



# ENVIRONMENTAL AND SOCIAL SAFEGUARDS POLICY

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## Abbreviations

AoA	IsDB's Articles of Agreement
BP	Bank Procedure
DoA	Delegation of Authority
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
ESSP	Environmental and Social Safeguards Policy
FI	Financial Intermediary
GRMs	Grievance Redress Mechanisms
IsDB	Islamic Development Bank
MCs	Member Countries
MDBs	Multilateral Development Banks
OP	Operational Policy
SDGs	Sustainable Development Goals

# OPERATIONAL POLICY (OP)

## ENVIRONMENTAL AND SOCIAL SAFEGUARDS POLICY

### A. Background, Purpose and Objective

#### Background:

- 1) Development projects and programs have a wide range of environmental and social impacts, both beneficial, which justifies the activity, and adverse, for which mitigation measures should be devised. *The mechanisms used to assess the impacts and devise mitigation measures to avoid or minimize adverse impacts in a development project are known as Safeguards.*
- 2) Safeguards represent an important dimension of development. While playing a critical part in helping countries manage their assets, both human and physical, they also help address reputational risk to the multilateral development banks (MDB)s that finance development activities.
- 3) Over the years, most Member Countries (MCs) have adopted environmental laws and regulations to protect natural resources and minimize irreversible undesirable changes. Devising and applying measures to mitigate adverse impacts of development projects helps to avoid additional transaction costs that may constitute an intergenerational burden.
- 4) Aware of the potential adverse environmental and social impacts of some of its projects, the Bank thus far has either relied on the respective MC's governing laws and regulations to mitigate such impacts or has agreed to implement the environmental and social safeguard policies of co-financing development partners. However, unlike other Multilateral Development Banks (MDBs), all of which have a formal operational policy to assess environmental and social risks and to adopt mitigation measures, where necessary, the Bank lacks a formal operational policy and structured framework to consistently apply Safeguards in its projects.
- 5) The absence of ESSP limits the Bank's capacity to foster effective partnership in some cases with other MDBs, Bilateral, and special multilateral funds. The ESSP will contribute to meeting the requirements to being accredited by the global funds such as GIF, GCF and GEF and to establish more sustained partnerships with the Bilateral, and Multilateral development partners. The development partners such as ADB, and AfDB have been accredited by the GEF and GCF. Therefore, the opportunity cost of not having an ESSP is substantial in terms of lost partnerships.

- 6) Moreover, with the increasing size and complexity of the Bank's interventions (a larger portfolio in environmentally and socially sensitive sectors, such as energy, transport, urban development and agriculture etc.); its prospective financing of investments that fill Sustainable Development Goals (SDG) gaps; and the importance of Environmental, Social and Governance (ESG) ratings of international rating agencies such as Moody's, S&P and Fitch, the adoption of a structured framework of best industry environmental and social safeguards is necessary.
- 7) Therefore, the Bank has taken a pragmatic approach by adopting principle of proportionality and flexibility by allowing selective use of country systems and other development partners' policies, and developed its first Environmental and Social Safeguard Policy (ESSP) to i) reflect global best practices, ii) demonstrate the Bank's unique situation as a Shariah-compliant MDB, iii) enhance the Bank's global position as a AAA+ MDB, and iv) bring benefits to its MCs by taking necessary action to access global grant resources related to environmental protection.

**Purpose:**

- 8) Over the past twenty years, ESSPs have become a standard element of the major operational policies of MDBs for both sovereign and non-sovereign operations. They have made major contributions to improved development outcomes by integrating environmental and social considerations into the identification, preparation, and implementation of the projects supported by MDBs. The implementation of the ESSP will serve as catalyst for the realization of SDGs in the MCs.
- 9) Such policies provide a framework for stakeholder engagement and disclosure of environmental and social documents at the project level. They also provide for the establishment and use of project level Grievance Redress Mechanisms (GRMs). Provisions allowing for the use of the ESSPs and strategies of other MDBs or bilateral development organizations in co-financed operations have been recently incorporated into the policies of several MDBs. In addition, these policies now increasingly provide for the selective use of national or corporate environmental and social safeguards systems, which, when these systems are robust, have a strong implementation record.

