

KfW Development Bank

»»» Sustainability Guideline

Assessment and management of Environmental, Social, and Climate Aspects: Principles and Procedures

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Abbreviations

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|--------|--|
| 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 |
| ESS | Environmental and Social Standards (of the World Bank) |
| EU | European Union |
| FC | Financial Cooperation |
| FI | Financial Intermediary |
| FPIC | Free, Prior, Informed Consent |
| FSC | Forest Stewardship Council |
| GPN | Good Practice Note |
| HRIA | Human Rights Impact Assessment |
| IATI | International Aid Transparency Initiative |
| IFC | International Finance Corporation |
| ILO | International Labour Organization |
| KfW | Kreditanstalt für Wiederaufbau |
| LRP | Livelihood Restoration Plan |
| NAP | National Adaptation Plan |
| NDC | Nationally Determined Contribution |
| NGO | Non-Governmental Organisation |
| PBA | Programme-Based Approaches |
| PBF | Policy Based Financing |
| PS | Performance Standards (of IFC) |
| RAP | Resettlement Action Plan |
| RBF | Results Based Financing |
| RPF | Resettlement Policy Framework |
| SDG | Sustainable Development Goals |
| UNCBD | United Nation Convention on Biological Biodiversity |
| UNCCD | United Nation Convention to Combat Desertification |
| UNFCCC | United Nation Framework Convention on Climate Change |
| VGGT | Voluntary guidelines on the responsible governance of tenure of land, fisheries and forests in the context of national food security |
| WB | World Bank |
| WCD | World Commission on Dams |

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. The principles of sustainable development are central to KfW Development Bank's funding activities, along with associated environmental and social sustainability and climate protection.

1.2. KfW Development Bank adheres to the KfW Group Sustainability Mission Statement¹ and contributes to

- The sustainability strategy of the Federal Republic of Germany;
- The achievement of the 2030 Agenda together with the objectives of Sustainable Development Goals (SDGs); and
- The fulfillment of the Paris Climate Agreement.

This Guideline defines KfW Development Bank's implementation approach in line with this Mission Statement.

1.3. All the Financial Cooperation measures (referred to hereinafter as "FC-measures") financed by KfW Development Bank are therefore subject to a comprehensive and systematic assessment of environmental and social aspects as well as other relevant development aspects. Furthermore, KfW Development Bank aims to actively support the implementation of international human rights in its business operations through the existing instruments at its disposal and in line with KfW's human rights declaration.

1.4. This Guideline applies to all forms of financing of KfW Development Bank.

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 as the executing agency. 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 economically and socially beneficial 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.

2.2. The priority areas of KfW's 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),

¹ [KfW Group Sustainability Mission Statement \(German version\)](#)

the Convention on Biological Diversity (UNCBD) and the Convention to Combat Desertification (UNCCD). For FC-measures where the primary objective is not environmental, climate or resource protection, KfW Development Bank seeks to nevertheless incorporate climate and/or environmental outcomes into the scope of the FC-measure.

3. Objectives of this Guideline

3.1. This Guideline describes principles and procedures to assess the environmental, social and climate aspects during the preparation and implementation of FC-measures financed by KfW Development Bank. In this context, this Guideline has 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; and
- to enhance transparency, predictability and accountability in the decision-making processes of the internal environmental and social due diligence (ESDD) and climate assessments.

3.2. In line with the overall objective of promoting sustainability and avoiding adverse environmental, social and climate impacts and risks, KfW Development Bank aligns its FC-measures the following principles:

- 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 occupational health and safety as well as health protection in the workplace ;
- 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 avoid all forms of discrimination;

- to avoid negatively influencing existing conflict dynamics;
- to protect and preserve cultural heritage;
- to support the executing agency in the management and monitoring of possible adverse environmental, social and climate impacts and risks associated with the implementation of the FC-measure.

3.3. KfW Development Bank only supports new projects that are in line with the “Exclusion List and Sectoral Guidelines of KfW Group”² ([Annex 2](#)). Further, for FC-measures with financial intermediaries (FI) the application of the IFC Exclusion List ([Annex 3](#)) is agreed (see 4.8).

