projects on climate change.

17. Climate change risks are not specifically identified in the SPS as a consideration in the project safeguards screening and categorization. However, since 2013 internal directives were issued that provide details on screening for climate risks. This process involves a preliminary screening checklist, which categorizes a project as low, medium or high risk. The preliminary screening checklist is appended to the project environmental safeguard categorization form. Projects with medium or high risk must undergo a more detailed screening. ADB has been using an online tool “AWARE for Projects” for detailed screening. AWARE generates an overall climate risk ranking of low, medium, or high; identifies key risk areas and narratives on potential impacts considering the risks of climatic change and extreme events on project locations, inputs, and outputs; and provides broad guidance on adaptation measures to guide subsequent activities. The climate risk ranking is indicated in the “project-at-a-glance” sheet of the report and recommendation of the president (RRP) to the ADB’s Board of Directors. The screening process is undertaken by the respective project team. This process is currently under revision, and a new in-house web-based tool for climate and disaster risk screening is being developed. This will be integrated into ADB’s IT systems and is expected to be rolled out by 2024.

18. Projects that are assigned a category of medium or high climate risk are required to undertake further climate risk and adaptation assessment (CRA) during the project preparation due diligence stage. The CRA identifies where climate change is likely to have impacts on a project and the type of adaptation measures to be integrated in project design. The CRA is conducted separately from the environmental and social assessments required by the SPS. The CRA recommends adaptation measures that may subsequently be costed and included in the detailed project design. The CRA is led by the project team and SDCD assists the operations department with the CRA, where needed. The results of the CRA are summarised in the Climate Change Assessment that is produced as an annex to the RRP.

c. Project- and Portfolio-level GHG Accounting

19. At the project level, the SPS requires borrowers to quantify significant direct and indirect project GHG emissions, setting a significance threshold of 100,000 tCO₂eq/yr. GHG emissions quantification for projects that are likely to have emissions below this threshold is not currently undertaken.

20. At the portfolio level, SDCD has started work on developing Guidelines for Assessing and Reporting the Carbon Footprint of ADB’s Annual Commitments to its Project Portfolio. These are expected to be followed by staff training in 2023. The guidelines will require annual reporting on ADB’s carbon footprint at the portfolio level.

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8 ADB (Regional and Sustainable Development Department now SDCC). 2014. Climate Risk Screening of Projects in ADB. Memorandum. 3 March (internal).
9 The RRP is the document submitted to ADB’s Board of Directors for approval of a project and associated financing.
aggregating the relative emissions of projects committed to during the financial year under review. The proposed approach to GHG accounting is likely to involve (i) estimation of absolute and relative (net) emissions; (ii) coverage of all GHGs in accordance with the Paris Agreement; (iii) a proposed threshold of 20,000 tCO\textsubscript{2}eq/yr; (iv) coverage of Scope 1, Scope 2, and Scope 3 GHG emissions, if possible, for a typical year. In addition, the guidelines will also look at developing accounting methodologies for co-financed projects.

21. MFIs, including ADB, have been working together since 2012 through a Technical Working Group to develop a harmonized approach to project-level GHG accounting at the portfolio level. In 2015, the MFIs adopted a framework for a harmonized approach to GHG accounting, committing all MFI members to assess absolute and relative emissions of projects that they support and report on the aggregated relative emissions of all projects. In 2021, the working group further adopted guidelines for a harmonized approach to GHG accounting, which supplements the 2015 framework and provides guidance on how MFIs should assess and report GHG emissions of projects in their portfolios.

d. Just Transition

22. Mitigation and adaptation actions can have both positive and negative impacts on people’s livelihoods, health, and overall quality of life. SDCD is also working towards developing a Just Transition Support Platform to enable a just transition of its DMCs to low-carbon and climate-resilient economies by meeting the dual objectives of providing direct support to its DMCs to address just transition as well integrating just transition into ADB’s own operational approaches. SDCD is presently undertaking a regional Technical Assistance on preparing NDC implementation plans including just transition, to help mobilize finance, build DMC capacity, and provide knowledge and other support needed by DMCs to implement their NDCs.

