# CHAPTER 2: THE DEVELOPMENT BANK OF SOUTHERN AFRICA: ENVIRONMENTAL AND SOCIAL SAFEGUARD STANDARDS

## Table of Contents



## List of Figures

# 2 DEVELOPMENT BANK OF SOUTHERN AFRICA: ENVIRONMENTAL AND SOCIAL SAFEGUARD STANDARDS

## 2.1 DBSA profile[1]

The Development Bank of Southern Africa[2] (DBSA) is a development finance institution, established in 1983, wholly owned by the South African government. Over the years the Bank has continually evolved to improve its development impact, while building an extensive international network of clients, partners and peers. The Bank has a strong financial foundation and an excellent reputation built on its exemplary record of governance controls and oversight.

DBSA's development position and strategy are aligned with South Africa's National Development Plan Vision 2030, the United Nations' Sustainable Development Goals (SDGs), the African Union's Agenda 2063 and the Paris Agreement on Climate Change.

DBSA's mandate, as well as the constitution and conduct of the DBSA Board of Directors, are governed by the Development Bank of Southern Africa Act, No 13 of 1997 (Amended Act No 41 of 2014) (DBSA Act). It is further guided by the King Code of Governance Principles for South Africa 2016 (King IV) and the Protocol on Corporate Governance in the Public Sector.

The DBSA mission is to advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions to:

- Improve the quality of life of people through the development of **social infrastructure**
- Support economic growth through investment in **economic infrastructure**
- Support **regional integration**
- Promote sustainable use of **scarce resources**

The primary purpose of DBSA is to deliver impactful development finance solutions that ignite transformative change in South Africa and on the rest of the African continent. Improving the quality of life of people in Africa is the fundamental focus of development impact. The Bank aims for shared prosperity through multi-faceted investments in sustainable infrastructure and human capacity development.

[1] Information in this section has been sourced from the DBSA Profile
[2] In this chapter, the terms 'DBSA' and 'the Bank' are used interchangeably.

The Bank's product solutions span all phases of the infrastructure development value chain. This includes infrastructure planning and project preparation across a range of financing and non-financing investments, to infrastructure implementation and delivery.

DBSA creates value for its various stakeholders by shaping the development landscape to ensure a prosperous, integrated and resource efficient continent. The Bank achieves this through increasing access to infrastructure finance, accelerating infrastructure delivery and leveraging partnerships to maximise value. Delivering the 'development dividend' is at the heart of DBSA's mandate and requires the Bank to continuously evolve to remain relevant, effective and strategic.

## 2.2 Environmental and social safeguards in the financial sector

The environmental challenges facing the financial sector and the world as a whole are complex, dynamic and constantly changing. Awareness of environmental[3] and sustainability issues is growing, given the increasing effects of climate change, population pressure and environmental degradation. In response, environmental legislation has become increasingly stringent and market policies and measures have developed to promote sustainable development and a green economy.

The financial sector has responded to the environmental and social (E&S) challenges by developing and implementing formal management systems and procedures to mitigate the E&S risks associated with its business operations and activities. Most development banks and many private banks have established E&S risk assessment policies and procedures to ensure that investments under consideration are legally compliant, have addressed E&S risk, and aim to achieve sustainable development objectives.

These risk assessment and management procedures, among other requirements, require borrowers or clients to fully comply with environmental legislative and regulatory requirements in the countries in which they operate. It is against this backdrop that this Handbook was developed.

Globally there is a growing recognition of the pivotal role that development finance institutions (DFIs) can play in mobilising the financing needed to achieve the SDGs, as well as regional and national sustainable development strategies. Investing in infrastructure, including transport,

[3] DBSA defines the term 'environment' as *"the natural and build surroundings in which an organisation operates, including air, water, land, natural resources, flora, fauna and humans."*

energy, water and sanitation for all, is an important part of achieving many of these goals.

The DBSA's strategic response to the rapidly evolving operating context is to look to the future and recognise the long-term advantage in capitalising on new opportunities to achieve sustainability, build resilience and maintain relevance. Figure 2.1 shows the drivers of environmental and social change in financing agencies.