**Objective:**

- 10) IsDB's ESSP is considered as an important tool for enhanced development effectiveness, with an overarching goal to facilitate achievement of the environmental and social soundness and sustainability of IsDB-financed projects. The ESSP demonstrates institutional values and commitment to:
  - Address environmental and social risks and impacts in a structured operational framework across the project cycle,

- Ensure environmental and social soundness and sustainability of investments,
- Support integration of environmental and social aspects into the decision-making process, and
- Public consultation and disclosure of information.

## B. Definitions

- 11) For purposes of this ESSP, the following terms have the following meanings.
- **“Client”** means the beneficiary of the IsDB’s financing for a Project and any other entity responsible for implementation of the Project.
  - **“Environmental and Social Documentation”** means the environmental and social management plan or framework for the Project that the Client may be required to prepare and implement pursuant to this ESSP, and any environmental and social covenants included in IsDB’s financing agreements for the Project.
  - **“Project”** means a project financed or proposed to be financed by the IsDB whether out of its own resources or trust fund resources, and whether or not the financing is Sovereign or Non-sovereign.

## C. Scope

### Policy Anchors:

- 12) The Islamic Development (IsDB) seeks to ensure, on the basis of Islamic principles, that the Projects it finances are environmentally and socially sustainable, thereby assisting its Member Countries (MCs) in managing their physical and human resources for the universal common good of all creation.
- 13) The guiding principles that inform the adoption of this ESSP are derived from the Islamic principles of *Maqasid Al-Shari’ah*: (a) Trust – *Thiqa*, (b) Well-Being – *Falah*, (c) Justice – *Adl*, (d) Fairness – *Insaf*, and (e) Equality – *Musawat*, aiming at ensuring social and economic wellbeing of humankind.
- 14) More specifically, the OP on ESS is grounded in the Shari’ah and the following provisions of the IsDB’s Articles of Agreement (AoA):

- Recognition in the Preamble of the AoA *"the need for fostering the well-being of the people (...) and achieving harmonious and balanced development (...) on the basis of Islamic principles and ideals"*.
  - Desirability expressed in the Preamble of the AoA establishing the IsDB as a *"development, investment and welfare-oriented" institution "based on Islamic principles and ideals (...)"*.
  - The IsDB's purpose, articulated in Article 1, to *"foster economic development and social progress of member countries and Muslim communities (...) in accordance with the principles of the Shari'ah"*.
  - In fulfillment of this purpose, inclusion among the IsDB's functions specified in Article 2 of the AoA, of investing and/or participating in economic and social infrastructure as well as productive Projects.
- 15) Other principles that inform this ESSP include the following, articulated in the IsDB Group Principles of Corporate Governance 6, approved by the Board of Directors in 2009: Principles 3.2 *"Voice and Participation"*, 4.1 *"Social and Environmental Responsibility"*, 5.1 *"Accountability"* and 6.1 *"Transparency"*.

**Policy Overarching Goal and Pillars:**

- 16) The overarching goal of this ESSP is to facilitate achievement of the environmental and social soundness and sustainability of Projects financed by the IsDB.

