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Policy Wayforward for the New Development Bank

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A Compendium of
Policies and
Practices of some
of the Multilateral
and Southern
Banks

Vasudha Foundation in collaboration with Oxfam India and inputs from ASUL, Brazil, conducted a study to compile existing practices and policies of International Financial Institutions with their presence in one or more BRICS countries across six major focus themes. The detailed compilation of the observations is presented in a Discussion Paper titled "Policy Wayforward for the New Development Bank: A compendium of policies and practices of some of the Multilateral and Southern Banks".






In the last meeting of the leaders of the BRICS countries, the 8th BRICS Summit, which was held in Goa, India, Heads of State of the BRICS countries took a pledge that they would work together to “Build Responsive, Inclusive and Collective Solutions” to address issues in developing countries. However, the question that is perhaps still unanswered is whether the BRICS countries are indeed geared up to meet the requirements of putting their respective countries on a “Sustainable Development Pathway” and importantly, and specifically is that the **BRICS-led Bank – the “New Development Bank”**, is well placed to act as a crucial engine for sustainable development?

In this context, and perhaps partially in answer to the question posed regarding the New Development Bank (NDB), it has, in its first year of operations, funded/supported over USD 1.5 Billion worth of infrastructure and energy projects within the BRICS Countries. Furthermore, it is interesting to see that most of the approved projects are in the realm of clean energy solutions, such as roof top solar, wind etc, or are in the realm of supporting renewable energy such as grid infrastructure support projects for renewable energy.

The New Development Bank is now ready for its second batch of projects and poised to reach out to other countries outside the BRICS for funding opportunities and it will be interesting to see, if the current practice of supporting only clean energy solutions and clean energy infrastructure in local currencies remains the practice.

In this light of the already expanding scope of the NDB, it would be helpful for the Bank to formulate policies and procedures that are based on current policies, practices and experiences of other International Financial Institutions (IFIs).

The IFIs, the six focus themes and the subsequent best practice example vis-à-vis the theme, are enclosed in the table below:

Focus Themes	Name of the Bank	Nature of the Bank
		
Transformational Investments and Social Infrastructure	World Bank (WB)	International Financial Institution (IFI)
Approach to Civil Society Consultation	Asian Development Bank (ADB)	International Financial Institution (IFI)
Internal Ombudsman and Grievance Redressal Policies	African Development Bank (AfDB)	International Financial Institution (IFI)
Socio-Environmental and Accountability Frameworks	World Bank (WB)	International Financial Institution (IFI)
Gender Framework	Inter-American Development Bank (IADB) and World Bank	International Financial Institution (IFI)
Project Selection, Criteria and Transparency	Asian Development Bank (ADB)	International Financial Institution (IFI)

This note is meant to clearly highlight the recommendations emerging from the previously mentioned study. The aim is to provide constructive evidence based inputs, to the NDB. In addition to including the existing policies and practices of the IFIs, the study also encompasses their implementation gaps and challenges to highlight the issues that NDB could consider and strive to address in its policies.

This is not to suggest that the policy standards that have been set by existing International Financial Institutions are adequate or are implemented faultlessly. This is only to try and provide examples of standards that are sought to be followed by several existing and well established institutions that could be emulated to start with, and could even be exceeded with the NDB setting its own benchmarks for others to follow in times to come.

This would help in aiding the policy discourse by the Civil Societies and other interested actors, and advocating for the incorporation of the globally used standards and policies within the policy framework of the NDB, at least to start with.

Emerging Recommendations for Policy Wayforward of the NDB

Transformational Investments & Social Infrastructure Policies

- Focus on Integrating Financial Services with Transformation (Development Effectiveness)
- Ensuring Proper Safeguards
- Focus on Aligning the Policies with Global Practices
- Supporting the "Sustainable Energy 4 All Initiative" of the UN Secretary General

Approach to Civil Society Consultation

- Developing Robust Civil Society Engagement Framework
- Enabling South – South CSO Engagement

Internal Ombudsman and Grievance Redressal Policies

- Establishing a Thorough Independent Review System
- Involvement of All Relevant Stakeholders

Socio-Environmental and Accountability Frameworks

- Need for Socio-Environmental Safeguards
- Participatory Approach towards Assessing Socio-Environmental policies
- Full Disclosure of Project Documents

Gender Framework

- Minimum Standards for Implementation of Common Guidelines

Project Selection Criteria & Transparency

- Managing Country Level Subjectivity
- Conformity to Sustainable Development Goals and Paris Agreement

Transformational Investments and Social Infrastructure Policies

Focus on Integrating Financial Services with Transformation (Development Effectiveness)

The WBG has two core goals, i.e., to reduce poverty and to promote shared prosperity. For achieving these two goals, WBG invests in projects that promote gender equality and inclusion; supporting environmental sustainability; bolstering crisis response capability; and confronting the problems of fragility everywhere. Policies like the Development Policy Financing (DPF) and Program-for-Results Financing (PfRF), are aimed at financing projects that enhance social infrastructure and bring about transformative change.