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

4.1. Objective and Core Elements

4.1.1. All funding activities of KfW Development Bank must be subject to an internal ESDD and a climate assessment as defined in this Guideline.

4.1.2. 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, avoid and/ or minimise adverse impacts and risks to an acceptable level, or if unavoidable, to offset and compensate for these impacts and risks. 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 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, demonstrate the possibilities for environmentally, socially responsible and climate-friendly FC-measures and raise awareness of ecologically and socially sustainable development approaches.

4.1.3. ESDD and climate assessment 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.

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

- a preliminary appraisal (**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

² [Exclusion List and Sectoral Guidelines of KfW Group](#)

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, in-depth climate adaptation assessment** and/or **in-depth climate mitigation assessment** in order to examine all or individual aspects of the FC-measure, including participatory approaches to involve affected local groups and public disclosure in the partner country.

4.1.5. The steps mentioned above do not only apply to the project components financed directly by KfW Development Bank, but consider the entire project. This applies also to the rehabilitation and/or expansion of existing facilities. Moreover, the ESDD and climate assessment is to consider relevant project alternatives that are available to reach the FC-measure objective. One possible outcome of an ESDD or in-depth 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 adheres to the KfW Group Sustainability Mission Statement 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 law and legal requirements as well as the assessment requirements of KfW Development Bank. The KfW Development Bank assessment standards are the Environmental and Social Standards of the World Bank Group (i.e. for public agencies the Environmental and Social Standards (ESS) as well as relevant Operational Policies of the World Bank and the IFC Performance Standards (PS) for cooperation with the private sector) and their General and sector-specific Environmental, Health and Safety (EHS) Guidelines³ 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 can be done through assessment of individual cases or in accordance with rules 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 apply, as far as they go beyond the above mentioned standards and guidelines. 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. This includes the acknowledged principle of free, prior, informed consent (FPIC), if an FC-measure affects the rights of indigenous people), the Voluntary guidelines on the responsible governance of tenure of land (VGGT)⁴ and the UN Basic Principles and Guidelines on Development-based Evictions and Displacements. When financing large dam projects, KfW Development Bank references the recommendations of the World Commission on Dams (WCD).

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 plan⁵ must be agreed, or deviations avoided through exclusion of individual investment measures.

³ For sectors without sector-specific EHS Guidelines, the respective Good Practice Notes (GPN) of the World Bank Group are applied.

⁴ Voluntary guidelines on the responsible governance of tenure of land, fisheries and forests in the context of national food security

⁵ E.g. an Environmental and Social Action Plan (ESAP)

4.3. Screening and Categorisation of FC-measures

4.3.1. As part of the screening process, the planned FC-measure is appraised at an early stage in order to determine its relevance in terms of environmental and social impacts and risks, as well as greenhouse gas reduction potential and 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 appraisal of the environmental, social and climate impacts considers the whole project, even if KfW Development Bank is financing only a component of the project. 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 (ESDD)

4.3.2.1. All FC-measures are classified into one of the following four **categories** “**A**” (high risk), “**B+**” (substantial risk), “**B**” (moderate risk) or “**C**” (low risk), according to the relevance of their potentially adverse environmental and social impacts and risks.⁶

4.3.2.2. FC-measures are classified as **category A**, if they may have diverse significantly adverse impacts and risks on the environment and 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 if 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;
- are 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) in place. Any such

⁶ For FC-measures with financial intermediaries „FI/“ is added as a prefix. See section 4.8.

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 are classified as **Category B** if they may have potentially adverse risks and impacts upon the environment and on the social conditions of those concerned, although to a lesser extent than these of category A FC-measures and can usually be mitigated through standard, best available mitigation approaches (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 are determined through a case by case evaluation.

4.3.2.5. If it is expected that a Category B FC-measure has single significantly adverse environmental and social impacts and risks (**Category B+**), an ESIA and an ESMP as well as an ESMS adapted to these impacts and risks are required, as described under Category A.

4.3.2.6. 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 scope of this Guideline or any further ESDD procedures. Category C FC-measures should, however, be monitored for any relevant changes over their life cycle.

