

Environmental and Social Risk Management Policy for AFD-funded Operations

In response to major challenges facing the world today, the primary purpose of French Official Development Assistance (ODA) is to promote economic, social, environmental and cultural dimensions of sustainable development in developing countries.

The main objectives of French ODA are to fight against poverty and inequalities, including gender inequalities; to promote human rights, education and health; to support processes of ecological, energy, demographic, digital, territorial and participatory transitions; to prevent and respond to crisis; to encourage joint migration management. These objectives were confirmed during the Interministerial Committee on International Cooperation and Development (CICID) held on 30 November 2016.

Projects funded by Agence Française de Développement (AFD) contribute to France's ODA strategy, the implementation of the 2030 global agenda and the 17 Sustainable Development Goals (SDGs), as well as the 2015 Paris Climate Agreement.

AFD mainstreams corporate social responsibility into its governance system and activities. In this context, AFD takes measures to assess and manage environmental and social risks for all AFD-funded operations. AFD has developed operating procedures to identify, prevent or mitigate environmental and social risks and impacts, as well as any human rights violation that could result from AFD-funded activities.

1. Vision

In line with its mandate provided by the French Government, AFD ensures that its operations effectively contribute to the core objectives of sustainable development, by supporting economic and social development based on the adoption of responsible production and consumption patterns, and by improving local public and private governance practices.

Through the implementation of its environmental and social policy, AFD makes sure that its funded operations, at the local level, reduce the vulnerability of households, territories and ecosystems, improve people's livelihoods, and promote democratic development.

This Policy seeks to promote a sustainable management of resources, through greater involvement of civil society and enhanced citizen ownership.

It aims to promote improvements in the legislative and regulatory framework of its clients by strengthening sustainable development policies and standards, governance, human and technical capacity building, while improving economic, social and environmental performance.

Finally, AFD seeks to enhance the impact on local development by improving risk and resources management, while contributing to global public common goods and services (such as climate, biodiversity, water, peace, etc.).

2. Objectives

Any development operation may involve potentially adverse risks, particularly in terms of environmental and social impacts.

Consequently, AFD's financing is conditional upon the implementation by the client of continuous and systematic environmental and social assessment procedures to (i) assess the environmental and social impacts of operations, (ii) propose appropriate measures to avoid the negative impacts or, when they are unavoidable, reduce or offset them in an appropriate manner, (iii) monitor the application of such measures during the implementation phase of the operation, and (iv) conduct an *ex post* evaluation of the effectiveness of the proposed measures.

The systematic environmental and social assessment of operations¹ aims to ensure that they are environmentally and socially sustainable, contribute to integrating environmental and social considerations into the decision-making process of all the stakeholders, and provide a strong framework to manage financial and reputational risks run by AFD.

This process also makes clients commit to achieving progress and improving their environmental and social performance, while monitoring results and impacts.

Environmental and social assessment applies to all steps of the project cycle, from identification to Board approval of the financing, including project implementation monitoring and *ex post* evaluation.

It also aims to enhance the effectiveness and impact of development in the field, assist the clients in the implementation of their environmental and social regulations, assist the contracting authorities in fulfilling their environmental and social obligations, participate in local efforts to achieve the Sustainable Development Goals, and provide a framework for public consultation.

In the context of the follow-up to the 2005 Paris Declaration on Aid Effectiveness and in line with the 2014 Law on the Orientation and Programming Development Policy and International Solidarity, AFD has decided to harmonize the principles of the current Environmental and Social Risk Management Policy and to coordinate its actions with the environmental and social framework of multilateral donors. AFD has therefore aligned its Policy with the World Bank's environmental and social standards for projects with High or Substantial environmental and social impacts.

It is by striving to contribute to all these objectives, while respecting its operational constraints, that AFD has reiterated its commitment to the application of the following principles.

¹ With the exception of specific operations on behalf of the French State, study and expertise funds, NGO facilities, ARIZ guarantees, global budget support and unearmarked public policy loans.