The NDB could try to learn from the WBG policies and focus on integrating a development approach in financing its programmes rather than just a project based approach. This would help the borrowing country or region, benefit from the knowledge resources too, rather than just the financial services of the NDB. Like the WBG, NDB can begin by integrating both the knowledge and financial services that would help in designing evidence-based solutions throughout the development cycle. This would aid in making NDB's investments, as transformative investments.

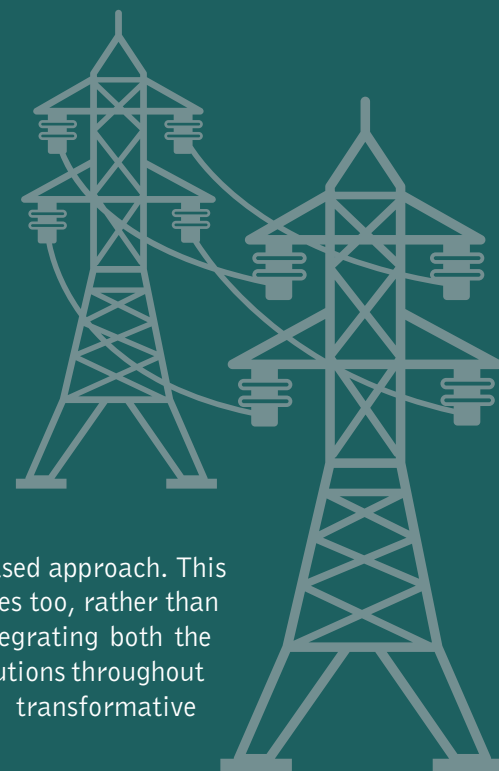
Ensuring Proper Safeguards

The monitoring and evaluation practices for policies like DPF and PfRF is weaker than the investment policies of WB. The monitoring framework rely heavily on self reporting by the client, leaving asymmetries in data (BIC, 2013). This ambiguity poses a challenge for the civil societies to monitor the projects. Therefore, the NDB could learn by designing and implementing clear monitoring and assessment tools to ensure the development nature of bank lendings. Additionally, these tools could at least have a certain minimum monitoring standards to align with the both the borrowing country's and NDB's goals.

Focus on Aligning the Policies with Global Practices

NDB has the advantage of being formed in the current dynamic times, when the focus is on issues such as sustainability and addressing climate change. The other IFIs have to strive to align their goals and policies to global issues like Sustainable Development Goals (SDGs), as well as effective implementation of the Paris Agreement, etc. Therefore, the NDB would benefit from aligning its policies from the onset to ensure the effectiveness of its development aid. Thus, there is ample opportunity for the NDB to showcase itself as a "Leader of Development Finance Institutions" in facilitating and helping to fund developing countries to embark on a pathway that ensures compliance of the SDGs as well as the Paris Agreement on Climate Change, which endeavours to bring down the greenhouse gas emissions globally to "net zero levels" by the second half of this century. Additionally, the NDB could consider involving some globally accepted policy frameworks for areas like human rights in its policy architecture. Transformation only in economic terms is limited, therefore, other perspectives such as dealing with structural inequality in societies could also be incorporated.

The NDB could create a niche for itself, in supporting the "Sustainable Energy 4 All Initiative" of the UN Secretary General in ensuring "energy access to all by 2030". This would be in tune with its overall goals of promoting sustainable development, while ensuring overall growth and development in all countries and of course the goal and objective of reducing poverty in developing countries. In our view, the NDB needs to fill the existing gap to support, in particular, decentralized options and models, smart grids and hybrid options that can serve as demonstration projects to prove the viability of renewable energy systems, especially for the poor and the marginalised sections of the society. These options should also include appropriate and locally available sources of energy such as biogas, mini- and micro-hydel projects, etc. It also must be recognised that there are opportunities for having large programmes for providing basic electricity needs to the poorest of the poor by means of renewable energy systems, which will also generate employment opportunities. And these could be provided within a very short period of time and thus improve the living conditions of the poor without waiting for centralized power generation systems. Further, this will also lead to countries pursuing their development goals on an alternative and more sustainable pathway that would also mitigate the risk of sinking money into assets that could be in danger of getting stranded without realizing their full productive value.