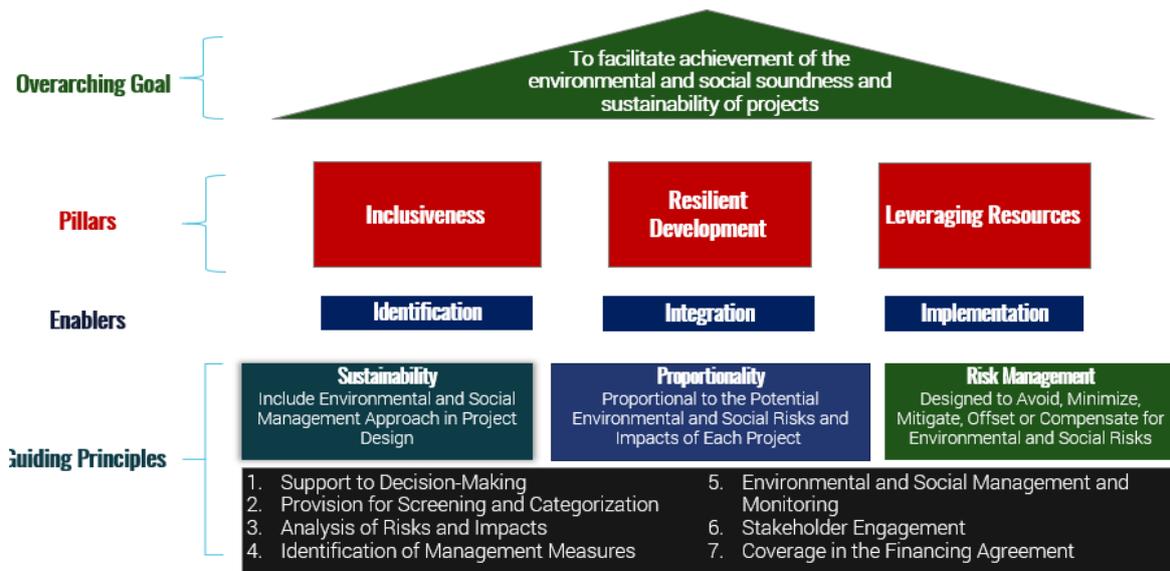


Figure 1: Policy Framework

17) The Policy pillars on which the overarching goal of this ESSP rest are the following:

- **Inclusiveness:** Promotion of inclusiveness in development through disclosure of information and consultation with and involvement of stakeholders in the overall decision-making process.
- **Resilient Development:** Promotion of adaptation to climate change by supporting strategies and investments that build resilience to current and future climate variability.
- **Leveraging Resources:** Enhancement of IsDB's role in sustainable partnerships and implementation of global concessional funds and leverage on partnership opportunities to maximize financing available for MCs.

#### **Policy Enablers:**

18) The following are the three policy enablers for mainstreaming the ESS policy in the Bank's operations:

- **Identification:** Identification and assessment of potential environmental social risks and impacts of Projects proposed for financing by the IsDB.
- **Integration:** Integration of consideration of environmental and social risks and impacts of these Projects through incorporation of sound environmental and social management into Project design.
- **Implementation:** Effective implementation by beneficiaries of IsDB financing of sound environmental and social management plans to properly address the environmental and social risks and impacts of these Projects.

#### **Project Screening and Categorization:**

19) In order to identify the potential environmental and social risks and impacts of each Project, the IsDB screens and categorizes each Project as follows:

- The IsDB screens and categorizes each Project, as early as possible during Project preparation, to determine the nature and level of the environmental and social assessment, information disclosure and stakeholder engagement required of the Client for the Project. In its screening and categorization, the IsDB takes into consideration the type, nature, location, sensitivity and scale of the Project, so that the Client's subsequent assessment is proportional to the significance of the Project's potential environmental and social risks and impacts.
- The IsDB bases its categorization of the Project on a combined review of both environmental and social risks and impacts and determines the Project's

category on the basis of the Project's component presenting the highest environmental or social risk and potential impacts (including direct, indirect, cumulative and induced impacts, as relevant, in the Project area). It reviews these risks and impacts regardless of the categorization being considered and may adjust the categorization during the life of the Project, if warranted by changes in the environmental and social risks and impacts. The IsDB assigns each proposed Project to one of the following four categories:

