Environmental and Social Safeguards (ESS) Policy for the CARICOM Development Fund (CDF)

26th October 2021
ENVIRONMENTAL AND SOCIAL SAFEGUARDS (ESS) POLICY
FOR THE CARICOM DEVELOPMENT FUND (CDF)

POLICY CONTEXT AND OBJECTIVES

The CARICOM Development Fund (CDF) was established to operate a regime for disadvantaged countries, regions and sectors, to enhance their prospects for development and successful competition within the context of the CARICOM Single Market and Economy (CSME), and to redress, to the extent possible, any economic dislocation arising from the establishment of the CSME within the context of that regime.

The CDF delivers its financial and technical resources to beneficiary countries through a country programming approach which involves the active participation of respective Member States. The programming approach assures the ownership of the programme by stakeholders and focuses on the attainment of strategic outcomes rather than simply on individual project objectives. The outcome of this approach is a Country Assistance Programme (CAP) for each beneficiary Member State, which encapsulates loan and grant agreements between the CDF and the beneficiary country. The CAP identifies initiatives consistent with national policy of the Member State and the CDF Strategic Plan. Guided by the CARICOM Cohesion Policy, CDF intends to design the CAPs to address disadvantage more deliberately within and across sectors and regions, including communities, and not only at the country level. This would reflect the full articulation of the CDF’s treaty-based mandate. The introduction of this Environmental and Social Safeguards Policy will strengthen the institutional framework and help build the capacity that the CDF requires to deliver upon its mandate.

1. The CDF’s **social and environmental objectives** are to:
   
   a) Preserve and protect environmental quality;
   
   b) Ensure sustainable utilisation of natural resources;
   
   c) Protect human health;
   
   d) Preserve human rights;
   
   e) Contribute to poverty alleviation and gender equity;
   
   f) Contribute to sustainable socio-economic development; and
   
   g) Promote measures to address environmental issues such as climate change and disaster risk reduction.

2. All projects financed by the CDF should:
   
   a) Comply with social and environmental policy, legislation and regulations of Member States;
b) Comply with CARICOM and other regional social and environmental policies and commitments, including the CARICOM Gender Policy;

c) Comply with international conventions and agreements ratified by Member States;

d) Apply best available practice as appropriate;

e) Apply best environmental management practice during project implementation and operation; and

f) Apply internationally recognized Performance Standards (PS) 1-8 as applicable to said projects; **these standards taken together comprising the Environmental and Social Management System (ESMS).**

3. CDF Borrowers/Investees are expected to apply the environmental principles of “prevention”, “precaution” and “polluter pays”, favoring preventive measures over mitigatory or compensatory measures whenever feasible.

4. This policy is supported by the senior management and Board of the CDF. All CDF staff, clients and other external stakeholders are expected to comply with and promote this policy, seeking to continually improve the overall performance of the CDF portfolio through enhanced risk management.

5. The CDF will develop and maintain the necessary internal capacity and structure for the implementation of this policy, continually building staff capacity to identify and mitigate environmental and social risks.

6. All projects proposed for CDF support will be subject to environmental screening by the designated CDF National Focal Point (NFP) or partner Financial Institution (FI), regardless of project size, nature or location and environmental objectives (if any). This will help ensure that CDF–financed projects are environmentally sound and sustainable and result in better informed decision making. The environmental screening will also determine the extent of environmental assessment required of the Borrower/Investee. The CDF’s review of the environmental assessment may result in a project being deemed ineligible for CDF-funding.

7. If an Executing Agency (EA), Investee or Borrower with a component/project under consideration for CDF support has inadequate capacity to carry out key environmental assessment-related functions for a proposed project, including development of an Environmental Impact Assessment (EIA) or Environmental Management Plan (EMP), management of mitigatory measures, environmental monitoring and reporting, the project financed by the CDF may include components to strengthen that capacity.