3. Principles

The principles set out below apply throughout the appraisal and implementation of all AFD-funded operations, on an ongoing basis and in partnership with the beneficiaries of financing and contracting authorities.

It involves taking into account the environmental and social issues as early on as possible, right from the design stage and in the implementation of operations, in order to define appropriate measures to avoid, reduce and, where necessary, offset their significant adverse environmental and social impacts.

Due diligence: AFD conducts due diligence on all the projects submitted to its financing that fall within the scope of application of the present policy. This due diligence analyzes the environmental and social risks and impacts during the *ex ante* assessment of the operation, in a manner adapted to the nature and scale of the operation and proportional to the levels of these risks and impacts. This due diligence assesses whether the project is likely to be developed and implemented in compliance with AFD's environmental and social performance targets. It thereby supports the decision-making process for the financing of the operation and, in the event that the financing is approved, the client's integration of the environmental and social aspects into the programming and implementation of the operation. AFD's due diligence requires documentary work, but also, depending on the needs, field visits.

Integrated approach: AFD, in line with its existing practices, bases its due diligence on an analysis combining both the environmental and social risks and impacts. For each operation analyzed, the assessment of the risks and impacts also takes into account the vulnerability of the various human groups potentially affected.

Responsibility of the client: the client is responsible for conducting the environmental and social assessment of its project. It mobilizes the expertise and environmental and social resources required at the various stages of the project implementation (feasibility, detailed design, preparation, construction, operation, decommissioning) and contractually commits to respect the environmental and social performance targets agreed during the appraisal of the financing and set out in the financing agreement with AFD. The client monitors and documents the application of the environmental and social management measures during the implementation of the project activities. It also implements the preventive actions required to remove the potential causes of a failure and the remedial actions required when a failure is identified. It regularly informs AFD about this through periodic progress reports.

AFD assists the client in defining its environmental and social objectives and verifies their implementation throughout the project cycle.

Categorization of the environmental and social risk: AFD analyzes and classifies all potential projects into High – Substantial – Moderate – Low environmental and social risks, depending on the extent of the potential risks borne by the operation. The classification takes into account the nature and scale of the operation, the location and sensitivity of the affected area, the severity of the potential environmental and social risks and impacts, as well as the client's capacity to manage them. This classification aims to determine the nature and depth of the environmental and social assessment required and the level of environmental and social standards the project will be required to comply with, as well as the needs to engage stakeholders and the level of information required.

Practice of categorization: for each operation, AFD conducts a categorization, right from the identification stage, of the expected intensity of its most sensitive component from an environmental and/or social perspective. In this classification process, AFD takes into account the direct, indirect, cumulative and induced risks and impacts in the area of influence of the operation. Should the operation be particularly complex, AFD completes the existing assessments by conducting its own field analysis in order to have a more detailed approach to the potential risks and impacts and be able to provide the most effective support to the project's contracting authority.

Analysis of the documentation: AFD's financing decision is based on a preliminary analysis of the environmental and social assessment documentation. It involves a detailed Environmental and Social Assessment (ESA) for projects in both the High and Substantial Risks category. It may be in a simplified form (*e.g.* a specific chapter of the feasibility study) for those in the Moderate Risks category. Generally speaking, no environmental and social assessment is required for projects in the Low Risks category.

The detailed ESA is conducted at the same time as the feasibility study. It is submitted to the consultation of the persons and groups potentially affected and aims to allow the preparation of an Environmental and Social Management Plan (ESMP). In the event of an involuntary physical and/or economic displacement, the ESMP is complemented with a Resettlement Action Plan (RAP).

The objectives and content of the detailed ESA, ESMP and RAP comply with the provisions of the World Bank's Environmental & Social Standard for the Assessment and Management of Environmental and Social Risks and Impacts. For High Risk operations, the detailed ESA, as well as the related environmental and social management documents (*e.g.*: ESMP, RAP), are analyzed and must be validated by AFD prior to the financing approval. For operations with Substantial or Moderate Risks, the ESA must be available and validated prior to the financing approval. For the three categories, the studies are completed with an Environmental and Social Commitment Plan.