**Figure 2.1: Drivers of environmental and social change**

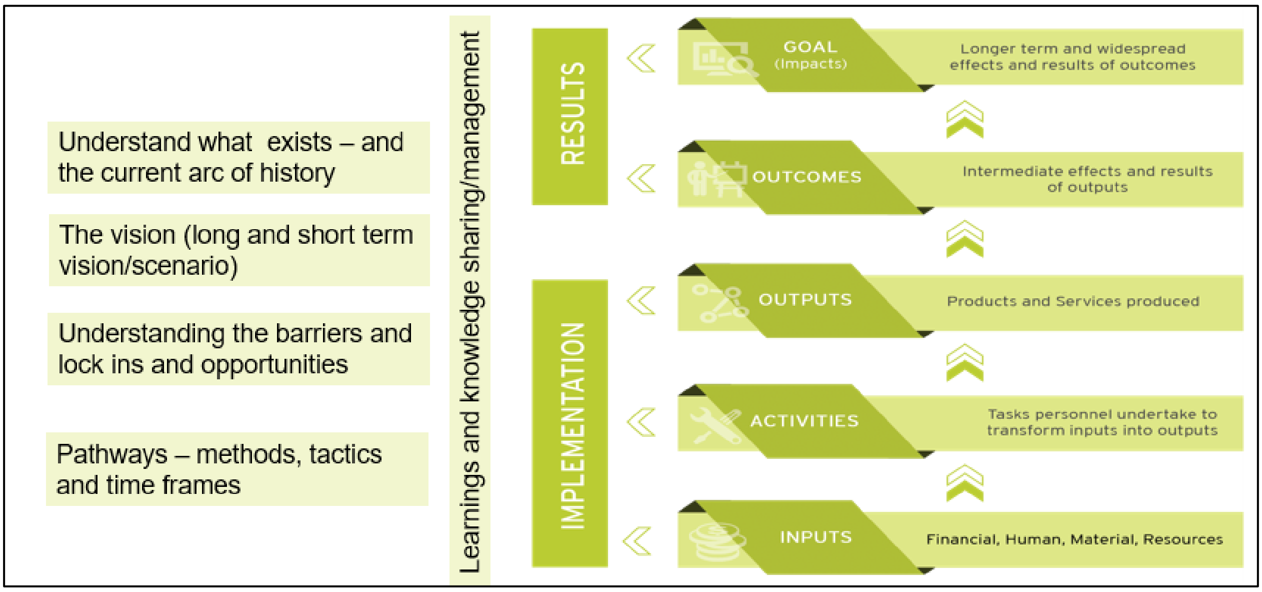


**Figure 2.2: Mainstreaming environmental and social change in project finance decision making and reporting**

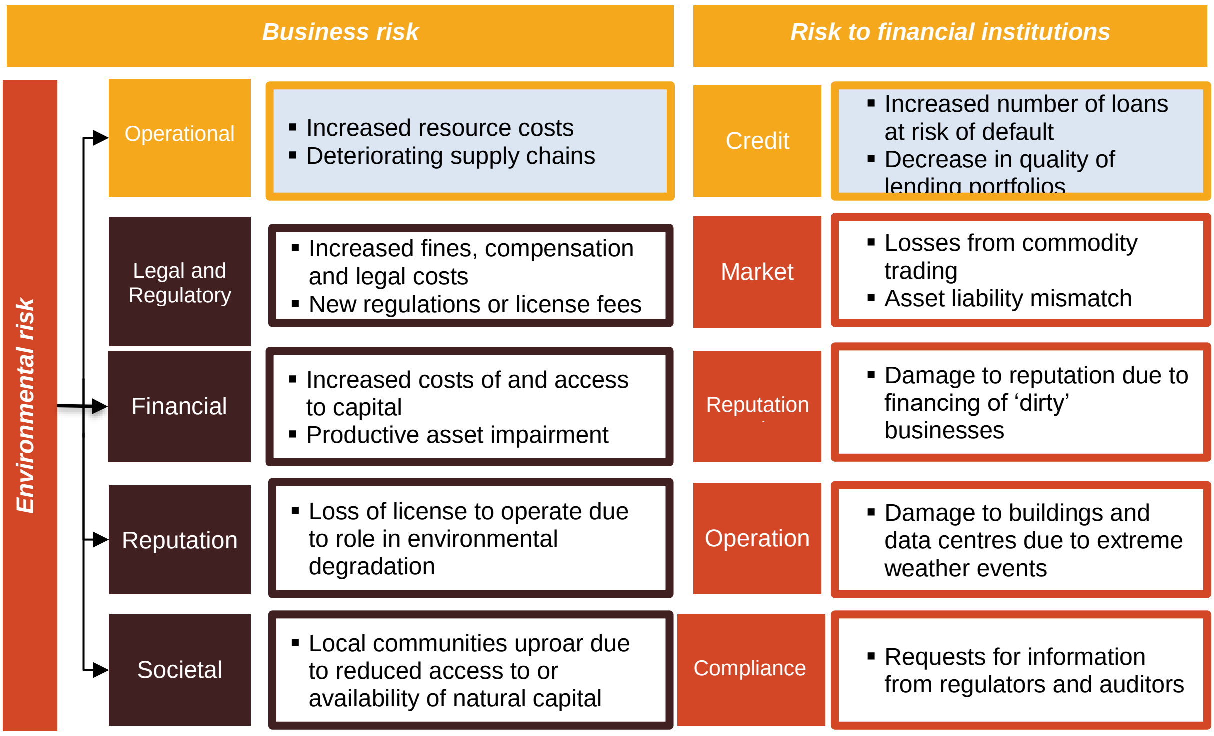


**Figure 2.3: Types of Risk [4]**

### 2.2.1 DBSA as a responsible investor in supporting the Sustainable Development Goals

Africa's leadership (as voiced through various conventions and inter-governmental panels and forums) has increasingly acknowledged the need to shift to a world that delivers on a commitment to leave the environment and society in a better condition than we found it. This means systemic changes across all parts of the economy, and in particular, delivering a global financial system that supports and enables these outcomes. As nations act on this challenge, a significant transformation is occurring towards more efficient, effective and resilient economies. Africa is addressing:

- The *science* of environmental degradation;
- The potential *catastrophic impacts for social welfare* if current environmental trends continue unabated; and
- The need to build a future based on the vision and goals as espoused by the SDGs.