8. The foundation of this Policy is the Environmental and Social Management System (ESMS) designed for CDF operations, which provides the framework and guidelines to be applied at both CDF and underlying levels in order to manage social and environmental impacts and risks of projects supported by CDF.
PURPOSE OF THE CDF ESMS

This policy is underpinned by the Environmental and Social Management System (ESMS) designed for the CDF to avoid and minimize negative environmental and social (E&S) impacts and to enhance positive aspects of its prospective Borrower/Investee Projects implemented in CARICOM Member States. The ESMS provides the framework and guidelines to ensure that qualifying Financial Intermediaries (FIs) and other Executing Agencies (EAs) are committed and able to comply with applicable standards and national laws in their screening, approval, investment and monitoring of Borrower/Investee Projects.

CDF is supported at a national level by National Focal Points (NFPs). The CDF guidelines, procedures and mitigation requirements are in line with those of the GCF/IFC. CDF will institutionalize the ESMS guidelines and processes in each NFP, EA and FI and enforce their implementation through the contractual provisions agreed with EAs and FIs. CDF contractual obligations to be agreed with EAs and FIs will include the following caveats:

i. Any proposed deviation from these guidelines must be brought to the CDF for its explicit approval; and

ii. A non-authorized deviation from the guidelines constitutes a breach which could result in the loss of project funding and/or loss of access to CDF funding upon consideration by the CDF Board.

OBJECTIVES OF THE CDF ESMS

Projects supported by CDF vary widely in scale, scope and level of E&S risk. Appropriate environmental assessment and risk mitigation are fundamental to operations at the CDF, NFP, EA and FI levels. Each Borrower/Investee Project will be categorized prior to investment based on the potential E&S risks associated with it, as outlined in the ESMS. All projects, irrespective of their categorization will be screened for potential E&S impacts, and adverse impacts avoided or suitably mitigated.

This ESMS has been devised in accordance with the Environmental and Social Safeguards Framework of the Green Climate Fund (GCF, 2015)\(^1\), which has adopted the Performance Standards of the International Finance Corporation (IFC). The GCF/IFC safeguards are designed to reduce potential conflict, optimize project benefits, and avoid social and environmental harm, during both project implementation and facility operations. To effectively manage environmental, health, and safety (EHS) issues, EHS considerations must be fully integrated into facility and project-level activities in an organized and structured way.

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IFC PERFORMANCE STANDARDS

All projects to be financed, whether by direct CDF investment in an EA or via an FI, are required to be screened to manage E&S risks associated with their operations or activities. Through the E&S review process, the scope of the E&S performance required of Borrowers/Investees is determined. In accordance with GCF requirements, this is based on proposed investment type, intended use of CDF proceeds, and level of E&S risk associated with Borrower/Investee operations. The applicability of the GCF/IFC E&S performance standards to operations supported by the CDF is set out in Table 1 below.

Table 1: Assessment of the Applicability of the GCF/IFC Performance Standards to CDF Direct Investments and FI transactions