Environmental and Social Commitment Plan (ESCP): for projects classified as having High, Substantial or Moderate risks, AFD requires the client to formalize the project's environmental and social commitments in a document called the Environmental & Social Commitment Plan. The ESCP is developed to set out briefly, in a single document laid out in table format, the measures and actions required for the project to comply with the environmental and social performance targets applied by AFD, according to a specific timetable and deemed satisfactory to AFD. The ESCP also gives details about the sources of financing for the implementation of the measures defined. The ESCP is prepared in a draft form during the appraisal phase. The plan is finalized by AFD and the client, taking into account the due diligence conducted during the appraisal and the outcomes of the stakeholder consultations. The ESCP is finalized prior to the financing approval and is annexed to the financing agreement. The document is part of the legal documentation for High, Substantial or Moderate Risk projects. The financing agreement supports the provisions of the ESCP by setting out any conditions precedent to disbursement that need to be fulfilled prior to any disbursement by AFD.

Environmental and social reference standards: pursuant to the Paris Declaration on Aid Effectiveness promoting Donor alignment and coordination, AFD has adopted the World Bank's prevailing environmental and social operational standards. These standards apply to projects with environmental and social risks categorized as High or Substantial. For other operations, the projects must be appraised and implemented in compliance with the prevailing national environmental and social regulations in the country where the operation takes place.

Compliance with the environmental and social standards defined above is the objective of the environmental and social performance applied to AFD-funded operations.

Other reference documents: the projects submitted by contracting authorities must also be implemented in compliance with the World Bank Group's Environmental, Health and Safety Guidelines (EHS). These are reference technical documents, with general and specific examples of international good practices in the industry.

Stakeholder participation-consultation: for High and Substantial risk projects, the analyses conducted (ESA, ESMP, RAP) must be subject to a free, prior and informed consultation of the people potentially affected by the project, the central and local administrations impacted and civil society representatives involved in environmental and social issues. This consultation process is organized and financed by the client and may be conducted at various stages of the assessment process, in line with national regulations. Conclusions must be used in the final drafting of the assessment reports submitted for AFD's approval.

The initial consultation must be conducted in a transparent manner and must be accessible to all persons potentially affected by the project, particularly vulnerable populations. Stakeholders will be consulted in a culturally appropriate manner, using appropriate languages and cultural and educational references. For the riskiest projects, or when these projects are subject to major revisions or amendments, consultations of people potentially affected may also be conducted during the implementation phase, on a case-by-case basis.

Disclosure of information: once the environmental and social documents have been approved by AFD, especially the ESA, ESMP and/or RAP, for transparency and accountability purposes, in particular towards the main stakeholders, the client will be encouraged to make these documents available to the public, in accessible areas in the country and on Internet. AFD will, where required, provide support for disclosing such information. The timeline for consultation must allow time for collecting relevant feedback from the persons or groups who have accessed these documents. When major revisions to the key documents (ESA, ESMP, RAP) are required during the implementation of a project, the client will also be encouraged to disclose updates in the country and on Internet.

Monitoring and implementation support: AFD expects its clients to implement the environmental and social measures set out in the various plans (ESCP, ESMP, RAP, etc.), which are referred to in the financing agreements, in compliance with the required deadlines.

Throughout project implementation, the client reports to AFD on the implementation of the planned environmental and social measures, in accordance with the project documents, the progress in implementing mitigation measures and results achieved. To do so, the client may hire a consultant/group of independent consultants to check that commitments have been fulfilled, that the implementation of the environmental and social measures of the project is indeed being monitored, and that adjustments are made to planned measures should they prove to be inefficient. AFD's environmental and social experts may also be involved in the monitoring where required. Based on the monitoring indicators included in the ESMP and/or the ESCP, and thanks to the periodic progress reports submitted to AFD, AFD assesses the monitoring results of the commitments made by the client.

