

KfW Development Bank

»»Sustainability Guideline

Assessment of Environmental, Social, and
Climate Performance: Principles and Process

April 2016



Content

Abbreviations	3
1. Preamble	4
2. Mission of KfW Development Bank	4
3. Objectives and Scope of this Guideline	6
4. Environmental and Social Due Diligence and Climate Assessment of FC measures	6
4.1 Objective and Core Elements	6
4.2 Appraisal Standards	7
4.3 Screening and Categorisation of FC measures	8
4.3.2 Screening: Environmental and Social Due Diligence	8
4.3.3 Screening: Climate Assessment	9
4.4 In-depth Environmental and Social Due Diligence and in-depth Climate Assessment	10
4.5 Programme FC measure	12
4.6 Stakeholder Engagement and Complaints Management in FC measures	13
5 Sustainable Implementation of FC measures	13
5.1 Monitoring and Reporting	13
5.2 Sustainable Procurement at KfW Development Bank	14
5.3 Complaint Management at KfW Development Bank	14
6 Environmental and Social Due Diligence and Climate Assessment of Programme-Based Approaches (PBA)	15
7 Environmental and Social Due Diligence and Climate Assessment in Cooperation with Financial Intermediaries	15
8 Fast-track procedure in the event of natural disasters, crises and conflicts	17
9 Validity and review of this Guideline	17
10 Annexes	18
10.1 Annex 1 – Illustrative list of FC measures which may have potential significant adverse environmental and social impacts	18
10.2 Annex 2 – IFC Exclusion List (for Financial Intermediaries of KfW Development Bank)	19

Abbreviations

BMZ	-	Federal Ministry for Economic Cooperation and Development (Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung)
EHS	-	Environmental Health and Safety
ESAP	-	Environmental and Social Action Plan
ESDD	-	Environmental and Social Due Diligence
ESIA	-	Environmental and Social Impact Assessment
ESMF	-	Environmental and Social Management Framework
ESMP	-	Environmental and Social Management Plan
ESMS	-	Environmental and Social Management System
FI	-	Financial Intermediary
FC	-	Financial Cooperation
IFC	-	International Finance Corporation
ILO	-	International Labour Organization
LRP	-	Livelihood Restoration Plan
NAP	-	National Adaptation Plan
NDC	-	Nationally Determined Contribution
NGO	-	Non-Governmental Organisation
PBA	-	Programme-Based Approaches
RAP	-	Resettlement Action Plan
RPF	-	Resettlement Policy Framework
SEA	-	Strategic Environmental Assessment

1. Preamble

1.1. For more than five decades, the business area KfW Development Bank of the KfW Group (referred to hereinafter as KfW Development Bank), has financed measures in numerous areas to protect the environment and the climate and to support social development. Central to its activities are the principles of environmental and social compatibility as well as sustainability. Therefore, all the Financial Cooperation measures (referred to hereinafter as "FC measures") financed by KfW Development Bank have long been subject to a comprehensive and systematic assessment by KfW Development Bank to ensure they are compatible with environmental and social aspects as well as other crucial development policies. Based on its Statement on Environmental Protection and Sustainable Development to the German parliament, KfW Group has introduced a set of sustainability policies. They set forth the environmental and social guiding principles that govern KfW's operations with a view to contributing to sustainable development aligned with the sustainability strategy of the German Federal Government. Furthermore KfW Development Bank pursues the objective of actively supporting the implementation of international human rights with the instruments at its disposal to do so. In this regard the KfW Group has issued a declaration on human rights in its business operations. Starting from these principles, this Guideline defines the specific implementation for KfW Development Bank also including important social aspects.

2. Mission of KfW Development Bank

2.1. KfW Development Bank finances investments and related advisory services in developing and emerging countries on behalf of the German Federal Government, which are implemented by local partners on their own responsibility. More specifically, KfW Development Bank uses funds from the federal budget, which are topped up by the bank's own funds, in order to support the construction of economic and social infrastructure, the development of efficient financial sectors, and the implementation of environmental and climate protection measures and programmes to preserve natural resources. The most important objective of KfW Development Bank's promotional activities is to help the Federal Government of Germany and its partner countries to achieve their overarching development goals (i.e. to reduce poverty, secure peace, support democracy, shape globalisation in an equitable manner and engage in environmental and climate protection).

2.2. The priority areas of KfW's promotional activities in developing countries include social development, environmental and climate protection and the conservation of natural resources. Its work also encompasses FC measures which make a crucial contribution to implementing international agreements on environmental and climate protection and on the conservation of natural resources such as the United Nations Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity (UNCBD) and the Convention to Combat Desertification (UNCCD). Whenever the main goal of FC measures is not geared to environmental, climate or resource protection, KfW Development Bank seeks to incorporate climate and/or environmental objectives into the scope of the FC measure.