23. Launched at UNFCCC COP26, the Energy Transition Mechanism (ETM) is a blended finance platform for decarbonizing the energy mix. This initiative will also ensure just transition for workers and communities. ADB is undertaking a pre-feasibility study, and it is envisioned that the ETM will reduce two hundred million tons of annual CO\textsubscript{2} emissions.

IV. BENCHMARKING FINDINGS ON SAFEGUARDS AND CLIMATE CHANGE

A. Findings of the Safeguards Benchmarking Analysis

24. An analysis compared ADB’s overall approach to climate change with the safeguard policies of seven comparator MFIs. Of these, only one, the European Investment Bank (EIB), has a standalone standard on climate change in its safeguard policy. All others reference climate change in various manners, with varying degrees of detail, either in

\[10\] GHGs recognized by the UNFCCC shall be included except those covered in the Montreal Protocol. For projects co-financed by ADB and other financial institutions, the assessment and disclosure of absolute and relative emissions shall include only the portion of GHG emissions that is directly attributable to ADB’s share of the total financing for the project. Sector-specific methodologies and tools will also be developed for estimating GHG emissions of projects in different sectors.


their overarching policy statement, through safeguard standards, or standalone climate change action plans or strategies. The comparison was undertaken across a series of sub-topics within the broader topic of climate change. These included: mitigation, adaptation, resilience, climate risk assessment, and low-carbon development, as well as sub-topics like biodiversity and ecosystem services, transition, double materiality, and sequestration. All seven comparator MFIs generally require assessing climate change risks and impacts in their risk and environmental and social impact assessment standards. However, as climate change is a cross-cutting issue for all but one of the comparator MFIs, there is considerable variation among the MFIs as to which standards have provisions on the sub-topics related to climate change.

25. **Mitigation**: All seven comparator MFIs have substantive requirements for climate change mitigation in their standards; AIIB, IDB, NDB, and WB also reference mitigation at the level of core principles, vision, or overall policy statement. IFC, NDB, WB, and AIIB require climate change mitigation measures in their standards on environmental and social impact and risk assessment, specifying reduction of GHG emissions, among other options. WB, IFC, EIB, NDB, and AIIB, in different standards, highlight decarbonized or low-carbon development as other mitigation options. WB, IFC, EIB, and AIIB explicitly include renewable energy sources as a mitigation option. In its pollution control standard, IFC requires quantifying GHG emissions annually for projects that generate more than 25,000 tCO2eq/yr., while the WB requires the estimation of gross GHG emissions resulting from the project. EBRD requires quantifying GHG emissions if a project emits more than 100,000 tCO2eq/yr. or creates a net positive or negative change in emissions of more than 25,000 tCO2eq/yr. annually post investment. EIB has a threshold of 20,000 tCO2/year (positive or negative) for absolute and relative emissions.

26. **Adaptation and resilience**: All seven comparator MFIs have provisions on climate change adaptation in their safeguard standards and five have substantive provisions on resilience to the impacts of climate change. Provisions on adaptation in comparator MFIs’ safeguard standards include considering adaptation opportunities in the risks and impacts identification process (IFC, NDB, WB, AIIB). EBRD, WB and IDB require identifying appropriate adaptation measures to be integrated into project design, construction, and operation. WB, NDB, EBRD, AIIB, and IDB require developing and implementing adaptation measures to address identified impacts. AIIB and WB require identifying opportunities for enhancing adaptive capacity. EIB requires identifying, in the climate risk and vulnerability assessment, adaptation measures to reduce the risks posed by climate change to a project and the system in which it takes place. EIB also requires clients to provide, on request, climate-related information relevant to assessing the economic case for a project, which in the case of adaptation may include: (i) the change in exposure to physical climate risk per relevant time period, with and without the adaptation measures of a project; and (ii) the economic valuation of this change in risk. The WB, as other MFIs, also assesses the “cost of carbon” as part of the economic preparation for the project, this is not required through the ESF but is addressed through the Climate Change Action Plan13.

27. WB, NDB, and AIIB refer to both adaptation and resilience at the level of their overall policy statement, core principles, or vision. IFC, NDB, WB, and AIIB address adaptation, and WB and AIIB address resilience, in their environmental and social

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impact and risk assessment standards, while the others cover these issues in other standards.