The DBSA is committed to infrastructure and maintaining investment pathways that support the realisation of the SDGs. In this regard, DBSA is building partnerships with international DFIs and the private and public sector to support investments in sustainable and resilient infrastructure (Figure 2.1). The DBSA's accreditation to the Green Climate Fund (GCF) and the Global Environment Facility (GEF), has enhanced the Bank's ability to provide comprehensive

[4] Source Natural Capital Alliance 2019

financing and development solutions to support the transition to a low carbon economy. In recent years, the DBSA has significantly scaled up its financing of projects which aim to:

- Enable social and economic prosperity, enhance social equity, and address inequality; and
- Support renewable energy, promote responsible resource use, biodiversity and water security.

By adopting this approach, the DBSA aims to contribute to the sustainability of Africa's natural capital, ecosystem services and the adaptability of its communities.

In support of the DBSA commitment to the SDGs and the United Nations Convention on Climate Change and its associated Paris Agreement,[5] the DBSA seeks clarity on investments with regards to net positive social and environmental impacts.

The DBSA requires the Client to utilise relevant E&S tools/tactics/methods and adaptive management responses commensurate with the project's risk and/or opportunity to address environmental and social needs. Most banks including the DBSA, have developed safeguard frameworks to address social and environmental risks and opportunities of projects. Safeguard reports help identify gaps, and result in a Commitment Plan (agreed between the Bank and the Client) to plug these gaps (see sections 2.3 and 2.4).

Clients are often required to indicate how a project contributes towards meeting the relevant SDGs and the *energy / water / biodiversity / food security* transition to circular and sustainable economies. For example, how does a project address social inequality, gender equity, biodiversity restoration and water resource management? Have social and environmental analyses addressed aspects such as institutional capacity/accountability, alternative options assessments and mitigation hierarchies? Has the client provided adequately detailed implementation and operational plans (with clear indicators and targets) that secure environmental and social net value add (over and above mitigation hierarchies and compensation measures)?

### 2.2.2 DBSA's approach to climate change

One area that is of growing concern to financiers is the material and transition risk involved in investing in the high carbon emission economy. With regard to projects that have climate change impacts, the client will need to describe the likely climate change impacts that may influence, or be influenced by the project. The Client will need to provide vulnerability assessments, mitigation and adaptation objectives, measures/targets, indicators, monitoring plans and budgets. This could include scenario testing of the relevance of a project in a world

[5] Agreement within the United Nations Framework Convention on Climate Change (UNFCCC), dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, signed in 2016.

which is 2 degrees Celsius hotter. Greenhouse gas emissions (GHG) estimates ex-ante and post-ante will be required for medium- and high-carbon emitting activities. In water scarce countries, projects will likely also require the use of water stress testing tools.

From a climate change perspective, Africa faces a 'transition risk' approaching $125 billion in present value terms if the world achieves a path consistent with the Paris GHG targets.[6] Much of this risk is likely to fall on the public balance sheet, and further strain the public finances, jeopardise sovereign credit ratings and a government's ability to pursue a progressive social agenda. Examples of types of questions that project investment teams need to address are:

- How a project promotes or detracts from a country's transition planning to renewable energy, biodiversity conservation and water security i.e. a circular economy;
- How risk will be managed in vulnerable parts of the economy;
- How harmful developments have been avoided or delayed and how capital allocation will be shifted to sectors resilient to transition risk or to those that may benefit from the transition;
- How risk allocation has been made explicit to reduce unmanaged risks and improve risk management efficiency and ensure that principles of social equity are applied to those who bear the ultimate costs and risks.

Funders require better access to data to answer these questions and to understand how clients have addressed the inter-connectivity between biodiversity, water security and climate-related risks, pricing and management. How are companies and governments more effectively measuring and evaluating their own risks and those of their suppliers and or competitors? Environmental and social impact assessments need to assist investors to make better-informed decisions on where and how they want to allocate their capital. Lenders, insurers and underwriters need to be able to evaluate their risks and exposures over the short, medium, and long-term.

As evidence of its commitment to the Paris Accord Principles, the DBSA reports to the International Development Finance Club on its financial contribution to climate related disclosures.[7]

[6] Climate Policy Initiative: Understanding the Impact of a low carbon transition on South Africa Matthew Huxham, Muhammed Anwar and David Nelson *Published: March, 2019*
[7] The IDFC climate reporting standards can be sourced from . https://www.idfc.org/wp-content/uploads/2018/12/idfc-green-finance-mapping-2017.p.df

## 2.3 Global context for the Environmental and Social Safeguard Standards at DBSA

The section below provides the global context for the DBSA's Environmental and Social Safeguard Standards (ESSS). The rationale behind safeguard assessments is the early identification of E&S issues, including relevant legislative and regulatory requirements applicable to the project, and the incorporation of E&S considerations during the design phase of programmes and projects. DFIs, including DBSA as a major DFI in the Southern African Development Community (SADC) region, have established E&S risk assessment and management policies and procedures that guide financing activities within SADC and Africa.

The DBSA applies its ESSS to conduct due diligence for investment purposes. The DBSA's E&S analysts are responsible to ensure the Client completes safeguard reports to the satisfaction of both the Bank and the Client. The advantages of E&S safeguard reporting for Clients and finance institutions include:

- Assisting and improving the Client's ability to manage E&S opportunities and risks and promote E&S development (for example as articulated in the Sustainable Development Goals);
- Building Client capacity - supporting clients to be more environmentally/socially responsible and accountable;
- Embedding environmental and social risk management strategies in all levels of a Client's governance system, investment portfolios and project life cycles;
- Providing information and reporting which records E&S development processes and outcomes;
- Providing an advocacy role to build on global good practices and common frameworks of analysis in development decision making; and
- Adapting to changing times and managing new and emerging global risks and promoting innovation.