2.3. With the aim of sustainability and avoiding adverse environmental, social and climate impacts and risks, KfW Development Bank pursues in particular the following principles for its FC measures that are financed:

- to avoid, reduce or limit environmental pollution and environmental damage including climate-damaging emissions and pollution;
- to preserve and protect biodiversity and tropical rainforests and to sustainably manage natural resources;
- to consider probable and foreseeable impacts of climate change including utilising the potential to adapt to climate change. In this context climate change is understood as climate variability and long-term climate change;
- to avoid adverse impacts upon the living conditions of communities, in particular indigenous people and other vulnerable groups, as well as to ensure the rights, living conditions and values of indigenous people;
- to avoid and minimise involuntary resettlement and forced eviction of people and their living space as well as to mitigate adverse social and economic impacts through changes in land use by reinstating the previous living conditions of the affected population;
- to ensure and support health protection at work and the occupational health and safety of people working within the framework of a FC measure;
- to condemn forced labour and child labour, ban discrimination in respect of employment as well as occupation and support the freedom of association and the right to collective bargaining;
- to protect and preserve cultural heritage;
- to support the executing agency in the management and monitoring of possible adverse environmental, social and climate impacts as well as risks within the framework of the implement FC measure.

2.4. Financing of coal-fired power stations is subject to the latest version of the "KfW Group guidelines on the financing of coal-fired power plants." ¹ Nuclear energy is not supported, due to its risks.

2.5. Luxury goods, environmentally damaging goods, technologies and systems for military purposes are not eligible for support.

¹ [KfW Group guidelines on the financing of coal-fired power plants](#)

3. Objectives and Scope of this Guideline

3.1. This Guideline describes principles and procedures to assess the environmental, social and climate impacts during the preparation and implementation of FC measure financed by KfW Development Bank. In this context, this Guideline pursues the following objectives, in particular:

- to define a common binding framework to incorporate environmental, social and climate standards into the planning, appraisal, implementation, and monitoring of FC measures;
- to enhance transparency, predictability and accountability in the decision-making processes of the internal environmental and social due diligence (ESDD) and climate assessments;
- to improve the due diligence of economic risks associated with FC measures by taking account of the environmental, climate and social aspects.

3.2. All funding activities of KfW Development Bank must be subject to an internal ESDD and a climate assessment as defined in this Guideline. This applies both to the funding of programmes and projects and to funding activities that are not project-related, such as programme-based joint financings, financial sector programmes, budget support and corporate finance operations (all summarised as FC measures).

3.3. This Guideline covers all forms of financing provided by KfW Development Bank.

4. Environmental and Social Due Diligence and Climate Assessment of FC measures

4.1 Objective and Core Elements

4.1.1. The objective of the ESDD and climate assessments is to anticipate and appraise any foreseeable impacts and risks a FC measure may have on the environment, social factors (including human rights) and the climate, and to identify and prevent any adverse impacts and risks, or minimise them to an acceptable level and (provided that the adverse impact is inevitable but still tolerable) introduce compensation measures. In addition, the assessments should identify, monitor and manage any residual risks. The objective of the climate assessment is also to recognise climate impacts that may impair the achievement of objectives in due time so that, if applicable, required adaptation measures can be taken into consideration in the conception phase of the FC measure. This applies equally to the early identification of potential to adapt to climate change in order to leverage this potential. Apart from assessing individual FC measures, ESDDs and climate assessments are designed to demonstrate to partner countries the need to appraise the FC measures and explore opportunities to design them environmentally, socially and climate friendly; they are also intended to raise awareness of development approaches that are ecologically and socially sustainable.

4.1.2. ESDDs and climate assessments are a core element of the assessment procedure of KfW Development Bank. They are, first and foremost, intended as a management tool to steer and shape FC measures over their entire life cycle (i.e. from preparation to completion). The ESDD and categorization of the FC measures are performed under involvement of the environmental and social experts of KfW Development Bank.

4.1.3. The essential steps of the ESDD and climate assessment include:

- a preliminary appraisal, called **screening**, to determine the environmental, social and climate relevance and environmental, social and climate risks of a FC measure;

and, if the relevance is affirmed:

- the definition of the scope (**scoping**) to identify and assess the FC measure's environmental, social and climate-relevant impacts and risks more accurately, including potential to protect the climate and increase the adaptive capacities of the target group in close cooperation with the executing agency; and
- the design and implementation of an **ESDD, climate proofing assessment** and/or **climate protection assessment** in order to examine all or individual aspects of the FC measure, including participatory approaches to involve affected local groups and keep the public in the partner country informed.