- **Category A:** A Project is categorized 'A' if it is likely to have significant adverse environmental and social impacts that are irreversible, cumulative, diverse or unprecedented, and whether temporary or permanent. The IsDB requires the Client to conduct a comprehensive environmental and social impact assessment (ESIA) for each Category 'A' Project, which examines the Project's potential environmental and social impacts, both positive and adverse, compares them with those of feasible alternatives (including the "without Project" situation), and recommends any measures needed to avoid, minimize, mitigate, or compensate for adverse impacts and improve the environmental and social performance of the Project. On the basis of the ESIA, the IsDB requires the Client to prepare and implement appropriate Environmental and Social Documentation.
- **Category B:** A Project is categorized as 'B' if it has a limited number of potentially adverse environmental and social impacts; the impacts are not unprecedented; few if any of them are irreversible or cumulative; they are limited to the Project area; and can be successfully managed using good practice in an operational setting. The IsDB requires the Client to conduct an initial review of the environmental and social risks and impacts of the Project. On the basis of this review, the IsDB determines the appropriate instrument for the Client to assess these risks and impacts, on a case-by-case basis. This assessment will often be an ESIA that is more narrowly focused than a Category A ESIA. The Client's assessment examines the Project's potentially adverse and positive environmental and social impacts and recommends any measures needed to avoid, minimize, mitigate, or compensate for adverse impacts and improve the environmental and social performance of the Project. Based on this assessment, the IsDB may require the Client to prepare and implement appropriate Environmental and Social Documentation.
- **Category C:** A Project is categorized 'C' if it is likely to have minimal or no adverse environmental or social impacts. The IsDB does not require an environmental and social assessment but does require the Client to prepare an analysis of the environmental and social implications of the Project.

- **Category FI:** A Project is categorized 'FI' if the financing structure involves the provision of funds or a line of financing to or through a financial intermediary (FI) for the Project, whereby the IsDB delegates to the FI the decision-making on the use of the IsDB funds, including the selection, appraisal, approval and monitoring of subprojects financed by the IsDB. The IsDB requires the FI Client, through the implementation of appropriate environmental and social policies and procedures, to screen and categorize sub-projects as Category A, B or C; and to review, conduct due diligence on and monitor the environmental and social risks and impacts associated with these sub-projects.

### **Integration into Decision-making and Management:**

20) The IsDB supports the integration by the Client of consideration of environmental and social risks and impacts in the Project as follows:

- **IsDB Due Diligence:** The IsDB conducts an environmental and social due diligence as an integral element of the preparation of its financing and its appraisal of the Project, in a manner that is appropriate to the nature and scale of the Project and proportional to the level of its environmental and social risks and impacts. This due diligence informs the IsDB's decision of whether to finance the Project and if so, how the Client is required to address these risks and impacts in designing and implementing the Project.
- **Client's Environmental and Social Assessment and Documentation:** If the IsDB determines that the Project has potentially adverse environmental or social risks and impacts, it requires the Client to: (i) conduct an environmental and social assessment of these risks and impacts that is proportional to their nature and scale; and (ii) design, document and implement appropriate actions, recorded in Environmental and Social Documentation acceptable to the IsDB, that are designed to avoid, minimize, mitigate, offset or compensate for these risks and impacts.
- **Review of Client's Environmental and Social Assessment and Documentation:** The IsDB reviews the Client's environmental and social assessment and Environmental and Social Documentation in order to determine whether appropriate measures are in place to avoid, minimize, mitigate, offset or compensate for environmental and social risks and impacts of the Project.
- **Phased Approach at the Project Level:** The IsDB shall elaborate in a Bank Procedure certain exceptional circumstances and conditions under which the Client may, following the IsDB's approval of the Project, adopt a phased approach to conducting its environmental and social assessment of the Project. An example of when the IsDB may determine that a phased approach is warranted would be in a case where the Client is deemed by the IsDB to be in urgent need of assistance because of a natural or man-made disaster or conflict.