The World Bank and its private sector arm, the International Finance Corporation (IFC), have been instrumental in driving the development of good practices in E&S risk assessment and management disciplines. As a result, the same or similar frameworks underpin the different E&S assessment policies and procedures that many financial institutions apply in their operations. However, the support mechanisms required for the implementation of the E&S assessment procedures tend to vary.

The DBSA's E&S appraisal policies and procedures for programmes and projects under consideration have evolved over time, keeping pace with international good practice. The

DBSA's safeguards align with other global DFIs and the African Development Bank. Both the GCF and GEF have accredited DBSA's safeguards system.

The safeguards also endorse global good practice standards and guidelines such as those found in:

- The IFC's Sustainability Framework;
- The United Nations Development Programme's Principles of Good Governance;
- Global Compact's Principles for Responsible Investment;
- The International Standards Organisation (ISO) 26000 standard on social responsibility;
- The Integrated Reporting Committee's Framework for Integrated Reporting;
- The King IV Report on Corporate Governance for South Africa 2016;
- Compliance with relevant country legislation/regulations;
- United Nations and GEF guidelines for mainstreaming of gender and marginalised groups;
- World Bank Operational Standard for Safety of Dams, which includes the World Commission on Dams;
- United Nations Environmental Programme's Finance Initiative;[8]
- On the classification of pesticides and their specific formulations:
    - World Health Organisation's (WHO) Recommended Classification of Pesticides by Hazard and Guidelines to Classification (Geneva: WHO 1994-95)
    - United Nations Food and Agriculture Organisation International Code of Conduct on the Distribution and Use of Pesticides (Rome, 2003)
    - Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade;
    - Vienna Convention on the Protection of the Ozone Layer and the Montreal Protocol on Substances that Deplete the Ozone Layer;
    - The Stockholm Convention on Persistent Organic Pollutants.[9]

The safeguards provide DBSA with a framework of social and environmental analysis and consistency in its investment decision making. The Bank reports on progress on these aspects in its annual Sustainability Review reports.

The DBSA safeguards help the Bank to ensure that E&S considerations are integrated into all DBSA investment decision-making processes and strategies. The policy documents, guidelines and tools mainstream E&S considerations into the DBSA's operations to promote good governance and sustainable development, including:

[8] www.unepfi.org
[9] https://www.dbsa.org/EN/About-Us/Publications/Annual%20Reports/DBSA%20Sustainability%20Review%202017-18.pdf

- DBSA Environmental Sustainability Strategy;
- DBSA Climate Change Policy Framework;
- DBSA Environmental Appraisal Framework;
- DBSA Social and Institutional Guidelines;
- DBSA Environmental and Social Safeguard Standards (ESSS).

## 2.4 Environmental and Social Safeguard Standards[10]

The current Environmental and Social Safeguard Standards (ESSS) became effective in March 2018. They apply across the entire DBSA portfolio of projects and programmes. The ESSS document provides a reference guide to assist DBSA Clients to manage project E&S risks and impacts, and enhance project benefits. Clients that apply safeguards to infrastructure projects when preparing for investment are more likely to meet social and environmental financing conditions, and thereby speed up the approval process associated with loan applications. The ESSSs will assist Clients to:

- Prepare, implement and deliver project investment outcomes that are environmentally and socially responsible;
- Align with good E&S international practice;
- Identify appropriate methods, tactics and tools to assess, avoid, manage, minimise and mitigate potential project E&S risks and impacts on people and the environment;
- Optimise E&S development potential and promote net positive environmental and social benefits (that go beyond addressing a mitigation hierarchy); and
- Undertake transparent and meaningful stakeholder engagement with key and affected parties.[11]

ESSSs are applied to all investments supported by the DBSA including sovereign, public and private sector project and corporate lending. E&S risks apply at all stages of the investment value chain including project preparation, early review, due diligence, monitoring and evaluation.[12]

The ESSSs address the following areas:

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[10] Taken from: DBSA (2018). Make Change Happen: Environmental and Social Safeguard Standards. DBSA, March 2018.
[11] The ESSS document is available on the DBSA website: http://www.dbsa.org /EN/About-Us/Publications/Documents
[12] http://www.dbsa.org /EN/About-Us/Publications/Documents

| | |
|---|---|
| Standard 1: | General Overview: Assessment and Management of Environmental and Social Risks and Impacts. |
| Standard 2: | Stakeholder Engagement and Information Disclosure. |
| Standard 3: | Gender Mainstreaming. |
| Standard 4: | Indigenous Peoples. |
| Standard 5: | Development Induced Displacement and Resettlement. |
| Standard 6: | Labour. |
| Standard 7: | Community Health and Safety. |
| Standard 8: | Cultural Heritage. |
| Standard 9: | Biodiversity Conservation and Sustainable Management of Living Natural Resources and Resilience. |
| Standard 10: | Resource Efficiency and Pollution Prevention and Management. |
| Standard 11: | Dam Safety. |

The Bank's responsibilities towards ensuring that the client complies with the ESSSs include:

- Reviewing Client information relating to the project's E&S risks and impacts, and requesting additional relevant information where there are gaps that prevent the DBSA from completing its due diligence;
- Undertaking due diligence of proposed projects, proportionate to the nature and potential significance of the project's E&S risks and impacts;
- Appointing appropriately skilled people to appraise projects and evaluate whether projects meet ESSSs requirements;
- Appraising the nature and significance of the project's potential E&S risks and impacts, project implementation timeframes, and the Client's capacity to develop and implement the project;
- Providing guidance to assist the Client to develop appropriate mitigation measures to address the E&S risks and impacts in accordance with the ESSSs;
- Providing guidance to assist the Client to develop appropriate compensation/offset measures where mitigation is not possible;
- Providing guidance to assist the Client to seek and develop appropriate measures to realise effective environmental and social value add over and above the mitigation hierarchy;
- Undertaking site visits and interacting with relevant key stakeholders, as appropriate;
- Identifying any additional measures and actions that the Client needs to put in place to address existing and new E&S risks and impacts (adaptive management approach).