4.1.4. The steps mentioned above must not only cover the components which are financed by KfW Development Bank, they must also cover the whole project around this FC measure component. This also applies to the rehabilitation and/or expansion of existing facilities. Moreover, it is important to consider relevant alternatives to reach the FC measure objective. One possible outcome of an ESDD or climate assessment may be that the original FC measure design or the location has to be modified.

4.2 Appraisal Standards

4.2.1 When assessing the environmental, social and climate impact of FC measures, KfW Development Bank must adhere to the KfW Group sustainability policy and the specific developmental concepts and guidelines of the German federal government for development cooperation.

4.2.2 The foundation of the assessment of environmental, social and climate impacts of a FC measure is its compliance with relevant national standards and legal requirements as well as the assessment requirements of KfW Development Bank. Compulsory for the ESDD of a FC measures are the standards of the World Bank Group (i.e. for public agencies the Environmental and Social Safeguards of the World Bank and the IFC Performance Standards for cooperation with the private sector) and their General and sector-specific Environmental, Health and Safety (EHS) Guidelines as well as the Core Labour Standards of the International Labour Organization (ILO). Within the framework of donor harmonisation (Paris Declaration), KfW Development Bank can also use comparable standards of other development banks. This takes place following the assessment in individual cases or in accordance with the regulations that have been agreed as part of the cooperation agreement. If the FC measure involves funds related to the European Union (EU) or is financed in countries with EU membership prospects, the environmental and social standards of the EU also apply. The underlying evaluation standards in each case are disclosed to the executing agency.

4.2.3 Furthermore, the assessment takes into account the requirements of the human rights guidelines of the BMZ and the UN Basic Principles and Guidelines on Development-based Evictions and Displacements. When financing large dam projects, KfW Development Bank uses the recommendations of the World Commission on Dams (WCD) as orientation.

4.2.4 Deviations from individual sub-standards are only permitted in justified exceptional cases and must be documented accordingly. If the standards cannot be applied immediately by individual executing agencies, a concrete action plan ² must be agreed or individual investment measures can be excluded.

4.3 Screening and Categorisation of FC measures

4.3.1 As part of the screening process, the planned FC measure will be appraised at an early stage in order to determine its relevance in terms of environmental and social impacts and risks, as well as in terms of substantial greenhouse gas reduction potential and substantial need for adaptation to possible climate change. The screening process is designed to identify and appraise the type and scale of any adverse environmental and social impacts or risks that may arise from the planned FC measure, potentials for reducing greenhouse gas emissions and possible climate change impacts on the FC measure that may impair the achievement of objectives. The next step, once the relevance of such consequences or risks has been established, is to define the type and scope of additional studies which need to be conducted as part of FC measure preparations.

4.3.2 Screening: Environmental and Social Due Diligence

4.3.2.1 All FC measures will be classified into one of the following three **categories** “A”, “B” or “C”, according to the relevance of their potentially adverse environmental and social impacts and risks.

4.3.2.2 FC measures will be classified as **category A**, if they may have diverse significant adverse impacts and risks on the environment and/or the social conditions of the affected population. Impacts and risks may potentially be significantly adverse because the complex nature of the FC measure, the scale (large to very large), the sensitivity of the location(s) of the FC measure or the impacts and risks are irreversible or unprecedented. Such impacts and risks may affect a larger area that is beyond the site of the facility under construction, the facility itself as well as any associated facilities or the FC measure area in a narrower sense. Therefore, FC measure will be classified as Category A if they, for example,

- adversely impact important features such as tropical forests, coral reefs, natural protection areas, wetlands, natural/near-natural forests, important cultural heritage sites);
- have significant transboundary impacts or relevance with regard to international treaties (such as conventions on international waste management regulations or on marine conservation, or agreements on the protection of biodiversity);
- lead to a high consumption of resources, in particular soil, land or water;
- are associated with high risks to human health or safety (e.g. industry or traffic facilities located adjacent to residential areas with considerable noise pollution and harmful emissions during construction and/or operation or handling hazardous substances);
- require large scale resettlement or lead to a significant loss of livelihood;

² E.g. an Environmental and Social Action Plan (ESAP)

- anticipated to have an adverse impact upon indigenous people.

An illustrative list of FC measures that may be classified as category A is attached as [Annex 1](#).