<table>
<thead>
<tr>
<th>GCF / IFC Performance Standard</th>
<th>Requirements</th>
<th>Applicability to CDF ESMS</th>
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<tbody>
<tr>
<td><strong>Performance Standard 1</strong></td>
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<tr>
<td><strong>Assessment and management of E&amp;S risks and impacts</strong></td>
<td>This PS aims to identify and evaluate social and environmental impacts of the Project and prevent, minimize, and manage negative impacts on the population, communities, and the environment. It emphasizes the need for projects to consult affected communities appropriately. Borrower/Investee projects are classified as category A, B or C by GCF/IFC depending on their type, location, vulnerability, and scale of the project, and the scope and scale of potential impacts.</td>
<td>Potential environmental and social impacts could be caused by any project that includes physical works. This ESMS defines the processes to be adhered to for environmental assessments of prospective projects, the responsibilities of different actors, grievance mechanisms, stakeholder consultations, and dissemination of project information to ensure that potentially affected communities understand the risks, impacts, and opportunities of the proposed initiatives. CDF will only support projects for which appropriate mitigation measures, remediation plans and adequate management systems to implement these plans are developed, for all categories of projects.</td>
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<td><strong>Performance Standard 2</strong></td>
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<td><strong>Labour and working Conditions</strong></td>
<td>This PS aims to establish, maintain, and improve working relationships between workers and management. It promotes equal employment opportunity, equitable treatment of workers and guards against child and/or forced labour. Work conditions must be safe and healthy and promote the wellbeing of employees. The E&amp;S assessment must take into account worker protection and promote measures to protect the health and safety of workers and local communities.</td>
<td>This is important to all aspects of design. These provisions are applicable to the CDF, all FIs, and Borrower/Investee projects. CDF, FIs and Borrower/Investees (including their contractors) are required to respect national labour laws and national commitments to International Labour Conventions in the course of their operations.</td>
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| **Performance Standard 3**    | Resource efficiency, pollution prevention and reduction This PS aims to reduce negative impacts on human health and the environment by minimizing pollution generated by project activities and by reducing emissions from project activities that contribute to climate change.                                                                                                                | This could be an important consideration for:  
  - CDF direct investments e.g. in infrastructure development projects  
  - Projects proposed to be undertaken by FI clients  
  Appropriate environmental assessment for the risk category of project will identify potential impacts. Such impacts may typically be addressed through the application of best practice in the design, installation, operation and decommissioning of projects by Borrower/Investees and their contractors. CDF E&S guidance for the sector of operation will be complied with by all relevant parties, based on IFC standards. |
| **Performance Standard 4**    | Community health, safety and security This PS aims to:  
  1. Avoid or minimize risks and adverse impacts on the health and safety of the local communities during the project lifetime from both routine and non-routine circumstances.  
  2. Ensure that the safeguarding of personnel and property is carried out in a manner that avoids or minimizes risks to the local community.                                                                                                                                                  | This could be important for projects likely to be undertaken through CDF or its FIs, depending on the sector and type of Borrower/Investee operation engaged in. Project environmental assessment appropriate to project E&S categorization and level of environmental risk will identify potential risks, recommended mitigations, and monitoring and evaluation steps. This will allow for impacts of Borrower/Investee and associated contractor activity on the health, safety and security of local communities to be identified, and measures imposed as required. |