In the event of non-compliance with commitments made, AFD will assist the client in finding solutions to manage the environmental and social risks and impacts, and ensure that the contractual clauses of the financing agreement are complied with.

Handling of environmental and social complaints: for projects classified as High and Substantial risks, the client will, at the minimum, need to set up and fund a grievance redress mechanism while providing it with adequate resources. This system will be widely advertised, in appropriate languages and forms, and be easily accessible to potentially affected people.

To the extent possible, a project-level grievance redress mechanism will also work in conjunction with AFD's own environmental and social complaints mechanism. AFD will systematically and in real time be kept informed of the functioning of the mechanism and, for each complaint, be updated on the status of the resolutions. Periodic reports are expected to mention the activity results of the client's grievance redress mechanism.

AFD has set up its own environmental and social complaints mechanism, which is open to third parties. This mechanism aims to ensure an independent handling of complaints about the environmental and social impacts induced by AFD-funded projects. A complaint may be submitted to this mechanism by anyone affected by an AFD-funded project.

Management of later amendments: amendments to the nature and scope of a project may occur after financing approval has been granted by AFD. These amendments may have significant environmental and/or social implications. In such case, AFD will conduct environmental and social due diligence on these amendments. Should AFD conclude that new stakeholder consultations and/or new environmental and social mitigation measures are required to comply with the present policy and its related procedures, AFD will ask the client to integrate these measures into the funded operation.

Development Policy Loans: the Environmental and Social Risk Management Policy also applies, with adequate tools, to the sectoral budget support and development policy loans funded by AFD – financing which does not go directly to tangible investments but, in particular, to economic, subregional and sectoral policy reforms or to other policy reforms that are likely to generate significant negative environmental and/or social impacts. In this case, tools such as strategic environmental and social impact assessments or other environmental and social assessment methods may be used. Furthermore, the technical assistance programs associated with such budget support may include an Environmental and Social component.

Delegated funds: in terms of the management of funds for which AFD is accredited by another institution, AFD will make its best efforts, possibly in consultation with the other funder or delegator, to ensure that the environmental and social risk management process is implemented for each project and compatible with both environmental and social standards of the delegator and AFD. AFD will also make its best efforts to ensure that the reporting conducted on this financing “for others” complies with the respective expectations.

Cofinancing operations: to avoid excessive environmental and social due diligence, AFD makes every effort to agree on a common approach for the assessment and management of the project's environmental and social risks with the cofinancier(s). If AFD is not the coordinator of the financing, AFD assesses the environmental and social documents produced under the responsibility of the client and/or lead funder. AFD may request additional information and/or implement complementary due diligence (i) if it decides that some of the planned provisions are not sufficient in view of the issues identified, and/or (ii) if the components subject to its financing have environmental and social issues which require specific due diligence.

When AFD is the lead or coordinator of the financing, AFD procedures are used for the due diligence required by the cofinancier and implemented by the client.

Financial intermediation: for projects with financial intermediaries, AFD ensures that the funded institution implements an Environmental and Social Management System that complies with the principles set out in the present policy.

When the financial institution concerned does not comply with AFD's requirements, measures to improve the Environmental and Social Management System are set out in an Environmental and Social Action Plan, listing the measures that will enable the financial institution to comply with the required standards and procedures.

Technical assistance resources may be mobilized to assist the financial institution in complying with AFD requirements.

Financing in the French overseas territories: in OECD high-income countries, the Equator Principles mention that national regulations meet the requirements of World Bank Group standards. In line with these principles, AFD ensures that the funded operations comply with regulations. A classification is made for all non-budget financing according to the environmental and social risk, in three categories (High, Moderate and Low risks).

Validity and revision of this policy: this policy was adopted on 13 July 2017 and will apply for 3 years following its adoption (unless it is amended, if necessary). Towards the end of this period, an internal audit will be conducted to assess its application and identify the points which need to be updated, introduced or removed. On this basis, a new policy may once again be drafted, adopted and implemented for a period to be determined in due time.