Approach to Civil Society Consultation

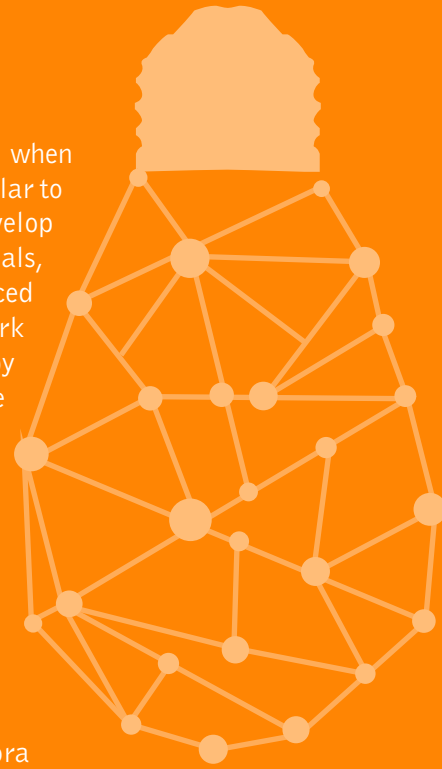
Developing Robust Civil Society Engagement Framework

AfDB policies for civil society engagement encompasses CSO consultations even when designing policies and country strategies. NDB could perhaps develop a framework similar to AfDB and involve the CSOs in policy discourse. NDB could learn from the AfDB and develop open procedures and decision-making processes for direct participation of individuals, communities and civil society organizations potentially affected by NDB-financed activities. Additionally, it would be useful for NDB to consider having an inclusive network of CSOs, unlike AfDB. AfDB has its select group of CSOs, which are specifically picked by the borrowing countries. This inclusive network could be suggested by NDB or include the minimum selection criteria for having the type of CSOs in the NDB network.

CSOs should be engaged constructively so as to ensure that they do not become a closed group of some CSOs engaging with the NDB in most cases. Careful involvement of diverse and heterogeneous group of CSOs would be imperative, to ensure inclusive involvement of the CSO movement and its representation as a whole.

Enabling South – South CSO Engagement

It would also be useful for the NDB to consider developing an enabling space for the south – south CSO engagement. Currently the southern CSOs require an international forum and/or engagements to interact with each other. Additionally the capacity of these CSOs could be built with the help of the NDB thereby enabling them to engage more constructively with each other and the NDB. In terms of this knowledge exchange, indigenous knowledge of the BRICS countries and/or the project countries ought to be incorporated to ensure proper delivery of the projects/programmes.



Internal Ombudsman and Grievance Redressal Policies

Establishing a Thorough Independent Review System

AfDB has well defined grievance redressal mechanism both for internal and external issues (on the policy level). The NDB could consider having a similar mechanism in place, keeping in mind the implementation gaps of the AfDB. This would not only help in adopting corrective measures for projects that might negatively affect certain communities, but would also help in streamlining the processes like the project selection criteria, monitoring and evaluation framework, etc.

Also, it had been observed that AfDB's grievance redressal policy has been limited to fact finding mostly, rather than fully implementing the recommendations. NDB could ensure that all grievances are addressed as per the defined procedures and proper monitoring of the process is undertaken within the system. This could be achieved by building capacity of NDB's staff vis-à-vis the handling of grievance redressal.

Involvement of All Relevant Stakeholders

AfDB has its group of experts that help in advising towards conflict resolution. NDB could also consider including such group of experts since they are independent, without any vested interests. In addition to this, in policy AfDB's process also involves engaging with all levels of stakeholders that might be important. This should include engaging constructively with the companies, partners that are being assessed. For instance, in AfDB the IRM office cannot mandate the company, against whom the redressal mechanism has been initiated, to participate in the review process. Free, prior and informed consent (FPIC) is a practice that is part of the consultation process in some of the IFIs including the WB. The NDB could consider including this as part of their consultation process with the communities. This could be an additional level of consultation that could be considered by the NDB. In addition, the NDB could strive to define and build capacity of the staff members to increase the level of stakeholder participation during the process, elaborate on the requirements for meaningful consultation, drawing on IFIs policies and practices, including that these draft documents and other information are provided in local languages and in a format understandable by the affected communities, and that processes and timelines for consultation are transparent and mutually agreed with affected communities, transcripts of consultation proceedings and comments received are disclosed, etc.

Socio-Environmental and Accountability Frameworks



Need for Socio-Environmental Safeguards

The World Bank also has a whole set of policies that include environmental and social safeguards while designing and implementing projects that the NDB could do well to emulate for itself. While NDB too has a draft Environmental and Social Framework that is meant for specific projects, NDB could consider having a monitoring, prevention and mitigation tools for NDB financed projects, as are there in the investment finance vertical of WB. The WB lacks clearly defined monitoring indicators for issues like gender. Further, the NDB has also maintained flexibility to waive off certain policies for projects based on the country systems. However, the NDB would also need to ensure that this flexibility does not lead to adverse negative, or reduced positive, impacts of the NDB funded projects. Additionally having country specific monitoring indicators would allow gathering of pointed data that would help in ensuring evidence based corrective measures, including looking at all socio-environmental indicators, would serve the NDB well. In order to carry forward the 'Green Bank' mandate of the NDB, it would be helpful for the Bank to consider having periodic assessments of its projects and/or investments vis-à-vis progress in furthering the achievement of global priorities like the SDGs, Paris Agreement, etc.