The DBSA undertakes a rigorous investment appraisal for all programmes and projects which it considers for financing. As evidence of DBSA's commitment to sustainable and equitable development, the E&S appraisal forms a key component of the overall investment appraisal, and enables the DBSA to incorporate E&S principles into investment projects within DBSA's mandate. The project's E&S assessment occurs throughout the process of preparing and finalising the investment transaction for financing. The DBSA's project cycle contains the following typical stages (the application of E&S considerations at each stage of the process are highlighted in italics):

1. **Investment opportunity identification:** liaison with key investment partners and stakeholders to source suitable projects for development support and financing.
2. **Project Structuring for Financing:** in-principle decision to consider project concept.
   - *Identify key environmental and social (E&S) issues for project design;*
   - *Incorporate E&S issues into bankable feasibility study;*
   - *Include E&S indicators.*
3. **Early Review / Deal Screening:** high-level assessment of the DBSA's appetite to invest in project concept.
   - *Identify high level E&S risks and impacts in line with the ESSSs;*
   - *Categorise projects according to high E&S risks (Category 1), medium E&S risks (Category 2), low E&S risks (Category 3).*
4. **Appraisal and Investment Review:** the appraisal report guides project negotiations, implementation, monitoring and review over its life cycle. The detailed appraisal undertaken by Bank specialists, considers project feasibility, profitability and sustainability. The level of due diligence required by the Bank depends on the level of risk, including E&S risks identified in the early review stage (Stage 3 above). The Bank conducts:
   - *A detailed project appraisal to determine compliance with relevant legislation, Client impact assessment tools used, and their ability to manage environmental risk as per the ESSSs. The project is screened in terms of greenhouse gas (GHG) emissions, and to determine the project's natural resource impacts and dependencies;*
   - *A detailed institutional and social appraisal of key stakeholders and project-affected communities, assesses the level of community organisation and representation, identifies the project's impacts on affected communities and beneficiaries, and assesses the community's readiness to receive the project;*
   - *Identification of key performance indicators.*
5. **Board Review and Credit Approval:** the DBSA attempts to ensure where possible that the findings of the E&S appraisal are integrated into the budget and relevant project credit risk ratings.
   - *Link E&S appraisal findings to the credit risk assessment and approval process.*
6. **Contract Negotiation and Settlement:** finalise contracting arrangements as part of the Client's contract.
   - *Agree risk mitigation measures;*

- *Obtain Client commitment to E&S obligations and compliance requirements.*

7. **Portfolio Monitoring and Funds Disbursement:** assess project compliance with contractual obligations (including E&S commitments and permit requirements) and adaptive management response to unforeseen environmental and social changes.
    - *Monitor key performance indicators as per the Development Results Template;*
    - *Support annual monitoring of Client's compliance with ESSS obligations.*
8. **Project evaluation:** development outcome tracking and assessment.
    - *Report on E&S outcomes as per the Development Results Reporting Framework.*
9. **Project close**.

Environmental and Social Safeguard Standard 1 (ESSS1) sets out the Client's responsibilities to assess, manage and monitor E&S risks and impacts associated with each stage of a project. The assessment carried out under ESSS1 determines whether project operations trigger any risks addressed under Standards 2 -11 and whether the Client needs to implement related mitigation measures.

ESSS 1 applies to all projects seeking DBSA financing and support, and requires the Client to:

- Screen the project as early as possible in order to categorise and manage the project according to the degree of E&S risk;
- Apply appropriate measures to screen for and report on GHG emissions, climate change impacts, climate change mitigation and adaptation measures, and carbon emission estimates;
- Develop an Integrated Environmental and Social Management Framework (ESMF) (see s. 2.4.5) to address and manage project E&S risks and impacts/dependencies and promote improved environmental and social outcomes;
- Apply appropriate environmental management tools and approaches throughout the project lifecycle;
- Describe how the project is aligned with relevant international norms and standards, national laws, regulations and authorisations;
- Seek opportunities for positive impact finance outcomes;
- Outline procedures for natural capital/ecosystem services vulnerability screening.

The DBSA classifies all projects into one of four categories: 1) High/Substantial Risk, 2) Moderate Risk, 3) Low Risk and 4) Financial Intermediary (FI).[13] In determining the appropriate risk classification, the DBSA takes into account the project type, location, sensitivity, and scale; nature and magnitude of potential E&S risks and impacts including climate change

[13] Financial intermediaries include DFIs, insurance, reinsurance and leasing companies, microfinance providers, private equity funds and investment funds that use the DBSA's funds to lend or provide equity finance to their Clients. Financial intermediaries include private or public sector companies that receive corporate loans or loans for investment projects from the DBSA that are used to finance a set of sub-projects.

considerations; the impacts on key and affected stakeholders; and the Client's capacity to manage the E&S risks and impacts in a manner consistent with the ESSSs. The types of projects that fall within Categories 1-3 are listed in Appendices 2-1 to 2-3 at the end of this Chapter.