4.3.2.7. If a FC-measure is to be implemented in an area in which a critical human rights situation is known or expected, or if the project has effects that may result in conflicts that could significantly harm human rights (e.g. resource use conflicts), KfW Development Bank may require a detailed Human Rights Impact Assessment (HRIA) and additional measures aimed at ensuring that human rights are upheld.

4.3.3. Climate Screening

4.3.3.1. Climate relevance is assessed by examining 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**). 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. The assessment of the climate change adaptation relevance includes an analysis of 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, the climate relevance assessment considers if positive impacts of climate change could 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 results of the environmental, social and climate screening 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, B+ and B. Where there is considerable climate relevance, an in-depth assessment of the potential for greenhouse gas reduction or the need for adaptation is 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 in-depth climate assessment from the executing agency, and manages the execution of any further investigations. The recommendations of the ESIA are to be written in an action-oriented manner in an ESMP that also includes 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, further stand-alone studies and respective management plans are required. For FC-measures with significant adverse environmental and social impacts the studies should include the following information:

- identification 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. 4.9).

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), a resettlement action plan (RAP) or resettlement policy framework (RPF) must be developed. This plan must be available at the time of the assessment of the FC-measure.

4.4.4. The assessment of a FC-measure also considers all necessary associated facilities, required to establish 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 the other investment also aligns with the requirements of KfW Development Bank and if subsequent improvements are possible. The impacts and risks as a result of the cumulative effects with other projects within the region (e.g. hydropower in one catchment and the downstream area) are also to be included in the assessment.

4.4.5. The in-depth climate assessment analyses the greenhouse-gas reduction potential, adaptive capacity of the target groups and ecosystems as well as the use of the positive impacts of the climate change for development, associated with the FC-measures. The in-depth climate assessment is carried out with the following relevant aspects, respective for each case:

- **The in-depth climate adaptation assessment** and consideration of the aspects related to **climate change adaptation** (climate resilience) should ensure that despite the forecasted effects of climate change, the desired developmental impacts of the

FC-measure are not threatened. Furthermore, the assessment should analyse whether the partner country's climate adaptation capacity can be further increased within the scope 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 examines the longer targeted period of impacts beyond the formal implementation period of the FC-measure. On this basis, options, 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, will be developed and implemented to increase the climate adaptation capacity of the target groups or ecosystems.

- The **in-depth climate mitigation assessment** to consider the potential for **greenhouse gas reduction** (Emission Saving) serves to avoid substantial greenhouse gas emissions and to identify potential for reducing greenhouse gases. First, the greenhouse gas emissions associated with the FC-measure region and/ or sector is described, and whether the planned FC-measure contributes to increasing or decreasing 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 is potential 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 are to be consulted. Where major mitigation and/or compensation measures are to be expected, 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 in-depth 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 an 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 respective decision-making documents.

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

- The main results are the identification of appropriate measures to adequately address the weaknesses identified during the appraisal in order to avoid, minimise or, where appropriate offset, adverse impacts.
- The FC-measure seeks 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.
- Capacities, management systems and available funds for the implement the protection measures identified to mitigate or offset adverse social consequences are to be con-

firmed. In that respect, it is necessary to determine the share of expenditure within in the framework of the KfW financing, and the contribution of the executing agencies.

4.4.10. The implementation of the mitigation measures identified as a result of the ESDD and the in-depth 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 the objectives of these measures have not been achieved.

4.5. Specifics for FC-Measure with Programmatic Character

4.5.1. If a FC-measure consists of separate smaller or larger individual projects that will be identified, defined and prepared in more detail only after the appraisal stage, categorisation, at the screening stage is based on considering the potential environmental and social risks associated with the project types or sector(s) in which these activities are planned. An environmental and social management framework (ESMF) is required to be developed for this type of FC-measures, which sets out the principles, rules, guidelines and procedures to assess the environmental and social risks and impacts as well as the measures and plans to reduce, mitigate and/or offset adverse risks and impacts. 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 the FC-measure, a Resettlement Policy Framework (RPF) is usually prepared. No physical resettlement of people shall take place until a project-specific RAP has been developed and agreed by KfW Development Bank. The ESMF and/or the RPF are subject of the ESDD by KfW Development Bank. Their subsequent implementation of the individual projects is defined within the financing agreement and monitored through reporting and site visits.