Participatory Approach Towards Assessing Socio-Environmental Policies

It is essential that these environmental and social assessments require a participatory approach so that the affected communities are able to provide input in the process, and play an active role in identifying potential impacts and its significance. Additionally, NDB could identify the staffing and resources necessary for social and environmentally sustainable operations, including dedicated environmental and social specialists and environmental and social compliance officers. This could translate into developing country level approaches for NDB financed projects to strengthen their national environmental and social systems. Since NDB is adopting this a country driver approach, it should also takes into consideration the need to develop a policy/ an approach to strengthen national socio-environmental systems (for instance through technical cooperation).

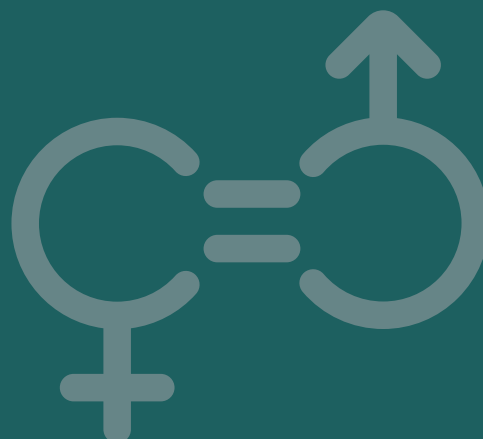
Full Disclosure of Project Documents

WB has a well-defined access to information policy where the project documents are disclosed to the public based on project categorisation. NDB could benefit from having clear guideline for the countries to have most of the project related documents (including those related to social environmental risk and impact assessments conducted throughout the project-cycle) and data available to the stakeholders especially the affected communities. NDB could also consider, having these documents translated in local languages to ensure their availability to the communities.

Gender Framework

Minimum Standards for Implementation of Common Guidelines

Both the WB and IDB have policies that are working towards gender mainstreaming. However, it can be observed that their institutional polices undergo a change based on the borrowing countries and their country specific gender policies. By having minimum standards that the borrowing country could adhere to, NDB could provide a uniform approach (to some extent) towards implementation and monitoring. This would also help in developing monitoring indicators vis-à-vis gender, which are not as clearly defined in IDB or WB. A good way forward could be to have a gender policy or rather a gender equality policy that could guide the gender mainstreaming aspects in NDB financed projects.



Project Selection Criteria

Managing Country Level Subjectivity

ADB has a formal process for project selection and has a stepwise project cycle in place. Generally the projects are based on the country strategies and programmatic focus and the project selection criteria undergoes change based on the local policies. This might lead to varying safeguards in terms of issues like environment impact assessments, disclosure of information etc. It would therefore be useful for the NDB to define those aspects of project selection (certain minimum standards), that would be static and might remain non-negotiable. These aspects could be based on globally followed practices to ensure some uniformity in programme implementation.

For instance, the NDB could consider being strict on the aspect of keeping away from financing or investing in fossil fuel like some other IFIs are already doing.

During the compliance review of the grievance redressal, sometimes the compliance suggestions are not taken forward and hence the process limits itself to fact finding. Some incentive mechanism to enable the compliance officer to push for the corrective measures could be considered by the NDB. This could be done in the form of a grievance redressal fund, etc. This might help in practically implementing the corrective measures. Additionally, NDB's mandate is to fund "sustainable infrastructure" and it considers itself as green. Therefore, this is an additional opportunity to develop coherent guidelines for project selection that will enable the NDB to fulfill its mission.

Conformity to Sustainable Development Goals (SDGs) and Paris Agreement

In continuation to what has been said in point 4.1.3, it still needs to be stressed that one of the project selection criteria for infrastructure projects, particularly energy infrastructure projects is its conformity to meeting the goals envisaged in both the SDGs as well as the Paris Agreement of ensuring a "Net Zero Emissions" by the second half of the century. This would ensure that the Bank would be in a position to achieve its mandate of supporting "sustainable infrastructure".



To conclude, it is very obvious from the above analysis that the NDB needs to put in place policies and policy frameworks for a number of issue areas, and also strengthen some of the existing policies such as the "Environment and Social Safeguards Framework and the Interim Information Disclosure Policy". The biggest learning for the NDB could be to learn from the implementation gaps and challenges that other IFIs face and strive to exceed them in the implementation standards that it sets for itself.

Further, the research also brings out the fact that the NDB has a huge opportunity to showcase itself as a leader on issues such as "Transformational Investments and Social Infrastructure".

We do hope that in coming days, some of the key recommendations, get translated into concrete policy framework for the NDB.