4.3.2.3 For **Category A** FC measures, it is mandatory to analyse and appraise any adverse environmental and social effects as part of an independent Environmental and Social Impact Assessment (ESIA) study including an Environmental and Social Management Plan (ESMP). The ESMP should describe all measures that need to be taken to avoid, mitigate, offset and monitor any adverse impacts and risks that have been identified by the ESIA; it should also assign responsibilities for implementing such measures and list the costs involved. For category A FC measures, KfW Development Bank requires the executing agency to operate an appropriate monitoring system; if the FC measures are run by private operators, they are required to have their own Environmental and Social Management System (ESMS). Any such management system must comprise the following elements: (a) adequate organisational capacity and competency, (b) environmental and social assessment procedures, (c) management programmes, (d) specific environmental and social training measures, (e) well-structured relations with the target group, (f) monitoring and (g) reporting procedures.

4.3.2.4 FC measures will be classified as **Category B** if they may have potentially adverse risks and impacts upon the environment and on the social conditions of those concerned. However, the impacts and risks may have a lesser extent than these of category A FC measures and can usually be mitigated through state-of-the-art mitigation measures or standard solutions (cf. [Annex 1](#)). Typically, the potential impacts and risks of category B FC measures are limited to a local area, are in most cases reversible and are easier to mitigate through appropriate measures. For category B FC measures, the need for and the scope, the priorities and depth of an ESIA have to be determined on a case by case evaluation. If it is expected that a Category B FC measures has single significant adverse environmental and social impacts and risks, an ESMS adapted to these impacts and risks, as described under Category A, is required.

4.3.2.5 FC measures will be classified as **Category C** if they are expected to have no or only minor adverse environmental and social impacts or risks and if the implementation and operation of the FC measure does not require any particular protection, compensation or monitoring measures. Category C FC measures usually do not require any additional analysis within the meaning of this Guideline or any further ESIA procedures. However, category C FC measures should be monitored for any relevant changes over their life cycle.

4.3.3 Screening: Climate Assessment

4.3.3.1 When assessing climate relevance, the relevance with regard to reducing greenhouse gas emissions (**climate protection relevance**) and the relevance with regard to adapting to climate change (**climate change adaptation relevance**) are examined. In terms of climate change protection relevance, checks are carried out to establish whether a FC measure can make a significant contribution towards the reduction of greenhouse gas emissions and/or the sequestration of carbon in soils or vegetation. Within the frame of the assessment of the climate change adaptation relevance, an analysis is carried out to see whether the intended development policy impact of the FC measure depends largely upon climate parameters and whether the FC measure can contribute towards significantly enhancing the adaptive capacity of target groups or ecosystems. Furthermore, it is assessed whether positive impacts of climate change can be enhanced (potentials) for the development goals, where appropriate. If it was

found that the FC measure has climate relevance or it is still unclear whether or not, an in-depth climate assessment must be carried out. If, during the screening, the climate relevance was evaluated for just one of the two aspects of climate protection or adaptation, an in-depth climate assessment only needs to be performed for the aspect classified as relevant.

4.3.3.2 The screening results of the environmental, social and climate assessment are documented internally.

4.4 In-depth Environmental and Social Due Diligence and in-depth Climate Assessment

4.4.1 Depending on the results of the screening, a decision is made regarding the extent of the in-depth assessments of possible adverse environmental, social and climate impacts as well as potential for climate protection and adaptation to climate change. An in-depth ESDD of adverse environmental and social impacts and risks is obligatory for FC measures categorised as Category A and B. Where there is considerable climate relevance, an in-depth assessment of the potential for greenhouse gas reduction or the need for adaptation must also be performed. The executing agency or the funding recipient is responsible for providing the relevant information for the assessment of environmental, social and climate impacts. If required, KfW Development Bank will request the information that is needed for the ESDD or the climate assessment from the executing agency, and will manage the execution of any further investigations. The recommendations of the ESIA must be written in an action-oriented manner in an ESMP that should also include the required environmental and social monitoring by the executing agency.

4.4.2 An in-depth investigation of the possible adverse environmental, social and climate impacts and risks of a FC measure as well as the potential with regard to climate protection and adaptation to climate change can, depending on the circumstances, take place as part of a feasibility study. In the event of significant adverse impacts and risks, stand-alone studies must however be carried out and respective management plans must be developed. For FC measures with significant adverse environmental and social impacts the studies should include the following information:

- forecast and assessment of the adverse environmental and social impacts and risks of the FC measure;
- avoidance or mitigation as well as sufficient protection and offset measures for the remaining impacts and risks;
- opportunities for the FC measure to enhance positive environmentally and socially-relevant impacts (enhancement measures);
- management of environmental protection measures and social measures as well as occupational health and safety;
- monitoring of environmental and social aspects (development, effectiveness of mitigation measures) during implementation and operation of the FC measure;
- stakeholder engagement (see section 4.6).