The Client, working with a suitably qualified environmental practitioner together with the DBSA environmental and social analyst, will screen the project for environmental and social impacts to determine the type and level of environmental and social assessment required.

### 2.4.1 Procedures to follow for Category 1: High/Substantial Risk Projects

The E&S impacts generated by these projects are likely to be significant, broad and diverse (Appendix 2-1). They may be irreversible and could lead to significant impacts on the social, physical and biological environment, and changes in land use.

For High and Substantial Risk projects, the Client is required to provide the Bank with sufficient project information addressing the key E&S risks to inform DBSA decision-making. This includes:

- An Environmental and Social Scoping report in the form set out in Annexure 1.1 of the ESSS document;
- A comprehensive environmental and social impact assessment (ESIA) (as per Annexure 1.2 of the ESSS document). The ESIA must include the minutes of any public consultation meetings and meeting attendance registers (where applicable);
- A detailed environmental and social management plan (ESMP) (or similar) and all supporting documentation, setting out the recommended mitigation measures for the project. Depending on the project's scope, a Strategic Environmental and Social Assessment and Cumulative Impact Assessment, Environmental and Social Management System, and Emergency Preparedness Plan may be required (see Annexure 1.3 of the ESSS document). The ESMP must address, *inter alia*, any project-related GHG emissions and climate change risks, as well as anticipated resource use e.g. energy, water, chemicals, etc.) and waste generation;
- A Stakeholder Engagement Plan outlining:
  - The level of stakeholder support for the project;
  - The free, prior and informed consultation process undertaken with key and affected project parties to disclose project risks, impacts and outcomes;
  - How stakeholder participation in key project design and implementation stages was enabled as per the specific requirements outlined in ESSS2;
  - Any special measures necessary to consult with indigenous peoples and vulnerable groups who may be impacted by the project (refer to ESSS4);

- Measures to apply gender mainstreaming practices in project design and implementation (as per ESSS3);
- Project information disclosure mechanisms (ESSS2);
- Grievance and redress mechanisms (appropriate in scale to the project risks and adverse impacts) to address any project related grievances (the procedures are described in Annexure 2.1 of the ESSS document).

If the DBSA rejects the ESIA or ESMP, the Client has the right to appeal this decision in writing within **15 working days**. The Client's appeal letter must include reasons for the appeal and a legal, scientific and technical response to objections raised by DBSA. DBSA will review the facts, justify its rejection and assess any additional evidence raised by the Client in the appeal letter.

### 2.4.2 Procedures to follow for Category 2 Projects: Medium Risk

Category 2 programmes and projects are medium risk projects which may have adverse environmental and social impacts but which are likely to be reversible and potentially less severe than those associated with Category 1 (see list in Appendix 2-2 of this Chapter).

For medium risk projects, the depth and type of environmental and social impact assessment required will depend on the type of project and the type of environmental and social risks encountered. The Client needs to provide at least the following:

- An Environmental and Social Scoping report (as per Annexure 1.1 of the ESSS document);
- An ESIA (see Annexure 1.2 of the ESSS document for details). The ESIA should include the minutes of any public consultation meetings and meeting attendance registers (where applicable);
- An ESMP containing sufficient detail to assess, manage and mitigate the project's E&S risks and outcomes and comply with the ESSSs. The ESMP must address, *inter alia*, any project-related GHG emissions and climate change risks, as well as anticipated resource use e.g. energy, water, chemicals, etc.) and waste generation;
- If the project is not a regulated Listed Activity according to relevant country legislation (see the country chapters in this Handbook), the Bank requires that the Client applies the ESSSs;
- Any additional impact and/or risk assessments and plans that the DBSA may consider necessary as determined by the project's environmental and social screening and appraisal.

### 2.4.3 Procedures to follow for Category 3 Projects: Low Risk

These projects are unlikely to have adverse environmental impacts as the social, physical and biophysical environments will not be significantly affected (see Appendix 2-3 for a list of indicative projects). As programmes and projects in this category are unlikely to have significant adverse environmental impacts, they are therefore readily appraised with limited environmental information. The Client should provide the Bank with at least the following:

- Evidence of project screening undertaken to identify whether any potential E&S considerations require further investigation;
- All permits or approvals required in terms of national legislation;
- Any measures necessary to anticipate and manage affected community impacts (refer to ESSS2, 3, 4 and 5);
- Depending on the project's scale and scope, a basic ESMP may be required;
- The ESMP must address, *inter alia*, any project-related GHG emissions and climate change risks, as well as anticipated resource use e.g. energy, water, chemicals, etc.) and waste generation.

### 2.4.4 Procedures to follow for Category 4: Financial Intermediaries

Category 4 projects are those where the DBSA lends to Financial Intermediaries (FIs) who on-lend or invest in sub-projects that may result in adverse E&S impacts. FIs include DFIs, insurance, re-insurance and leasing companies, micro-finance providers, private equity funds and investment funds that use the DBSA's funds to lend or provide equity finance to their Clients. FIs include private or public sector companies that receive corporate loans or loans for investment projects from the DBSA that are used to finance a set of sub-projects. All sub-projects financed by FIs which fall into Category 1 or Category 2 are subject to the relevant ESSS requirements and FIs are required to:

- Have adequate corporate environmental and social governance policies, and apply the DBSA's Standards to its Category 1 and Category 2 sub-projects;
- Comply with national E&S policies and legislation in the country of the project being financed;
- Apply global best practices as applicable to their operational activities;
- Develop and maintain an ESMP in line with the DBSA's Standards that is appropriate for the scale and nature of the project's operations;
- Demonstrate that it has the management capability, organisational capacity, resources and expertise to monitor the ESMP during the implementation of the sub-project.