<p>| <strong>Performance Standard 5</strong>    | Land acquisition and involuntary resettlement This PS aims to avoid or minimize displacement of people. When displacement cannot be avoided, it provides a framework for providing assistance to improve or at least restore income sources and/or other means of livelihood.                                                                                                              | Land acquisition and involuntary resettlement are possible for large infrastructural projects undertaken as direct CDF investments. They are unlikely for projects funded through FIs. All projects will employ stakeholder engagement in proportion to likely risks. There will be rigorous community engagement for projects where displacement is possible or likely, and IFC guidance for these situations, adopted by the CDF, will be observed, to avoid or at least minimize any project-induced involuntary resettlement. The more stringent of IFC Performance standard requirements and national law, policies and procedures for land acquisition and compensation will be observed for persons affected, whether this be physical or economic displacement. See Section 3.4.2 of CDF ESMS for further discussion. |</p>
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<td><strong>Performance Standard 6</strong></td>
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| **Biodiversity conservation and sustainable management of living natural resources** | This PS aims to:  
1. Protect and conserve biodiversity  
2. Promote the sustainable management and use of natural resources through the adoption of practices that integrate conservation needs and development priorities | This could be important for a range of projects, e.g.  
• Direct investments in new infrastructure  
• New developments on virgin sites undertaken by FI clients that could adversely affect natural resources. The environmental assessments must take this issue into account. Potential impacts must be identified through a project specific environmental assessment, considering the sensitivity of the project location. |
| **Performance Standard 7**   |              |                          |
| **Indigenous Peoples**       |              |                          |
| This PS aims to:  
1. Ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples;  
2. Anticipate and avoid adverse impacts of projects on communities of Indigenous Peoples, or when avoidance is not possible, to minimize and/or compensate for such impacts;  
3. Promote sustainable development benefits and opportunities for Indigenous Peoples in a culturally appropriate manner. | A number of project countries have significant populations of indigenous peoples, e.g. Belize, Guyana and Suriname. Adverse impacts on Indigenous Peoples as a group are possible depending on the scale and scope of the proposed project. Any such impacts will be mitigated through a project management system that includes implementation of best practice and community engagement including a grievance regress mechanism. IP concerns should be specifically mitigated through project design. Project designs must also ensure that Indigenous Peoples are afforded equitable access to project benefits. See Section 3.4.3 of CDF ESMS for further discussion. |
| **Performance Standard 8**   |              |                          |
| **Cultural heritage**        |              |                          |
| This PS aims at protecting irreplaceable cultural heritage.  
The IFC defines cultural heritage as tangible objects and sites having archaeological (prehistorical), paleontological, historical, cultural, artistic and religious values, and unique natural features that embody cultural values such as sacred trees.  
This definition also includes intangible forms of culture such as knowledge, innovations, and cultural practices of communities embodying traditional lifestyles. | Adverse impacts on cultural heritage are possible. The environmental assessment must take this into account. Potential impacts must be identified through a project specific E&S impact assessment, considering the sensitivity of the sub-project location, so that risks will be fully identified and appropriate measures implemented. |
| Gender integration Policy    |              |                          |
| The Gender Policy of the GCF aims to:  
1. Ensure that through the adoption of a gender-sensitive approach, the GCF will have climate-change related results that are more efficient, sustainable, and equitable.  
2. Ensure better resilience and capacity for both women and men to address climate change and that women (and men) will contribute to and benefit from | This is a cross cutting issue that needs to be addressed in project designs.  
CDF as a CARICOM agency is guided by the CARICOM Gender Equality Policy until such time that the CDF Draft Gender Policy is considered and approved by the CDF Board of Directors. CDF will progressively adapt this Policy to better reflect the CDF’s specific mandate and peculiar operating parameters. Gender considerations to be integrated into |
the activities supported by GCF.
3. Address and mitigate the potential risks of the project that affect women or men through adaptation and mitigation activities supported by GCF.
4. Contribute to reduce the variation of impacts of climate change on women and men that heighten social, economic, and environmental fragilities.