- **Associated Facilities:** The IsDB shall elaborate in a Bank Procedure circumstances under which the Client is required to consider the environmental and social risks and impacts of associated facilities activities that are not included in the description of the Project set out in the agreement governing the Project, but which directly and materially related to the Project.
- **Disclosure by the Client and by IsDB:** (i) The IsDB requires the Client to ensure that relevant information about environmental and social risks and impacts of the Project is made available in the Project area in a timely and accessible manner, and in a form and language(s) understandable to the Project-affected people, other stakeholders and the general public, so they can provide meaningful inputs into the design and implementation of the Project. (ii) The IsDB also discloses the same information as soon as it becomes available. The IsDB shall elaborate in a Bank Procedure (BP) the timing for such disclosure as well as exceptional circumstances under which deferral of such disclosure may be permitted.
- **Meaningful Consultation:** The IsDB requires the Client to engage in meaningful consultation with stakeholders during the Project's preparation and implementation, in a manner commensurate with the risks to, and impacts on, the Project-affected People. This consultation covers Project design, mitigation and monitoring measures, sharing of development benefits and opportunities under the Project and implementation issues.
- **Project-level Grievance Redress Mechanism:** The IsDB requires the Client to: (i) establish a suitable grievance mechanism, scaled to the Project's risks and impacts, to receive and facilitate resolution of the concerns or complaints of people who believe they have been adversely affected by the Project's environmental or social impacts; and (ii) inform Project-affected people of its availability.
- **Incorporation of the Client's Environmental and Social Documentation into the Project:** The IsDB requires the Client to incorporate the actions required under the Project's Environmental and Social Documentation as an integral part of the Project, once this documentation has been approved by the IsDB. This includes integrating the budget and schedule for implementing these actions within the overall cost and schedule for the Project. These actions (as well as those set out below in *Section E (Roles and Responsibilities)*) are covenanted in the IsDB's financing agreement for the Project.

#### **Implementation of the Project in an Environmentally and Socially Sustainable Manner:**

- 21) The IsDB facilitates effective implementation by the Client of the Project in an environmentally and socially sustainable manner in accordance with the Environmental and Social Documentation, as follows:

- **Client Implementation and Monitoring:** Because the Client is responsible for implementing the Project, the IsDB requires the Client to: (i) implement the Project in compliance with the Environmental and Social Documentation for the Project; (ii) establish and maintain policies and procedures adequate to enable it to monitor this implementation; (iii) furnish the IsDB with periodic monitoring reports on the Client's implementation of the Environmental and Social Documentation; and (iv) take corrective action as necessary to ensure continued compliance with the Environmental and Social Documentation. The extent of the Client's monitoring activities, including their scope and periodicity, is proportional to the Project's environmental and social risks and impacts.
- **IsDB Monitoring:** The IsDB monitors the Client's compliance with the Environmental and Social Documentation on an ongoing basis, as part of its overall Project supervision activities, until Project completion. The scope and periodicity of such monitoring is proportional to the Project's environmental risks and impacts, and includes: (i) review of the Client's periodic monitoring reports, (ii) periodic site visits if the Project has adverse environmental or social risks and impacts; (iii) consultations with the Client on corrective measures needed; and (iv) an assessment, reflected in the completion report, whether the objective and desired outcomes of the Project's environmental and social measures have been achieved, taking into account the baseline conditions documented in the Environmental and Social Documentation, and the results of monitoring. If corrective measures are needed to bring the Client back into compliance with the Environmental and Social Documentation, the IsDB supports the Client's efforts to achieve compliance, failing which, the IsDB may exercise its available contractual remedies under its financing agreements for the Project within a time frame it deems appropriate.
- **Project Changes:** If, following approval of IsDB's financing for the Project, changes are proposed to the nature and scope of the Project that may have material environmental or social risks and impacts, the IsDB conducts environmental and social due diligence of the proposed changes. As a result, it may re-categorize the Project and require the Client to carry out additional environmental and social assessments and consultations, incorporate new risk mitigation measures, and update and disclose the Project's Environmental and Social Documentation.

#### **Applicability to Projects:**

- 22) This ESSP applies to all Projects, except as provided below in paragraph 23 (Development Partner Policies) and paragraph 24 (Use of Country or Corporate Systems).

#### **Development Partner Policies:**

- 23) The IsDB may agree on a case-by-case basis to the application, in lieu of this ESSP, of the environmental and social policies and procedures of Multilateral Development Banks and Bilateral Development Organizations who are co-financing the Project, provided that the IsDB is satisfied: (i) that they are consistent with the AoA and

materially consistent with this ESSP and the BP on ESS; and (ii) that they are supported by appropriate monitoring procedures on the part of these co-financiers. In such cases, the IsDB may rely on these co-financiers' determination as to whether compliance with their policies and procedures has been achieved under this approach.