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

4.5.3. A similar approach is taken for the climate assessment. The assessment is carried out for the individual projects that are part of the FC-measures, 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 the right to undertake an individual appraisal on a case-by-case basis.

4.6. Specifics for Programme-Based Approaches (PBA): Results-Based-Finance (RBF) und Policy-Based-Finance (PBF)

4.6.1. The financing of result- and programme-based approaches is characterised by the fact that funding is linked to the achievement of pre-agreed results, relevant for development or the development and implementation of (sector) policy reforms. Unlike to traditional investment projects, costs are not reimbursed but achievements of agreed outcomes are rewarded. In contrast to FC-measures with project or programme characteristics, PBF/RBF are broadly defined and may cover a wide range of measures, from specific project investments to general or sectoral policy reforms or basket financing. Therefore, depending on the structure of the measure, very different types of assessment studies may be needed. The categorisation is based on the potential environmental and social risks that could arise from the planned reforms or outcomes.

4.6.2. The analysis and assessment of the potential environmental and social impacts and risks are carried out in the context of the given country system and legislative framework of the sector. This may range from a specific ESIA for an infrastructure measure to a general ESDD of the current legal and institutional context, identifying potential risks and developing approaches to mitigate these risks.

4.7. Specifics for Fast-Track Emergency Procedure (e.g. in the event of natural disasters, crises and conflicts)

4.7.1. Fast-track emergency procedures cover generally emergency aid and/or removal of damages caused by natural disasters, crisis and/or conflict situations, which require immediate response and timely implementation. Hence, a procedure adapted to the specifics of the context is applied for the ESDD. In a shortened screening phase the FC-measure is categorised as for all FC-measures (see 4.3). The screening determines also if an in-depth ESDD is required, and if so, the scope of the ESDD. If impacts and risks are considered moderate, the relevant E&S activities such as preparation of studies and management plans can be carried out in parallel with implementation – meeting both the urgency for fast-tracked procedures as well as the appraisal requirements.

4.8. Specifics for the Financing with Financial Intermediaries (FI)

4.8.1. The objective of the ESDD and climate assessments (as part of the due diligence) for FC-measures with FIs is to anticipate risks and prevent any potential adverse environmental, social and climate impacts and risks that may arise from sub-loans granted by the FI and re-financed by KfW Development Bank (in accordance with to WB ESS 9). The categorisation is carried out in accordance with section 4.3.2 with the pre-fix “**FI**”⁷, whereby in addition to the potential environmental and social impacts and risks of the sub-loans, the organisational capacity of the FIs ability to manage these impacts and risk also determines the categorisation.

4.8.2. The scope of the ESDD and climate assessments of the FI depends on:

- the significance and relevance of environmental, social, and climate risks associated with the planned funding area, and
- 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 individual sub-loans, instead this lies within the responsibility of the FI (for exceptions see 4.8.5).

4.8.3. If KfW Development Bank holds shares in an FI e.g. a fund, a bank or similar, everything under 4.8 applies to the entire FI-portfolio, and is not limited to the financing and the associated sub-loans.

4.8.4. The following is to be agreed with the FI:

- a) The development and implementation of an appropriate ESMS, commensurate to the envisaged financing that meets the requirements of IFC PS 1/WB ESS 1 as well as human resources management approach in accordance with IFC PS 2/WB ESS 2. In addition, KfW Development Bank works with the partner institution towards the basic principles of “responsible finance”⁸ in dealing with their clients;
- b) appropriate monitoring of the environmental and social risks in the FI's portfolio;
- c) implementation of a grievance mechanism; and
- d) regular 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 When sub-loans of a FC-measures are likely to fall into different categories, the highest risks determine the category for the FC-measure as part of the precautionary principle

⁸ [Responsible Finance – Guiding principle of KfW when developing financial systems \(2019\)](#)