4.4.3 If there is a considerable loss of livelihood due to land take or if project affected people are affected by involuntarily resettlement, a stand-alone livelihood restoration plan (LRP) respectively a resettlement action plan (RAP) or resettlement policy

framework (RPF) must be developed. This plan must be available at the time of the FC measure assessment.

4.4.4 The assessment of a FC measure also includes all the necessary associated facilities, that are required to set up and operate the FC measure or without which the FC measure would not be viable (e.g. access roads, power lines for transmitting energy from a power station). If the FC measure financed by KfW Development Bank is used as associated facility for another investment (e.g. power lines for transmitting energy from a wind farm), KfW Development Bank also assesses whether this meets the requirements of KfW Development Bank and if subsequent improvements can be made. The impacts and risks as a result of the cumulative effects with other projects in the FC measure region (e.g. hydropower in one catchment and the downstream area) must also be included in the assessment.

4.4.5 When carrying out the climate assessment it must be analysed what kind of potential can be encountered as part of the FC measure with regard to reducing greenhouse gas emissions, reducing the adaptive capacity of the target groups and ecosystems as well as the use of the positive impacts of the climate change for development. The climate assessment must be carried out with the relevant aspects for each case:

- The assessment and consideration of the aspects related to **climate change adaptation** (climate resilience) should ensure that the desired developmental impacts of the FC measure are not endangered despite the forecasted effects of climate change. Furthermore, the assessment should analyse whether the partner country's capacity for adaptation can be further increased in the framework of the FC measure. In this regard the expected climate changes and their consequences for the FC measure will be analysed. This includes both direct effects (e.g. more frequent flooding or drying out of agricultural areas) and indirect effects of climate change (e.g. revenue losses in agriculture). The analysis will also examine the longer targeted period of impacts beyond the formal implementation period of the FC measure. On this basis options will be developed and implemented to increase the capacity of the target groups or ecosystems to adapt, which are compatible with the climate strategy of the country, e.g. the National Adaptation Plan (NAP) as part of the United Nations Framework Convention on Climate Change.
- The assessment and consideration of the potential for **greenhouse gas reduction** (Emission Saving) serves to avoid substantial greenhouse gas emissions and to tap potentials for reducing greenhouse gases. First, the expected development of greenhouse gases in the FC measure area/sector will be described. This is followed by a presentation of whether the planned FC measure contributes to higher or lower greenhouse gas emissions, is compatible with the climate strategy of the country, e.g. the Nationally Determined Contribution (NDC) as part of the United Nations Framework Convention on Climate Change and, where necessary, if there are potentials for reducing greenhouse gas emissions. On this basis options to contribute to greenhouse gas reduction will be developed and if applicable – taking into consideration the developmental impacts and costs – integrated into the FC measure.

4.4.6 The executing agency, in consultation with KfW Development Bank, is responsible for the design and implementation of the required studies, which are part of the preparation phase of the FC measure. During the preparation relevant bodies and agencies of the partner countries which are responsible for environmental, social and climate issues have to be consulted. If there is a potential need for major mitigation and/or compensation measures, the costs of such measures have to be taken into account in the economic feasibility study and included in the funding scheme.

4.4.7 If the ESDD or the climate assessment reveals that the FC measure may have adverse environmental, social and climate impacts or risks, which cannot be mitigated or modified through technical changes, to a acceptable level and no adequate offset can be envisaged, the FC measure will not be eligible for funding. Funding will also be denied if the FC measure does not comply with the legal regulations of the partner country or with international agreements.

4.4.8 A conclusive appraisal of the FC measure's environmental, social and climate impacts will be made in the FC measure appraisal report. The results are documented in the programme proposal respectively in the KfW internal decision making documents.

4.4.9 The conclusive appraisal must be based on the following basic principles:

- The main results shall be constructive measures that address the weaknesses identified during the appraisal in order to avoid, minimise or, where appropriate offset, adverse impacts.
- The FC measure should seek to propose solutions for appropriate protection measures which are commercially viable and socially acceptable.
- Local operators must have adequate technical skills to handle the proposed pollution control measures while ensuring proper operation of their facilities.
- It has to be ensured that capacities, management systems and funds will be made available to implement the protection measures that have been identified to mitigate or offset adverse social consequences. In that respect, it is necessary to determine the share of expenditure to be borne in the framework of the KfW financing and the contributions of the executing agencies.