The DBSA will carry out due diligence on the FI's organisational capacity and environmental and social management framework before approving the transaction.

### 2.4.5 Environmental and social risk assessment tools

All the Bank's Clients are required to assess, manage and monitor the project's E&S risks, impacts and outcomes throughout the project life-cycle in a manner and within a timeframe in accordance with DBSA ESSSs and loan conditions. To assist this process, the Client is required to apply an *integrated environmental and social management* approach utilising appropriate methods and tools, including a combination of the following, as appropriate to the project circumstances:

- **Environmental and Social Impact Assessment (ESIA)**, which identifies and assesses specific potential programme/project/activity E&S impacts, evaluates alternatives, and outlines appropriate mitigation, management and monitoring measures.
- **Environmental and Social Audit (ESA)** which identifies significant E&S risks (including legal compliance risks, ESSS risks and loan agreement risks), assesses the current status of project activities and identifies whether activities meet all relevant requirements. It outlines significant findings, identifies any deviations and liabilities, and sets out recommended measures, actions and time frames.
- **Hazard or Risk Assessment (HRA)** which identifies, analyses, and controls hazards associated with dangerous materials and conditions at a project site. The DBSA requires that the Client implement a hazard or risk assessment for projects involving certain inflammable, explosive, reactive, and toxic materials present in quantities above a specified threshold level. The Client may include the HRA in the ESIA or the Bank may require a stand-alone HRA, depending on the risks addressed.
- **Cumulative Impact Assessment (CIA)** which considers cumulative project impacts from relevant past, present, foreseeable developments and unplanned but predictable project-related activities that may occur later or at a different location.
- **Social and conflict analysis** assesses the degree to which the project may exacerbate tensions and societal inequality within the project-affected communities and between these communities and others, or contribute to any form of conflict and instability within the project area of impact.
- **Environmental and Social Management Plan (ESMP)** outlines measures and actions the Client must apply to assess and manage the potential E&S risks and impacts, and ensure that the project complies with the ESSSs over a specified timeframe. The DBSA will review the plan and where necessary advise the Client of any gaps/improvements to be addressed. The ESMP has to be agreed with the DBSA and other affected funders/stakeholders and will form part of the legal loan agreement. The Client will be required to implement the measures and actions identified in the ESMP. Depending on the nature of the development, this may include a Resettlement Plan, Livelihood Restoration Plan, Indigenous Peoples' Plan, Biodiversity Action Plan, or Cultural Heritage Management Plan as agreed with the DBSA.

- **Environmental and Social Management Framework (ESMF)** examines the principles, rules, guidelines and procedures to assess the E&S risks of a programme and/or a series of sub-projects. The ESMF outlines measures and plans to reduce, mitigate and/or offset adverse risks and impacts, a budget to implement identified measures, the parties responsible and their capacity.
- **Strategic Environmental and Social Assessment (SESA)** outlines environmental and social risks and impacts of national or regional or sector policies, plans or programmes. As SESAs do not include project-specific assessments, the Client may need to augment a SESA with project specific ESIAs at a later date to assess specific project risks and impacts.

### 2.4.6 Performance and compliance monitoring

The Client is required to monitor the project's E&S performance in accordance with the loan agreement and contract, any environmental conditions attached to the environmental permit or licence, as well as the ESMP. The Client and DBSA will agree on the extent and mode of monitoring in proportion to the project type, the project's E&S risks and impacts, and the ESSS requirements. The Client's obligations with regard to monitoring include the following:

- Ensure that adequate institutional arrangements, resources and personnel (including relevant third parties or other agencies) are in place to carry out monitoring;
- Establish relevant operational controls to track performance, and comply with actions requested by relevant regulatory authorities and stakeholders;
- Document monitoring results to provide an accurate and objective record of project implementation, ESMP compliance and adherence to the ESSS requirements;
- Designate senior officials to compile regular project monitoring reports to submit to the DBSA as per the ESMP specifications. Based on the monitoring results, the Client will identify any necessary corrective and preventive actions, and incorporate these in an amended ESMP or the relevant management tool, in a manner acceptable to the DBSA;
- Implement the agreed corrective and preventive actions in accordance with the amended ESMP or relevant management tool, and monitor and report on these actions;
- The Client will facilitate site visits by DBSA staff or consultants acting on the DBSA's behalf as necessary;
- Notify the DBSA promptly of any incident or accident relating to the project which has the potential to have a significant adverse effect on the environment, the affected communities, the public or workers. The Client will take immediate measures to address the incident or accident and to prevent any recurrence, in accordance with national law and the ESSSs.