With respect to the particular sub-loans:

- e) screening of all sub-loans against the Exclusion List of KfW Development Bank (see [Annex 2](#) and [Annex 3](#));
- f) appraisal and categorisation of the sub-loan based on their environmental, social and climate risks by the FI (see specifics in sections 4.3.3 and 4.4.5 on the climate assessment);
- g) all sub-loans must meet the national requirements and be assessed appropriately in accordance with the national environmental and social laws;
- h) all sub-loans must be in accordance with IFC PS/WB ESS 1 and 2 as well as WB ESS 10;
- i) all sub-loans with one or more of the following environmental and social risks: resettlement, adverse risks or impacts on Indigenous Peoples, significantly adverse impacts on the environment, community health and safety, labour and working conditions, biodiversity or cultural heritage must meet the requirements of the relevant IFC PS/WB ESS 3–8; and
- j) the borrower of the sub-loan must be required to adequately inform the project affected people about the impacts and risks of the measures that is financed through the sub-loan.

4.8.5. KfW Development Bank reserves the right to approve or reject any sub-loan in critical areas, e.g. sub-loans of a high risk project or with greater climate relevance.

4.8.6. If the support of a Microfinance institutions is focused on a large number of very small sub-loans (e.g. refinancing complete loan portfolios), 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.

4.8.7. Deviations from the agreements stipulated in section 4.8 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.

4.9. Stakeholder Engagement and Grievance Management in FC-measures

4.9.1. 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 are 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). The executing agency is required to conduct a meaningful participation and consultation process that allows affected people and interested stakeholders to express their views and concerns on project risks, impacts and the proposed mitigation measures. At the same time, the process shall also enable the executing agency to take these views into account and to react. For the sake of transparency, the executing agency is required to disclose relevant information on the environmental and social assessment of the FC-measure and a non-technical summary via appropriate media channels at an accessible location and in a timely, culturally-appropriate manner. The whole process shall be comprehensive and cover all phases of the FC-measure. In relevant cases, the in-depth climate assessment (e.g. those affected, the public) should also be made accessible to the interested public.

4.9.2. The executing agency is to establish a grievance process for the FC-measure for receiving and dealing with the concerns and complaints of employees and members of the affected public. The procedure should be culturally appropriate and proportional to the FC-measure.

Grievances and results of the process are to be documented and form part of the reporting to KfW Development Bank.

5. Sustainable Implementation of FC-measures

5.1. Monitoring and Reporting

5.1.1. In order to implement 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 requirements and implement appropriate monitoring tools. Attention should be paid to enforceability and practicability of the monitoring tools during construction, commissioning and operation and, if relevant, also during decommissioning. In order to monitor 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. If deemed necessary due to the complexity of the circumstances, KfW Development Bank, may require – in consultation with the executing agency – independent third party monitoring.

5.1.2. The results of the implementation of resettlement and livelihood restoration activities are to 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 FC-measures – in particular for FC-measures of Category “A” and “B+” – 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 as well as occupational health and safety aspects including relevant certifications (e.g. ISO 14001, ISO 45001);
- 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, besides a toolbox for sustainable procurement,⁹ also manda-

⁹ [Toolbox Sustainable Procurement](#)

tory Standard Bidding Documents.¹⁰ The toolbox includes explanations of methods and offers procedures that can be used in the individual procurement phases. The Standard Bidding Documents provided by KfW Development Bank include respective requirements and regulations for the tendering of consulting services, construction services and building contracts. If an executing agency may not be able to use these standard bidding documents due to regulatory restrictions, the executing agency must include respective requirements in the bidding documents that are used.¹¹

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 form¹² 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. Since 2016, the section on KfW Development Bank in the KfW Group Annual Report includes a summary of the complaints received sorted by topic and – where appropriate – any resulting consequences.

6. Transparency at KfW Development Bank

6.1. KfW Development Bank uses the Project Database¹³ in its Transparency Portal (only available in German) to disclose information of FC-measures with funding agreements signed after March 2013. The database is updated monthly and contains information on FC-measure level. Since mid-2019, the environmental and social risk category has been included, and from 2020 a short summary of the ESDD results will also be added.