28. **Double materiality and climate risk assessment.** NDB, EIB, and IDB include substantive requirements in their standards to address double materiality, which means assessing the impact of a project on climate change as well as that of climate change on the project. WB and AIIB reference double materiality in their vision statements but do not include a requirement for it in their standards. Three MFIs specify in their standards that climate risk assessment may be required (EBRD, IDB) or that climate risk and vulnerability assessments (EIB) be undertaken; IFC refers to climate change risk assessment in its overall policy statement but does not include a requirement in the standards.

29. **Biodiversity and ecosystem services:** All MFIs’ safeguard frameworks have requirements related to climate change impacts on biodiversity and/or ecosystem services but they address these across different standards. Provisions in standards include identifying (IFC, WB, IDB, EIB) or considering (NDB, WB, EBRD, AIIB) climate change impacts on biodiversity and ecosystems in the assessment process. IFC, WB, and IDB refer specifically to impacts on ecosystem services that may be exacerbated by climate change, while the other MFIs require assessment of potential climate change impacts on biodiversity generally. EIB requires monitoring mitigation measures throughout a project’s lifecycle. IFC makes a commitment to minimizing business-related activities’ impacts on areas that provide important ecosystem services in its overall policy statement.

30. **Additional issues:** EIB is the only MFI that has requirements in its standards for documenting a project’s carbon sequestration as well as its emissions, and for reporting on transition risks. NDB and AIIB mention climate-proofing investments and/or infrastructure at the level of their core principles or vision statement but do not have substantive requirements in their standards. IDB and AIIB reference support for climate change strategies in their vision or overall policy statement but do not include corresponding substantive requirements in a standard.

### B. Other Findings

31. **Alignment with Paris Agreement and upstream planning:** Most MFIs have committed to full alignment with the Paris Agreement within the next 2-3 years. From an MFI comparison perspective, ADB has made significant progress in committing to align its operations to the Paris Agreement (see section III.C.1), and staff guidance is under preparation. Similar to ADB, they all consider climate change in their upstream country planning and institutional strengthening work. EIB, for example, uses advisory services to ensure that assets entering its pipeline are: (i) consistent with a pathway to a climate-neutral economy and should not undermine efforts to achieve the 1.5°C goal; and (ii) resilient to the risks posed by a rapidly changing climate. The Green Climate Fund encourages a country program and an accredited entity program to ensure that all pipeline projects have potential to meet their investment criteria.

32. **Positive or Prohibited Investment Activities List:** Most MFIs have prohibited investment lists, or exclusion lists that identify types of projects that should not be financed, or positive lists of activities that are encouraged for financing. Only EBRD and IDB, in their safeguard standards, exclude financing initiatives that contribute to climate change risks and impacts, including coal mining or coal-fired power generation, oil exploration and development, and upstream gas exploration. The ADB SPS has an annex for prohibited investment activities, which lists activities that do not qualify for
ADB financing. It does not specifically list activities that have climate change repercussions, with the exception of a prohibition on financing commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests. The ADB Energy Policy (2021) does, however, list areas that ADB will not support, including: coal mining, processing, storage, and transportation; new coal-fired power and heating plants; natural gas exploration or drilling activities; and any oil exploration, drilling, or extraction activities.

V. NEXT STEPS AND AREAS FOR FURTHER CONSIDERATION

33. The benchmarking study showed that most of the comparator MFIs have provisions in their safeguard standards on mitigation, adaptation, resilience, climate change impacts on biodiversity and ecosystem services, low-carbon development, double materiality, and climate risk assessment. However, the provisions differ and provide varying degrees of details. These could be issues for ADB to consider as part of the update. This will require further analysis of options and inputs from stakeholders.

34. Additional areas for further consideration in the revised policy include: review of internal mechanisms for coordinating climate risk assessments to enhance their integration into the overall project risk and impact assessment process; review the use of double materiality; review of the current threshold for project-level GHG emissions; strengthening existing procedures and mechanisms for portfolio-level GHG accounting; and linking project-level monitoring of GHG emissions to the country partnership strategy and NDC implementation plans.

35. Feedback on areas identified in this preliminary analysis will be incorporated into the ongoing discussion on the policy update. Stakeholder inputs and recommendations will be solicited to enhance the analysis.