# 5 Conclusion

Environmental and social assessment has become a standard procedure for programmes and projects under consideration by the major development banks. Given its role in catalysing the development of social and economic infrastructure in SADC through project financing, the DBSA has a major role to play in advancing sustainable development. At an operational level, the development of effective E&S risk assessment and management policies and procedures will assist in shaping development, rather than preventing development from taking place. Increasingly, international financial institutions are moving beyond traditional E&S risk assessment practices or compliance, to embrace an integrated approach to sustainability. They appreciate that financial markets and political developments are influenced and shaped by environmental and social issues. The sustainability approach, which by its nature is integrated, anticipates and addresses short and long-term opportunities and risks.

The primary responsibility for E&S impact assessment remains with the Borrower, and the Bank will only provide advice and ensure adherence to their ESSS requirements and conditions attached to the loan agreements. This Handbook aims to facilitate the review of one of the main sources of environmental risk to the financial sector – the environmental legislative and regulatory requirements applicable to the project. It aims to provide those tasked with the responsibility of project appraisals with information on legislative requirements for E&S assessments in selected Sub-Saharan African (SSA) countries. The overall goal of this Handbook is to assist the client to ensure compliance with the E&S assessment and related statutory requirements to seek opportunities in support of sustainable development.

The Handbook targets development finance institutions (DFIs), their stakeholders, and those responsible for investment approvals within the financial sector. This includes project managers, environmental assessment practitioners, decision-makers and those responsible for ensuring that the projects under their review for approval, fully comply with all environmental obligations.

# APPENDIX 2-1: CATEGORY 1 HIGH AND SUBSTANTIAL RISK PROJECTS

The environmental impacts generated by these projects are likely to be significant, broad and diverse. They may be irreversible and could lead to significant impacts on the social, physical and biological environment, and changes in land use. Project types include:

- Any project requiring a Resettlement Action Plan (RAP) (ESSS5)
- Large dams and reservoirs, levees or weirs affecting river flow
- Canals and channels, including normal flow of water diversions in a riverbed
- Water transfer schemes between water catchments and impoundments
- Large sewage works and associated infrastructure
- Schemes for the abstraction and utilisation of ground or surface water for bulk supply purposes
- Large scale irrigation and drainage schemes
- Large scale sanitation works
- Large scale forestry
- Large scale agro-industries
- Large scale industrial plants
- Major new industrial parks
- Major oil and gas developments including major pipelines
- Large ferrous and non-ferrous metal operations
- Large port and harbour developments
- Electricity generation
- Communication network and access roads to these structures
- Projects with large resettlement components and all projects with major impacts on human populations
- Projects affecting tribal or indigenous populations
- Large thermal and hydropower developments
- Projects that include the manufacture, use or disposal of environmentally significant quantities of pest control products
- Manufacture, transportation and use of hazardous and/or toxic materials
- Domestic and hazardous waste disposal operations
- Projects which pose serious occupational or health risks
- Projects which pose serious socio-economic concerns
- Roads, railways, airfields and associated infrastructure
- Tourist developments (including hotel projects)
- Textile plants
- Manufacture of construction materials that may be hazardous

# APPENDIX 2-2: CATEGORY 2 MEDIUM RISK PROJECTS

Category 2 programmes and projects are medium risk projects which may have adverse environmental and social impacts but which are likely to be potentially less severe than those associated with Category 1, high and substantial risk projects (see Appendix 2-1). For category 2 projects few impacts are irreversible and mitigation measures can be more easily prescribed. Projects in this category include:

- Water supply projects (without impoundments or new river intakes)
- Medium to small scale sanitation projects
- Water purification plants
- Reservoirs for public water supply
- Electrical transmission
- Renewable energy
- Telecommunications
- Small scale rehabilitation, maintenance and modernisation projects
- Pipelines (depending on the route)
- Manufacture of non-hazardous construction materials
- Small-scale industries
- Aquaculture and mariculture projects
- Farmer support projects
- Small scale agro-industries
- General manufacturing
- Greenfield projects in industrial estates

# APPENDIX 2-3: CATEGORY 3 LOW RISK PROJECTS

These projects are unlikely to have adverse environmental impacts as the social, physical and biophysical environments will not be significantly affected. Project types include:

- Health service projects with minimal negative social and environmental impacts
- urban developments with minimal negative social and environmental impacts
- Institutional development and capacity-building projects with minimal negative social and environmental impacts
- Advisory assignments (to consider all relevant stakeholders)
- Technical assistance (to consider all relevant stakeholders)
- Rights issues (to consider all relevant stakeholders)
- Securitisation (financial structures to pool risks and sell to a third party).

# Acronyms

| | |
|---|---|
| AfDB | African Development Bank |
| CIA | cumulative impact assessment |
| DBSA | Development Bank of Southern Africa |
| DFI | development finance institution |
| E&S | environmental and social |
| ESIA | environmental and social risk assessment |
| ESMF | environmental and social management framework |
| ESMP | environmental and social mitigation plan |
| ESSS | Environmental and Social Safeguard Standards |
| FI | financial intermediary |
| GCF | Green Climate Fund |
| GEF | Global Environmental Facility |
| GHG | greenhouse gas |
| HRA | hazard and risk assessment |
| IFC | International Finance Corporation |
| ISO | International Standards Organisation |
| PPDF | Project Preparation and Development Facility |
| RAP | resettlement action plan |
| SADC | Southern African Development Community |
| SDG | Sustainable Development Goal |
| SESA | strategic environmental and social assessment |
| SSA | Sub-Saharan Africa |
| WHO | World Health Organisation |

# Useful contacts at DBSA:

| Name and Department | Position | Telephone | Email |
|---|---|---|---|
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