6.2. Detailed information of all FC-measures that are implemented on behalf of the BMZ is published via the International Aid Transparency Initiative (IATI) information system of the BMZ. The information is updated monthly, according to the IATI standards.

7. Validity and review of this Guideline

7.1. This Guideline is binding for all new FC-measures from October 1st, 2019. It will be reviewed in 2020 whether any modifications or adjustments are required.

¹⁰ [Standard Bidding Documents under guidelines and contracts](#)

¹¹ This requirement arises from the new procurement guideline of KfW Development Bank, valid since 2019, January 1st for all FC-measures appraised thereafter.

¹² [Online Complaint Form](#)

¹³ [Projektdatenbank](#)

Annexes

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 and B+ 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. Infrastructure (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).

Further classification criteria can be found in section 4.3.2.2 of the main text.

I. Exclusions

In the following areas KfW Group does not offer financing for new projects or purposes in its promotional programmes: *

1. Production or trade in any product or activity subject to national or international phase-out or prohibition regulations or to an international ban, for example
 - i) certain pharmaceuticals, pesticides, herbicides and other toxic substances (under the Rotterdam Convention, Stockholm Convention and WHO "Pharmaceuticals: Restrictions in Use and Availability"),
 - ii) ozone depleting substances (under the Montreal Protocol),
 - iii) protected wildlife or wildlife products (under CITES / Washington Convention)
 - iv) prohibited transboundary trade in waste (under the Basel Convention).
2. Investments which could be associated with the destruction ** or significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with international standards).
3. Production or trade in controversial weapons or critical components thereof (nuclear weapons and radioactive ammunition, biological and chemical weapons of mass destruction, cluster bombs, anti-personnel mines, enriched uranium).
4. Production or trade in radioactive material. This does not apply to the procurement of medical equipment, quality control equipment or other application for which the radioactive source is insignificant and/or adequately shielded.
5. Production or trade in unbound asbestos. This does not apply to the purchase or use of cement linings with bound asbestos and an asbestos content of less than 20%.
6. Destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 km.
7. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
8. Prospection, exploration and mining of coal; land-based means of transport and related infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines. ***
9. Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.

II. Sectoral Guidelines

In selected sectors, KfW Group ties its direct financial commitment for concrete new projects to the following qualitative conditions: *

1. Outside the EU and the OECD high income countries, large agricultural or forestry enterprises producing palm oil or wood must either comply with recognised international certification systems (RSPO or FSC) or equivalent regulations to ensure sustainable cultivation conditions, or must be in the process of achieving compliance.
2. Large dam and hydropower projects use the recommendations of the World Commission on Dams (WCD) as orientation. ****
3. Projects for non-conventional prospection, exploration and extraction of gas will disclose in accordance with international standards,
 - that no material groundwater drawdown or contamination is to be expected,
 - that measures for resource protection (in particular water) and recycling are taken,
 - that suitable technology is used for safe drilling, which includes integrated bore piping and pressure testing.

* Deviations can result from mandated transactions (Zuweisungsgeschäft) in accordance with § 2 (4) of the Law Concerning KfW, or from instructions of the relevant federal ministries.

** "Destruction" means (i) the destruction or severe deterioration of the integrity of an area caused by a major and prolonged change in the use of land or water, or (ii) the alteration of a habitat which leads to the inability of the affected area to perform its function.

*** Investments in power transmission grids with significant coal-based power feed-in will only be pursued in countries and regions with an ambitious national climate protection policy or strategy (NDC), or where the investments are targeted at reducing the share of coal-based power in the relevant grid.
In developing countries, heating stations and cogeneration facilities (CHP) essentially fired with coal can be co-financed in individual cases based on a rigid assessment, if there is a particularly high sustainability contribution, major environmental hazards are reduced, and if there demonstrably is no more climate-friendly alternative.

**** Dams with a height of at least 15 meters measured from the foundation or dams with a height between 5 and 15 meters with a reservoir volume of more than 3 million cubic meters.

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.

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