4.4.10 The implementation of the mitigation measures identified as a result of the ESDD and the climate assessment and in the ESDD to avoid or mitigate adverse impacts and risks, as well as – where required – offset measures, will be stipulated as binding for the executing agency in the financing agreements. KfW Development Bank requires regular reports upon the implementation and corrective action taken if measures have not been implemented adequately or if measurement goals have not been achieved.

4.4.11 If the FC measure is funded jointly with other donors, (e.g. project-related co-funding schemes etc.) that have already conducted an ESIA study or an in-depth climate assessment, a plausibility check will usually be sufficient. However, this does not rule out that certain aspects may have to be examined in more depth.

4.5 Programme FC measure

4.5.1 If a FC measure consists of a programme within which different smaller or larger individual projects are to be carried out (e.g. infrastructure, energy, decentralisation etc.) that will be defined in more detail after the appraisal, the categorisation is based on the potential environmental and social risks expected by the nature of the individual project types. An environmental and social management framework (ESMF) must be created for this programme that describes how to deal with environmental and social impacts in the individual projects and describes any foreseeable impacts and risks as well as prevention, protection and compensation measures. If it is conceivable that physical resettlement and/or loss of livelihood will be caused as a result of one or several individual projects within a programme, a Resettlement Policy Framework

(RPF) is usually created. The ESMF and/or the RPF are subject of the ESDD by KfW Development Bank. Its subsequent implementation in the individual projects is defined accordingly in the financing agreement and followed-up through reporting.

4.5.2 KfW Development Bank reserves itself the right for a case-by-case appraisal or approval of individual projects in critical areas, such as Category A projects.

4.5.3 For the climate assessment a similar approach is taken: The assessment is carried out for the individual projects that are part of the programme, if these have been specified at the time of the appraisal. If not, it must be agreed with the executing-agency that individual appraisals are carried out in accordance with the specifications in 4.3.3 and 4.4.5 for the climate assessment. KfW Development Bank also reserves itself the right to an individual appraisal on a case-by-case basis.

4.6 Stakeholder Engagement and Complaints Management in FC measures

4.6.1 An important element of the ESDD planning and decision-making process is to involve the affected communities and keep the public in the partner country informed. Stakeholder Engagement e.g. in form of public hearings have to be scheduled for the scoping phase of the ESIA process and for the presentation of the draft ESIA report, to consult with the affected people and/or their community representatives, cooperatives or non-governmental organisations (NGOs). Moreover, it is crucial to use appropriate media channels to provide the affected communities and, as the case may be, the general public of the partner country with comprehensive information in all phases of the FC measure; such information needs to be provided in a timely and culturally appropriate manner. Interested parties in a climate change assessment (e.g. those affected, the public) should also be involved in relevant cases.

4.6.2 The executing agency must establish a grievance process for the FC measure for receiving and dealing with the concerns and complaints of the employees and the members of the affected public. The procedure should be reasonable for and culturally appropriate to the FC measure. Cases and processing results must be documented and form part of the reporting procedure.

5 Sustainable Implementation of FC measures

5.1 Monitoring and Reporting

5.1.1 In order to guarantee an effective monitoring of any adverse environmental, social and climate impacts and risks, the executing agency and/or the recipient of the funds have/has to agree to certain reporting and notification duties and implement appropriate monitoring tools. Attention should be paid to that their enforceability and practicability are ensured during construction, implementation and operation. To track the environmental, social and climate impacts and risks of a FC measure, it is particularly important to track the implementation of the agreed mitigation measures and monitoring procedures. If an ESMP has been developed, it will be used as a basis for monitoring. The same applies to an ESAP.

5.1.2. The success of carrying out resettlement and livelihood restoration activities must be assessed as part of a separate completion audit.

5.2 Sustainable Procurement at KfW Development Bank

5.2.1 For the implementation of the individual components of a FC measure, external consultants are usually commissioned with the planning and tendering process and one or more contractors (e.g. supplier, construction firm, plant manufacturer) are commissioned to implement the measures. In order to take environmental and social aspects appropriately into account in the implementation of the individual measures – in particular for Category A and B FC measure – the selection of the commissioned companies and the solutions they propose are extremely important. The procurement process offers the following influences:

- planning the tendering process – e.g. reducing environmental impacts such as through the specification of certain minimum and maximum values or focusing upon the environmental quality label (e.g. FSC - Forest Stewardship Council®);
- bidder pre-qualification – integration of project references and how the companies manage environmental and social aspects including relevant certifications (e.g. OHSAS 18001);
- evaluation of the proposals – e.g. bonus system for eco-friendly systems / products;
- contractual arrangements – contractual embedding of relevant parameters, ILO core labour standards and occupational health and safety measures on the construction site including the definition of penalties in the event of non-compliance.