#### **Use of Country or Corporate Systems:**

- 24) The IsDB may agree to offer the Client the option to use all or part of the Client's existing environmental and social management system for all or part of the Project, if it determines that: (i) the Client's existing environmental and social management system relevant to the Project is adequate to address the environmental and social risks and impacts of the Project in a manner materially consistent with the objectives of this ESSP; (ii) the Client has the capacity and commitment to apply the environmental and social management system proposed for use in the Project; and (iii) the system's capacity would enable the Project to achieve the desired environmental and social outcomes. The IsDB shall elaborate in a Bank Procedure the conditions under which the Client's system may be used for the Project.

#### **D. Guiding Principles**

- 25) The guiding principles that underpin the Policy pillars and the overarching goal consist of an environmental and social management approach, proportional to the potential environmental and social risks and impacts of each Project, that is designed to avoid, minimize, mitigate, offset or compensate for environmental and social impacts of Projects, by the following:
- **Support to Decision-Making:** Support to the IsDB's sound decision-making and management of operational and reputational risks in relation to the environmental and social risks and impacts of each Project financed by the IsDB.
  - **Provision for Screening and Categorization:** Provision for a process of environmental and social screening and categorization of the Project.
  - **Analysis of Risks and Impacts:** Analysis of the Project's environmental and social risks and impacts.
  - **Identification of Management Measures:** Identification of appropriate actions to address and manage these risks and impacts.
  - **Environmental and Social Management and Monitoring:** Integration into the Project of the actions required to ensure sound management of environmental and social risks and impacts, and monitoring of their implementation.
  - **Stakeholder Engagement:** Engagement of Project stakeholders through: (i) meaningful consultation on these risks, impacts and actions; (ii) disclosure of information on these

risks, impacts and actions; and (iii) inclusion of project level grievance redress mechanisms.

- **Client Undertakings:** Inclusion of undertakings relating to these actions in the IsDB's financing agreement for the Project.

## E. Roles and Responsibilities

### Bank Procedure:

- 26) The IsDB shall issue a Bank Procedure elaborating measures designed to implement this ESSP, and includes both: (i) environmental and social safeguard standards, setting out detailed standards to be complied with by the Client, depending on the nature of the Project, covering environmental and social assessment and management, involuntary resettlement and Indigenous Peoples; and (ii) an environmental and social exclusion list, setting forth activities and items that are excluded from financing by the IsDB and that the Client is required to exclude from the Project (BP on ESS).

### Responsible Units:

- 27) The implementation of the policy described in this ESSP is the responsibility of the relevant department and/or division of the IsDB identified in the corresponding BP. Such implementation shall be in accordance with (a) the applicable provisions of the Delegation of Authority (DOA) matrix and (b) the specific procedures set out in that BP.

## F. Complementary Policies

- 28) This ESSP is intended to complement the following approved policies of the Bank:
- **Sector Policies:** Such as, Agriculture and Rural Development; Energy; and Transport<sup>1</sup>;
  - **Thematic Policies:** Such as, Climate Change; Fragility and Resilience; Women Empowerment; Civil Society Engagement; and
  - **Other Policies:** Such as, Regional Cooperation and Integration, Information Disclosure, and Communications.

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<sup>1</sup> Further Sector/Thematic policies to be developed. will take into consideration ESSP requirements.

## **G. Adoption and Effectiveness**

### **Adoption:**

- 29) This ESS Policy is being submitted to the Board of Executive Directors Meeting No. BED-334.

### **Effectiveness:**

- 30) This ESSP shall become effective in a phased manner [as elaborated by the IsDB President in the BP on ESS] as follows:
- (a) All IsDB financings submitted to the Board on or after January 1<sup>st</sup>, 2021 (or such later date as the Board may determine) shall be subject to all the requirements of this ESSP and the associated BP on ESS.
  - (b) Prior to the date specified above in (a), Management shall select Projects on a case-by-case basis, to which the requirements of this ESSP shall apply and shall notify the Board of such application when the financing for the Project so selected is submitted to the Board for approval.