Together these elements above (PS 1-8) constitute the core of the Environmental and Social Management System (ESMS).

CDF GUIDELINES AND PROCESSES FOR INVESTMENTS

The CDF ESMS will be integrated into the various stages of its lending/investment cycle and consistent with GCF/IFC guidelines. Each step will abide by the five-phase approach outlined below, to include EA and project screening, assessment, investment decision-making and monitoring. The E&S elements in the CDF investment cycle are as outlined in Table 2 below.

Table 2: Five ESMS Phases Integrated with CDF’s Existing Risk Management Procedures and Key documents required

<table>
<thead>
<tr>
<th>Project phase</th>
<th>Activities</th>
<th>Key documents prepared by the CDF</th>
<th>Responsibility at Member State Level</th>
<th>Responsibility within CDF</th>
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<tr>
<td>1. Project screening</td>
<td>Initial Application/Concept Note submitted by applicant (EA) to NFP. NFP approves or rejects Concept Note. Pre-approved EA develops Component/Project document with NFP (and possibly CDF) assistance.</td>
<td>-</td>
<td>NFP reviews Concept Note against Concept Note Assessment Grid. NFP decides if applicant proceeds to next (Component/Project) document stage NFP assists applicant with development of Component/Project document.</td>
<td>NFP may request CDF assistance in developing Component/Project document. Director RDD decides if Programme Specialist, designated Environmental and Social Officer will assist, or if external assistance is warranted.</td>
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<tr>
<td>2. E&amp;S Due Diligence</td>
<td>NFP submits Component/Project document to assigned CDF. Component/Project Results Framework.</td>
<td>Component/Project document. Component/Project document to assigned CDF Programme.</td>
<td>NFP submits Component/Project document to assigned CDF Programme</td>
<td>Programme Specialist undertakes project appraisal (usually includes a desk review, site visit and...</td>
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<tr>
<td>Project phase</td>
<td>Activities</td>
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<td>Programme Specialist. Programme Specialist undertakes project appraisal and develops results framework. CDF Programme Specialist appraises Component /Project document. NFP collaborates with Programme Specialist on necessary changes to Component/Project Document. CDF undertakes internal evaluation of Component/Project Document.</td>
<td>ESIA or Environmental Assessment Report (if required). Endorsement (or rejection) by IP involved if applicable. Component /Project Evaluation Sheet (Programme Specialist). IRC Scoring.</td>
<td>Specialist. NFP and EA work with Programme Specialist to ensure clear definition of Component/Project results and to undertake necessary changes to Component/Project Document.</td>
<td>categorization of risk) in collaboration with CDF colleagues, including designated Social/Environmental Officer if required. Programme Specialist develops Component /Project Results Framework supported by designated Environmental and Social Officer. Programme Specialist assesses finalized Component/Project Document against the Component /Project Evaluation Sheet. Completed Component /Project document forwarded to Director RDD for Internal Review Committee (IRC) Review. Programme Specialist amends Component/Project document based on IRC feedback. External expertise may be procured by Director RDD. Director RDD finalizes and submits finalized components and designs to CEO for review.</td>
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<td>3. Assessment</td>
<td>Evaluation of overall risk and determination of whether to proceed with transaction, and of conditions.</td>
<td>Component/Project Evaluation Sheet (CEO). Revised Component/Project Document.</td>
<td>NFP collaborates with Programme Specialist on necessary changes to Component/Project Document.</td>
<td>CEO evaluates Component/Project in accordance with Component/Project Evaluation Sheet and may reject or require amendment. Programme Specialist collaborates with NFP on necessary changes. CEO, advised by Director RDD, developed recommendations for type and quantum of assistance (Loan, grant, TA).</td>
</tr>
<tr>
<td>Project phase</td>
<td>Activities</td>
<td>Key documents prepared by the CDF</td>
<td>Responsibility at Member State Level</td>
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<td>4. Investment decision, approval and Conditions of Financing in Investment Agreement</td>
<td>Grant/loan/TA decision and Agreement.</td>
<td>Component/Project Document. Component/Project Evaluation Sheet (CEO). Board Decision with conditions. Board Meeting Minutes. Letter of Approval. Loan/Grant Agreement.</td>
<td>NFP and EA receive Letter of Approval. NFP and EA confirm acceptance of proposed terms and conditions. NFP and EA review Loan Agreement. NFP and EA execute agreement with CDF.</td>
<td>CEO makes recommendations for Board consideration. Board reviews. Board Secretary conveys Board decision to Director RDD and minutes Board Meeting. Programme Specialist prepares decision letter for CEO signature. Letter of Approval includes terms and conditions for approved projects. Legal Counsel drafts Loan/Grant Agreement for approved project in collaboration with Programme specialist, outlining roles and responsibilities in Component/Project implementation, monitoring and reporting. Director RDD vets Loan Agreement. Legal Counsel sends Loan Agreement to NFP. CDF executes Loan Agreement with NFP and EA.</td>
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<td>5. E&amp;S Compliance Monitoring</td>
<td>Grant/Loan monitoring and reporting.</td>
<td>Component/Project Monitoring Framework reports. Annual Reports against key metrics. Annual E&amp;S reports.</td>
<td>EA submits monthly or quarterly Component/Project Progress Reports and Final Component/Project Report (on deliverables and outputs at Component/Project level) to the NFP. NFP uses Component/Project Monitoring Framework reports to track progress. NFP submits reports to CDF.</td>
<td>Programme Specialist monitors activity through report review and intermittent (usually biannual) site visits. CDF may use a QS/engineer on infrastructure components for M&amp;E support. CDF may commission an evaluation of Components/Projects to assess programme sustainability and lessons learned. RDD makes annual Lessons Learned Presentation.</td>
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DECISION OF THE 51st REGULAR MEETING OF THE CDF BOARD OF DIRECTORS

The CDF Board of Directors considered and approved the CDF ESS (Environmental and Social Safeguards) Policy and attendant Environmental and Social Management System (ESMS), which will serve the dual purpose of:

(i) Strengthening CDF’s Risk Management and Project Cycle Management Procedures; and

(ii) Positioning the CDF to attract financing for development programmes in eligible Member States, from the Green Climate Fund (GCF) and other external partners.