5.2.2 To support the executing agency with the implementation of sustainable procurement, KfW Development Bank provides a toolbox for the sustainable procurement.³ The toolbox includes explanations of methods and offers procedures that can be used in the individual procurement phases.

5.3 Complaint Management at KfW Development Bank

5.3.1 The procedure for managing complaints at KfW Development Bank enables the public to express negative perceptions and criticism about FC measures, i.e. also related to environmental and social sustainability aspects. Complaints can be filed to KfW Development Bank via a dedicated page on the KfW Development Bank website, where an online complaint form⁴ in both German and English is available. Besides transparency, this procedure enables KfW Development Bank to treat complaints in a structured and categorised way, track them systematically and responded quickly. Further, it enables KfW Development Bank to make systematic use of project-related and process-related improvement potentials. From 2016 the section on KfW Development Bank in the KfW Group Annual Report will contain a summary of the complaints received sorted by topic and – where appropriate – any consequences taken.

³ [Toolbox for sustainable placing of orders](#)

⁴ [Online Complaint Form](#)

6 Environmental and Social Due Diligence and Climate Assessment of Programme-Based Approaches (PBA)

6.1 Unlike other financing tools, programme-based approaches do not earmark funds for individual measures or projects. Instead, the donors pay their funds directly into the budget of the partner country. The purpose of budget support is to provide assistance for economic, regulatory or institutional reforms across sectors (general support) or to support sector-specific political and institutional reforms. In that context, the objective of environmental and social impact assessments as well as climate assessments is to review the environmental regulations and policies of the partner country, to identify and appraise potentially adverse environmental, social and climate impacts and risks arising from reform programmes, and to determine at an early stage of the decision-making process (through strategic environmental assessment studies or SEAs) whether they are in line with national development goals for environmental and climate protection. Strategic environmental assessment studies are of particular importance for budget support in environmentally, climate and/or socially sensitive sectors, if there is a foreseeable risk of adverse environmental, climate and/or social impacts and risks.

6.2 Whenever a lead donor (e.g. World Bank, IDB, ADB, AfDB, EU) has already conducted a SEA for a certain budget support programme, the study and its results and recommendations may, subject to this Guideline, be used for assessing the programme's sections that are to be financed by KfW Development Bank, after a plausibility check has been performed and the necessary technical amendments have been made.

6.3 SEAs are conducted to implement the Sustainable Development Goals (SDG) to integrate the principles of sustainable development into country policies and programmes. This corresponds to the commitment made in the Paris Declaration on Aid Effectiveness to develop and apply common approaches for strategic environmental assessment at the sector and national levels.

7 Environmental and Social Due Diligence and Climate Assessment in Cooperation with Financial Intermediaries

7.1 The objective of the ESDD and climate assessments (as part of the due diligence) for FC measures in cooperation with financial intermediaries (FIs) is to anticipate and prevent any adverse environmental, social and climate impacts and risks that may arise from final loans granted to clients of the FI refinanced by KfW Development Bank. The scope of the ESDD and climate assessments of the FI depends

- on the one hand on the significance and relevance of environmental, social, and climate risks associated with the planned funding area, and

- on the other hand on the FI's procedures and capacity to assess environmental, social and climate concerns and the monitoring of loans in its existing portfolio.

This includes an appraisal of the FI's environmental and social management system (ESMS) in particular. As a rule, KfW Development Bank will not carry out an appraisal of the environmental and social impacts and risks of the individual final loans that have been extended by the FI, instead this must be done by the FI (exceptions see 7.3).

7.2 The following must be agreed with the FI:

- if not already in place, development and implementation of an appropriate ESMS, commensurate to the envisaged funding area that meets the requirements of IFC Performance Standard 1 as well as a human resources management in accordance with IFC Performance Standard 2. In addition, KfW Development Bank works with the partner institutes towards the basic principles of 'responsible finance'⁵ in dealing with their clients;
- screening of all final loans against the IFC Exclusion List ([Annex 2](#)). As a matter of principle, funds provided by KfW Development Bank must not be used for projects that are registered in the Exclusion List; the specifications set forth in the list (e.g. microfinance) apply by analogy;
- appraisal and categorisation of the final loan granting based on their environmental, social and climate risks (see the specifications in sections 4.3.3 and 4.4.5 on the climate assessment) by the FI;
- all final loans must meet the national requirements and be assessed appropriately in accordance with the national environmental and social laws;
- all final loans with significant environmental and social risks must meet the requirements of the relevant IFC Performance Standards 2–8;
- appropriate monitoring of the environmental and social risks in the FI's portfolio;
- annual reporting on the implementation and/or modifications of the ESMS as well as the environmental, social and climate-relevant aspects of the FC measure (line of credit).

7.3 KfW Development Bank reserves the right to approve or reject any final loan in critical areas, e.g. final loans of a category A project or with greater climate relevance.

7.4 Microfinance institutions are supported mainly by refinancing loan portfolios rather than loans to individual borrowers. In such cases, the assessment needs to determine whether the introduction of an ESMS is commensurate with the number of loans and the scale of the adverse environmental, social and climate impacts and risks that are to be expected. In any event, it is crucial to examine the portfolio of the FI and its previous track record in dealing with environmental, climate and social concerns.

7.5 Deviations from the agreements stipulated in section 7.2 are only permitted in justified exceptional cases and must be documented accordingly. If the agreements of individual FIs cannot be implemented immediately, a concrete action plan must be agreed or individual final loans can be excluded.

⁵ [Responsible Finance - ein Leitmotiv in der Finanzsektorförderung der KfW Entwicklungsbank 02/2008 \(german version\)](#)

8 Fast-track procedure in the event of natural disasters, crises and conflicts

8.1 Fast-track measures which are intended to rapidly repair damage caused by natural disasters, crises and conflicts are subject to a special procedure. Here, if deemed necessary to accelerate the procedure, individual assessment criteria relating to socio-economic, socio-cultural, gender-specific, environmental, and ecological themes may be waived (and where necessary, also waiver of the environmental and social impact assessment and climate assessment).

9 Validity and review of this Guideline

9.1 This Guideline is effective for all new FC measures that will be initiated after 1st April 2016. This Guideline will be reviewed for necessary modifications or adjustments in 2017.

10 Annexes

10.1 Annex 1 – Illustrative list of FC measures which may have potential significant adverse environmental and social impacts

The following is an illustrative list of FC measure types and measures that have the potential to cause significant adverse environmental and/or social impacts and can therefore be assigned to category A or B (where adverse impacts are less significant and reversible).

1. Extensive and significant changes to the use of natural resources (e.g. changes in the use of soils as farmland, as forest or pasture land, for rural development, commercial timber production, etc.) as well as extensive land reclamation.
2. Extensive and significant changes to management methods in agriculture and fishery (e.g. introduction of new plant species, large-scale mechanisation, introduction of new fish species) and extensive logging.
3. Use of water resources (e.g. large dams and other impoundments, pumped-storage systems/power stations, irrigation and drainage projects, deep wells, water resource management and management of catchment areas, water supply, sea water desalination plants).
4. Infrastructures (e.g. roads, bridges, airports, ports, transmission lines, pipelines, railroad networks, other rail transport, tourism).
5. Energy generation (e.g. large wind farms, extensive solar parks, biomass plants, geothermal plants, thermal power stations).
6. Industrial activities (e.g. metallurgic works, timber processing plants, chemical factories, cement factories, refineries and petrochemical plants, agro-industries).
7. Use of geological resources, mining etc. (e.g. mines, quarries, peat exploitation, oil and natural gas production).
8. Waste and wastewater management and removal (e.g. sewerage systems, wastewater treatment plants, landfills, treatment plants for domestic and hazardous waste).
9. Projects in which a significant number of affected persons have to be resettled involuntarily or lose their livelihood.

10.2 Annex 2 – IFC Exclusion List (for Financial Intermediaries of KfW Development Bank)

The IFC Exclusion List defines the types of projects that IFC **does not** finance.

IFC does not finance the following projects:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.¹
- Production or trade in alcoholic beverages (excluding beer and wine).¹
- Production or trade in tobacco.¹
- Gambling, casinos and equivalent enterprises.¹
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

All financial intermediaries (FIs), except those engaged in activities specified below*, must apply the following exclusions, in addition to IFC's Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

* When investing in **microfinance** activities, FIs will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

* **Trade finance projects**, given the nature of the transactions, FIs will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³

FOOTNOTES

¹ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

² Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

³ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

NOTE: This is a translation of the German version. In case of divergence, the German version shall prevail.

Imprint

Editor

KfW Group
KfW Development Bank
Palmengartenstrasse 5-9
60325 Frankfurt am Main, Germany
Telephone +49 (69) 7431-0
Fax +49 (69) 7431-2944
www.kfw.de

Editing

Competence Centre Environment and Climate

Cover picture

KfW Photo Archive / Photo agency photothek.net

Version: April 2016